

Employment Lands Analysis and Opportunities Study

PREPARED FOR

City of Sydney

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FINAL



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EXECUTIVE SUMMARY

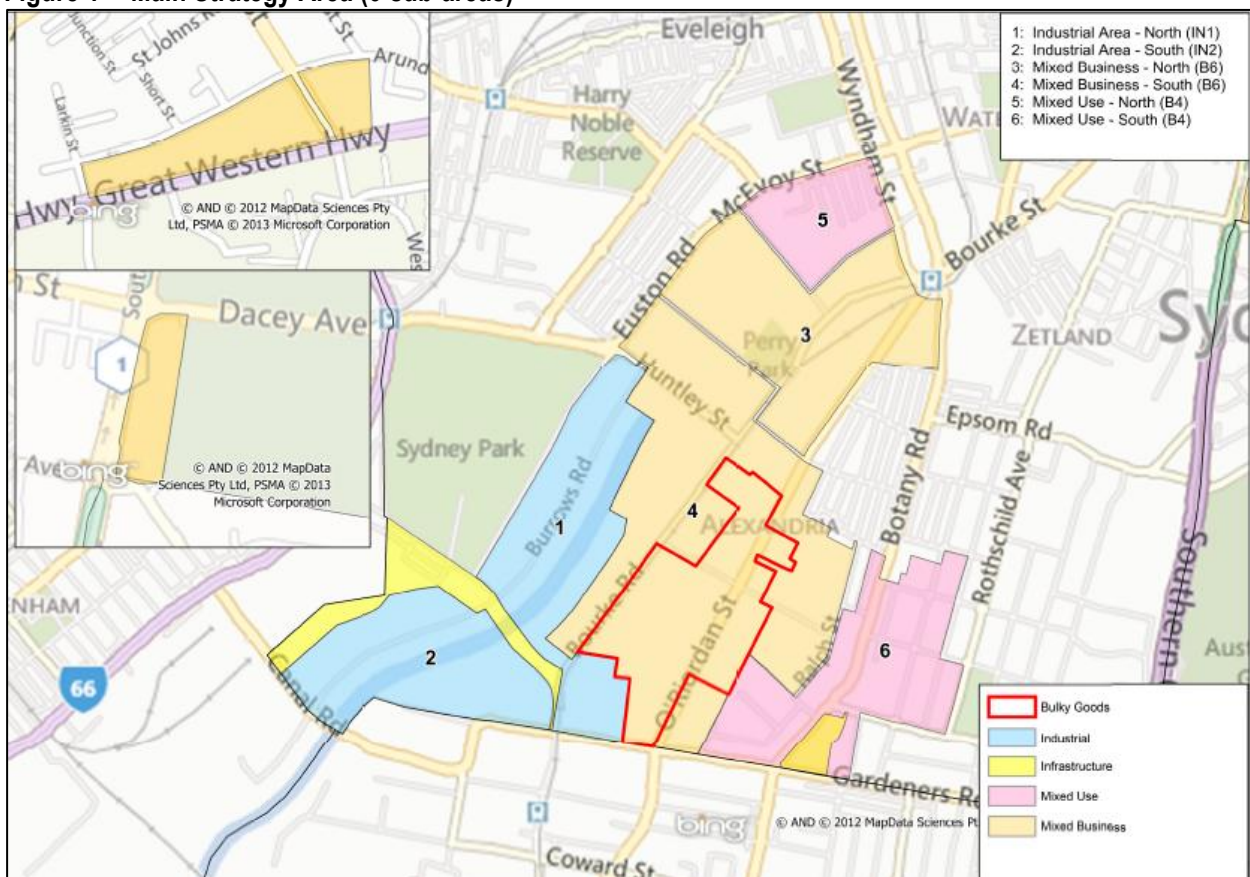
INTRODUCTION

City of Sydney Council (City) recently exhibited a *Draft City of Sydney Employment Lands Strategy 2013* (the draft Strategy) which proposes a series of land use and planning recommendations to three precincts in the LGA including:

1. Main strategy area;
2. South Dowling Street precinct; and
3. Parramatta Road precinct

The main strategy area can be categorised into six sub-areas, shown in Figure 1. The existing land use zones as under the Sydney LEP (2012) and South Sydney LEP (1998) are noted for context. For the purposes of this Study, the 'Study Area' is a reference to the main strategy area.

Figure 1 - Main Strategy Area (6 sub-areas)



Source: MapInfo Bing, Hill PDA 2013

Hill PDA has been commissioned by the City to carry out an Employment Lands Analysis and Opportunities Study (the Study). The intention of the Study is to assist the City in identifying and understanding the impacts and implications of the land use and planning recommendations proposed by the Strategy.

PEOPLE, JOBS AND INDUSTRIES

The Study Area's population is growing rapidly and is increasingly characterised by young professionals who are aged between 20 and 44 years, well-educated and work in white collar industries. The number of overseas students living in the Study Area is also growing. These trends have resulted in a high proportion of lone person and group households in the Study Area although family households remain the most common type. The majority of residents work in or near the Sydney CBD and over half take public transport or walk to work.

The Study Area remains an important inner city location for light industrial uses. A transition is underway however with the number of businesses and jobs in the tertiary sector – which includes retail, food, professional services and information and communications technologies – growing faster than secondary sector industries such as manufacturing and transport.

Table 1 - Top 10 Industries in Village Area by Number of Businesses and Jobs

Sector	Industry	# of businesses (2012)	% of businesses (2012)	Change since 2007	# of jobs (2012)	% of jobs (2012)	Change since 2007
Secondary Sectors	Transport & Logistics	414	19.7%	-1.4%	6113	21.9%	-1.2%
	Manufacturing	176	8.4%	-2.8%	3606	12.9%	0.9%
Tertiary Sectors	Food & Drink	194	9.2%	35.7%	1377	4.9%	27.9%
	Prof & Business Services	177	8.4%	42.7%	2173	7.8%	73.8%
	Creative Industries ¹	176	8.4%	2.9%	2715	9.7%	0.6%
	ICT	174	8.3%	10.1%	2887	10.3%	-16.7%
	Motor Vehicle ²	142	6.8%	8.4%	1825	6.5%	25.0%
	Property Development ³	98	4.7%	16.7%	841	3.0%	18.1%
	Social Capital ⁴	49	2.3%	113.0%	518	1.9%	295.4%
	Retail & Personal Services ⁵	49	2.3%	71.3%	2779	9.9%	44.3%

Green Square and City South Village Summary Report 2012, City of Sydney

The majority of people working in the Study Area come from Sydney's inner and middle ring suburbs and nearly two thirds drive themselves to work.

MARKET APPRAISAL

Key Themes

Several key themes emerge from our market appraisal of the Study Area and the wider Green Square Urban Renewal Area. The evolution of the Study Area has been brought about by the following trend factors:

- Shrinking role of traditional manufacturing and exodus of many businesses to industrial areas in Western Sydney where prices are cheaper;
- Increasing concentration of residential development and the continued demand for residential;
- Limited demand for traditional commercial space, demand capable of being satisfied in the Mascot precinct;

- Increasing demand for adaptively reused warehouse space by 'creative uses', whether for light industry or commercial users;
- Increasing land values due to scarcity / availability which puts upward pressure on rents and prices;
- Strengthening demand for retail goods (including bulky goods) and services, demand originating from local residents as well as from wider catchment areas.

Issues for Consideration

In planning for the Study Area to facilitate urban renewal, regard should be had to the following issues:

- New industrial and commercial build is marginal, with many an existing use worth more in its current form than if it were demolished and redeveloped.
- The refurbishment and adaptive reuse of old warehouses will continue in response to market demand and economic efficiency. The completed space is likely to accommodate a range of mixed businesses (creative commercial suites, cafés / restaurants / boutique retail and other entertainment uses). As a consequence any industrial space 'lost' is unlikely to be replaced.
- While the demand for retail is generally strong in the Study Area (owing to the growing residential population), retail space is very sensitive to location as well as position within a development. While the notion of maintaining 'active street frontages' is commendable, there are instances where ground retail will be unviable and inclusion within a development will result in reduced feasibility. That said, in the proposed B4 (North) zone, opportunities for retail / commercial uses to benefit particularly from synergies with existing uses along McEvoy Street could be harnessed.
- Residential land uses have the ability to respond to higher densities, with land values directly proportionate to permissible densities.
- Industrial uses have the least capacity to respond to higher densities. For example, even though there is upward pressure on industrial rents and values due to a scarcity of stock, functionality constraints *generally* prevent industrial development from being viably developed to densities beyond FSR 1.5:1.
- The capacity of business uses to respond to higher densities depends on the nature of floor space likely to be demanded. In the CBD where traditional office is commonplace, an increase in density and floor space will generally result in higher land values. In locations such as the Study Area, and other fringe locations where a different type of commercial is demanded, higher densities will not necessarily translate into higher land values or incentivise redevelopment.

Developers are combining a range of land uses within recent new developments, for example retail showrooms, high tech industrial units, self-storage units and commercial units in order to overcome feasibility issues. This trend of innovation is expected to continue as developers seek out viable development opportunities.

THE PRECINCT LOOKING FORWARD

The draft Employment Lands Strategy envisages three land use zones for the Study Area. These are shown in Figure 1 and include Industrial (IN1), Mixed Business (B6) and Mixed Use (B4).

General Industrial (IN1)

The objectives of the General Industrial (IN1) zone are to provide a wide range of industrial and warehouse land uses, ensuring that permitted uses support the viability of nearby centres. To this end, permitted uses other than industrial will remain limited.

Based on current and expected market conditions, the following observations are made:

- Good demand for warehousing and distribution space is expected to continue.
- Although leasing conditions are at present soft demand is expected to return as market cycles run their course. This will be aided by a recovery in economic conditions and a return of business confidence.
- New developments are likely to be confined to vacant sites or sites with nominal improvements.
- Current parking ratios may result in limited marketability.
- Current density controls of FSR 1.5:1 is adequate to accommodate the uses proposed in the General Industrial (IN1) zone. Due to functionality requirements of industrial uses and circulation space needed on site, there is a limit to how intensely a site can be redeveloped. Recent industrial strata developments have typically not exceeded FSR 1.5:1.
- While there may be instances where industrial uses may seek to develop to an FSR beyond 1.5:1, these are expected to be exceptions rather than the norm.
- Current height controls (18m) would be inadequate for high-span warehouses which can be in excess of 20m.

The following table draws together our findings to anticipate the level of development in those parts of the Study Area proposed to be zoned General Industrial (IN1).

Table 2 - Anticipated Development in General Industrial (IN1 zone)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Industrial Area (North)	Nominal new development	Nominal new development	Moderate levels of new development	Moderate levels of new development
Industrial Area (South)	Nominal new development	Nominal new development	Moderate levels of new development	Moderate levels of new development

Enterprise Corridor (B6)

The Mixed Business zone of Enterprise Corridor (B6) is to promote a mix of business, office, retail and light industrial uses. There is clear demand for a range of business uses, many commercial-type uses having prevented from being accommodated owing to the restrictions under the present industrial zones. The following observations emerge from our investigations:

- There is strong demand for adaptively reused space by retail and other commercial businesses as well as creative users traditionally located in Surry Hills and Paddington.
- Retail and mixed business uses that support the growing Green Square residential population will continue to thrive. These uses include cafés, restaurants, delicatessens, artisan bakeries and concept boutique retail, home improvement shops, banks, storage facilities and post offices (particularly those

with after-hour collection facilities). Entertainment and recreation facilities have been successfully incorporated within Sydney Corporate Park.

- Demand for high-tech industrial¹ strata units will continue to grow in response to rising rents and land values. It is conceivable that an increasing amount of office component will be required. Notwithstanding the good demand for this type of space, when other (business) uses are permitted in the Mixed Business zone it is conceivable that provision of industrial space will slow in favour of other 'higher and better uses'.
- Bulky goods retail and showroom uses are expected to continue to experience high demand along O'Riordan Street to service the growing population.
- The immediate area around 41 Bourke Road (intersection of Huntley Street / Bourke Road / Collins Street) currently supports a cluster of mixed businesses. This cluster is likely to grow and increase in prominence over time.
- Renewal of the northern portion of the Mixed Business zone is dependent on the progress of the Green Square Town Centre and is likely a longer term development proposition compared to the immediate area surrounding 41 Bourke Road. There are however properties between Huntley and Bowden Streets that appear ripe for development (characterised by ageing improvements, low site cover and density) and could conceivably be redeveloped in the short to medium term.

New development on a large scale is unlikely to be witnessed in the immediate term. Vacant sites and sites with nominal improvements are likely to be the first to be redeveloped with the remainder of sites either refurbished now or redeveloped in the longer term. Any new build is likely to be in the form of a mixed use development combining a range of retail, business and potential industrial uses (e.g. Collins on Bourke and Enterprise Industrial Estate). The following table draws together our finding to anticipate the level of development in those parts of the Study Area to be zoned Enterprise Corridor (B6).

Table 3 - Anticipated Development in Enterprise Corridor (B6)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Mixed Business (North)	Moderate levels of new development	Moderate levels of new development	Substantial new development	Substantial new development
Mixed Business (South)	Nominal new development	Moderate levels of new development	Moderate levels of new development	Substantial new development

Mixed Use (B4)

The objectives of the Mixed Use (B4) zone are to "integrate suitable business, office, residential, retail and other development..." as well as to ensure that uses support the viability of centres. In recent times sites in the Mixed Use B4 zone have been observed to be developed primarily into residential uses with nominal amounts of non-residential included. This is due to profitability drivers but in some cases due to feasibility issues. Key conclusions include:

¹ High-tech industrial can be thought of industrial functions that generally exclude the manufacturing components of the industry, with the greatest direct impact on office space demand. Examples of high-tech services include: computer systems design and related services, data processing, hosting and related services, electronic shopping and electronic auctions, software publishers, etc.

- Mixed Use B4 zone is likely to witness the most development activity in the short term compared to the other zones. This is a function of the strong demand for residential units.
- A 'Danks Street type' cluster of retail is likely to grow in the Dunning / Queen Street area of Rosebery. The Cannery development which incorporates Kitchen by Mike has already raised the profile of this area.
- Considering the comparatively low value of commercial floor space to residential, it is unlikely that any commercial space will be incorporated in any mixed use development. Depending on location, a small amount of ground floor retail could be feasible.

Notwithstanding the above commentary on the lower value of commercial space, the northwest pocket of Mixed Use (Area 5) is likely to provide more opportunity to retain non-residential uses and adaptively reused commercial space than the pocket in the southeast (Area 6) owing to its location among other business uses and proximity to the Green Square train station. The following table draws together our finding to anticipate the level of development in those parts of the Study Area to be zoned Mixed Use (B4).

Table 4 - Anticipated Development in Mixed Use (B4)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Mixed Business (North)	Substantial new development	Substantial new development	Substantial new development	Declining levels of new development
Mixed Business (South)	Substantial new development	Substantial new development	Substantial new development	Declining levels of new development

FEASIBILITY ANALYSIS

General Industrial (IN1)

Due primarily to functionality issues, it is recommended that the density provisions for the IN1 zone remain at FSR 1.5:1. Redeveloped industrial strata units are observed to be contained within densities of FSR 1.5:1 but it is acknowledged that in some instances higher densities (to FSR 2:1) might be required for uses such rental storage and service centres.

In consideration of FSRs in the IN1 zone, the City needs to be cognisant that higher FSRs (i.e. FSR 2:1 and above) could confuse the market and imply that a greater focus on office component (e.g. high-tech warehouse / office) is sought. Equally, the potential for greater employment generated by higher FSRs is an important consideration.

Enterprise Corridor (B6)

The nature of demand for commercial space in the Study Area makes it challenging for large scale commercial redevelopment to be viable. Strong demand for adaptively reused space has resulted in warehouse conversions and nominal addition of floor space within these sites. A situation of reducing values per FSR is associated with each increase in density.

Subject to the consideration of urban design impacts, constraints such as flooding and traffic and access considerations, FSRs of between 1.5:1 and 2.0:1 are recommended in the Mixed Business zone, potentially increasing to FSR 2.5:1 in the North in close proximity to the Green Square Town Centre.

The viability of development in the Mixed Business zone is highly dependent on the mix of uses proposed. Our feasibility modelling suggests that increased FSRs are inversely related to land value. However it is conceivable that with innovation a mixed use development could achieve viability at FSR 2:1, though this is likely the exception rather than the rule.

Mixed Use (B4)

Residential is the highest value land use, clearly outstripping the other categories of land use with regard to feasibility and developer demand. While significant value uplift is achieved by increasing the FSR from 1.5:1 to 2.5:1, it should be noted that prevailing land values in the proposed B4 zones are in the region of \$2,000/sqm of site area. In the North (currently zoned IN1 - General Industrial) this is owing to current densities around FSR 1.5:1 and in the South is due to ongoing activity in the current B6 zone (which permits residential) which has densities of FSR 2:1.

Notwithstanding the above observations, and subject to the consideration of urban design impacts, constraints such as flooding and traffic and access considerations, development in the proposed B4 Mixed Use zone is viable with FSRs ranging between 1.5:1 and 2.0:1.

It will be challenging to impose non-residential (retail / commercial) space beyond the ground floor and first floor of any mixed use development. Properties fronting major thoroughfares such as Botany Road and McEvoy Street may be able to tolerate the provision of ground floor retail, and potentially additional commercial floor space whether on the ground or first floor. However, in locations where retail space may be isolated, this requirement will detract from viable development.

Changes to Land Values

While the Study Area is generally thriving, underpinned by healthy demand for industrial, commercial and retail space, the functional value and utility derived from *existing* uses means redevelopment / renewal will occur more slowly. Where residential uses are permitted, owing to latent and extraordinary demand for residential living in close proximity to the CBD, redevelopment is occurring swiftly. There is certainly an opportunity for residential uses to cross-subsidise the provision of other uses, for example active street retail, affordable housing.

Any notable value uplift is likely to be confined to the Mixed Use zone particularly if residential uses are allowed to dominate. While there is strong underlying demand for local service industrial, creative commercial space and retail space, it would be difficult to incentivise contribution to affordable housing without market residential being permitted to subsidise it.

FUNDING INFRASTRUCTURE

Affordable Housing

The Study Area, as a result of the proposed changes to planning controls, will experience substantial employment and residential growth. This growth will result in additional demands on existing and planned infrastructure, as well as the existing residential and working communities in and around the area. The Study provides an analysis of the strategies available to the City to provide for the economic and socially sustainable growth of the area.

The City has identified five different approaches to facilitating affordable housing in Area 3 (Mixed Business North), Area 5 (Mixed Use North) and Area 6 (Mixed Use South). All approaches assume that affordable housing is delivered to the same level of quality and appearance of market housing, with requirement for delivery on-site or off-site being a question of feasibility only. The five approaches are:

1. Dedication of affordable housing dwellings where incentivised by differential FSR;
2. Sale of affordable housing dwellings to at cost where incentivised by differential FSR;
3. Monetary contribution, by way of inclusionary zoning;
4. Dedication of land where incentivised by differential FSR;
5. Permissibility restrictions, where the only form of residential development permitted in the zone is 'affordable housing'.

The suitability of each approach was evaluated against the following of factors:

- Effectiveness in increasing affordable housing supply;
- Efficacy of administration;
- Appropriateness for use and need;
- Sustainability of housing stock'; and
- Balance between maximising affordable housing outcomes without undermining viability of development.

The assessment of each affordable housing approach found the risks and opportunities differ across market scenarios. Inner city markets have their own set of challenges compared to outer areas and Greenfield markets. It is therefore necessary to match planning interventions to housing markets.

- Mandatory / inclusionary zoning schemes will have impact in high value markets where developments have the capacity to dedicate a proportion to affordable housing, whether as on-site provision or payment in lieu. Where cash contributions are made to CHPs, the effectiveness in actual delivery can be thwarted by fierce market competition for development sites.
- Incentive schemes will be effective where land values are high enough to generate a valuable bonus. In locations such as the Study Area this is likely to be confined to lands that permit residential uses. Key to effectiveness is an intimate understanding of the feasibility and economics associated with the development to ensure an appropriate amount of contribution is obtained.

- Property based covenants (e.g. restrictive covenants ensuring use as affordable housing in perpetuity) can be a tool to confine management of housing but limits the ability of the CHP to respond to portfolio needs and requirements.

The effectiveness of a particular strategy will depend on a number of factors:

- Objectives and considerations of CHP;
- Size of development;
- Quantum of value uplift / planning gain (if any);
- Market conditions and outlook, whether positive or declining; and
- Economic performance / feasibility of development proposed.

With the exception of Option 3 (Monetary Contributions), the other options do not have a cashflow implication only to the extent that sales revenue is reduced to the extent of developable floor space being reduced. The City could therefore leverage off this 'delayed impact' to the development by requiring land for a higher number of affordable housing units to be dedicated. In the above example, land dedicated for 15% of units effectively captures 52% of the value uplift.

Community Infrastructure

The Community Infrastructure Scheme (the Scheme) which operates in the Green Square Urban Renewal Area provides for a bonus FSR incentive where contribution, either works-in-kind or monetary, is made for the delivery of community infrastructure, including roads, recreational facilities, open space and flood mitigation in Green Square. The Scheme is premised on capturing 50% of the value increase resulting from the bonus FSR. Where possible it is collected in-kind, however monetary contribution can be made in some circumstances. Since its introduction in the late 1990's, the Scheme has been met with good take-up by developers, the majority seeking to incorporate the maximum permitted floor space within their developments.

The greatest opportunity for the City to capture value uplift would be in the proposed Mixed Use B4 zones where residential uses are permitted, with development of non-residential uses in many instances delicate. While there is nevertheless an opportunity for the City to capture value uplift in the proposed Enterprise Corridor B6 zones, it is questionable *when* contribution could effectively be realised given large scale redevelopment is not likely to occur in the immediate term. That said, a mechanism could be instituted to capture value uplift as and when renewal occurs amid dynamic market conditions.

Balancing Value Capture and Development Feasibility

Depending on the City's objectives and on the likelihood of affordable housing contributions to have continued legislative support, the City could introduce a FSR bonus approach for community infrastructure and / or affordable housing in the Study Area. It is important to note that development has a finite ability to contribute to public benefit, whether affordable housing or community infrastructure. In the case of non-residential areas (e.g. Mixed Business) it may be more appropriate to levy an affordable housing contribution rather than a bonus FSR contribution as the latter would only be applicable if developments sought to develop *beyond* their FSR base

entitlement. Generally speaking, non-residential uses are much less likely to seek much denser development above the base FSR.

If a development was able, i.e. of sufficient size and not environmentally constrained, it would be preferable and more effective to require land dedication rather than monetary or in-kind contribution. This facilitates the procuring of otherwise expensive development sites in the Study Area for affordable housing. Furthermore, the 'deferred impact' of land contribution could facilitate dedication of land for more affordable housing units.

ECONOMIC IMPACT ON STRATEGIC CENTRES

The Study considers the impact of the Study Area's renewal on the viability and vitality of nearby strategic centres, specifically the Green Square Town Centre.

Impact on Investment

Investment of the scale discussed in this Study would be a significant sign of confidence in the area and would increase its profile within Sydney and beyond. This would further stimulate housing demand and may provide a catalyst for other housing redevelopments on other sites, increase job opportunities and access to retail provision. It would also justify additional investment in government and public services in the area such as council services and so on in order to support the additional resident population.

Impact on Retail Trade

Latent demand for additional retail facilities, including large floor plate food and grocery premises as well as specialty shopping, exists in the trade area and is increasing as a result of the growing population. The growth projected as resulting from proposed changes to planning controls will also result in additional demand for large floor plate food and grocery shopping. It is recommended the City review its current retail strategies to consider the implications of the increased number of residents and workers in the Study Area.

The impact of additional retail floor space being made available in the Study Area as a result of the proposed changes to planning controls will be positive as it will assist to meet the current and forecast latent demand. Furthermore, there is sufficient existing and forecast demand to support the growth of a local neighbourhood centre(s) without redirecting notable trade away from surrounding strategic centres. It is appropriate that sufficient shopping facilities such as convenience shops, top-up food and grocery spend, take-away food retailers, newsagencies and the like be provided locally to meet the needs of new residents as well as existing residents.

Impacts on Other Commercial Floorspace

Chapter 3 describes how the departure of many traditional industries from the Study Area has created opportunities and in turn demand from tenants in search of 'creative space' and other ancillary industrial / quasi-commercial space. Considering the nature of existing accommodation (and necessary upgrades and refurbishments that have occurred) as well as emerging demand for certain types of commercial and industrial uses in the Study Area and wider Green Square Urban Renewal Area, it is unlikely for contemporary 'creative' and industrial uses to be in direct competition with other major commercial centres that offer a more traditional

commercial product. As such facilitating the growth of contemporary creative and industrial office space in the Study Area is unlikely to detrimentally impact demand for office space in nearby commercial centres.

Impacts on Employment

The Study forecasts employment growth generated by the Study Area's renewal. Two approaches to forecasting employment growth are applied:

Approach 1 forecasts the number of jobs for the broader Green Square and City South Village Area (the Village Area), which includes the Study Area. Using Approach 1 the number of jobs in the Village Area is expected to increase from 27,924 to 39,707 between 2012 and 2031. This represents an increase of 42% or 11,783 jobs. Over this period the following five industries will experience the largest increase in job numbers:

- Creative Industries (+2,959 jobs);
- Professional and Business Services (+2,303 jobs);
- Retail and Personal Services (+2,251 jobs);
- Information and Communications Technologies (+2,021 jobs); and
- Food and Drink (+785 jobs).

Approach 2 uses a low, medium and high growth scenario to identify the number of jobs in the *actual Study Area* by precinct (i.e. not by industry). Using the low growth scenario the number of jobs in the Project Study Area is expected to increase from 17,850 to 25,054. This represents an increase of 40% or 7,204 jobs. The medium and high growth scenarios result in an increase of 11,685 and 18,196 jobs across the Study Area respectively.

Both approaches suggest the north and south Mixed Business precincts will experience the most employment growth in coming years. This can be attributed to the anticipated growth in commercial and retail uses in these precincts. Lower job growth is expected in the Industrial Areas and most new development in the Mixed Use Areas is expected to be residential.

Other Economic Impacts

A range of other economic benefits would be generated by the Study Area's renewal, including public Transportation patronage, amenity improvements, shopper convenience, increased housing supply, homes closer to jobs, affordable housing for key workers, social infrastructure improvements, new opportunities and spaces for innovation, facilitating new business and industry opportunities and supporting the role of Green Square Town Centre.

1. INTRODUCTION

1.1 BACKGROUND AND OVERVIEW

City of Sydney Council (City) has recently publicly exhibited a Draft Employment Lands Strategy (the draft Strategy) which proposes amendments to the current land use zoning and planning controls for employment lands sub-precincts in the LGA. The City recognises implementing these recommendations will generate economic, social and environmental impacts, both positive and negative in and around the affected sub-precincts.

The Employment lands include those currently zoned in the Sydney Local Environmental Plan 2012 (Sydney LEP 2012) as:

- IN1 - General Industrial;
- IN2 - Light Industrial;
- B5 - Business Development;
- B6 - Enterprise Corridor; and
- B7 - Business Park.

It also includes land generally bound by McEvoy, Bowden, O'Riordan and Collins Street, Bourke Road and the Sydney Water culvert extending from Bourke Street to Harley Street that is currently excluded from the Sydney LEP 2012.

Hill PDA has been commissioned by the City to carry out an Employment Lands Analysis and Opportunities Study (the Study). The intention of the Study is to assist the City in identifying and understanding the impacts and implications of the land use and planning recommendations proposed by the Strategy.

The Study will additionally consider opportunities to facilitate the provision of affordable housing and community infrastructure by leveraging any value uplift / planning gain associated with the draft Strategy's recommendations.

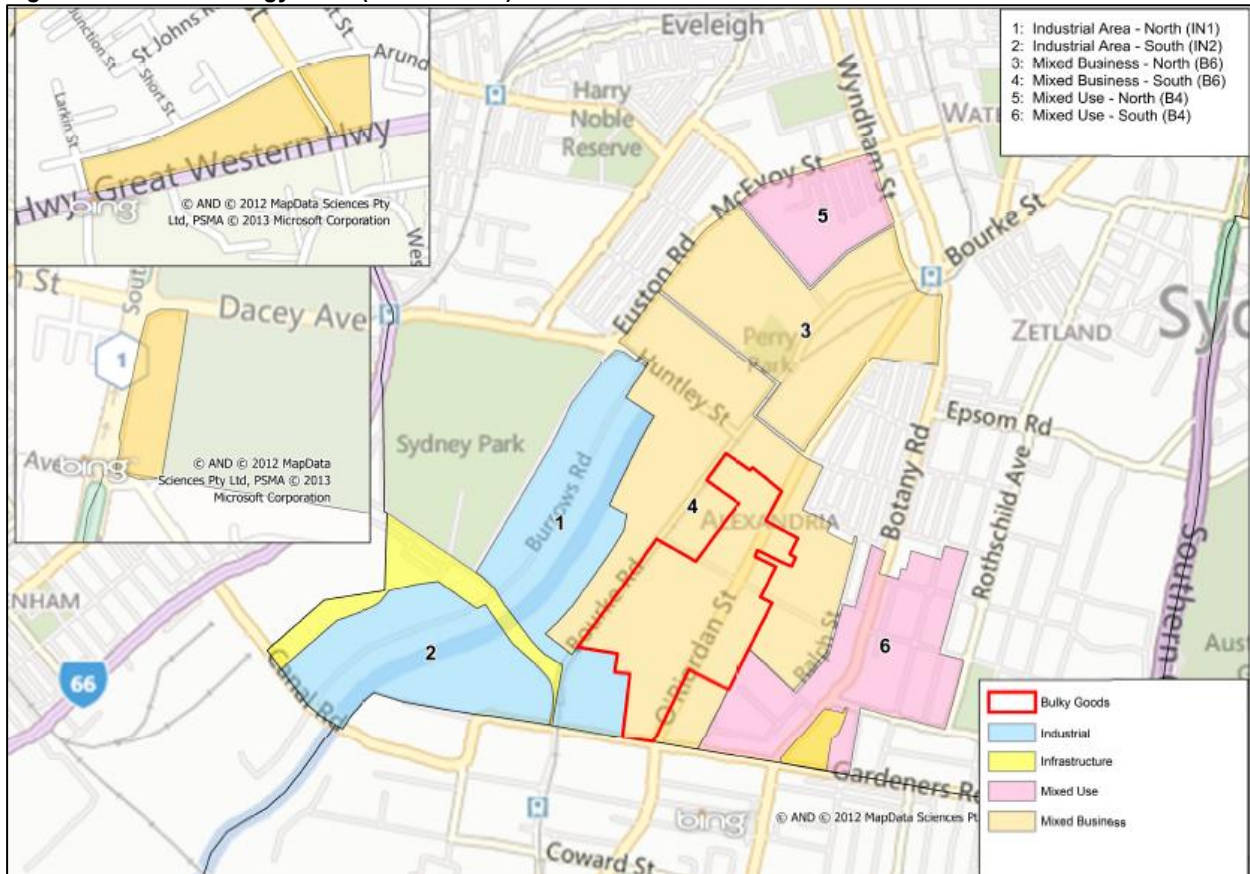
The Draft City of Sydney Employment Lands Strategy (2013) proposes a series of land use and planning recommendations to three precincts in the LGA including:

1. Main strategy area;
2. South Dowling Street precinct; and
3. Parramatta Road precinct

The main strategy area can be categorised into six sub-areas, shown in Figure 2. The existing land use zones as under the Sydney LEP (2012) and South Sydney LEP (1998) are noted for context.

Table 5 - Main Strategy Area, Proposed and Existing Land Use Zones

Area	Portion	Proposed Zone	Existing Zone(s)
1	Northern	Industrial (IN1)	IN1 General Industrial, B7 Business Park
2	Southern	Industrial (IN1)	IN1 General Industrial
3	Northern	Mixed Business (B6)	10(d), 10(e) Mixed Use, B5 Business Development, IN1 General Industrial
4	Southern	Mixed Business (B6)	IN1 General Industrial, B7 Business Park
5	Northern	Mixed Use (B4)	IN1 General Industrial
6	Southern	Mixed Use (B4)	IN1 General Industrial, IN2 Light Industrial, B6 Enterprise Corridor

Figure 2 - Main Strategy Area (6 sub-areas)

Source: MapInfo Bing, Hill PDA 2013

For the purposes of this Study, the 'Study Area' is a reference to the main strategy area. The draft Strategy states land use and planning recommendations in respect of each of the six sub-areas within the main strategy area are as follows:

Areas 1 and 2

The long term aspiration for Area 1 and 2 is for 'pure industrial' with minimal ancillary uses to support industrial uses and employment in the zone.

The General Industrial IN1 zone is proposed to apply to these areas. The mandated objectives (under the Standard Instrument) for this area are:

- To provide a wide range of industrial and warehouse land uses;
- To encourage employment opportunities;

- To minimise any adverse effect of industry on other land uses; and
- To support and protect industrial land for industrial uses.

A range of traditional industrial uses are proposed to be permitted, for example depots, warehouses and freight transport facilities, and also some small retail uses to support the working population, such as kiosks and neighbourhood shops.

Areas 3 and 4

The long term aspiration for Area 3 and 4 is a mixed business precinct facilitated by a flexible approach to land use. The zone should continue to support warehouse and light industrial uses but also facilitate higher value employment such as offices where appropriate. Retail should be limited in scale and complement the Green Square Town Centre and other defined centres. Bulky goods should continue to be supported in limited areas.

A new Enterprise Corridor B6 zone is proposed to apply to these areas. The mandated objectives (under the Standard Instrument) for this area are:

- To promote businesses along main roads and to encourage a mix of compatible uses;
- To provide a range of employment uses (including business, office, retail and light industrial); and
- To maintain the economic strength of centres by limiting retailing activity.

Most general and light industrial activities will continue to be permitted in this zone, however it will also allow for more intense forms of employment uses such as commercial and retail. The draft Strategy proposes a different B6 zone to that which currently exists under the Sydney LEP 2012 in that residential uses would not be prohibited.

Areas 5 and 6

The long term aspiration for Area 5 and 6 is a mixed use precinct supporting a relatively even mix of employment-generating uses and affordable residential development.

The Mixed Use B4 zone is proposed to apply to these areas. The mandated objectives (under the Standard Instrument) for this area are:

- To provide a mix of compatible land uses; and
- To integrate suitable business, office, residential, retail and other development in accessible locations so as to maximise public transport patronage and encourage walking and cycling.

There are few prohibitions in this zone. It will allow for a range of uses including industrial, commercial, retail and residential activities.

1.2 STUDY BRIEF

Hill PDA has been specifically engaged to carry out:

1. Assessment of likely demand and take-up of new developments in the different zones;
2. Scenario analysis of different densities across the Study Area and the impact on the residual land values;

3. Analysis of affordable housing approaches;
4. Analysis of an appropriate incentive scheme;
5. High-level analysis of economic impacts of renewal of Study Area.

1.3 SCOPE OF DILIGENCE

Our investigations have included consultation and enquiries with the following parties:

- City of Sydney Council;
- Developers of ongoing residential projects;
- Consultants involved in development projects;
- Real estate agents involved in the sale and lease of properties; and
- Various property market research databases including (Realestate.com, RP Data, Cordell Connect, Red Square, Land and Titles Office).

2. PEOPLE, JOBS AND INDUSTRY

This Chapter provides a profile of the area's existing and projected workforce and living population, which in turn has been considered in the preparation of this Study.

Industry and Employment

The City's *Preliminary Green Square and City South Village Summary Report* (2012) provides an analysis of employment and industry in the Green Square and City South Village (the Village Area), shown below. The Village Area includes the Study Area, the residential area of Rosebery and the Green Square Urban Renewal Area (GSURA).

Figure 3 - Green Square and City South Village Area



The following table lists the top ten industries in the Village Area. It shows 28% of businesses and 35% of jobs within the Village Area relate to transport, logistics and manufacturing. The Village Area therefore remains an important inner city location for light industrial uses. There is however a transition underway with the number of businesses and jobs in these industries decreasing since 2007 (-11 businesses and -42 jobs). Over the same period the number of business and jobs in retail, personal services, food and drink, professional services and business services has increased significantly (+231 businesses and +2,076 jobs in these industries).

Table 6 - Top 10 Industries in Village Area by Number of Businesses and Jobs

Sector	Industry	# of businesses (2012)	% of businesses (2012)	Change since 2007	# of jobs (2012)	% of jobs (2012)	Change since 2007
Secondary Sectors	Transport & Logistics	414	19.7%	-1.4%	6113	21.9%	-1.2%
	Manufacturing	176	8.4%	-2.8%	3606	12.9%	0.9%
Tertiary Sectors	Food & Drink	194	9.2%	35.7%	1377	4.9%	27.9%
	Prof & Business Services	177	8.4%	42.7%	2173	7.8%	73.8%
	Creative Industries ¹	176	8.4%	2.9%	2715	9.7%	0.6%
	ICT	174	8.3%	10.1%	2887	10.3%	-16.7%
	Motor Vehicle ²	142	6.8%	8.4%	1825	6.5%	25.0%
	Property Development ³	98	4.7%	16.7%	841	3.0%	18.1%
	Social Capital ⁴	49	2.3%	113.0%	518	1.9%	295.4%
	Retail & Personal Services ⁵	49	2.3%	71.3%	2779	9.9%	44.3%

Green Square and City South Village Summary Report 2012, City of Sydney

Industry categories are City-Based Industry codes:

1. For example creative retailing, creative print and media, creative manufacturing, creative recreation, creative business, creative culture.
2. For example, motor vehicle manufacturing, motor vehicle wholesaling, motor vehicle retailing, motor vehicle services
3. For example, general construction, construction trade services, property services
4. For example, community care services, child care services, personal services, religious organisations, interest groups
5. For example, personal services, furniture & carpet, hardware & housewares, clothing & footwear, garden, entertainment & media, sports & toys, jewellery, camera, marine, news books & stationary, department & variety, repair

The table below lists the top 10 industries in the Village Area by internal floor space. It shows that transport, logistics and manufacturing uses make up 39% of all floor space in the Village Area (870,991sqm). Retail, personal services, motor vehicle, creative industries and information and communications technologies (ICT) make another 38% of the Village Area's floor space (856,697sqm).

Table 7 - Top 10 Industries in the Village Area by Floor space

Sector	Industry	Floor space (2012)	% floor space (2012)	Change since 2007 (sqm)	Change since 2007 (%)	Workspace Ratio (2012)
Secondary Sectors	Transport & Logistics	605,690	26.9%	-84,709	-12.3%	99.1
	Manufacturing	265,301	11.8%	-122,479	-31.6%	73.6
Tertiary Sectors	Food & Drink	84,287	3.7%	9,303	12.4%	61.2
	Professional & Business Services	93,821	4.2%	34,859	59.1%	43.2
	Creative Industries	177,616	7.9%	12,645	7.7%	65.4
	ICT	159,209	7.1%	-69,085	-30.3%	55.1
	Motor Vehicle	217,862	9.7%	58,119	36.4%	119.4
	Community ¹	42,018	1.9%	-4,368	-9.4%	174.3
	Government	50,741	2.3%	12,344	32.1%	92.6
	Retail & Personal Services	302,000	13.4%	86,056	39.9%	108.7

1. For example, community public, community health, community education

The table also illustrates the aforementioned transition toward tertiary industries that is occurring within the Village Area's economy. Since 2007 the amount of floor space associated with transport, logistics and manufacturing uses has decreased by 19% or 207,188sqm. In contrast floor space for retail, personal services, motor vehicle, professional and business services, creative industries, government and food and drink has increased by 30% or 213,326sqm.

According to the *City of Sydney Employment Lands Study* (2013) for the Study Area, industries expected to experience the greatest growth between 2011 and 2031 are:

- Professional, scientific and technical services;
- Art and recreation services;
- Health care and social assistance;
- Education and training;
- Retail trade; and
- Other services.

It should also be noted that demand for manufacturing, warehousing, transport and logistics, postal services and so on will remain high, albeit a shrinking proportion of growth over time.

Demographic Analysis

For the purposes of this analysis, some demographic data was sourced from the 2011 Australian Bureau of Statistics (ABS) Census for the Statistical Local Area (SLA) which most closely aligns with the Study Area, which is Sydney (C) South (SLA Code 7205).

The SLA was chosen because it is the lowest statistical level to which ABS time series data is available. The South Sydney SLA includes the urban renewal areas of Green Square and Ashmore, which are likely to accommodate a large portion of the City's growth over the next 20 years. A map showing the Sydney South SLA is provided in Figure 4.

Figure 4 - Sydney (C) South SLA



Source: ABS Census 2011

The City provides population forecasts collated by .id data for the Green Square and City South Village Area (the Village Area), and where available this data has been used in the analysis.

Key findings from the demographic analysis undertaken for the Study are as follows (detailed analysis is contained in Appendix 1):

- **Population** - The Village Area's resident population was 20,013 in 2011 and is expected to increase by 34,069 people or 169% in the years between 2011 and 2031. This equates to an annual increase of 4% per year between 2011 and 2031.
- **Age** - The Sydney South SLA's age profile has remained similar over the last decade, with the majority of residents aged between 20 and 44 years. This is also the fastest growing age group. Between 2001 and 2011 the proportion of residents aged 20 to 44 years increased 54% to 59%. The proportion of residents aged less than 15 years and over 65 years is low and decreasing.
- **Birth Place** - In 2011 nearly 70% of all residents in the Sydney South SLA were born in Australia or the United Kingdom. This is changing however. Since 2001 the proportion of residents born in China and other Asian countries has increased to 5% and 9% respectively.
- **Households** - Family households remain the most common type in the Sydney South SLA followed by single person households. The number of Group Households in the Sydney South SLA is however growing rapidly.
- **Education** - Between 2001 and 2011 the number of residents in the Sydney South SLA attending university increased by 2,428. In contrast, the number of residents attending pre-school and primary school increased by 408 over the same period. Residents of the Sydney South SLA have a high level of education attainment with 26% holding a Bachelor Degree in 2011. This is 7% higher than a decade ago and significantly higher than recorded for Greater Sydney.
- **Resident Workforce** - In 2011, 66% of the Sydney South SLA's residents were employed in tertiary industries in 2011 compared to 54% across Greater Sydney. The following five industries employed nearly 50% of the Study Area's working residents in 2011: Professional, scientific and technical services (15%); Health care and social assistance (9%); Financial and insurance services (9%); Education and training (8%); and Retail trade (7%). In 2011, 54% of the Sydney South SLA's residents were employed as managers or professionals, compared to 39% across Greater Sydney. Between 2001 and 2011 the proportion of residents employed as managers and professionals increased by 7% in the Sydney South SLA and 4% across Greater Sydney. In contrast the proportion of technicians, trade workers, machinery operators, drivers and labourers declined by 5% in the Sydney South SLA and 3% across Greater Sydney over the same period.
- **Working Population** - In 2011 nearly 40% of people working in the South Sydney SLA lived in the areas of Sydney Inner City, Eastern Suburbs – South, Kogarah, Rockdale, Eastern Suburbs, North Strathfield, Burwood and Ashfield. A further 18% lived in Canterbury, Hurstville, Botany, Marrickville, Sydenham, Petersham, Cronulla, Miranda and Caringbah. For people working in the South Sydney SLA in 2011 the three most common means of getting there were driving themselves (62%), train (20%), bus (5%) and walking (5%). Just 8% of those working in the South Sydney travelled there by other means.

- **Resident Place of Work** - In 2011 nearly 60% of the Sydney South SLA's employed residents travelled to the Sydney Inner City to work. A further 23% of employed residents travelled to Botany, North Sydney, Eastern Suburbs, Chatswood, Lane Cove and Ryde for work.
- **Income** - In 2011 the Sydney South SLA's median household income was \$223 higher than the median for Greater Sydney. Since 2001 household incomes in the Study Area have increased by 80%, compared to 46% across Greater Sydney.
- **Dwellings** - Between 2001 and 2011 the number of dwellings in the Sydney South SLA increased dramatically (+7,821 or 46%). By comparison, the number of dwellings in Greater Sydney increased by 11% during the same period. Nearly 90% of new dwellings constructed since 2001 in the Sydney South SLA were flats, units or apartments and they represent 62% of the total dwelling stock. Whilst the Sydney South SLA's average household size was 2.0 people in 2011, a comparison of additional residents (18,056) and additional dwellings (7,821) between 2001 and 2011 suggests the size of new households is closer to 2.3.

In summary, the Study Area's population is growing rapidly and is increasingly characterised by young professionals who are aged between 20 and 44 years, well-educated and work in white collar industries. The number of overseas students living in the Study Area is also growing. These trends have resulted in a high proportion of lone person and group households in the Study Area although family households remain the most common type. The majority of residents work in or near the Sydney CBD and over half take public transport or walk to work.

The Study Area remains an important inner city location for light industrial uses. A transition is underway however with the number of businesses and jobs in the tertiary sector – which includes retail, food, professional services and information and communications technologies – growing faster than secondary sector industries such as manufacturing and transport. The majority of people working in the Study Area come from Sydney's inner and middle ring suburbs and nearly two thirds drive themselves to work.

3. MARKET APPRAISAL

The Study Area plays a vital role being the closest employment lands cluster to the Sydney CBD. It also has a critical role in providing space for various uses associated with Sydney Airport. Its strategic location makes it a popular destination for many service and distribution businesses. The area is rapidly transforming, once accommodating many a traditional, heavy industrial use, now accommodating more light industrial uses and more recently 'creative uses', small and medium business moving from inner city areas of Pyrmont, Glebe and Surry Hills. The Study Area is under increasing pressure from residential development ongoing in the north and most recently to the east and south as old industrial sites are redeveloped into multi-dwelling living.

The evolving dynamics of the market will underpin the uses that will continue to seek accommodation in the Study Area subject to the confines of the planning framework. This Chapter outlines the interaction between supply and demand factors across the Study Area and how they have translated into property and land values. Based on past behaviour and expected future trends, the likely demand each of the six precincts within the Study Area can be forecast.

The experience of the Study Area as a traditional industrial precinct close to the CBD is not unique. Employment and industrial areas across capital cities in Australia are experiencing pressures from changing industrial trends and encroaching residential uses. Different responses are observed, including the rezoning of Fisherman's Bend (Melbourne) and Northshore Hamilton (Brisbane) to accommodate mixed use residential. The experience of Melbourne and Brisbane are discussed in Appendix 2.

3.1 THE PRECINCT TODAY

3.1.1 RESIDENTIAL

Owing to its close proximity to the CBD, strong transport links and major institutional establishments (e.g. universities, hospitals, parklands) the Study Area and its surrounds has experienced significant transformation over the last decade. This transformation has not only been spurred on by supply-side development through the regeneration of large former industrial sites, but has also been driven by strong demand for new residential space in the wider Green Square Urban Renewal Area. While only a small number of residential dwellings are located within the Study Area itself (345 dwellings), there is increased pressure for more residential uses to be accommodated.

The area attracts a mix of occupants from young professionals, first home buyers and even some downsizers who value the area's offering of amenity and attractive new buildings, and many of whom work in the Sydney CBD. Analysis of new apartment sales and resales over the period 2002-2012 reveals strong capital growth experienced over the past decade².

² Average annual capital growth of 6% to 6.5%, Hill PDA research

Unit Sale Values

Some recent notable developments completed include Emerald Park and the Powerhouse development. The Powerhouse is an adaptive re-use project of the former Marbig Rexel site located between Botany Road and Dunning Avenue, Roseberry. The development was recently completed and consists of 132 units and 4 retail suites facing Botany Road. It has been developed in two stages with the first stage consisting of 68 units and a 4,417sqm super lot. The building is arranged over 5-8 levels within the shell of the existing structure. The developer lodged a section 96 modification to remove the basement parking and provide parking at-grade.

Emerald Park is a recently completed development on the corner of O'Dea Avenue and located to the north of the Study Area in close proximity to the Green Square town centre. It was also completed in two stages.

Soho is a relatively small development of 19 units located in Ralph Street within the Study Area. The development sold very well when it was marketed in 2010.

Table 8 - Residential Unit Sales

Address	No.	Type	Size	Price Range	Analysis (\$/sqm)
Powerhouse	59	1b	50-53	\$400,000-\$500,000	\$7,900-\$8,200
144 Dunning Avenue	10	1b+s	68-70	\$500,000-\$600,000	\$7,650-\$8,250
Rosebery	63	2b	90-96	\$630,000-\$750,000	\$7,200-\$7,800
	6	S	35-39	\$369,000-\$425,000	\$9,500-\$11,500
Emerald Park (Stage 1)	59	1/1.5b	50-75	\$460,000-\$600,000	\$8,000-\$9,500
5 O'Dea Avenue	88	2b	80-100	\$515,000-\$875,000	\$6,500-\$8,750
Zetland	5	3b	110-130	\$680,000-\$949,000	\$6,000-\$7,300
Soho	8	1b	48-57	\$395,000-\$500,000	\$7,750-\$10,300
53-55 Ralph Street	9	2b	63-86	\$525,000-\$625,000	\$6,300-\$8,700
Alexandria	2	3b	158-159	\$640,000-\$660,000	\$4,050-\$4,150

Source: Red Square 2013

The table reveals that the sale values across the wider Green Square and its immediate surrounds are generally aligned, with the exception of units around Victoria Park if city views are captured.

Land Values

Developers have typically acquired dilapidated industrial properties for redevelopment into residential and mixed use buildings within zones that permit residential or shop top housing. As suitable residential and mixed-use development sites become scarcer to the north of the Study Area in Waterloo, Zetland and Alexandria, there will be intense competition for suitable development sites, particularly in the current B6 zone (proposed B4 zone) along Botany Road.

The sale of 767 Botany Road is an example of the competitive nature of site acquisition in the area. The site was originally purchased by McDonalds in 2009 for \$7.15m equating to \$1,721/sqm of site area. McDonalds subsequently considered the site surplus to requirements and the site was sold in 2013 for \$11m (\$2,684/sqm), an increase of \$3.85m in four years.

Table 9 - Mixed Use Development Site Sales

Address	Sale Date	Site Area (Zone/FSR)	Sale Price	Analysis \$/sqm (\$/sqm/FSR)	Comments
767 Botany Rd Rosebery	Apr 2013	4,154 (B6 / 2:1)	\$11,000,000	\$2,684 (\$1,324)	Vacant site previously sold to McDonalds in 2009 for \$7.15m.
6 Rothschild Ave Rosebery	Oct 2012	1,391 (B4 / 1.5:1)	\$3,650,000	\$2,624 (\$1,749)	Mixed use development of 34 units above 3 commercial tenancies.
41 Birmingham St Alexandria	Feb 2012	784 (B6 / 2:1)	\$2,100,000	\$2,679 (\$1,339)	Older warehouse to be converted into 25 units above retail on ground floor.

Source: Red Square, Cordell Connect 2013

The high sale prices achieved for development sites in the B4 zone and the current B6 zone are primarily reflective of their capacity to accommodate residential land uses.

3.1.2 COMMERCIAL

Across much of the Study Area, which is in the main currently zoned IN1 - General Industrial and IN2 - Light Industrial, the amount of commercial space permitted is primarily as ancillary / supportive to the various industrial uses. Over the past decade in tandem with rising land values, many traditional industrial uses have gradually relocated to cheaper locations to the west, such as Moorebank or Kingsgrove. Some general and light industrial uses, particularly those who service the airport or who fill a local service role continue to require space within the Study Area.

It is notable that the resultant void from the relocation of traditional uses is increasingly being filled by tenants in search of 'creative space', many of whom have relocated from other city fringe locations such as Surry Hills, Pyrmont, where they have been edged out due to rising prices. Many of these businesses (e.g. fashion designers, marketing and public relations businesses) do not demand traditional commercial space, preferring a mix of office and design space.

This evolving nature of demand for commercial space can be exemplified by vacancy levels and rents achieved. Local leasing agents have commented that the traditional carpeted offices typically found in B/C-Grade commercial buildings are not in high demand. Conversely, open plan spaces with polished concrete and exposed brick are in strong demand, warehouse conversions well suited. Creative users can require less space (e.g. 70sqm-150sqm) but want the ability to incorporate the features of a retail showroom.

There is a distinct difference in the levels of quality and amenity between individual buildings. Collins on Bourke (90 Bourke Road) is considered to be at the premium end of the offering, achieving sale values upwards of \$5,500/sqm, with many of the tenancy sales offered to investors packaged with a strong covenant. Notable tenants occupying space in Collins on Bourke include Suntory and Panasonic Avionics.

In the case of non-premium commercial assets, many of which are found in Rosebery, sale values are much lower and range from \$1,750/sqm to \$3,000/sqm of building area.

Table 10 - Commercial Floor Space Sales

Address	Sale Date	Building Area (sqm)	Sale Price Analysis (\$/sqm)	Comments
55 Mentmore Avenue Rosebery	Sept 2013	5,770	\$10,200,000 (\$1,767)	Older commercial strata building located in IN2 zone with existing use rights.
510/77 Dunning Avenue Rosebery	May 2013	253	\$550,000 (\$2,174)	Creative space located over Levels 4 and 5. Includes single car space.
Suite 3.01 90-96 Bourke Road Alexandria	Feb 2013	1,470	\$7,650,000 (\$5,204)	Within premium building Collins on Bourke. Sold with strong covenant at a passing net rent at \$385/sqm, passing yield of 7.4%.

Source: Red Square 2013, Hill PDA research

This intensification of uses occurring has resulted in significant adaptive reuse of old industrial buildings as owners attempt to entice creative users to take-up accommodation and potentially increase rents from their current \$200/sqm-\$240/sqm levels to \$300/sqm-\$350/sqm. An example is 21 Collins Street, Beaconsfield, where an older industrial building was converted into mixed use creative suites and ground floor retail uses with net rents well in excess of \$300/sqm achieved.

Local agents have identified difficulty in leasing traditional, large floor plate commercial space. While some notable tenants have committed to the area (e.g. Red Bull and Blue Scope Steel in Alexandria Creative Park, Suntory in 90 Bourke Road and Australian Red Cross Society at 17 O'Riordan), there is generally weak demand for large, traditional floor plates thereby making it difficult to meet pre-commitment requirements for new commercial build.

Large users of traditional office space are observed to look to Mascot and the airport precinct where there are already significant quantities of this type of floor space available at cheaper rents. Agents commented that large tenancies offered in Collins on Bourke typically experience more demand when offered in smaller configurations.

Land Values

An outcome of the overall weak demand for large floor plate commercial floor space is a dearth of commercial site sales. The most notable sale of a commercial site is that of 17 O'Riordan Street as part of a pre-committed development to the Australian Red Cross Society.

Table 11 - Commercial Development Site Sales

Address	Sale Date	Site Area (Zone/FSR)	Sale Price	Analysis \$/sqm (\$/sqm/FSR)	Comments
1-3 O'Riordan St Alexandria	Mar 2011	2,873 (B5 / 2.5:1)	\$7,700,000	\$2,680 (\$1,072)	Site improved with several dilapidated warehouse buildings. No DA lodged yet.
17 O'Riordan St Alexandria	June 2009	7,357 (10(d) / 2:1)	\$16,000,000	\$2,175 (\$1,088)	Site sold after an agreement for lease was signed with Australian Red Cross.

Source: Red Square, Hill PDA 2013

Although slightly dated, the above commercial site sales indicate \$2,000 per sqm of site area could potentially be achieved if a pre-commitment can be secured. Save for commercial space in the Green Square Town Centre, traditional commercial space is not likely to be viable on a large scale given weak demand which results in longer take-up periods.

3.1.3 RETAIL/BULKY GOODS

Demand for retail is continuing to grow, not unexpectedly due to an increasing worker and resident population. Local agents indicate that there is a large variance in values for retail uses which are highly dependent on location. Retail space in highly sought-after locations can experience gross rents as high as \$1,500/sqm, equating to over \$10,000/sqm of building area. More generally, rents tend to range in the \$400/sqm-\$500/sqm in moderately sought-after locations.

The O’Riordan Street bulky goods corridor plays a significant role in the Study Area, drawing trade from the wider region with several key locations within the corridor strategically held by national retailers. The bulky goods corridor is also becoming increasingly appealing to high end car dealerships with Harley Davidson, Trivett Land Rover occupying prime locations.

Local agents comment on how the retail offer has changed over the last five years. Once the haunt of delivery truck drivers and hamburger take away shops, the retail offering has become more interactive appealing to the inner city urbanites travelling from Redfern, Surry Hills and Pyrmont. There are two distinct clusters of retail that have formed in the Study Area, the first focused around the Grounds Café in Alexandria Creative Park and the second around the Cannery development anchored by Kitchen by Mike.

3.1.4 INDUSTRIAL

The market for industrial floor space is overall favourable with a relative scarcity of available land putting upward pressure on values.

Local agents have identified a return to activity by institutional investors in 2012/2013 as well as increased demand for vacant, undeveloped sites. This is in contrast to the preceding year where market activity was principally driven by owner occupiers. Land values of serviced industrial lots are suggested to still prevail circa \$1,000/sqm to \$1,200/sqm of site area, still below pre-global financial crisis (GFC) levels of \$1,650/sqm to \$1,750/sqm.

There have been a number of large transactions in early 2013 including the divestment of part of Sydney Corporate Park at 126 Bourke Road. Selling agents have identified a consistent turnover of smaller industrial units as owner occupiers outgrow their premises. Sale prices for these types of strata industrial space range from \$2,800/sqm to \$3,330/sqm of building area.

Table 12 - Industrial Floor Space Sales

Address	Sale Date	Building Area (sqm)	Sale Price	Analysis (\$/sqm)	Comments
Units 6 & 7 100 Collins Street Alexandria	June 2013	375	\$1,155,000	\$3,080	Adjoining ground floor light industrial warehouse tenancies sold to an owner occupier.
Sydney Corporate Park 126-136 Bourke Road Alexandria	June 2013	8,857	\$21,196,000	\$2,394	Site area is 1.377ha. Sold at a net passing income of \$1.52m (initial yield 7.15%). Parking for 144 cars.
1029-1035 Bourke Road Waterloo	Feb 2013	12,226	\$36,500,000	\$2,985	Sale of several allotments on an initial yield of 8.56%.

Source: Red Square, Hill PDA Research 2013

Despite the large transactions, agents have commented that the leasing market for larger tenancies has been subdued through 2013. This softness in the leasing market is observed to a function of confidence and cyclical economic conditions, expected to return in the medium term.

There has been a stabilisation of vacancy rates and rents with average prime grade net rents ranging from \$130/sqm to \$160/sqm while secondary grade net rents are between \$100/sqm and \$130/sqm³.

There is generally good demand for smaller industrial strata units from distribution and other businesses that play a local service role. There is a range of industrial strata developments where demand can be satisfied. The configuration and layout is important, demand depending on user requirements for container loading and storage. The development at 110 Bourke Road is noted to appeal to users not requiring container delivery or storage and due to the relatively small unit sizes, net rents are higher ranging from \$200/sqm to \$250/sqm of building area.

New development is observed to comprise this type of space as larger industrial uses move out. Examples of new industrial strata development include Enterprise Industrial Estate on 51-53 Bourke Road, Alexandria.

Land Values

After several years of difficult market conditions, land sales activity has returned with a number of larger sales to institutional parties and government agencies for infrastructure purposes.

Table 13 - Industrial Development Site Sales

Address	Sale Date	Site Area (Zone/FSR)	Sale Price	Analysis \$/sqm (\$/sqm/FSR)	Comments
L3, 100-110 Euston Road Alexandria	Aug 2013	3,731 (IN1 / 1.5:1)	\$3,720,000	\$997 \$665	Sold to Trumen Corporation who are developing the Wool Stores, having completed Enterprise Industrial Estate.
67 Bourke Road Alexandria	Sept 2013	24,409 (B7 / 2:1)	\$25,000,000	\$1,024 \$512	Vacant site with frontage to Bourke Road but mainly stretching the length of the canal. Purchased by City of Sydney for a works depot facility.
8 Euston Road Alexandria	Sept 2011	27,130 (IN1 / 1.5:1)	\$26,915,000	\$992 \$661	Site purchased by Bunnings and developed into a new Bunnings store.

Source: Red Square, Hill PDA 2013

There are limited vacant land blocks left in the Study Area and agents have indicated that prices should rise accordingly in the short to medium term.

Rising land values for industrial uses will invariably impact the types of developments that are viable and could potentially result in higher density development. There is however a limit to the density that can be achieved on an industrial site due to functionality constraints.

³ Colliers research, 2013

3.1.5 LAND USE AND LAND VALUES

The permissibility of various land uses within certain zones underpins land values within those zones. This is due to the different end sale values achievable when sites are redeveloped.

Where permissible residential uses command the highest sale prices and can range between \$7,000/sqm and \$12,000/sqm of building area while commercial and retail uses can potentially achieve between \$4,000/sqm and \$6,000/sqm of building area on average. Retail uses in prime locations however can command sale prices equivalent to residential and even exceeding, however it is questionable if these high retail prices are sustainable, for example Danks Street in Waterloo. Industrial strata uses can potentially achieve sale prices between \$3,000/sqm and \$3,500/sqm of building area while larger format industrial achieves lower prices between \$2,000/sqm and \$3,000/sqm of building area.

In addition to being influenced by permissible land uses, land values are also impacted by permissible densities. In the case of residential development, subject to market demand and site constraints, higher densities can almost always be realised on a site. This not unexpectedly is directly reflected in land values. In contrast, increased densities in commercial and industrial zones do not necessarily translate into higher land values. While achievement of commercial densities in the Study Area are beholden to market demand which underpins viability, industrial densities are more constrained by functional requirements that can impede on the ability to achieve higher densities on a site.

As intimated above, permitted land uses influence land values; current site values are outlined in the table below:

Table 14 - Generic Land Values

Land Use	Site Area (FSRs)	Generic Land Values \$/sqm site area		
		Low	High	Average
Industrial ¹	>10,000sqm (1:1)	\$900	\$1,100	\$1,000
Commercial / Retail	>2,000sqm (1.5:1 to 2:1)	\$1,500	\$2,500	\$2,000
Residential / Mixed use	>1,000sqm (1.5:1 to 2.5:1)	\$2,000	\$3,200	\$2,500

1 - Based on sales of existing sites, generic industrial land values are observed to be marginally lower in IN1 compared to IN2 zone. If pre-commitment can be secured, recent sales indicate up to \$2,000 per sqm of site area may be achievable. It is noted however that permissibility of commercial / retail will not necessarily translate to commercial / retail land values. In the proposed B6 areas, particularly in the south where there is low demand for pure commercial and/or retail uses, land values are more likely to reflect industrial land values quoted above.

A hierarchy of values is evident in the above table, reflective of zoning and permitted land use. Following a rezoning, change in land values is expected in accordance with respective land use.

Generic industrial land values are observed to be marginally lower in the existing IN1 (General Industrial) zone (\$900/sqm to \$1,000/sqm) compared to the smaller IN2 (Light Industrial) zone (\$1,200/sqm-\$1,400/sqm). A rezoning to B4 Mixed Use subject to permitted densities is likely to see the most value uplift in the Northern portion where existing land values are lower (average \$1,000/sqm) compared to the Southern portion where existing land values (circa \$1,300/sqm) are reflective of their proximity to the B6 and B4 zones.

3.2 MARKET FINDINGS AND FUTURE DEMAND

Several key themes emerge from our market appraisal of the Study Area and the wider Green Square Urban Renewal Area. The evolution of the Study Area has been brought about by the following trend factors:

- Shrinking role of traditional manufacturing and exodus of many businesses to industrial areas in Western Sydney where prices are cheaper;
- Increasing concentration of residential development and the continued demand for residential;
- Limited demand for traditional commercial space, demand capable of being satisfied in the Mascot precinct;
- Increasing demand for adaptively reused warehouse space by 'creative uses', whether for light industry or commercial users;
- Increasing land values due to scarcity / availability which puts upward pressure on rents and prices;
- Strengthening demand for retail goods (including bulky goods) and services, demand originating from local residents as well as from wider catchment areas.

3.2.1 LAND USE GROWTH CATEGORIES

As a corollary of broader economic and market conditions, growth and demand from the following land uses are expected to continue:

- Residential uses limited only to the extent by planning permissibility.
- Quasi-commercial uses (e.g. creative uses) accommodated in adaptively reused space or in newly constructed space and conveying the 'bare finished look'.
- High-tech industrial strata units in response to high land values and demand from small business;
- Light industrial uses that support warehouse and distribution, transport and logistics, particularly those that fill local service roles; and
- Retail uses that provide amenity to and service the burgeoning residential population in the wider Green Square area. Already witnessed are high levels of demand for a variety of cafés, restaurants, personal services, boutique retail and other entertainment and recreational offerings.

3.2.2 CHALLENGES

The rezoning of the Study Area will enable it to capitalise on numerous opportunities to enable continued operation as a viable employment area. Notwithstanding, the change in land use zones is not bereft of challenges.

The present IN1 and IN2 zones restrict the nature and intensity of commercial-type uses permitted, conceivably impacting on the viability of the industrial lands. By rezoning a large proportion of industrial lands to Mixed Business, higher order and more diverse uses would be permitted, contributing to vitality whilst facilitating viable operation of the lands. However, by allowing higher order and more intensive business uses, land values are expected to rise and thereby put some traditional industrial uses at a further disadvantage in favour of an industrial product that is co-located with other complementary uses such as showroom and office space.

There is observed to be good demand for ancillary uses in the present industrial zones that cannot always be accommodated due to the 20% maximum in the current Sydney LEP. The proposed mixed business zone is expected to alleviate some of this pressure from ancillary uses on the reduced industrial zone.

There is continued demand for retail showrooms, for example automotive, in the O’Riordan Street bulky goods corridor however managing parking and traffic congestion continues to be a challenge.

Parking control ratios, specifically 1 per 300sqm and above in the Sydney LEP 2012, makes it challenging for industrial space to be marketed to industrial users. The challenges with traffic congestion are understood to be the principal reason for the low carparking ratios.

Traditional commercial development is unlikely to occur on a large scale, with development such as the Red Cross building at 17 O’Riordan Street likely to be rare. Demand for non-traditional commercial space, such as ‘creative’ commercial space is expected to continue. This situation is also affected by competing commercial markets such as Mascot which has a large pipeline of future commercial projects (more than 40,000sqm of commercial floor space approved and another 30,000sqm mooted). Almost 30,000sqm of commercial floor space is available or coming available for lease, some of this released as backfill space following the relocation of large occupiers like Qantas to recently completed premises.

As new commercial build becomes viable, the Green Square Town Centre is expected to be the priority location for such development. While demand is currently weak, the benefits associated with clustering of activities around the Green Square train station are expected to be a catalyst for the co-location of new commercial space.

3.2.3 ISSUES FOR CONSIDERATION

In planning for the Study Area to facilitate urban renewal, regard should be had to the following issues:

- New industrial and commercial build is marginal, with many an existing use worth more in its current form than if it were demolished and redeveloped.
- The refurbishment and adaptive reuse of old warehouses will continue in response to market demand and economic efficiency. The completed space is likely to accommodate a range of mixed businesses (creative commercial suites, cafés / restaurants / boutique retail and other entertainment uses). As a consequence any industrial space ‘lost’ is unlikely to be replaced.
- While the demand for retail is generally strong in the Study Area (owing to the growing residential population), retail space is very sensitive to location as well as position within a development. While the notion of maintaining ‘active street frontages’ is commendable, there are instances where ground retail will be unviable and inclusion within a development will result in reduced feasibility. That said, in the proposed B4 (North) zone, opportunities for retail / commercial uses to benefit particularly from synergies with existing uses along McEvoy Street could be harnessed.
- Residential land uses have the ability to respond to higher densities, land values directly proportionate to permissible densities.
- Industrial uses have the least capacity to respond to higher densities. For example, even though there is upward pressure on industrial rents and values due to a scarcity of stock, functionality constraints *generally* prevent industrial development from being viably developed to densities beyond FSR 1.5:1.

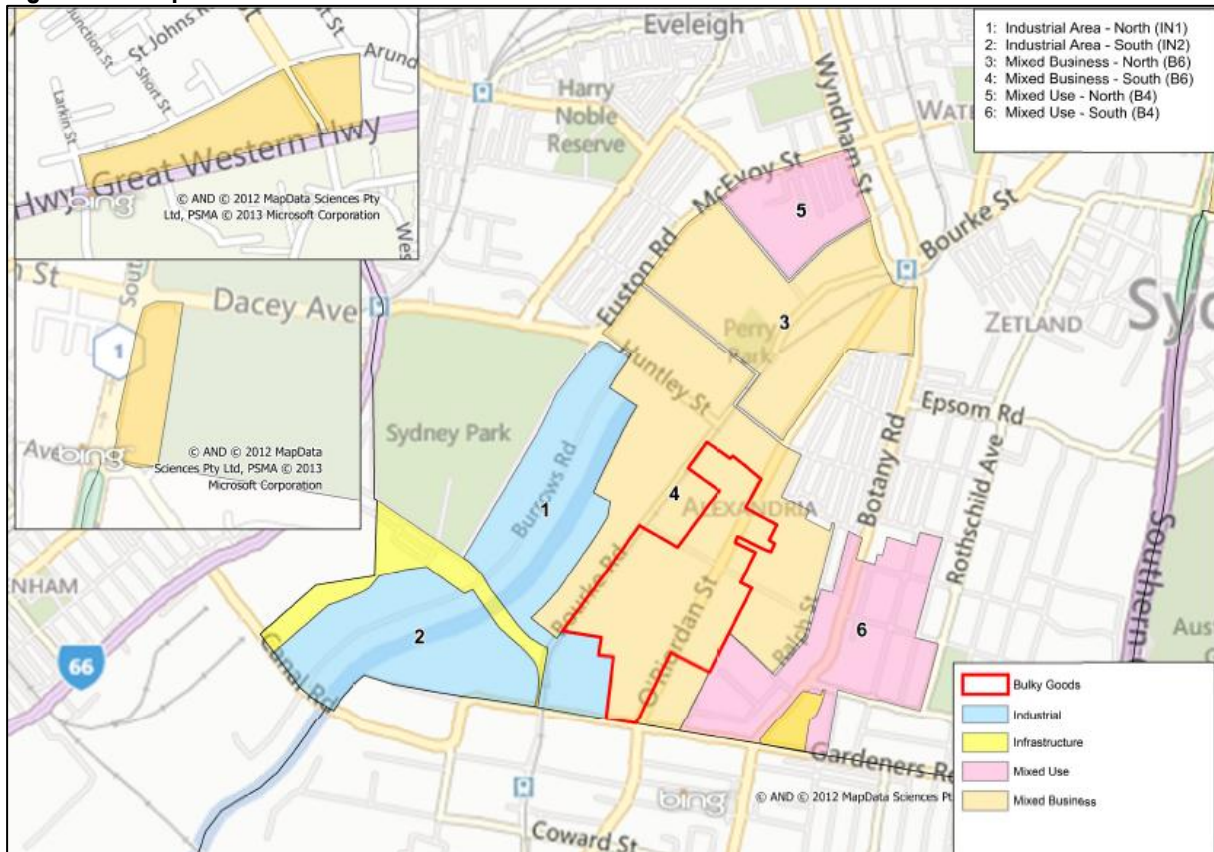
- The capacity of business uses to respond to higher densities depends on the nature of floor space likely to be demanded. In the CBD where traditional office is commonplace, an increase in density and floor space will generally result in higher land values. In locations such as South Sydney and other fringe locations where a different type of commercial is demanded, higher densities will not necessarily translate into higher land values or incentivise redevelopment.

Developers are combining a range of land uses within recent new developments, for example retail showrooms, high tech industrial units, self-storage units and commercial units in order to overcome feasibility issues. This trend of innovation is expected to continue as developers seek out viable development opportunities.

3.3 THE PRECINCT – LOOKING FORWARD

The draft Employment Lands Strategy envisages three land use zones for the Study Area. These include Industrial (IN1), Mixed Business (B6) and Mixed Use (B4). These respective areas are shown below:

Figure 5 - Proposed Land Use Zones



Source: MapInfo Bing, Hill PDA 2013

3.3.2 GENERAL INDUSTRIAL (IN1)

The objectives of the General Industrial (IN1) zone are to provide a wide range of industrial and warehouse land uses, ensuring that permitted uses support the viability of nearby centres. To this end, permitted uses other than industrial will remain limited.

Based on current and expected market conditions, the following observations are made:

- Good demand for warehousing and distribution space is expected to continue.
- Although leasing conditions are at present soft demand is expected to return as market cycles run their course. This will be aided by a recovery in economic conditions and a return of business confidence.
- New developments are likely to be confined to vacant sites or sites with nominal improvements.
- Current parking ratios may result in limited marketability.
- Current density controls of FSR 1.5:1 is adequate to accommodate the uses proposed in the General Industrial (IN1) zone. Due to functionality requirements of industrial uses and circulation space needed on site, there is a limit to how intensely a site can be redeveloped. Recent industrial strata developments have typically not exceeded FSR 1.5:1.
- While there may be instances where industrial uses may seek to develop to an FSR beyond 1.5:1, these are expected to be exceptions rather than the norm.
- Current height controls (18m) would be inadequate for high-span warehouses which can be in excess of 20m.

The following table draws together our findings to anticipate the level of development in those parts of the Study Area proposed to be zoned General Industrial (IN1).

Table 15 - Anticipated Development in General Industrial (IN1 zone)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Industrial Area (North)	Nominal new development	Nominal new development	Moderate levels of new development	Moderate levels of new development
Industrial Area (South)	Nominal new development	Nominal new development	Moderate levels of new development	Moderate levels of new development

3.3.3 ENTERPRISE CORRIDOR (B6)

The Mixed Business zone of Enterprise Corridor (B6) is to promote a mix of business, office, retail and light industrial uses.

There is clear demand for a range of business uses, many commercial-type uses having prevented from being accommodated owing to the restrictions under the present industrial zones. The following observations emerge from our investigations:

- There is strong demand for adaptively reused space by retail and other commercial businesses as well as creative users traditionally located in Surry Hills and Paddington.
- Retail and mixed business uses that support the growing Green Square residential population will continue to thrive. These uses include cafés, restaurants, delicatessens, artisan bakeries and concept boutique retail, home improvement shops, banks, storage facilities and post offices (particularly those with after-hour collection facilities). Entertainment and recreation facilities have been successfully incorporated within Sydney Corporate Park.

- Demand for high-tech industrial⁴ strata units will continue to grow in response to rising rents and land values. It is conceivable that an increasing amount of office component will be required. Notwithstanding the good demand for this type of space, when other (business) uses are permitted in the Mixed Business zone it is conceivable that provision of industrial space will slow in favour of other 'higher and better uses'.
- Bulky goods retail and showroom uses are expected to continue to experience high demand along O'Riordan Street to service the growing population.
- The immediate area around 41 Bourke Road (intersection of Huntley Street / Bourke Road / Collins Street) currently supports a cluster of mixed businesses. This cluster is likely to grow and increase in prominence over time.
- Renewal of the northern portion of the Mixed Business zone is dependent on the progress of the Green Square Town Centre and is likely a longer term development proposition compared to the immediate area surrounding 41 Bourke Road. There are however properties between Huntley and Bowden Streets that appear ripe for development (characterised by ageing improvements, low site cover and density) and could conceivably be redeveloped in the short to medium term.

Several new developments observed in this proposed zone (present Light Industrial zone) have been developed over 3-4 storeys and not always to the maximum permitted density of FSR 1.5:1. Subject to urban design and other constraints, FSRs 1.5:1 to 2:1 are considered appropriate to support uses in this zone.

New development on a large scale is unlikely to be witnessed in the immediate term. Vacant sites and sites with nominal improvements are likely to be the first to be redeveloped with the remainder of sites either refurbished now or redeveloped in the longer term. Any new build is likely to be in the form of a mixed use development combining a range of retail, business and potential industrial uses (e.g. Collins on Bourke and Enterprise Industrial Estate).

The following table draws together our finding to anticipate the level of development in those parts of the Study Area to be zoned Enterprise Corridor (B6).

Table 16 - Anticipated Development in Enterprise Corridor (B6)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Mixed Business (North)	Moderate levels of new development	Moderate levels of new development	Substantial new development	Substantial new development
Mixed Business (South)	Nominal new development	Moderate levels of new development	Moderate levels of new development	Substantial new development

3.3.4 MIXED USE (B4)

The objectives of the Mixed Use (B4) zone are to "integrate suitable business, office, residential, retail and other development..." as well as to ensure that uses support the viability of centres.

⁴ High-tech industrial can be thought of industrial functions that generally exclude the manufacturing components of the industry, with the greatest direct impact on office space demand. Examples of high-tech services include: computer systems design and related services, data processing, hosting and related services, electronic shopping and electronic auctions, software publishers, etc.

In recent times sites in the Mixed Use B4 zone have been observed to be developed primarily into residential uses with nominal amounts of non-residential included. This is due to profitability drivers but in some cases due to feasibility issues. Key conclusions include:

- Mixed Use B4 zone is likely to witness the most development activity in the short term compared to the other zones. This is a function of the strong demand for residential units.
- A 'Danks Street type' cluster of retail is likely to grow in the Dunning / Queen Street area of Rosebery. The Cannery development which incorporates Kitchen by Mike has already raised the profile of this area.
- Considering the comparatively low value of commercial floor space to residential, it is unlikely that any commercial space will be incorporated in any mixed use development. Depending on location, a small amount of ground floor retail could be feasible.

Notwithstanding the above commentary on the lower value of commercial space, the northwest pocket of Mixed Use (Area 5) is likely to provide more opportunity to retain non-residential uses and adaptively reused commercial space than the pocket in the southeast (Area 6) owing to its location among other business uses and proximity to the Green Square train station.

The following table draws together our finding to anticipate the level of development in those parts of the Study Area to be zoned Mixed Use (B4).

Table 17 - Anticipated Development in Mixed Use (B4)

	2013 - 2017	2018 - 2022	2023 - 2027	2028 - 2031
Mixed Business (North)	Substantial new development	Substantial new development	Substantial new development	Declining levels of new development
Mixed Business (South)	Substantial new development	Substantial new development	Substantial new development	Declining levels of new development

4. FEASIBILITY ANALYSIS

The take-up of development opportunities is contingent on myriad factors, one of which is uplift in land value over the 'as is' land value of sites. One of the metrics surrounding the feasibility of development is the land value, a residual concept after all costs and revenues are taken into account. The figure must be sufficient to encourage the owner to sell or change the use of the land. Where there are improvements on the land these may or may not add to the value of the land depending on their obsolescence and income-producing capacity. The Residual Land Value must exceed the value of the land and improvements to incentivise a change of use or ownership.

The objective of this Chapter is to investigate Residual Land Values in the various precincts within the Study Area to understand the viability of development under various scenarios (i.e. low, medium and high development scenarios). Furthermore the City seeks to understand the benefit (if any) conferred by densities in the respective development scenarios. While necessarily generalised, this analysis will assist the City in understanding the economic impacts of changes to the existing zoning and development controls.

It is important to understand the nature of development that is currently occurring in the Study Area and surrounds before considering the feasibility analysis outcomes and implications.

4.1 ANALYSIS OF DEVELOPMENT ACTIVITY

Analysis of the following mixed-use developments reveals some clear trends: residential land uses are developed to the maximum permitted densities with only nominal amounts of non-residential space typically provided within a development. In most cases the proportion of non-residential space is 6-8%, however in a larger development a higher proportion of non-residential uses may be provided due to larger floor plates and requirement of B6 zone that ground floor uses are non-residential.

4.1.1 MIXED USE (WITH RESIDENTIAL)

There is a strong pipeline of mixed-use (residential focused) development taking place in parts of the Study Area and the wider Green Square area. This development activity is driven by the strength of the residential market, the full extent of residential permissibility generally pursued.

There are several large developments ongoing at the edge of the Study Area, notably Otto which is a masterplanned development of the former RTA site. The first stage of construction commenced in mid-2013 with strong sales off-the-plan recorded in 2012 / 2013. There are smaller developments occurring in the current B6 zone in the southeast of the Study Area (Rosebery), listed below for context and informational purposes.

Parker Residence (755 -759 Botany Road, Rosebery)

Parker Residence is an adaptive reuse of an existing industrial building facing Botany Road and within the current B6 zone. The development consists of 32 residential units above 200sqm of ground floor retail. The development retains the façade of the original warehouse with additional levels extending from the retained façade to six levels to accommodate the residential floor space. The total Gross Floor Area (GFA) is 2,593sqm representing a Floor Space Ratio (FSR) of 2:1 (including 8% retail floor space on ground floor).

Revere (1-3 Dunning Avenue, Rosebery)

Revere is a mixed use development located in a current B4 zone. The development consists of 53 residential units and 300sqm of ground floor retail. The total GFA of is 4,985sqm equating to an FSR of 2:1, including 6% of retail space on the ground floor.

767-779 Botany Road, Roseberry

Well located on Botany Road, this development proposed on the former Swadling's Timber and Hardware site is another example of a predominantly residential development in a current B6 zone. The development consists of a 6 level mixed use building with 1,350sqm of retail on the ground floor with shop top housing above. The development has an overall GFA of 8,009sqm or FSR 2:1 (retail component accounting for 17% of GFA).

Marketing of the project has not yet commenced but the proposed mix of predominantly 1 and 2 bedroom units indicates a more affordable product with smaller units targeted at either first home buyers or investors.

Table 18 - New Development Advertised Sale Prices

Address	Mix	No.	Internal Area (sqm)	Sale Price	Analysis (\$/sqm)
Parker Residence	1b	16	59-61	\$510,000-560,000	\$9,000-\$10,000
755 Botany Road	2b	14	81-87	\$599,000+	\$7,400-\$8,500
Rosebery	3b	2	117	\$815,000+*	\$7,000-\$7,500
Revere	1b	14	50-61	\$530,000+	\$9,000-\$10,000
1-3 Dunning Avenue	2b	36	72-86	\$694,000+	\$8,500-\$9,500
Rosebery	3b	4	111-121	\$815,000+*	\$7,000-\$7,500
767 Botany Road	1b	38	50-57	Not applicable (marketing not commenced)	
Rosebery	2b	42	72-87		
	3b	9	102-112		

*Estimate only

Source: Real Estate.com, Cordell Connect

4.1.2 MIXED USE DEVELOPMENT (NON-RESIDENTIAL)

The uptake of commercial developments is more subdued than residential however developers are seen to be innovating and differentiating, particularly in an environment where land cost is high. Recent development activity can be categorised into:

- Adaptive reuse and conversion of old industrial buildings into retail and creative space for design, marketing and fashion / textile companies who require quasi-commercial space; and
- New mixed-use developments that integrate a range of uses from retail, light industrial, storage and commercial uses (e.g. medical and child care).

The Cannery (85 Dunning Street, Roseberry)

The Cannery is an adaptive reuse development of two warehouses formerly occupied by Rosella Food Manufacturing. The development involved the refurbishment of the two buildings with some addition to the amount of total floor space. The most significant addition was approximately 800sqm of floor space to Level 1 of Building B which is at the southern end of the development. The development is within the current IN2 zone with a permissible FSR of 1.5:1. The adaptive reuse of the site increased slightly the floor space, resulting in an overall FSR of 1.05:1.

Anchor tenant 'Kitchen by Mike' acts as a catalyst / magnet within the development drawing trade from a wide catchment area which then flows into the various retail showrooms and interactive spaces in the development. There are also a number of smaller studios leased to various creative businesses. The development has without doubt helped revitalise the immediate Dunning Avenue precinct.

The Alex (21 Collins Street, Alexandria)

The Alex located on the corner of Collins and O'Riordan Streets and consists of the adaptive reuse of a traditional high clearance warehouse. The development involved refurbishment of the façade and construction of 24 commercial and retail tenancies within the building. The site is situated outside the Study Area and is within the B4 mixed use zone with a permissible FSR of 1.25:1. The development does not utilise the maximum FSR permitted and has a relatively low capital investment.

The Alex has attracted a range of small creative users including retailers on the ground floor, a café, while textiles and distribution business are located in the tenancies located away from the street.

Collins on Bourke (90 Bourke Road, Alexandria)

Located at the intersection of Bourke Road and Collins Street, Collins on Bourke represents an innovative proposition accommodating a range of business uses into a single development. These uses include retail, storage, warehouse and commercial space. The development consists of a 4 storey integrated development over basement car parking and is understood to incorporate warehouse (45%), office (8%), high-tech industrial (26%) and retail showrooms (20%). It is observed that much of the high-tech industrial component within the development has been occupied as quasi-commercial space. The development utilises the full permitted density of FSR 1.5:1 and was approved under the South Sydney LEP (1998).

Collins on Bourke provides a premium innovative product and represents a significant capital investment. It accordingly has attracted high profile tenants including Suntory, Panasonic, Yalumba Wines. The development also contains a medical surgery, childcare centre and café / restaurant.

Enterprise Industrial Estate (51-53 Bourke Road, Alexandria)

Fronting Bourke Road and in close proximity to Collins on Bourke, the Enterprise Industrial Estate is a 2 level mixed use strata development comprising retail, high-tech industrial units and self-storage units. The development comprises a mix of high-tech industrial units (51%), self-storage storage units (28%) and retail showrooms (21%). The site is within an industrial zone with a permissible FSR of 1.5:1. The development is to a density of FSR 1.1:1 and a height of 14.2m.

Enterprise Industrial Estate provides an affordable product and was well received by the market. The developer is currently developing similar projects in industrial markets across Sydney, including a similar development at Burrows Road in Alexandria.

4.2 DEVELOPMENT SCENARIOS

The City formulated three notional development scenarios for the purposes of economic and feasibility testing. These scenarios are as follows:

Table 19 - Development Scenarios

Area*	Proposed Zone	Comments	Density Projections		
			Low	Mid	High
1	IN1 (North)	Limited change. Some change in built form to facilitate introduction of new uses	1.5:1	1.75:1	2.0:1
2	IN1 (South)		1.5:1	1.75:1	2.0:1
3	B6 (North)	More commercial over time with some retail, some loss of light industrial, warehouse space	2.0:1	2.5:1	3.0:1
4	B6 (South)	Some commercial and retail, though likely to retain many of warehouse, light industrial uses for longer than the B6 (North) area	1.5:1	2.0:1	2.5:1
5	B4 (North)	Approximately 50% residential, 50% commercial, light industrial / warehouse uses	1.5:1	2.5:1	3.0:1
6	B4 (South)		1.5-2:1	2.5:1	3.0:1

*refer to Figure 1 for geographic location of the areas

Source: City of Sydney Council

The following sections contain an overview of our financial assessment of the above development scenarios in each of the proposed zones.

The Residual Land Value approach was adopted as the most appropriate methodology of assessment. The Residual Land Value can be understood as the maximum purchase price of the land whilst achieving the target development margin and project return. This approach involves assessing the value of the end product of a development, allowing for the development costs, and making a further deduction for the profit and risk that a developer would require to take on the project. For the purpose of this Study, the hypothetical development used broadly reflects those uses likely to experience high demand under the proposed zoning in the various precincts within the Study Area (see section 3.3 for discussion).

Hypothetical development schemes that result in a 'higher and better use' than the current use indicate financial feasibility and provide a sufficient incentive for development / renewal of a site. All land use and FSR options were modelled using the Estate Master proprietary Development Feasibility software.

4.2.2 GENERAL INDUSTRIAL (IN1)

Following the GFC, land values of industrial property in the Study Area fell in tandem with the rest of Sydney. Market activity is generally sensitive to cyclical trends and overall economic sentiment however it has been observed to be good underlying demand for smaller industrial units from local service businesses.

In order to analyse the change in Residual Land Value following a change in density controls, a generic site (8,000sqm) in the Study Area was selected and feasibility modelling of the various development scenarios carried out.

The following notional density scenarios were considered:

Table 20 - Feasibility Testing of Industrial FSR Options**

Development Scenario	FSR	Description of hypothetical development
Low	1.5:1	2.5 level strata complex (70% small strata units, 30% large strata units)
Mid	1.75:1	3 level strata complex (74% small strata units, 26% large strata units)
High	2.0:1	3.5 level strata complex (75% small strata units, 25% large strata units)

*Small - 100-400sqm, Large - 500-1,000sqm (large only on the ground floor)

**note that these notional options are high-level and have not been design or capacity tested

Key differences in assumptions in each of the density scenarios relate to the number of smaller industrial units provided on the upper floors which are expected to sell at lower rates. The large industrial units are located on the lower floors.

The key performance indicator for the assessment of various scenarios is the Residual Land Value. The following table illustrates the results of high-level feasibility testing.

Table 21 - Summary of Industrial Modelling Results

Description	FSR 1.5:1	FSR 1.75:1	FSR 2.0:1
Development Yield (GFA)	12,141	14,165	16,188
Small units GFA (sqm)	3,642	3,642	3,642
Large units GFA (sqm)	8,499	10,522	12,546
Car Parking Spaces	121	142	162
Performance Indicators:			
Residual Land Value¹	\$4,617,967	\$4,809,402	\$5,043,140
(\$/sqm of site area)	\$571	\$594	\$623
(\$/sqm/FSR of site area)	\$380	\$339	\$311

Notes:

1 - Residual Land Value is the maximum purchase price of the land whilst achieving the target development margin and project return

The modelling suggests that by increasing the permitted FSR by 1:1 there is a reduction in the residual land value on a rate per square metre of FSR (from \$380/sqm/FSR to \$311/sqm/FSR). This can be attributed to the lower end sales values and longer marketing periods associated with industrial units on higher floors.

In comparison to existing industrial land values (\$900/sqm-\$1,100/sqm), the above residual land values (\$571/sqm-\$623/sqm) indicate that redevelopment of industrial sites is as yet not viable on a large scale.

4.2.3 ENTERPRISE CORRIDOR (B6)

The market for commercial property in the Study Area (part of the larger South Sydney commercial market) is more focused around non-traditional commercial space, for example, 'creative space' and adaptively reused warehouses.

After the GFC and as a consequence of soft rents / yields and the difficulties of obtaining credit, some commercial developments in South Sydney were put on hold. Despite the challenging market conditions, several recent commercial developments have attempted to innovate by combining retail, high-tech and 'creative' space.

In order to analyse the change in Residual Land Value following a change in density controls, a generic site (8,000sqm) in the Study Area was selected and feasibility modelling of the various density scenarios carried out.

The following notional density scenarios were considered:

Table 22 - Feasibility Testing of Mixed Business FSR Options*

Development Scenario	FSR	Description of hypothetical development
Low	1.5:1	Storage units (15%), light industrial (20%), retail showroom (20%), commercial (45%)
Mid	2.0:1	Storage units (11%), light industrial (23%), retail showroom (15%), commercial (51%)
High	2.5:1	Storage units (9%), light industrial (18%), retail showroom (12%), commercial (61%)
	3.0:1	Storage units (7.5%), light industrial (15%), retail showroom (10%), commercial (67.5%)

* note that these notional options are high-level and have not been design or capacity tested

Key differences in assumptions in each of the density scenarios, is related to the quantity of commercial office space included in the development. As density increases commercial office is the only viable option. This quantity ranges from 4,250sqm to 22,127sqm.

The key performance indicator for the assessment of various scenarios is the Residual Land Value. The following table illustrates the results of high-level feasibility testing.

Table 23 - Summary of Mixed Business Modelling Results

Description	FSR 1.5:1	FSR 2:1	FSR 2.5:1	FSR 3.0:1
Development Yield (GFA)	12,141	16,188	20,235	24,282
Storage units GFA (sqm)	1,821	1,821	1,821	1,821
Light industrial GFA (sqm)	3,642	3,642	3,642	3,642
Retail showroom (sqm)	2,428	2,428	2,428	2,428
Commercial GFA (sqm)	4,250	8,297	12,344	16,390
Car Parking Spaces	128	161	203	225
Performance Indicators:				
Residual Land Value¹	\$8,773,988	\$9,287,280	\$10,471,798	\$11,710,768
(\$/sqm of site area)	\$1,084	\$1,147	\$1,294	\$1,447
(\$/sqm/FSR of site area)	\$723	\$574	\$517	\$482

1 - Residual Land Value is the maximum purchase price of the land whilst achieving the target development margin and project return

Increases in permitted FSR from 1.5:1 are accompanied in increases in residual land value, albeit to declining rates per FSR.

In comparison to existing industrial land values (\$900/sqm-\$1,100/sqm), the above residual land values (\$1,100/sqm-\$1,500/sqm) indicate potential for some uplift in land values following a change in land use.

4.2.4 MIXED USE (B4)

Residential continues to be the most profitable and viable category of land use in the Study Area. Where residential uses are permitted within Business zones, non-residential uses are observed to be limited to the extent they are required by the zone controls.

In order to analyse the change in Residual Land Value following a change in density controls, a generic site (5,000sqm) in the Study Area was selected and feasibility modelling of the various density scenarios carried out.

The following notional density scenarios were considered:

Table 24 - Feasibility Testing of Mixed Use FSR Options*

Development Scenario	FSR	Description of hypothetical development
Low	1.5:1	Ground floor retail, upper levels residential
Mid	2.5:1	Ground floor retail, upper levels residential
High	3.0:1	Ground floor retail, upper levels residential

* note that these notional options are high-level and have not been design or capacity tested

Key differences in assumptions in each of the density scenarios relate to the proportion of residential that is provided, the incremental floor space assumed to be designated to residential uses.

The key performance indicator for the assessment of various scenarios is the Residual Land Value. The following table illustrates the results of high-level feasibility testing.

Table 25 - Summary of Mixed Use Modelling Results

Description	FSR 1.5:1	FSR 2.5:1	FSR 3.0:1
Development Yield (GFA)	6,315	12,630	15,156
Retail GFA (sqm)	1,263	1,263	1,516
Residential GFA (sqm)	6,315	11,367	13,640
Residential units	71	128	153
Carparking spaces	97	152	181
Performance Indicators:			
Residual Land Value¹	\$8,486,923	\$13,947,500	\$17,119,722
(\$/sqm of site area)	\$1,680	\$2,761	\$3,389
(\$/sqm/FSR of site area)	\$1,120	\$1,104	\$1,129

1 - Residual Land Value is the maximum purchase price of the land whilst achieving the target development margin and project return

The modelling suggests that by increasing the permitted FSR from 1.5:1 to 2.5:1, there is a value uplift of \$5.5m (\$14.0m less \$8.5m) or \$1,120/sqm. By increasing the FSR from 2.5:1 to 3.0:1, there is a value uplift of \$3.1m (\$1,227/sqm/FSR).

4.3 SUMMARY OF FINDINGS

General Industrial (IN1)

Due primarily to functionality issues, it is recommended that the density provisions for the IN1 zone remain at FSR 1.5:1. Redeveloped industrial strata units are observed to be contained within densities of FSR 1.5:1 but it is acknowledged that in some instances higher densities (to FSR 2:1) might be required for uses such rental storage and service centres.

In consideration of FSRs in the IN1 zone, the City needs to be cognisant that higher FSRs (i.e. FSR 2:1 and above) could confuse the market and imply that a greater focus on office component (e.g. high-tech warehouse / office) is sought. Equally, the potential for greater employment generated by higher FSRs is an important consideration.

Enterprise Corridor (B6)

The nature of demand for commercial space in the Study Area makes it challenging for large scale commercial redevelopment to be viable. Strong demand for adaptively reused space has resulted in warehouse conversions and nominal addition of floor space within these sites. A situation of reducing values per FSR is associated with each increase in density.

Subject to the consideration of urban design impacts, constraints such as flooding and traffic and access considerations, FSRs of between 1.5:1 and 2.0:1 are recommended in the Mixed Business zone, potentially increasing to FSR 2.5:1 in the North in close proximity to the Green Square Town Centre.

The viability of development in the Mixed Business zone is highly dependent on the mix of uses proposed. Our feasibility modelling suggests that increased FSRs are inversely related to land value. However it is conceivable that with innovation a mixed use development could achieve viability at FSR 2:1.

Mixed Use (B4)

Residential is the highest value land use, clearly outstripping the other categories of land use with regard to feasibility and developer demand. While significant value uplift is achieved by increasing the FSR from 1.5:1 to 2.5:1, it should be noted that prevailing land values in the proposed B4 zones are in the region of \$2,000/sqm of site area. In the North (currently zoned IN1 - General Industrial) this is owing to current densities around FSR 1.5:1 and in the South is due to ongoing activity in the current B6 zone (which permits residential) which has densities of FSR 2:1.

Notwithstanding the above observations, and subject to the consideration of urban design impacts, constraints such as flooding and traffic and access considerations, development in the proposed B4 Mixed Use zone is viable with FSRs ranging between 1.5:1 and 2.0:1.

It will be challenging to impose non-residential (retail / commercial) space beyond the ground floor and first floor of any mixed use development. Properties fronting major thoroughfares such as Botany Road and McEvoy Street may be able to tolerate the provision of ground floor retail, and potentially additional commercial floor space whether on the ground or first floor but in locations where retail space may be isolated, this requirement will detract from viable development.

Given the challenges of viability associated with non-residential uses, depending on the City's objectives it could consider granting a residential bonus in exchange for the increased provision of employment-generating uses.

Changes to Land Values

While the Study Area is generally thriving underpinned by healthy demand for industrial, commercial and retail space, the functional value and utility derived from *existing* uses means redevelopment / renewal will occur more slowly.

Where residential uses are permitted, owing to latent and extraordinary demand for residential living in close proximity to the CBD, redevelopment is occurring swiftly. There is certainly an opportunity for residential uses to cross-subsidise the provision of other uses, for example active street retail, affordable housing.

Any notable value uplift is likely to be confined to the Mixed Use zone particularly if residential uses are allowed to dominate. While there is strong underlying demand for local service industrial, creative commercial space and retail space, it would be difficult to incentivise contribution to affordable housing without market residential being permitted to subsidise it.

The following table illustrates the potential change to land values following rezoning and increased densities.

Table 26 - Generic Land Values

Land Use	Site Area (FSRs)	Generic Land Values \$/sqm site area		
		Low	High	Average
Industrial ¹	>10,000sqm (1:1)	\$900	\$1,100	\$1,000
Commercial / Retail	>2,000sqm (1.5:1 to 2:1)	\$1,500	\$2,500	\$2,000
Residential / Mixed use	>1,000sqm (1.5:1 to 2.5:1)	\$2,000	\$3,200	\$2,500

1 - Based on sales of existing sites, generic industrial land values are observed to be marginally lower in IN1 compared to IN2 zone. If pre-commitment can be secured, recent sales indicate up to \$2,000 per sqm of site area may be achievable. It is noted however that permissibility of commercial / retail will not necessarily translate to commercial / retail land values. In the proposed B6 areas, particularly in the south where there is low demand for pure commercial and/or retail uses, land values are more likely to reflect industrial land values quoted above.

A hierarchy of values is evident in the above table, reflective of zoning and permitted land use. Following a rezoning, change in land values is expected in accordance with respective land use.

Generic industrial land values are observed to be marginally lower in the existing IN1 (General Industrial) zone (\$900/sqm to \$1,000/sqm) compared to the smaller IN2 (Light Industrial) zone (\$1,200/sqm-\$1,400/sqm).

A rezoning to B4 Mixed Use subject to permitted densities is likely to see the most value uplift in the Northern portion where existing land values are lower (average \$1,000/sqm) compared to the Southern portion where existing land values (circa \$1,300/sqm) are reflective of their proximity to the B6 and B4 zones.

5. FUNDING INFRASTRUCTURE

The Study Area, as a result of the proposed changes to planning controls, will experience substantial employment and residential growth. This growth will result in additional demands on existing and planned infrastructure, as well as the existing residential and working communities in and around the area.

This Chapter provides an analysis of the strategies available to the City to provide for the economic and socially sustainable growth of the area.

5.1 AFFORDABLE HOUSING

Sydney remains Australia's least affordable city. It is widely acknowledged that development has not kept pace with demand, contributing to a tight rental market and rising house prices. The high cost of housing is an important economic and social issue in Sydney, particularly within the Sydney LGA where housing prices are amongst the highest in metropolitan Sydney. A key objective of the City is to increase the stock of affordable housing.

Sustainable Sydney 2030 and the City's Affordable Rental Housing Strategy (2009-2014) establish an ambitious target for the City that in 2030, 7.5% of housing will be social housing and 7.5% of housing will be affordable housing. The City defines affordable housing as subsidised rental housing for low income earners that is owned and / or managed by a Community Housing Provide (CHP) in perpetuity.

The substantial growth in employment in the Study Area makes a compelling argument that as a result of the change to planning controls, housing for lower income workers to service this growth should be ensured. Demand for lower income workers, such as cleaners, baristas, administrative clerks, healthcare workers, childcare workers will increase as a result of the proposed changes, and these lower income workers are likely to struggle finding affordable accommodation in the inner City. Low income workers are essential for the efficient functioning of the City. Ensuring some affordable housing is available for rent for these workers close to employment is essential to the economy.

The introduction of Mixed Use zones will also result in substantial growth in the number of dwellings in the Study Area. As these zones gentrify and transition to predominantly residential uses, it is essential that a diverse socio-economic demographic is encouraged. Ensuring a supply of affordable housing is critical to maintaining a healthy, tolerant and diverse community.

The Study Area presents an opportunity for the City to 'factor in' the provision of affordable housing and other infrastructure requirements at the point of its rezoning. Understanding the value that is created by the rezoning and increasing densities is a critical consideration for how and where the newly-created value may be 'captured' through the rezoning process without impacting on development feasibility.

It is noted that the NSW draft Planning Bill (draft Bill), introduced into Parliament in November 2013, indicated a limited capacity to deliver affordable housing through the future planning framework. While passed by the Lower House, changes made to the draft Bill in the Upper House dramatically increase the scope to address affordable housing. The amended draft Bill will be debated in the Lower House in 2014.

5.1.1 OBJECTIVES AND CONSIDERATIONS

The City recognises the importance of ensuring there is appropriate and affordable housing within the LGA, and that increasing the level of affordable housing can only be done by working with government, the not-for-profit sector and private sector.

The implementation of affordable housing contributions within the Green Square Urban Renewal Area and Ultimo / Pyrmont has resulted in the collection of monies which are then appropriated to a CHP (specifically City West Housing) to fund acquisition and development of affordable housing.

The overarching objectives of the Affordable Rental Housing Strategy (2009-2014), the overarching objectives are:

1. Increase the amount of affordable housing;
2. Protect the existing stock of low cost accommodation;
3. Encourage a diverse housing stock;
4. Collaborate with other councils;
5. Advocate for improved housing outcomes;
6. Implement, evaluate and monitor the affordable housing strategy.

A series of actions flows from each of the Strategy's objectives. Specifically of relevance to this Study are the actions to increase the amount of affordable housing by:

- Exploring opportunities to seek development contributions for affordable housing in areas outside the already established programs in Green Square and Ultimo / Pyrmont;
- Negotiate incentives to facilitate affordable housing through provisions in the Affordable Rental Housing SEPP; and
- Review car parking and social mix provisions within planning instruments to identify any barriers to the provision of affordable housing, and where appropriate and consistent with other land use needs, remove them.

The Strategy considers a raft of initiatives including harnessing the involvement of CHPs and leveraging off private investment that occurs concurrently with development.

5.1.2 APPROACHES FOR AFFORDABLE HOUSING

The approach to affordable housing provision in NSW has been ad hoc, differing not only between local government areas but between projects within the same LGA. This is largely the result of lack of clarity in the legislative framework about how affordable housing can be delivered, together with the highly variable economic complexities of mandating and / or incentivising affordable housing between even adjacent LGAs, that is, what works in one place does not necessarily work in another.

Broadly speaking, one or more variants of the following planning mechanisms can be employed:

- **Inclusionary zoning**
Mandatory contributions, either in-kind or monetary contribution, for all development within a defined area, for example an affordable housing levy.
- **Incentive zoning**
Density bonuses and / or planning concessions in an LEP or SEPP
- **Capture of value at rezoning**
'Capture' of planning gain / uplift associated with rezoning or increased density, typically negotiated as part of a Planning Agreement.

All variants are premised on the capture of value associated with an increase in land value resulting from a change to key planning controls, either whether potential yield is increased or where a change of use is supported.

The City has identified five different approaches to facilitating affordable housing in Area 3 (Mixed Business North), Area 5 (Mixed Use North) and Area 6 (Mixed Use South). They are:

1. Dedication of affordable housing dwellings where incentivised by differential FSR;
2. Sale of affordable housing dwellings to at cost where incentivised by differential FSR;
3. Monetary contribution, by way of inclusionary zoning;
4. Dedication of land where incentivised by differential FSR;
5. Permissibility restrictions, where the only form of residential development permitted in the zone is 'affordable housing'.

All approaches assume that affordable housing is delivered to the same level of quality and appearance of market housing, with requirement for delivery on-site or off-site being a question of feasibility only.

These approaches are discussed in more detail below, their suitability and effectiveness evaluated by considering the following factors:

- Effectiveness in increasing affordable housing supply;
- Efficacy of administration;
- Appropriateness for use and need;
- Sustainability of housing stock'; and
- Balance between maximising affordable housing outcomes without undermining viability of development.

A detailed analysis is provided later in this Chapter.

Option 1 - Dedication of Affordable Housing Dwellings

This approach requires the dedication of completed dwellings for affordable housing where dedication is incentivised by bonus FSR. A proportion of the 'value uplift' following a rezoning or increase in density is captured to deliver an equivalent amount of affordable housing floor space.

By way of example, if a planning gain (e.g. change in zoning or increase in density) results in a 'value uplift' of \$1.48m and the City sought to capture 50% of the 'value uplift', dedication of completed dwellings equivalent in value to \$740,000 would then be required. Assuming the cost of delivering each dwelling is \$370,000, two dwellings could be procured under this approach. In most cases these dwellings would be held under strata title.

A clear benefit of this approach is that affordable housing dwellings are considered early in establishing the built form controls which are formed with reference to an analysis of the urban design context. The affordable housing is then delivered as part of the completed product with no additional floorspace required above that which has been established as appropriate. This is in contrast with the Affordable Rental Housing SEPP where density bonuses are above those established in local planning instruments. Furthermore this approach facilitates inclusion of affordable housing within the same area with the risk of construction borne by the developer.

However, unless a site is sizable, contribution of completed dwellings calculated in this manner is likely to be small in number. Furthermore, unless a CHP has existing stock in the immediate area, there may be challenges in the administration of a small number of dwellings. This might be overcome as a provider gains more stock in the area or alternatively the approach might allow monetary contribution where the quantum of units is small or dedication is inappropriate.

Option 2 - Sale of Affordable Housing Dwellings to CHP

This approach assumes an FSR bonus where the affordable housing units may be sold at cost (including land, construction and development) to a CHP. By allowing a CHP to secure more dwellings at cost, effectively the capture of uplift is realised in the 'land' component of the dwellings. In a rising market where land is scarce and expensive, this can be an effective method to procure affordable housing. For example, if the required capture of uplift is \$740,000 and the land value per unit / site is \$90,000, effectively 8 units would be able to be procured with the CHP paying for the build cost of the completed dwellings.

The dedication of land for affordable housing effectively reduces the developable GFA available to the developer due to the 'inclusionary' nature of the provision. The viability of this approach is subject to the impact of the forgone floor space not exceeding a reasonable capture of the uplift. This is tested in section 5.1.4.

As in the case of dedication at full value (Option 1), unless a site is sizable the number of dwellings could be fewer than what a CHP would require to achieve economies of scale. That said, in comparison with Option 1 the number of dwellings able to be procured in Option 2 will be higher in number.

Option 3 - Monetary Contribution

Although subject to some market resistance when first commenced, affordable housing levies in Green Square and Ultimo / Pyrmont have come to be accepted, the market having adjusted to its impost. The affordable housing levies are pooled by the State Government and passed to City West Housing to build affordable housing in the LGA. City West Housing is currently the only CHP registered to be a recipient of monetary contributions collected for the Green Square and Ultimo-Pyrmont affordable housing schemes.

A major advantage of collecting monetary contributions is the ease by which the policy can be administered. Furthermore, it is clear and can be easily understood thereby allowing the market to respond accordingly.

In the Green Square and Ultimo-Pyrmont experience, monetary contributions are almost always preferred to be paid by developers over in-kind contributions. The levy is for 3% of residential and 1% of non-residential floor space. The 2013 affordable housing contribution rate for residential and non-residential uses is \$136.87/sqm⁵ and \$45.61/sqm respectively with the rate being indexed annually in accordance with the Housing Price Index (HPI). This rate includes both construction of units and the cost of the land costs. Monies are collected by City West Housing are pooled to purchase land and build affordable housing dwellings.

A potential drawback of this approach is that the uniform rate does not relate to the market and is not reflective of market price. In analysing the implications of the adopted rate, it is necessary to understand the underlying intention. If intended to fund the target 3% of floorspace, the rate should be sufficient to cover the costs of construction and land acquisition. In markets other than Green Square where the cost of land is different, the rate of \$136.87/sqm would arguably not be applicable. Furthermore, this rate would also not be applicable if a different target (say 6%) was sought. With these limitations in mind, the affordable housing levy rates should therefore only be used as a tool once a target has been determined *within* a specified geographical market.

In theory, the rationale for payments in lieu of on-site provision is simple: with the funds collected a CHP can procure suitable sites to construct affordable housing. This however can be challenging particularly in a rising market where there is fierce competition for development sites. In inner city areas the issue of site fragmentation and the shortage of suitable sites can make site assembly disproportionately expensive for CHP. It is therefore necessary to ensure that any method of indexation effectively mimics movement in land prices as well as the cost of construction. The method of indexation adopted in Green Square is to the HPI; while this relates to movement in residential prices it does not relate to price movements in the cost of construction.

Option 4 - Dedication of Land

The dedication of land to the City for affordable housing has the potential to work effectively particularly in the case of large development sites where a portion of the site can be set aside for dedication. If land is dedicated by a developer for affordable housing, a CHP can construct the units leveraging off their tax exempt status, thereby facilitating the provision of affordable housing in a cost-effective manner.

The key to the success and effectiveness of this method is determining the appropriate amount of land that should be dedicated. An equitable method would be premised on the 'capture' of value uplift / planning gain associated with a rezoning or increase in density. As in the case of Option 2, an amount of GFA will effectively be foregone to facilitate construction of affordable housing within the development. As long as the reduction in GFA is equivalent to a 'reasonable capture' of the uplift, this approach is viable.

This method converts the capture of planning gain into land rather than completed units. As land value is approximately 20%-30% the cost of a unit, this method has the potential to effectively procure 3-4 times more units⁶. For example, if the uplift in value associated with a rezoning was \$1.48m and the City sought to capture 50% (\$740,000), it could require the dedication of 2 units at \$370,000 each. However if the planning gain capture was instead converted into land, the dedication of land for 8 units could be obtained if each unit / site was

⁵ Indexed to 1 March 2013 at House Price Index (HPI)

⁶ Consistent with the findings of Hill PDA, Inner City Mayor's Forum for Affordable Housing, 2010

\$90,000. After dedication to a CHP the units could be constructed at the CHPs cost leveraging off tax exempt status and an established rental stream.

In many instances when constructing affordable housing on land received by dedication, CHPs will seek to access available National Rental Affordability Scheme (NRAS)⁷ funds. During the 10-year life of the NRAS funding, funds received will be used to repay any construction debt, the new stock to be held and positioned within the CHP's investment portfolio. In accordance with prudent investment portfolio management and practice, CHPs will seek to divest and acquire new stock to ensure it meets with client need and to optimise portfolio return.

There is therefore an argument that the imposition of any restrictive covenant requiring use as affordable housing in perpetuity restricts the ability of a CHP to manage stock as part of overall portfolio management. This consideration needs to be balanced with the City's objective that the quantum of affordable housing that results from an incentive scheme is maintained in the LGA into the future.

Option 5 - Permissibility of 'Affordable Housing' where provided by a public authority or CHP in Land Use Table

State Environmental Planning Policy (Affordable Rental Housing) 2009 effectively recognises 'affordable rental housing' (in the form of residential flat buildings) as potentially permissible within land use zones that do not permit residential flat buildings. Division 5 facilitates joint venture cooperation between social housing providers and landowners to provide affordable housing for at least 10 years on a site not necessarily designated for residential uses.

The SEPP provides that subject to specific requirements (including location of the site within 800m of a train station and at least 50% of the accommodation to be used for affordable housing for 10 years and managed by a registered CHP), an application may be made to the Director-General by or on behalf of a public authority or a social housing provider for a Site Compatibility Certificate..

Division 5 does not address how any resultant land use conflicts are to be addressed (particularly if residential uses are then to be sited directly next to say industrial uses) however in considering the Site Compatibility Certificate the Director-General is to have consideration to compatibility with surrounding land uses.

Permitting affordable housing in a zone that does not otherwise permit residential development in an LEP could provide opportunities for CHPs to purchase cheaper land with less risk involved than utilising the SEPP. It would also allow government to leverage land in the zone for the purpose of providing affordable housing should the opportunity arise. To ensure the viability of the zone for employment generating uses is not undermined, it will be important that planning controls address the potential impacts of the residential use on a particular site.

Incentivising affordable housing in a zone that does not permit other forms of residential development in theory may work effectively amongst commercial / industrial sites large enough to accommodate affordable housing within a portion of the site and mitigate any potential land use conflicts.

⁷ The National Rental Affordability Scheme (NRAS) is Commonwealth Government initiative delivered in partnership with state governments. NRAS incentives are allocated to private sector and not-for-profit organisations including CHPs to build new rental stock targeted at low to medium income households, rents to be set at least 20% below market rates for 10 years.

5.1.3 FINANCIAL AND SOCIAL SUSTAINABILITY

Effective approaches are needed to determine the appropriate amount of affordable housing that can be procured from development, these approaches should be cognisant of the various market segments that influence the dynamics of development feasibility as well as the administrative implications of the different forms of affordable housing contributions.

In evaluating the effectiveness of different contribution methods, the following matters need to be addressed:

- **Effectiveness in increasing affordable housing supply**
Underpinned by the objective to increase the stock of affordable housing *within* the Study Area and surrounds, the effectiveness of each option in actual delivery of affordable housing is important.
- **Suitability and sustainability of housing stock**
The requirements of each group of stakeholders: CHPs, developers and affordable housing residents, should be considered.
- **Efficacy of administration**
If the affordable housing is to be managed by a CHP how can it be financially and socially sustainable?
- **Balance between maximising affordable housing outcomes and development feasibility**
An understanding of the economics of development and the implications of contributing to affordable housing is essential.
There is benefit associated with 'deferred impact' of affordable housing provision (except in the case of monetary contributions), increasing the tolerance of development to higher affordable housing provision.

Effectiveness in Increasing Affordable Housing Supply

In rising / strong markets, it can be challenging for CHPs to acquire sites as they compete with the rest of development market. If the size of the development permits, it would be more cost-effective and efficient to receive a site that is allocated by developer (under inclusionary zoning).

Depending on appetite and financial capability, CHP could pay for dwellings at-cost (land dedicated) or build the units at tax exempt status (where land is dedicated). It is understood present delivery of affordable housing units occurs at \$370,000 (\$280,000 build cost and \$90,000 land cost).

Suitability and Sustainability of Housing Stock

Affordable housing that is constructed by a CHP will be cognisant of administrative and recurrent maintenance issues and minimising lifecycle costs. Held in single ownership, the development will not be subject to recurrent strata levies and other costs associated with a strata scheme.

Affordable housing that is constructed by a developer sometimes has little regard for the design and functionality requirements of a CHP and its residents. Additionally they will often be strata titled on completion before dedication to a CHP. Furthermore, depending on the size of a development the units can be scattered within the development.

While construction by a developer eliminates development for the CHP and dwellings are acquired on completion, arguably resulting in an efficient delivery, the disadvantages are that the CHP has less control over design as the dwellings are acquired 'off-the-shelf' with a greater maintenance risk as the dwellings are not designed to minimise recurrent costs.

Since its inception, NRAS funding has been instrumental in assisting the affordable housing sector increase its supply of dwellings. In order for a development to be financially sustainable the capital structure is important. Highly geared developments (those with a high debt service requirement) can be challenging to service particularly when there is a high proportion of low income tenants. Many CHPs look to divest of stock as NRAS funding approaches the end of its life. This is to ensure investment is able to be perpetuated over time.

As demographics and markets change over time, CHPs (like any other portfolio investor) evaluate their portfolio compositions regularly and decide on divestments either to optimise portfolio performance or to fund further acquisitions. It is important that any contribution (whether cash or in-kind) does not impede the ability of the CHP to undertake prudent portfolio management strategy. The imposition of restrictive covenants on land to be dedicated requires careful analysis, although must be balanced with the objective of the City to maintain levels of affordable housing in the LGA over time.

Efficacy of Administration

Unless a CHP has existing stock in the immediate area, there may be challenges in the administration of a small number of dwellings, requiring more resources to manage dwellings spread across a geographical area as opposed to the same number of dwellings within a single development. This might be overcome as a provider gains more stock in the area.

In order for CHPs to manage and administer affordable housing in an efficient and effective manner, they require sufficient flexibility to deal with stock from an overall portfolio management perspective. As stock becomes obsolete or ineffective for purpose, they could necessitate divestment by CHP. While still enabling flexibility for CHPs, the City could consider an overall covenant / commitment by CHPs that in their acquisition / divestment of affordable housing there would be 'no net loss' of affordable housing in Sydney LGA.

Affordable housing approaches should be simple to understand and administer. While monetary contributions rate the highest, they may not necessarily be the most effective at increasing housing supply. The dedication of land to CHPs is more effective in increasing supply but can be more complicated to implement as more intimate understanding of the development and its economics is required.

Table 27 - Comparison of Affordable Housing Approaches

Approach	Effectiveness in Increasing Supply	Suitability of Supply	Sustainability of Supply	Efficacy of Administration
Dedication of AH Dwellings	 Unless a site is large or the planning gain is sizable, contribution in this manner is likely to be small in scale and incremental to overall supply.	 Units are not constructed tailored to CHP requirements, often distributed within a development.	 Units are often strata titled, accordingly subject to strata levies and lifecycle costs. Less ability for CHP to manage stock as part of portfolio management strategy.	 Unless CHP has existing stock in immediate area, there is unlikely to be economies of scale for efficient administration of small number of units.
Sale of AH Dwellings at Cost to CHP	 CHP can secure more dwellings provided calculation of land requirement is done correctly. CHP can leverage its tax exempt status.	 Units are not constructed tailored to CHP requirements, often distributed within a development.	 Units are often strata titled, accordingly subject to strata levies and lifecycle costs. Less ability for CHP to manage stock as part of portfolio management strategy.	 Can be more complicated to calculate land requirement against value capture. The number of units procured is expected to be more than Approach 1, hence better economies of scale for administration.
Monetary Contribution	 As the uniform rate does not relate to the market, in inner city areas such as the Study Area can be difficult for CHPs to procure suitable sites.	 Constructed by CHP to its requirements subject to site assembly.	 CHP owns and manages the supply as part of its larger portfolio management strategy.	 Easy and simple to implement by the City. CHP is able to administer efficiently subject ability to acquire sites.
Dedication of Land	 CHP can secure more dwellings provided calculation of land requirement is done correctly. CHP can leverage its tax exempt status.	 Constructed by CHP to its requirements. AH is provided on-site within the development.	 CHP owns and manages the supply as part of its larger portfolio management strategy.	 Can be more complicated to calculate land requirement against value capture. Important that GFA foregone does not erode planning gain. Given a discrete building, CHP is able to administer efficiently.
Permissibility of AH in Land Use table	 Although sound in theory, the commercial realities associated with non-residential development make it challenging without the benefit of cross-subsidisation by market housing.	 Depends on whether constructed by CHP or developer.	 CHP owns and manages the supply as part of its larger portfolio management strategy.	 Given a discrete building on a separate part of the site, CHP is able to administer efficiently.

5.1.4 COMPARATIVE ANALYSIS

To establish a basis for comparison, a hypothetical site of 5,000sqm with a base FSR of 1.5:1 and a maximum FSR of 2:1 purely residential, has been tested for how many affordable housing dwellings might be provided under each option.

Generic feasibility testing has established an incremental increase in land value in the order of \$1,100/sqm/FSR (or \$90,000 for each incremental unit). Those examples premised on value capture of uplift assume a 50% capture, meaning each option would aim to 'convert' \$550/sqm/FSR into affordable housing dwellings.

It is understood that CHPs generally aim to deliver an affordable housing unit at an overall cost of \$370,000, comprising \$280,000 build cost and \$90,000 land cost. The financial modelling is appended at Appendix 3.

Option 1 - Dedication of Affordable Housing Dwellings

This approach requires the dedication of completed dwellings for affordable housing through the capture of 50% of the land value uplift. This would require an agreement on the 'value' of each completed dwelling to be dedicated.

Assuming a 'value' of \$370,000 the number of affordable housing dwellings that could be expected is 3.7. The calculation of value capture and affordable housing dedication is shown below.

Site Area	Base FSR Base GFA	Max FSR Max GFA	Land Value Uplift	Value Capture (50%)	Affordable Housing Units	Cost Outlay to CHP
5,000sqm	1.5:1 7,500sqm	2:1 10,000sqm	\$2,700,000	\$1,350,000	3.7 units dedicated	-

While relatively easy to administer the number of affordable housing units that can be procured through this approach tends to be small, except in the case of large developments.

Option 2 - Sale of Affordable Housing Dwellings to CHP

This approach enables the CHP to secure completed dwellings at 'build cost' from the developer, the 'land' component of the dwellings secured through the capture of 50% of the land value uplift.

Assuming a land cost per unit of \$90,000, the proportion of land which would be provided could accommodate 15 affordable housing units. The calculation of value capture and affordable housing dedication is shown below.

Site Area	Base FSR Base GFA	Max FSR Max GFA	Land Value Uplift	Value Capture (50%)	Affordable Housing Units	Cost Outlay to CHP
5,000sqm	1.5:1 7,500sqm	2:1 10,000sqm	\$2,700,000	\$1,350,000	Land dedication for 15 units	Build cost for 15 units

As the number of units that can be procured in this approach is higher than Option 1, the floor space associated with providing affordable housing dwellings is higher, thereby reducing the developable floor space for the rest of the development. This option is viable to the extent that the land dedicated and associated reduction in GFA amounts to a 'reasonable capture' of the uplift. Feasibility testing has shown that this amounts to capture in the order of 52% of the land value uplift. This is shown in Table 24.

Assuming 1,200sqm GFA (average of 80sqm per affordable housing unit) is foregone, the amount of developable floorspace is thereby reduced to 8,904sqm. The table outlines the impact of a reduction in floor space to the rest of the development associated with dedication of land for 15 units.

Sensitivity testing (Table 24) demonstrates the impact to / tolerance of residential development to developable floor space forgone and to a percentage of affordable housing (15%) to be imposed.

While the quantum of affordable housing is higher than Option 1, it is noted that as a 'standalone' approach, it does rely on consistent demand by CHPs over time, which in itself is subject to a number of variables, such as the level of subsidy offered by the government of the day.

Option 3 - Monetary Contributions

This option examines the imposition of affordable housing levies similar to those in Green Square to fund construction of affordable housing dwellings.

The current affordable housing levy in Green Square is \$136.87/sqm of residential floor space (2013 rate). Assuming application of a similar levy, the following contribution could be procured for the hypothetical 5,000sqm site.

Assuming a delivery cost of \$370,000, affordable housing contributions could facilitate delivery of 3.7 units.

Site Area	Base FSR Base GFA	Max FSR Max GFA	Affordable Housing Levy Contribution	Affordable Housing Units	Cost Outlay to CHP
5,000sqm	1.5:1 7,500sqm	2:1 10,000sqm	\$1,368,700	3.7 units to be delivered	-

It is noted that if a levy, similar to the Green Square levy, were to be applied across the entirety of the Study Area that new development or substantial refurbishment within the employment zones would also attract a levy. The current rate for non-residential development is currently \$45.61.

While notably the easiest option to administer, the NSW draft Planning Bill (draft Bill), introduced into Parliament in November 2013, explicitly ruled out affordable housing levies in the new planning system except where an existing levy applies, including the Green Square affordable housing levy which broadly applies to the proposed B4 North and the B6 North. While passed by the Lower House, the ability to apply a levy for the purpose of affordable housing was reinstated by the Upper House, dramatically increasing the scope of the planning framework to address affordable housing. The amended draft Bill will be debated in the Lower House in 2014.

Option 4 - Dedication of Land

This approach allows for the dedication of land to the value of the uplift to be captured. Dedication of land to the City will facilitate the provision / construction of affordable housing by CHP.

Similar in principle to Option 2 however offering more flexibility to CHPs, this option is advantageous for large sites where a portion of the site can be excised and dedicated for affordable housing. The CHP is able to then design and build affordable housing units.

Assuming a land cost per unit of \$90,000, the proportion of land which would be provided could accommodate 15 affordable housing units. The calculation of value capture and affordable housing dedication is shown below.

Site Area	Base FSR Base GFA	Max FSR Max GFA	Land Value Uplift	Value Capture (50%)	Affordable Housing Units	Cost Outlay to CHP
5,000sqm	1.5:1 7,500sqm	2:1 10,000sqm	\$2,750,000	\$1,375,000	Land dedication for 15 units	Build cost for 15 units

As discussed earlier under Option 2, the viability of any option is premised on the assumption that the impact to the residual land value of the development does not exceed a reasonable capture of the uplift.

The tolerance of residential development to the requirement that 'land' be dedicated within a development was tested for the following:

- Land is dedicated to the value of 50% of the 'uplift' (in the previous example, this is equivalent to 8 units);
- Land is dedicated to enable 15% of total dwellings as affordable housing within a development (in the same example, this equates to 17 affordable housing units).

The following table outlines the corresponding impact on residual land value.

Table 28 - Sensitivity Testing of Land to be dedicated for Affordable Housing

Description	Base Case	(+FSR 0.5:1)	50% capture of 'land' for dedication (8 units)	Land dedication for 15% of total units (17 units)
	FSR 1.5:1	FSR 2:1	FSR 2:1	FSR 2:1
Development Yield (GFA)	7,578sqm	10,104sqm	9,592sqm	8,588sqm
Residential Units	85	114	106	97
Car Parking Spaces	73	98	93	84
Affordable Housing Units	-	-	8	17
Performance Indicators:				
Residual Land Value	\$10,400,000	\$13,100,000	\$13,000,000	\$11,700,000
(\$/sqm of site area)	\$2,058	\$2,593	\$2,573	\$2,316
(\$sqm/FSR of site area)	\$1,372	\$1,296	\$1,287	\$1,158
Development Profit	\$9,504,999	\$12,768,536	\$12,344,034	\$11,146,104
Development Margin	19.94%	19.94%	20.08%	20.13%
Internal Rate of Return	21.85%	20.07%	19.89%	19.95%
Value Captured (% captured)*			\$100,000 (4%)	\$1,400,000 (52%)

*Value Captured is derived by deducting the Residual Land Value under each capture scenario from \$13.1m (the Residual Land Value at FSR 2:1); % captured divides the Value Captured into the value uplift of \$2.7m.

Source: Feasibility Modelling at Appendix 3

The timing of payment can have a significant impact on the tolerance of a development to contributions for affordable housing. The assumed capture rate of 50% is premised on an upfront payment; in reality the impact to a developer is only at the point of sale, i.e. the ability to market a reduced number of units to the market due to the floor space foregone to affordable housing.

As the impact of reduced sales revenue is only felt later in the development period, the financial burden on a developer will be accordingly less thereby enabling a development to tolerate land dedication for a higher number of units. As evident in the table above, land dedicated for 15% affordable housing units results in an effective capture rate of 52%.

Option 5 - Permissibility of 'Affordable Housing' in Land Use Table

This approach permits affordable housing in a zone that does not otherwise permit residential uses in an LEP. This could provide opportunities for CHPs to purchase land and potentially allow the government to leverage land in the zone for the purpose of providing affordable housing when the opportunity arises.

Summary of Findings

The risks and opportunities of different approaches to affordable housing differ across different market scenarios. Inner city markets have their own set of challenges compared to outer areas and Greenfield markets. It is therefore necessary to match planning interventions to housing markets.

- Mandatory / inclusionary zoning schemes will have impact in high value markets where developments have the capacity to dedicate a proportion to affordable housing, whether as on-site provision or payment in lieu. Where cash contributions are made to CHPs, the effectiveness in actual delivery can be thwarted by fierce market competition for development sites.
- Incentive schemes will be effective where land values are high enough to generate a valuable bonus. In locations such as the Study Area this is likely to be confined to lands that permit residential uses. Key to effectiveness is an intimate understanding of the feasibility and economics associated with the development to ensure an appropriate amount of contribution is obtained.
- Property based covenants (e.g. restrictive covenants ensuring use as affordable housing in perpetuity) can be a tool to confine management of housing but limits the ability of the CHP to respond to portfolio needs and requirements.

The effectiveness of a particular strategy will depend on a number of factors:

- Objectives and considerations of CHP;
- Size of development;
- Quantum of value uplift / planning gain (if any);
- Market conditions and outlook, whether positive or declining; and
- Economic performance / feasibility of development proposed.

With the exception of Option 3 (Monetary Contributions), the other options do not have a cashflow implication only to the extent that sales revenue is reduced to the extent of developable floor space being reduced. The City could therefore leverage off this 'delayed impact' to the development by requiring land for a higher number of affordable housing units to be dedicated. In the above example, land dedicated for 15% of units effectively captures 52% of the value uplift.

5.2 COMMUNITY INFRASTRUCTURE

The Community Infrastructure Scheme (the Scheme) which operates in the Green Square Urban Renewal Area provides for a bonus FSR incentive where contribution, either works-in-kind or monetary, is made for the delivery

of community infrastructure, including roads, recreational facilities, open space and flood mitigation in Green Square.

Since its introduction in the late 1990's, the Scheme has been met with good take-up by developers, the majority seeking to incorporate the maximum permitted floor space within their developments.

The Scheme is premised on capturing 50% of the value increase resulting from the bonus FSR. Where possible it is collected in-kind, however monetary contribution can be made in some circumstances.

The Scheme currently operates in the proposed Mixed Use B4 North zone and majority of the proposed Enterprise Corridor B6 North zone, both of which lie in the Green Square Urban Renewal Area, where FSR bonuses of 0.5:1 to 2.0:1 are applied. Assuming this Scheme continues to operate in these areas, there is some opportunity to apply a similar Scheme in other parts of the Study Area, particularly where residential uses may be permitted. In the Enterprise Corridor B6 South, the potential take-up of any bonus may be limited by the relatively weak demand for uses seeking higher FSRs.

As earlier discussed, a hierarchy of land values exists in the Study Area, existing industrial land values (particularly those in the IN1 zone) at the lowest end of the spectrum at \$1,000/sqm and followed by industrial land values (IN2 zone) at \$1,300/sqm. As land is rezoned to Mixed Business and Mixed Use, it is conceivable that land values could increase on average to \$2,000/sqm and \$2,500/sqm respectively.

The greatest opportunity for the City to capture value uplift would be in the proposed Mixed Use B4 zones where residential uses are permitted, with development of non-residential uses in many instances delicate.

While there is nevertheless an opportunity for the City to capture value uplift in the proposed Enterprise Corridor B6 zones, it is questionable *when* contribution could effectively be realised given large scale redevelopment is not likely to occur in the immediate term. That said, a mechanism could be instituted to capture value uplift as and when renewal occurs amid dynamic market conditions.

5.3 BALANCING VALUE CAPTURE AND DEVELOPMENT FEASIBILITY

Depending on the City's objectives and on the likelihood of affordable housing contributions to have continued legislative support, the City could an FSR bonus approach for community infrastructure and / or affordable housing in the Study Area.

It is important to note that development has a finite ability to contribute to public benefit, whether affordable housing or community infrastructure. In the case of non-residential areas (e.g. Mixed Business) it may be more appropriate to levy an affordable housing contribution rather than a bonus FSR contribution as the latter would only be applicable if developments sought to develop *beyond* their FSR base entitlement. Generally speaking, non-residential uses are much less likely to seek much denser development above the base FSR.

If a development was able, i.e. of sufficient size and not environmentally constrained, it would be preferable and more effective to require land dedication rather than monetary or in-kind contribution. This facilitates the procuring of otherwise expensive development sites in the Study Area for affordable housing. Furthermore, the 'deferred impact' of land contribution could facilitate dedication of land for more affordable housing units.

6. ECONOMIC IMPACT ON STRATEGIC CENTRES

This Chapter discusses the impact of the Study Area's renewal on the viability and vitality of nearby strategic centres, specifically the Green Square Town Centre.

6.1 IMPACT ON INVESTMENT

Where a significant property investment decision has been made it is generally viewed as a strong positive commitment for the local area. Such an investment will in turn stimulate and attract further investment to the immediate surrounding area. The Study Area's renewal would therefore assist in elevating the profile of Green Square and City South Village which will in turn encourage additional investment in the future.

Investment of the scale discussed in this Study would be a significant sign of confidence in the area and would increase its profile within Sydney and beyond. This would further stimulate housing demand and may provide a catalyst for other housing redevelopments on other sites, increase job opportunities and access to retail provision. It would also justify additional investment in government and public services in the area such as council services and so on in order to support the additional resident population. This would benefit all residents. Chapter 3 of this Study outlines where and when we expect investment to take place in the Study Area over the next 18 years.

6.2 IMPACT ON RETAIL TRADE

Latent demand for additional retail facilities, including large floor plate food and grocery premises as well as specialty shopping, exists in the trade area and is increasing as a result of the growing population.

It is noted that the size of retail development in the Study Area is restricted to less than 1,000sqm of retail floor space. This approach will continue to focus large floor plate retail in identified strategic centres such as the Green Square Town Centre, Victoria Park Village and Danks Street.

It is estimated there will be demand for more than 65,000sqm of specialty stores (both food and non-food) in the Study Area, and added to this should be further demand for shop front space generated by:

- Non-retailers (such banks, real estate agents, travel agents, medical services, etc) – say 10% more specialties;
- A vacancy factor of around 4%; and
- Some demand generated by the non-resident workforce as indicated previously – say conservatively 10,000sqm to 12,000sqm based on worker growth forecasts.

The growth projected as resulting from proposed changes to planning controls will also result in additional demand for large floor plate food and grocery shopping. It is recommended the City review its current retail strategies to consider the implications of the increased number of residents and workers in the Study Area.

The impact of additional retail floor space being made available in the Study Area as a result of the proposed changes to planning controls will be positive as it will assist to meet the current and forecast latent demand. Furthermore, there is sufficient existing and forecast demand to support the growth of a local neighbourhood centre(s) without redirecting notable trade away from surrounding strategic centres. It is appropriate that sufficient shopping facilities such as convenience shops, top-up food and grocery spend, take-away food retailers, newsagencies and the like be provided locally to meet the needs of new residents as well as existing residents.

6.3 IMPACTS ON OTHER COMMERCIAL FLOOR SPACE

Chapter 3 describes how the departure of many traditional industries from the Study Area has created opportunities and in turn demand from tenants in search of 'creative space' and other ancillary industrial / quasi-commercial space. While it was noted that open plan spaces providing a mix of office and design space are in strong demand, there is less demand for traditional office space in the Study Area. Likewise market research revealed that the changing nature of industrial uses in the Study Area has increased demand for strata industrial and high-tech industrial space which can bear more of a resemblance to office-type uses. These types of contemporary creative and industrial uses typically are not attracted to traditional commercial space offerings in nearby centres.

Considering the nature of existing accommodation (and necessary upgrades and refurbishments that have occurred) as well as emerging demand for certain types of commercial and industrial uses in the Study Area and wider Green Square Urban Renewal Area, it is unlikely for contemporary 'creative' and industrial uses to be in direct competition with other major commercial centres that offer a more traditional commercial product. As such facilitating the growth of contemporary creative and industrial office space in the Study Area is unlikely to detrimentally impact demand for office space in nearby commercial centres.

6.4 IMPACTS ON EMPLOYMENT

This section forecasts employment growth generated by the Study Area's renewal. The section applies two approaches to forecasting employment growth:

- Approach 1 identifies how many jobs are currently in the Green Square and City South Village Area (the Village Area), which includes the Study Area, and then applies the NSW Bureau of Transport Statistics (BTS) small area employment forecasts for the Sydney (C) South SLA (released as of August 2012) to estimate how this may change in the future. This approach breaks job numbers down by industry⁸. The baseline employment figures used in this approach are those identified for 2012 in the City's *Preliminary Floor space and Employment Survey Green Square and City South Village Summary Report* (2012).

⁸ Note the NSW BTS Employment Forecasts 2006-2046 (August 2012 Release) rely on historical projections and data from the Department of Planning and Infrastructure. The technical documentation for the employment forecasts states: "The BTS employment model includes a New Developments Module where adjustments can be made at the travel zone level to incorporate major development projects which are not reflected in the initial trend-based forecasts. The list of new developments used in the previous forecast set was reviewed and updated with recent information of major developments in the GMA. BTS sought assistance from the Department of Planning and Infrastructure in finalising adjustments for major developments incorporated in the August 2012 employment forecasts."

- Approach 2 identifies the number of jobs in the actual Study Area by precinct (i.e. not by industry). Jobs numbers are calculated by multiplying the amount of employment floor space in the Study Area with the estimated job density per hectare. It is important to note that this approach is more a measure of job capacity in the Study Area than a true reflection of what is actually happening in the Study Area.

Approach 1

Using Approach 1 the number of jobs in the Village Area is expected to increase from 27,924 to 39,707 between 2012 and 2031. This represents an increase of 42% or 11,783 jobs.

Table 29 - Approach 1 (Job Forecast for Green Square and City South Village)

Industry	2012*	BTS forecast change 2011-2031**	Employment in 2031
Community	241	34%	323
Creative Industries	2,715	109%	5,674
Finance & Financial Services	291	122%	646
Food and Drink	1,377	57%	2,162
Government	548	34%	734
Health	713	40%	998
Higher Education and Research	339	70%	576
Information & Communications Technologies	2,887	70%	4,908
Life Science	445	106%	917
Manufacturing	3,606	-41%	2,128
Motor Vehicle	1,825	41%	2,573
Professional & Business Services	2,173	106%	4,476
Property Development and Operation	841	29%	1,085
Retail & Personal Services	2,779	81%	5,030
Social Capital	518	34%	694
Tourist, Cultural and Leisure	337	57%	529
Transport & Logistics	6,113	1%	6,174
Utilities	176	-55%	79
	27,924		39,707

* City of Sydney's Floor space and Employment Survey Green Square and City South Village Summary Report (2012).

** NSW Bureau of Transport Statistics (BTS) small area employment forecasts for Sydney (C) South SLA (released as of August 2012)

Over this period the following five industries will experience the largest increase in job numbers:

- Creative Industries (+2,959 jobs);
- Professional and Business Services (+2,303 jobs);
- Retail and Personal Services (+2,251 jobs);
- Information and Communications Technologies (+2,021 jobs); and
- Food and Drink (+785 jobs).

Approach 2

A low, medium and high growth scenario has been applied in Approach 2. Using the low growth scenario the number of jobs in the Project Study Area is expected to increase from 17,850 to 25,054. This represents an

increase of 40% or 7,204 jobs. The medium and high growth scenarios result in an increase of 11,685 and 18,196 jobs across the Study Area respectively.

Table 30 - Approach 2 (Job Forecast for Study Area)

			Scenario 1 Low Growth		Scenario 2 Medium Growth		Scenario 3 High Growth	
	Developable land (ha)	Current Jobs	Predominant FSR	Future Jobs	Predominant FSR	Future Jobs	Predominant FSR	Future Jobs
Mixed Business (Nth)	40.3	2,826	1.5	6,448	2.0	7,254	3.0	8,463
Mixed Business (Sth)	93.7	8,127	1.5	13,118	2.0	14,992	2.5	17,803
Mixed Use (Nth)	13.3	1,046	1.5	398	2.0	517	2.5	596
Mixed Use (Sth)	36.8	3,064	2.0	442	2.5	574	3.0	662
Industrial Area (Nth)	43.1	1,327	1.5	2,584	1.5	3,446	1.5	4,738
Industrial Area (Sth)	34.4	1,460	1.5	2,064	1.5	2,752	1.5	3,784
		17,850		25,054		29,535		36,046
			+7,204 jobs +40% increase		+11,685 jobs +65% increase		+18,196 jobs +102% increase	

Source: Hill PDA and CoS, adapted from SGS employment forecasts for Draft City of Sydney Employment Lands Strategy (2013)

Both approaches suggest the north and south Mixed Business precincts will experience the most employment growth in coming years. This can be attributed to the anticipated growth in commercial and retail uses in these precincts. Lower job growth is expected in the Industrial Areas and most new development in the Mixed Use Areas is expected to be residential.

Both approaches outlined above suggest the Study Area will accommodate significant job growth over the next 20 years. These findings reinforce the strategic importance of the Study Area and the role it plays in supporting the local and broader economy. The growth in jobs in the Study Area is also consistent with a number of objectives listed in the State Government's *Draft Metropolitan Strategy for Sydney to 2031*, including:

- *Objective 10: Provide capacity for jobs growth and diversity across Sydney* – this objective provides minimum employment targets for the Central Subregion and strategic centres, with an additional 109,000 to be provided in the LGA;
- *Objective 11: Support the land use requirements of industries with high potential* – this objective recognises the importance of providing a planning environment that encourages clusters of high performing businesses and industries. The objective is supported by a number of Industry Action Plans developed to support high growth industries;
- *Objective 13: Provide a well-located supply of industrial lands* – this objective recognises the need to ensure a supply of well-located industrial land with good accessibility to supply local and/or subregional demands. It also provides a framework to assess proposals to rezone industrial land, the 'Industrial Lands Strategic Assessment Checklist' for rezoning of existing industrial land to other uses; and
- *Objective 16: Achieve productivity outcomes through investment in critical and enabling infrastructure* – this objective acknowledges the importance of employment locations being supported by well-served, reliable transport links as well as ensuring sufficient infrastructure to support communities.

6.5 OTHER ECONOMIC IMPACTS

A range of other economic benefits would be generated by the Study Area's renewal, including:

- **Public Transportation Patronage** – Greater numbers of residents and workers in the Study Area would generate additional demand for public transport. This in turn would support the economic justification for public transport improvements in the area. Additional residents and workers would also increase patronage on local rail services accessed via Green Square and Mascot Stations. Contributions towards improved road accessibility and pedestrian and cycle routes are also likely to be secured through the urban renewal process through developer contributions and floor space bonus incentive schemes.
- **Amenity Improvements** – Renewal of the nature proposed would provide the opportunity for amenity improvements to the local area. This may include improvements to public open space from developer contributions or new amenities as a result of new development, and the provision of modern buildings to replace older existing stock.
- **Shopper Convenience** – Much of the additional demand for retail floor space generated by residents and workers would be directed to existing and planned centres in the Study Area, in particular Green Square. As such urban renewal would support the viability and vitality of the Study Area's retail centres and improve choice, convenience and competition for the benefit of all residents.
- **Housing Supply** – A mismatch between housing supply and demand has led to sustained house price growth in NSW. Sydney has persistently had the highest house prices in the country, with the median house price in Sydney for the December 2012 quarter being \$640,000 compared to \$500,000 in Melbourne and \$445,000 in Brisbane for the same period⁹. The proposed development would increase the supply of dwellings available in the LGA and in doing so help to ease house and rental price inflation resulting from constrained housing supply.
- **Homes Close to Jobs** – Locating new and higher density housing in appropriate areas can generate economic benefits for the associated communities. Studies indicate that providing jobs and services close to home has a positive influence on mental health by reducing the stress associated with traffic congestion¹⁰. Reduced traffic congestion and the need to travel in turn reduces travel times, which provides an economic benefit in that the time which would otherwise be spent commuting can be put to alternative productive use. It also lowers travel costs for households, workers and businesses and the associated externalities (cost, travel time, congestion, noise, pollution etc.).
- **Affordable Housing for Key Workers** – A key issue linked to housing affordability is retaining the supply of key or essential workers, whilst also ensuring these workers have access to accommodation options close to their employment. The workers employed in service industries (such as sales assistants, cleaners, administrators) cannot command the salary expectations of some professions however they are equally required to access jobs and housing within the City of Sydney LGA. The Study Area's renewal will provide substantial opportunities to provide affordable housing for key workers.

⁹ Source: House Price Indexes: Eight Capital Cities, ABS (September 2012)

¹⁰ Source: Woodcock, J, Edwards P, Tonne C et al. Public health Benefits of Strategies to Reduce Greenhouse Gas Emissions: Urban Land Transport. Lancet 2009

- **Social Infrastructure Improvements** – The economic vitality of a centre is inextricably linked to the level of social infrastructure available to its workers and residents. People are attracted to live and work in places where they can conveniently access recreational facilities, open space and community facilities such as schools, hospitals, libraries, community centres and child care centres. Failure to provide sufficient social infrastructure to meet the needs of residents and workers can detrimentally impact a centre by eroding its attractiveness as a place to live and work. In short, the wellbeing of residents, workers and local economy is dependent on supplying adequate social infrastructure to meet demand. The Study Area's renewal could potentially dramatically improve the quality and quantity of social infrastructure available to residents and workers alike.
- **Policy Impacts** – The provision of additional employment and dwellings in the Study Area, and the knock-on impact upon increased retail and non-retail demand would support the objectives of *Sustainable Sydney 2030* and the *Draft Metropolitan Strategy for Sydney to 2031* (2013), *Draft City of Sydney Employment Lands Strategy* (2013) and *Draft Sydney City Subregional Strategy* (2008) by:
 - Providing new opportunities and spaces for innovation;
 - Supporting the delivery of cycling and walking infrastructure;
 - Providing redevelopment of an urban infill area from which existing residents and businesses will benefit;
 - Providing for housing choice and supply;
 - Increasing the supply of inner city affordable housing;
 - Supporting existing transport infrastructure and future transport improvements;
 - Facilitating new business and industry opportunities;
 - Providing a more flexible approach to land use and employment across a broader range of sectors;
 - Supporting the growth of the local, metropolitan, state and national economies;
 - Facilitating regional and global network connections;
 - Assisting in achieving job creation targets; and
 - Supporting the role of Green Square Town Centre.

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3. This report must not be disclosed to any Recipient or reproduced in whole or in part, for any purpose not directly connected to the project for which Hill PDA was engaged to prepare the report, without the prior written approval of Hill PDA. In the event that a Recipient wishes to rely upon this report, the Recipient must inform Hill PDA who may, in its sole discretion and on specified terms, provide its consent.
4. This report and its attached appendices are based on estimates, assumptions and information provided by the Client or sourced and referenced from external sources by Hill PDA. While we endeavour to check these estimates, assumptions and information, no warranty is given in relation to their reliability, feasibility, accuracy or reasonableness. Hill PDA presents these estimates and assumptions as a basis for the Client's interpretation and analysis. With respect to forecasts, Hill PDA does not present them as results that will actually be achieved. Hill PDA relies upon the interpretation of the Client to judge for itself the likelihood of whether these projections can be achieved or not.
5. Due care has been taken to prepare the attached financial models from available information at the time of writing, however no responsibility can be or is accepted for errors or inaccuracies that may have occurred either with the programming or the resultant financial projections and their assumptions.
6. This report does not constitute a valuation of any property or interest in property. In preparing this report Hill PDA has relied upon information concerning the subject property and/or proposed development provided by the Client and Hill PDA has not independently verified this information except where noted in this report.
7. In relation to any valuation which is undertaken for a Managed Investment Scheme (as defined by the Managed Investments Act 1998) or for any lender that is subject to the provisions of the Managed Investments Act, the following clause applies:
8. This valuation is prepared on the assumption that the lender or addressee as referred to in this valuation report (and no other) may rely on the valuation for mortgage finance purposes and the lender has complied with its own lending guidelines as well as prudent finance industry lending practices, and has considered all prudent aspects of credit risk for any potential borrower, including the borrower's ability to service and repay any mortgage loan. Further, the valuation is prepared on the assumption that the lender is providing mortgage financing at a conservative and prudent loan to value ratio.

Appendix 1 - **DEMOGRAPHIC ANALYSIS**

For the purposes of this analysis, some demographic data was sourced from the 2011 Australian Bureau of Statistics (ABS) Census for the Statistical Local Area (SLA) which most closely aligns with the Study Area, which is Sydney (C) South (SLA Code 7205).

The SLA was chosen because it is the lowest statistical level to which ABS time series data is available. The South Sydney SLA includes the urban renewal areas of Green Square and Ashmore, which are likely to accommodate a large portion of the City's growth over the next 20 years. A map showing the Sydney South SLA is provided in the following Figure.

Figure 6 - Sydney (C) South SLA



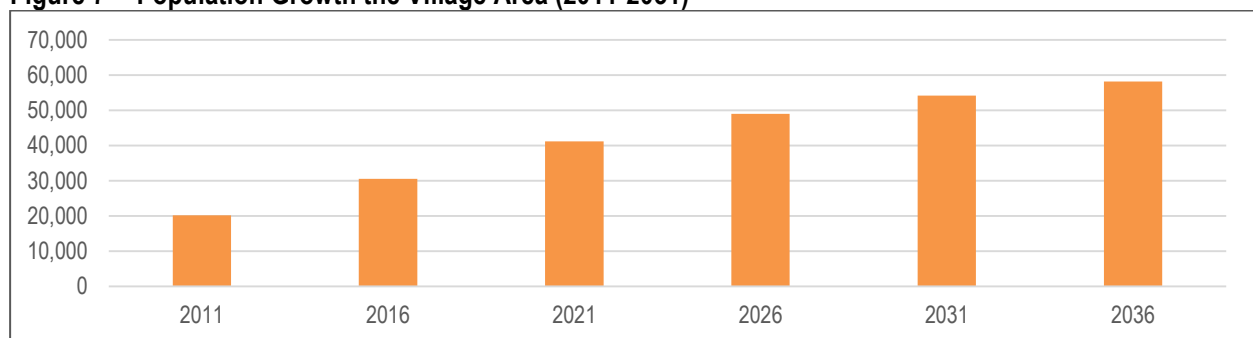
Source: ABS Census 2011

The City provides population forecasts collated by .id data for the Green Square and City South Village Area (the Village Area), and where available this data has been used in the analysis.

Population

The Village Area's resident population was 20,013 in 2011 and is expected to increase by 34,069 people or 169% in the years between 2011 and 2031. This equates to an annual increase of 4% per year between 2011 and 2031.

Figure 7 - Population Growth the Village Area (2011-2031)

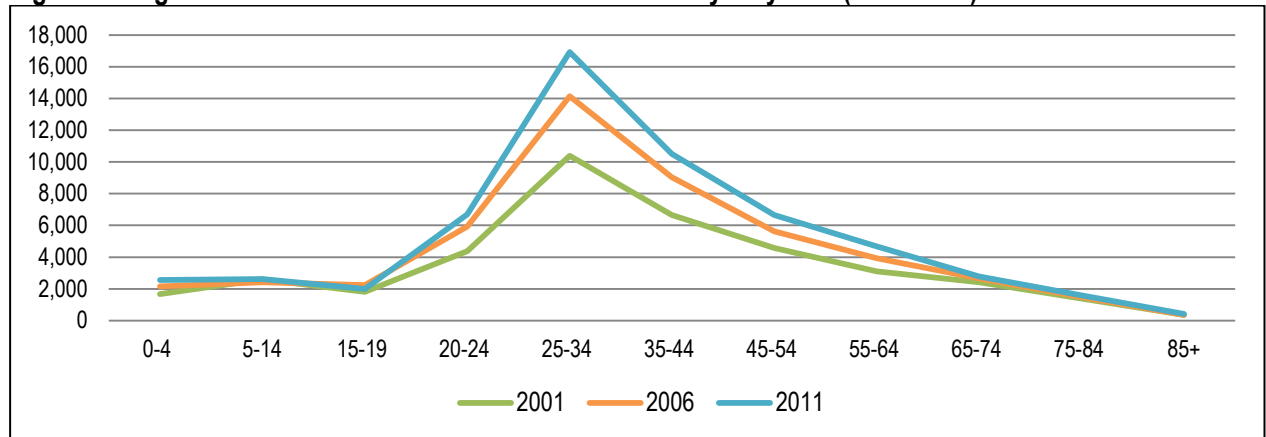


Source: forecasted population forecasts for City of Sydney, Green Square & City South
(<http://forecast2.id.com.au/Default.aspx?id=148&pg=5180>)

Age

The Sydney South SLA's age profile has remained similar over the last decade, with the majority of residents aged between 20 and 44 years. This is also the fastest growing age group. Between 2001 and 2011 the proportion of residents aged 20 to 44 years increased 54% to 59%.

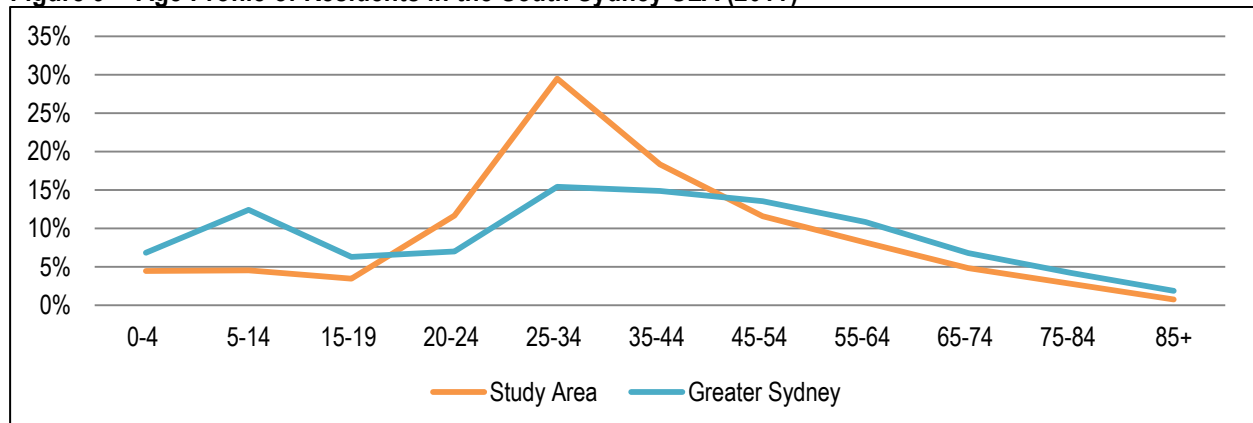
Figure 8 - Age Profile of Residents over time in the South Sydney SLA (2001-2013)



Source: ABS Census 2001, 2006, 2011

The proportion of residents aged less than 15 years and over 65 years is low and decreasing. The following Figure shows the low proportion of young and elderly residents and high proportion of residents aged between 20 and 44 years make the Sydney South SLA's age profile is very different than the average across Greater Sydney.

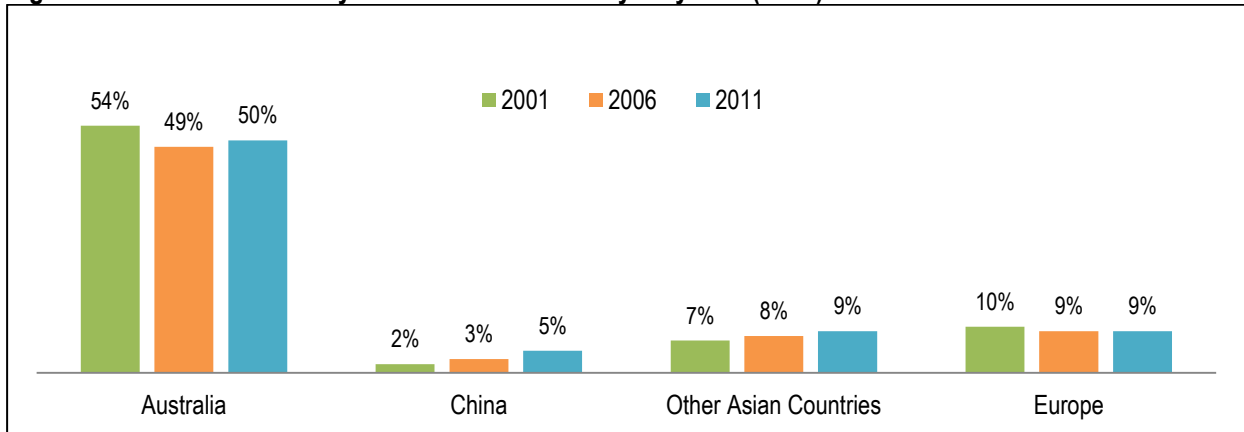
Figure 9 - Age Profile of Residents in the South Sydney SLA (2011)



Source: ABS Census 2011

Birth Place

In 2011 nearly 70% of all residents in the Sydney South SLA were born in Australia or the United Kingdom. This is changing however.

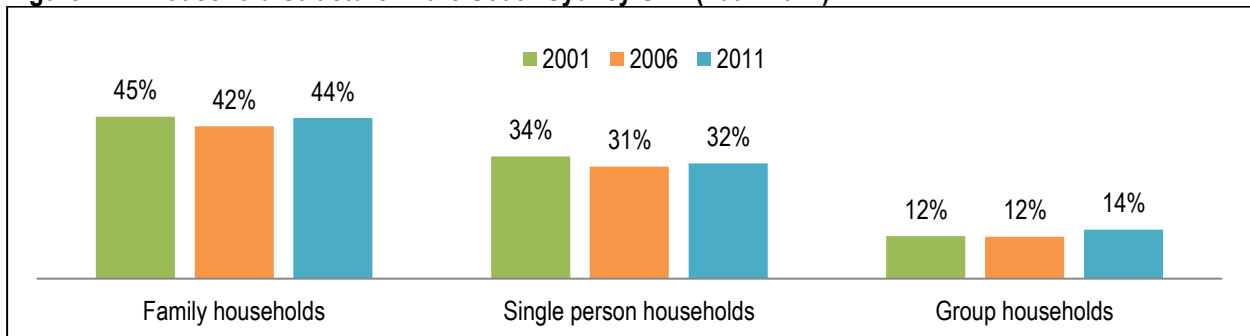
Figure 10 - Resident Country of Birth in the South Sydney SLA (2011)

Source: ABS Census 2001, 2006, 2011

Since 2001 the proportion of residents born in China and other Asian countries has increased to 5% and 9% respectively. The proportion of residents born in Australia decreased by 4% during the same period.

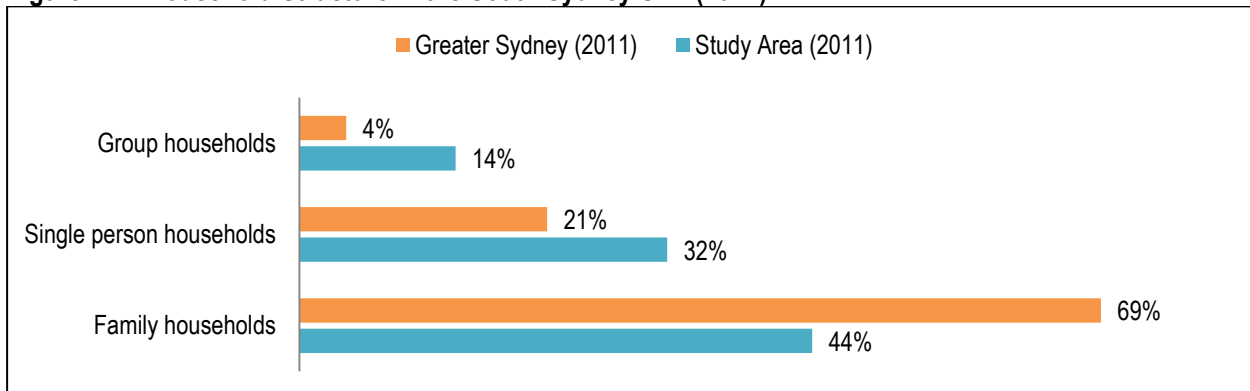
Households

Family households remain the most common type in the Sydney South SLA followed by single person households. The number of Group Households in the Sydney South SLA is however growing rapidly.

Figure 11 - Household Structure in the South Sydney SLA (2001-2011)

Source: ABS Census 2001, 2006, 2011

The Sydney South SLA contains a high proportion of group and lone person households and a low proportion of family households when compared to Greater Sydney.

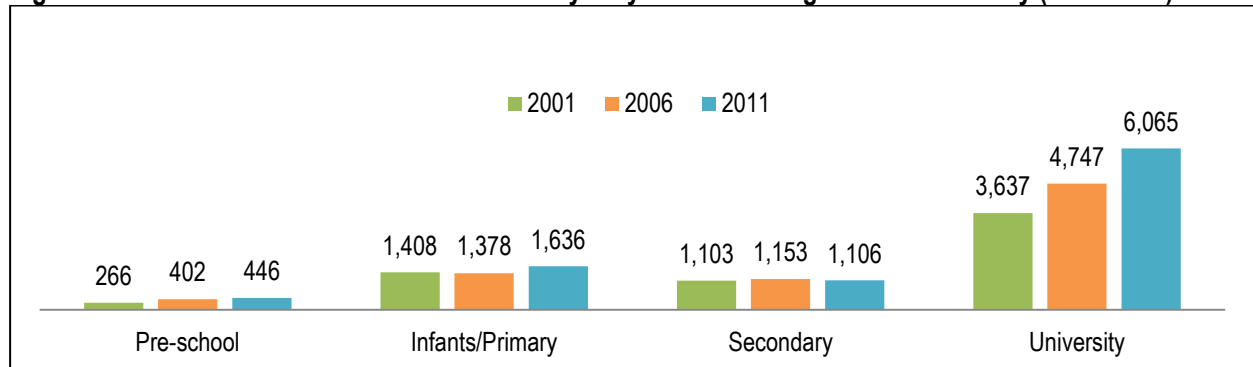
Figure 12 - Household Structure in the South Sydney SLA (2011)

Source: ABS Census 2011

Education

Between 2001 and 2011 the number of residents in the Sydney South SLA attending university increased by 2,428. In contrast, the number of residents attending pre-school and primary school increased by 408 over the same period.

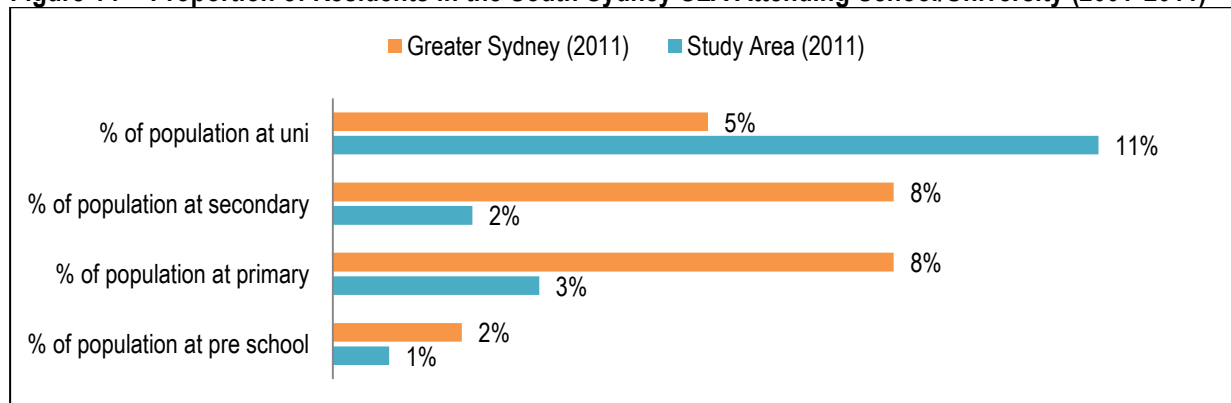
Figure 13 - Number of Residents in the South Sydney SLA Attending School/University (2001-2011)



Source: ABS Census 2001, 2006, 2011

Compared to Greater Sydney, residents in the Sydney South SLA are far more likely to be attending university and less likely to be attending pre-school, primary or secondary school.

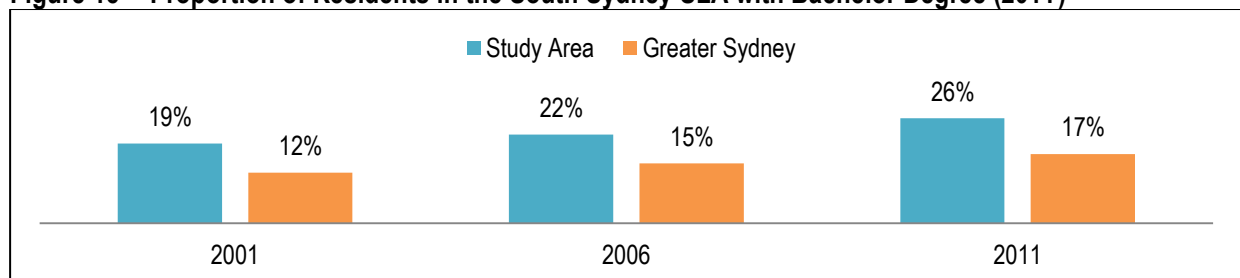
Figure 14 - Proportion of Residents in the South Sydney SLA Attending School/University (2001-2011)



Source: ABS Census 2011

Residents of the Sydney South SLA have a high level of education attainment with 26% holding a Bachelor Degree in 2011. This is 7% higher than a decade ago and significantly higher than recorded for Greater Sydney.

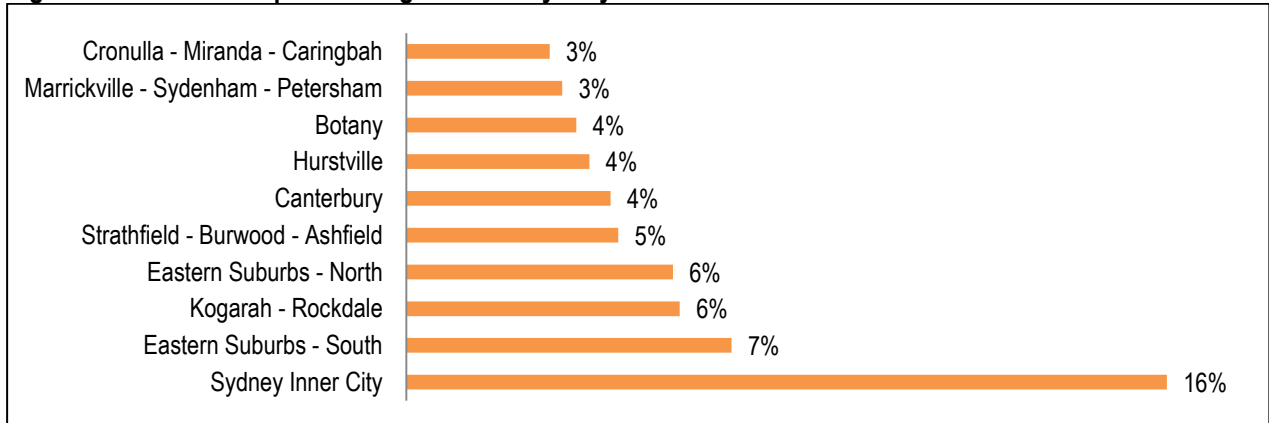
Figure 15 - Proportion of Residents in the South Sydney SLA with Bachelor Degree (2011)



Source: ABS Census 2011

Workforce population

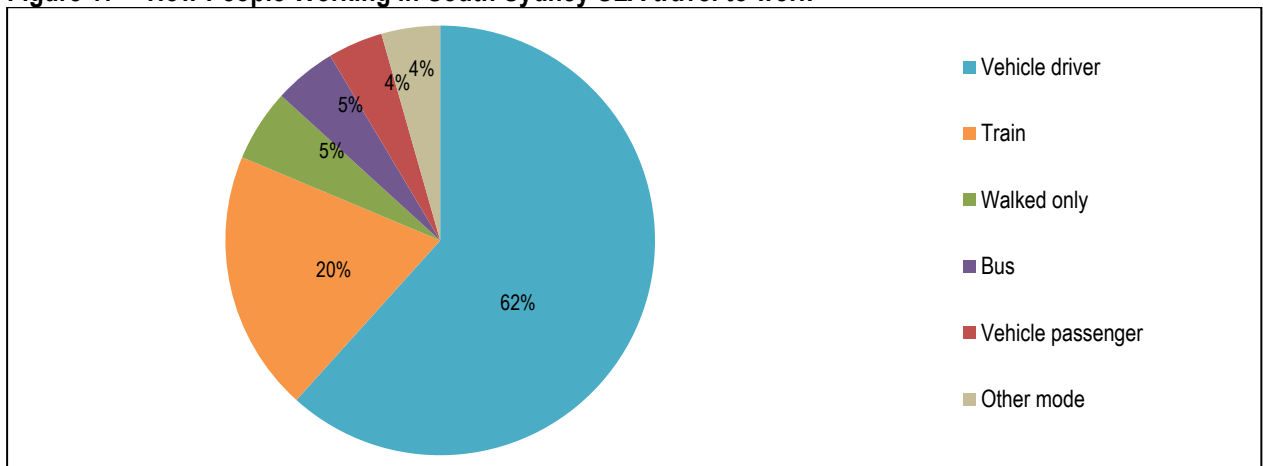
Figure 16 - Where People Working in South Sydney SLA Live



Source: BTS JTW 2011

In 2011 nearly 40% of people working in the South Sydney SLA lived in the areas of Sydney Inner City, Eastern Suburbs – South, Kogarah, Rockdale, Eastern Suburbs, North Strathfield, Burwood and Ashfield. A further 18% lived in Canterbury, Hurstville, Botany, Marrickville, Sydenham, Petersham, Cronulla, Miranda and Caringbah.

Figure 17 - How People Working in South Sydney SLA travel to work



Source: BTS JTW 2011

For people working in the South Sydney SLA in 2011 the three most common means of getting there were driving themselves (62%), train (20%), bus (5%) and walking (5%). Just 8% of those working in the South Sydney travelled there by other means.

Employment of existing residential population

Table 1 shows 66% of the Sydney South SLA 's residents were employed in tertiary industries in 2011 compared to 54% across Greater Sydney. The proportion of residents employed in tertiary industries increased by 4% in both the Sydney South SLA and Greater Sydney between 2001 and 2011. The following five industries employed nearly 50% of the Study Area's working residents in 2011:

- Professional, scientific and technical services (15%);
- Health care and social assistance (9%);

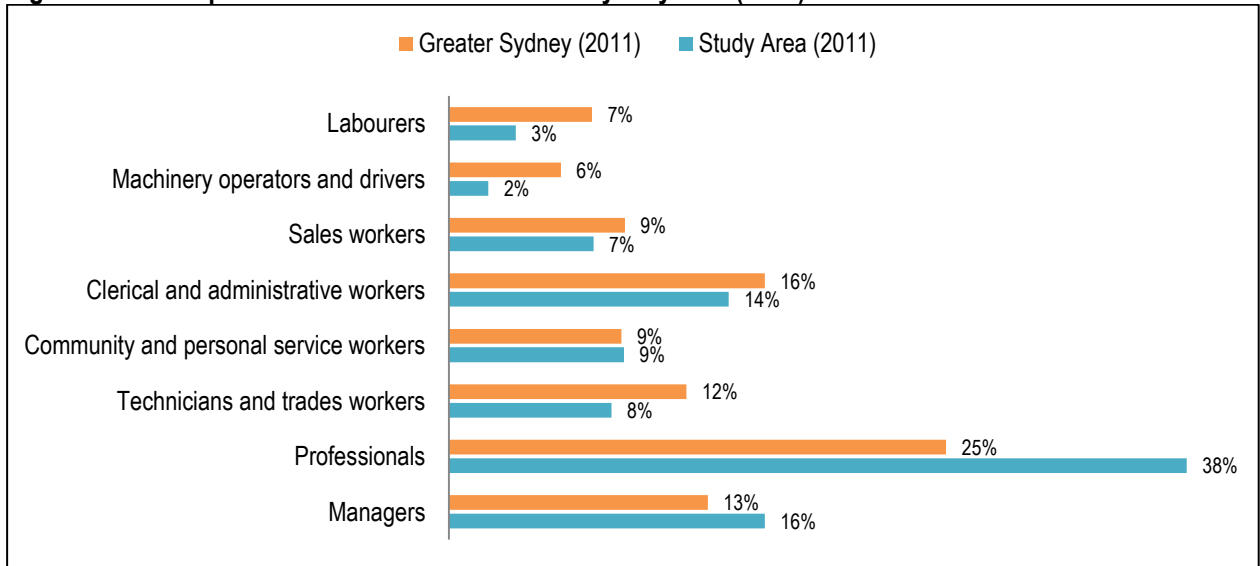
- Financial and insurance services (9%);
- Education and training (8%); and
- Retail trade (7%).

Table 31 - Industry of Employment in the South Sydney SLA (2001-2011)

		Study Area				Greater Sydney
		2001	2006	2011	Change (2001-2011)	2011
Primary Sectors	Agriculture, forestry and fishing	0%	0%	0%	0%	0%
	Mining	0%	0%	0%	0%	0%
Secondary Sectors	Manufacturing	6%	5%	4%	-2%	8%
	Electricity, gas, water and waste services	1%	1%	1%	0%	1%
	Construction	3%	3%	4%	1%	7%
	Wholesale trade	4%	5%	4%	0%	5%
	Retail trade	8%	8%	7%	-1%	10%
	Accommodation and food services	9%	8%	7%	-1%	6%
	Transport, postal and warehousing	5%	5%	4%	-1%	5%
Tertiary Sectors	Information media and telecommunications	8%	6%	6%	-1%	3%
	Financial and insurance services	7%	8%	9%	2%	7%
	Rental, hiring and real estate services	2%	2%	2%	0%	2%
	Professional, scientific and technical services	13%	13%	15%	2%	10%
	Administrative and support services	5%	4%	4%	0%	4%
	Public administration and safety	6%	6%	7%	1%	6%
	Education and training	8%	8%	8%	1%	8%
	Health care and social assistance	8%	8%	9%	1%	11%
	Arts and recreation services	3%	3%	3%	0%	2%
	Other services	3%	3%	3%	0%	4%

Source: ABS Census 2001, 2006, 2011

In 2011, 54% of the Sydney South SLA's residents were employed as managers or professionals, compared to 39% across Greater Sydney.

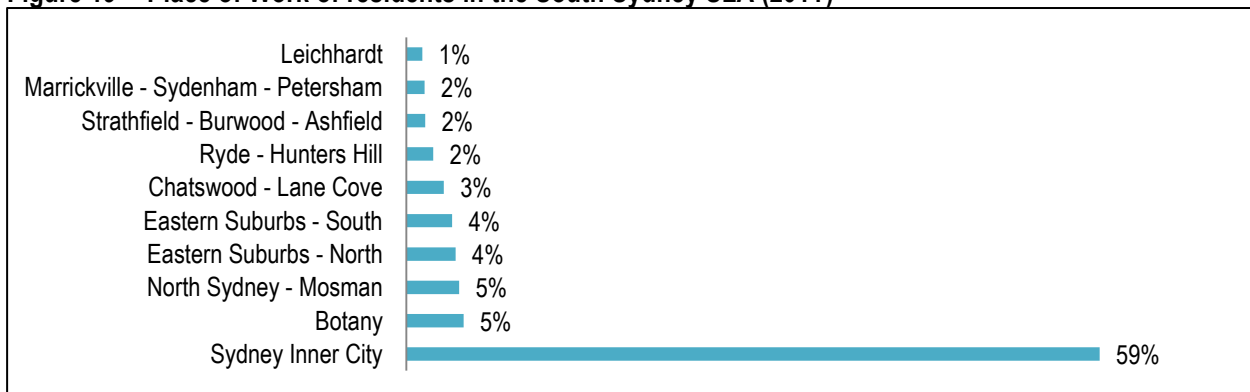
Figure 18 - Occupation of residents in the South Sydney SLA (2011)

Source: ABS Census 2011

Between 2001 and 2011 the proportion of residents employed as managers and professionals increased by 7% in the Sydney South SLA and 4% across Greater Sydney.

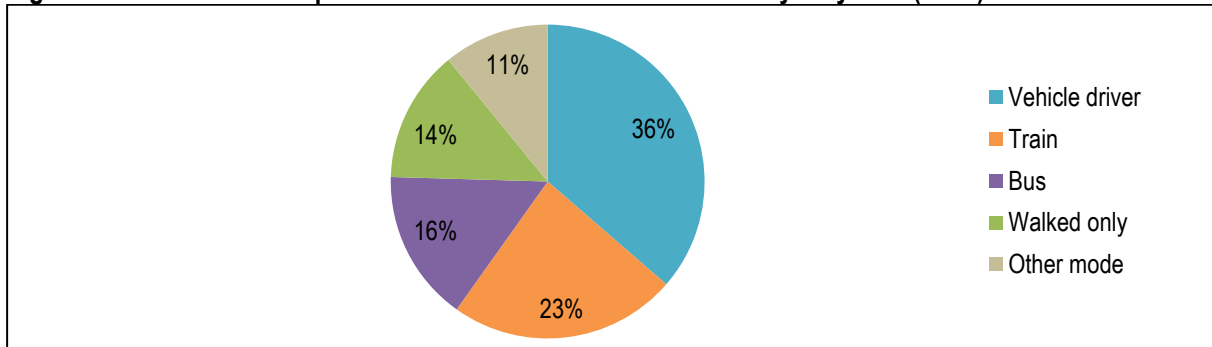
In contrast the proportion of technicians, trade workers, machinery operators, drivers and labourers declined by 5% in the Sydney South SLA and 3% across Greater Sydney over the same period.

In 2011 nearly 60% of the Sydney South SLA's employed residents travelled to the Sydney Inner City to work. A further 23% of employed residents travelled to Botany, North Sydney, Eastern Suburbs, Chatswood, Lane Cove and Ryde for work.

Figure 19 - Place of Work of residents in the South Sydney SLA (2011)

Source: BTS JTW 2011

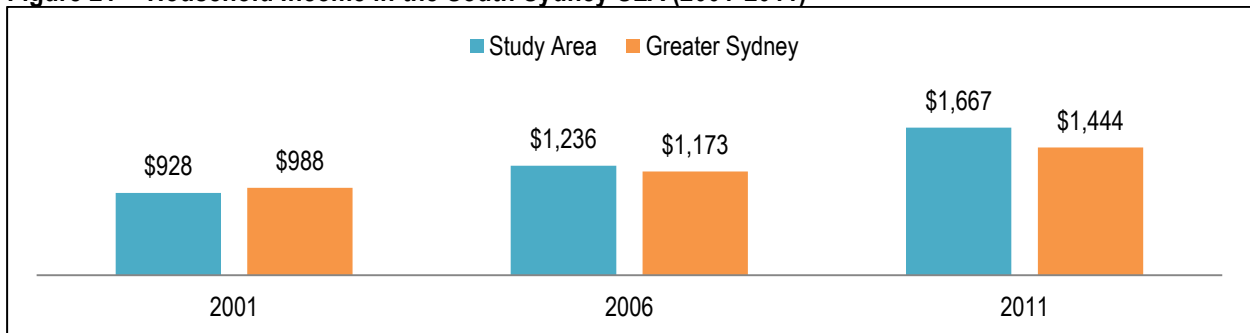
Nearly 36% of the Sydney South SLA's employed residents drove themselves to work by car in 2011. A further 39% of employed residents travelled to work by public transport and 14% walked.

Figure 20 - Mode of Transport to Work of residents in the South Sydney SLA (2011)

Source: BTS JTW 2011

Income

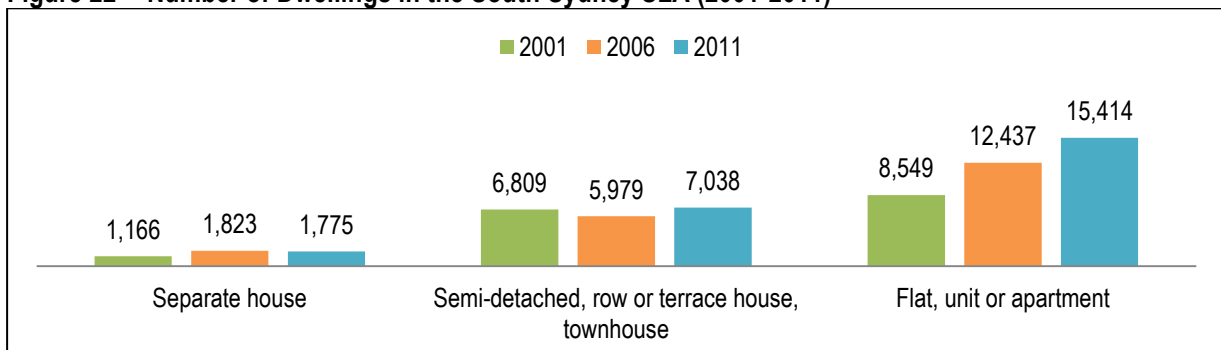
In 2011 the Sydney South SLA's median household income was \$223 higher than the median for Greater Sydney. Since 2001 household incomes in the Study Area have increased by 80%, compared to 46% across Greater Sydney.

Figure 21 - Household Income in the South Sydney SLA (2001-2011)

Source: ABS Census 2001, 2006, 2011

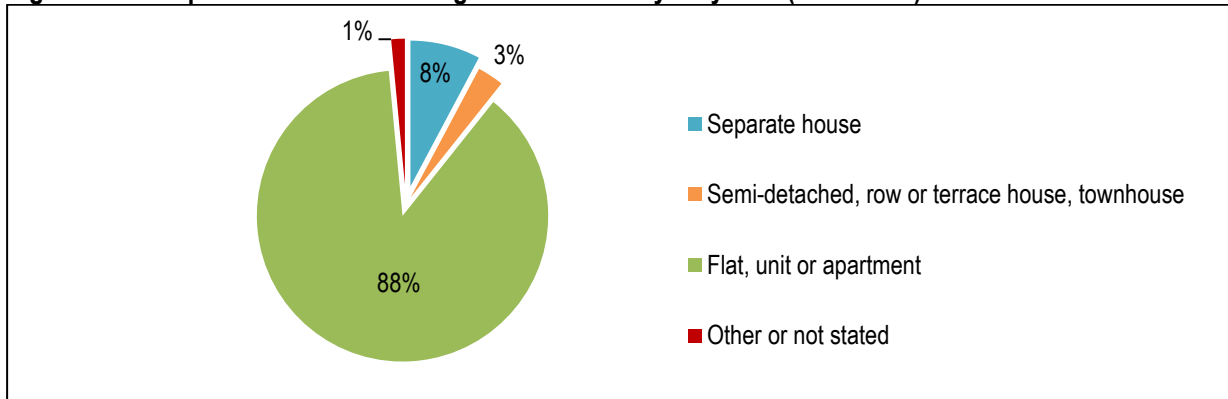
Dwellings

Between 2001 and 2011 the number of dwellings in the Sydney South SLA increased dramatically (+7,821 or 46%). By comparison, the number of dwellings in Greater Sydney increased by 11% during the same period.

Figure 22 - Number of Dwellings in the South Sydney SLA (2001-2011)

Source: ABS Census 2001, 2006, 2011

Nearly 90% of new dwellings constructed since 2001 in the Sydney South SLA were flats, units or apartments and they represent 62% of the total dwelling stock.

Figure 23 - Proportion of New Dwellings in the South Sydney SLA (2001-2011)

Source: ABS Census 2001, 2011

Whilst the Sydney South SLA's average household size was 2.0 people in 2011, a comparison of additional residents (18,056) and additional dwellings (7,821) between 2001 and 2011 suggests the size of new households is closer to 2.3.

Summary

The Study Area's population is growing rapidly and is increasingly characterised by young professionals who are aged between 20 and 44 years, well-educated and work in white collar industries. The number of overseas students living in the Study Area is also growing. These trends have resulted in a high proportion of lone person and group households in the Study Area although family households remain the most common type. The majority of residents work in or near the Sydney CBD and over half take public transport or walk to work.

The Study Area remains an important inner city location for light industrial uses. A transition is underway however with the number of businesses and jobs in the tertiary sector – which includes retail, food, professional services and information and communications technologies – growing faster than secondary sector industries such as manufacturing and transport. The majority of people working in the Study Area come from Sydney's inner and middle ring suburbs and nearly two thirds drive themselves to work.

Appendix 2 - **MELBOURNE AND BRISBANE: THE EVOLVING INDUSTRIAL PAST**

Fisherman's Bend, Melbourne

Fisherman's Bend is a 240ha urban renewal area approximately 3km west of the Melbourne CBD and is planned to accommodate 80,000 residents and create 40,000 jobs. The area was re-zoned in 2012 into 4 precincts and is planned to include a future primary school and the extension of Collins Street light rail. The area is currently used for light industry and the State Government hopes the long-term project will bring thousands of new residents closer to the city. Over the next 10 years, the Fisherman's Bend is expected to deliver almost \$2b of private investment and create 13,500 construction jobs, boosting Melbourne's economic growth and securing jobs and investment.

Figure 24 - Site Plan of Fisherman's Bend Precincts



Source: City of Melbourne

Draft planning legislation is currently underway which seeks to restrict high-rise buildings to areas closer to the CBD and low-rise buildings to the southern parts of Fisherman's Bend to respond to low-rise character of adjoining residential areas. In the spirit of mixed use redevelopment projects, small office or retail tenancies are encouraged to provide activation at ground level and serve the local community. In addition larger developments are expected to include an element of affordable housing with each precinct expected to deliver between 15% and 25% of 1 bedroom units.

Land values have soared 60% since the 2012 rezoning was announced with land values increasing from \$450/sqm (2003) to in excess of \$1,200/sqm (2013). In addition, some \$86.2m of land has been transacted since the re-zoning including 18-22 Salmon Street for \$12.1m and 704-740 Lorimer Street for \$26.3m. It should be noted that developers are hesitant in securing new sites until clarification on building heights has been received and the question of upfront infrastructure payments has been resolved.

The Fisherman's Bend project will likely see a tightening of the inner fringe industrial land supply and a sharp increase in land values as is already evident. As a consequence industrial land supply in Port Melbourne is expected to decline due to redevelopment into residential, with other inner city areas expected to experience

similar trends. Due to this overall shift, landlords are unwilling to commit to standard 10 year leases as was previously the case.

Despite the urban renewal taking place in Fisherman's Bend, there are still several industrial projects either under construction or completed in the area, specifically Lorimer Street, Cook Street and Wirraway Drive. Many of these projects now have DA approval and are forecasted for completion in 2014. Fifteen concrete tilt panel strata warehouses ranging from size between 150sqm to 350sqm have been completed at 54-62 Wirraway Drive at an estimated construction cost of \$1.4m. Three warehouses totalling 2,000sqm have been completed at 604-610 Lorimer Street at a value of \$2m while the Expressway Business Park at 12-62 Cook Street will see the completion of 6 warehouse and ancillary offices in October 2014.

Overall the Fisherman's Bend redevelopment project recognises the need to balance the continuation of low impact industrial development in the western portion of the suburb with the emerging mixed use development to the east.

Eagle Farm and Australia Trade Coast, Brisbane

The Australia Trade Coast (ATC) comprises some 8,000ha of land with over 2,000ha available for industrial development. Along with the western gateway corridor, it is seen as one of the key strategic areas for economic development within South-East Queensland. Located six kilometres from the Brisbane's CBD, ATC is well serviced by the Port of Brisbane, the Brisbane Airport and key highway corridors such as the Gateway Motorway and the Port of Brisbane Motorway. It is the country's fastest growing industrial and trade region¹¹ while a recent report by the Property Council of Australia found that the vacancy rate for industrial property in ATC was a mere 4.9% which comprised only 25 vacant properties.

Figure 25 - Aerial Photograph of Australia Trade Coast



Source: Australia Trade Coast website

Brisbane City Council's Australia Trade Coast Local Plan identifies specific precincts for the continued and future use of industrial premises whilst recognising the emergence of newly developed mixed use areas such as Northshore Hamilton in the southern portion of ATC. Within industrial zones, developments are limited to 75% site cover and 15m in building height.

¹¹ Australia Trade Coast website

Development of the Australia Trade Coast is in accordance with the 15-year staging plan included in the ATC Local Plan and in line with planned infrastructure upgrades. Significant transport upgrades underway include the \$800 million Kingsford Smith Upgrade project. Improved public transport is also planned with a new \$5 million city cat terminal already delivered at Northshore Hamilton in 2011.

Apart from the existing Pinkenba community and the Northshore Hamilton redevelopment area, there is no other residential uses proposed within the Australia Trade Coast area. This allows industrial uses to relocate to these areas in the knowledge that changes in land use zoning are unlikely for the foreseeable future.

Northshore Hamilton, Brisbane

Located six kilometres from the Brisbane CBD, the Northshore Hamilton Urban Development Area (UDA) covers 304ha of land, with a two kilometre river frontage. The Northshore Hamilton UDA includes land between Kingsford Smith Drive and the Brisbane River, extending from Brett's Wharf to the west and the Gateway Motorway to the east and is close to some of Brisbane's most important economic infrastructure, including the Brisbane Airport and the Australia Trade Coast precinct.

Approximately 80ha of former port land is currently being transformed into a vibrant mixed use riverfront community. Once complete, it will be home to approximately 15,000 workers and 20,000 residents. Expansion of heavy industries is prohibited under NSH Development Scheme with uses gradually being moved out further east towards the mouth of the Brisbane River in the Australia Trade Coast Area. Long term industrial tenants are on leases until 2018, after which the gradual transition from industrial to mixed use will accelerate. A recent land sale in 2012 to the Shayer Group fetched a sale price of \$12m (\$1,121/sqm) for the 1.07ha site. This site is permitted for mixed use development of 7-12 storeys. Prior to the land being declared a UDA, the site was zoned General Industry and valued at approximately \$400/sqm.

Figure 26 - Site Plan of Proposed Northshore Hamilton Redevelopment



Source: Economic Development of Queensland

The two main non-residential developments within Northshore are Leighton/Devine's KSD1 and BTP Northshore. BTP is seen a transition use between planned residential to the south and heavy industrial to the north such as Boral's concrete batching plants and the BP and Neumann Petroleum's fuel storage facilities. BTP Development Services is a joint venture of commercial property developers Graystone and Alceon. Together, as BTP

Development Services, they are set to deliver a world-class business environment which is anticipated to replicate the success of the Brisbane Technology Park; a large office precinct now home to more than 100 international and local businesses in Brisbane's south at Eight Mile Plains. The Northshore Business and Innovation precinct will become home to BTP Development Services' technology park integrating a first-class business environment in the centre of Northshore. Over the next 5 years, BTP Northshore will deliver more than 60,000sqm of office space.

BTP Northshore will create a hub for innovative businesses capitalising on its strategic location between the Brisbane CBD, Australia Trade Coast and the Brisbane Domestic and International Airports. The precinct masterplan allows for a wide range of uses including office, laboratory, technical and storage areas. To accommodate this variety of uses, building configurations range from 3 to 5 levels with large or small floor plates. Each building plan has an emphasis on cost efficiency, quality and sustainable design. Businesses within BTP Northshore will benefit from onsite and neighbouring amenities offered by the Northshore precinct such as retail, dining and public transport options.

Leighton Devine's \$26 million KSD1 forms part of the commercial tenancy offering at Hamilton Harbour. Impressive onsite amenity and contemporary building design come together to create a desirable business environment. The development's strategic high profile position on Kingsford Smith Drive, one of Brisbane's major arterial roads, places businesses equidistant to the Brisbane CBD and airport, just nine minutes from each location. The development also benefits from significant onsite parking and easy access to multiple public transport options including bus, ferry and rail and incomparable connectivity to all areas of South East Queensland via existing key transportation infrastructure such as the Gateway Motorway, Inner City Bypass, Clem 7 Tunnel and the new Airport Link. The Hamilton Harbour mixed-use precinct is well serviced by local amenities, including a Metro Woolworths, cafés and a fitness centre to service new residents to Northshore. The nearby Portside Wharf and Racecourse Road also provide further entertainment options for residents and visitors.

Appendix 3 - **FEASIBILITY MODELLING**