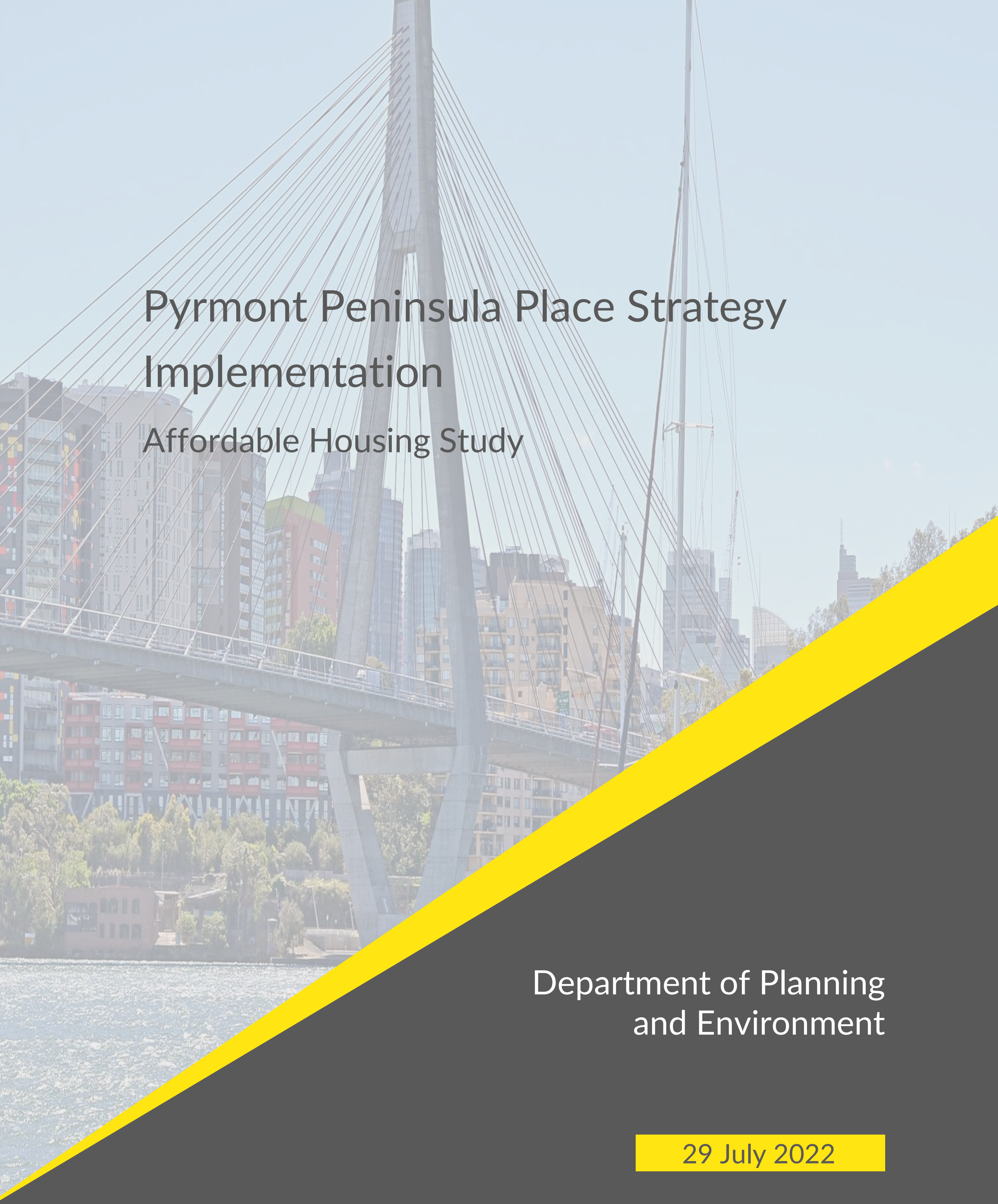

Pyrmont Peninsula Place Strategy Implementation

Affordable Housing Study

Department of Planning and Environment

29 July 2022

Atlas URBAN ECONOMICS

Document Control

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Executive Summary

BACKGROUND

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

The Peninsula is a vibrant mix of land uses in an area of strong heritage values. Pyrmont is one the Sydney CBD's largest fringe office markets and Ultimo accommodates several tertiary education campuses.

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

The Pyrmont Place Strategy (**the Place Strategy**) provides a 20-year framework that identifies areas that can accommodate future growth and was developed by the Department of Planning and Environment (DPE) through 2020 in consultation with the community and stakeholders and was finalised in December 2020. Since then, DPE has been working on implementation of the Place Strategy through sub-precinct planning in the Peninsula.

Atlas Urban Economics ('**Atlas**') is engaged by DPE to carry out a Housing Study to support implementation of the Pyrmont Peninsula Place Strategy with a focus on affordable housing.

Affordable Housing Policy in the Peninsula

Affordable housing contributions in the Peninsula are levied on an inclusionary basis under the Revised City West Affordable Housing Program, based on the proportion of *total* floor area in a development. The floorspace contribution required is:

- **Residential uses** - 0.8% ($32.13/sqm) of total floor area
- **Non-residential uses** - 1.1% ($46.16/sqm) of total floor area

Affordable housing contributions have been applicable in the Peninsula for many years, with a revision of the City West Housing Program undertaken in 2010. Contributions may be delivered in-kind (i.e. completed dwellings) or made via monetary contributions.

More recently in July 2020, the City of Sydney (the City) adopted the City of Sydney Affordable Housing Program (**the Program**). Clause 7.13 of the Sydney LEP 2012 (the LEP) expands the operation of affordable housing contribution schemes to all other land in the Sydney LGA. The Program does not currently apply in the Peninsula.

Recently gazetted, the affordable housing contributions (referred to as '**Tier 1 AH contributions**') will be phased-in over time to allow for market adjustment. Affordable Housing (**AH**) contributions are payable at 50% from when the Sydney LEP 2012 (Amendment No. 52) (**the LEP**) was made in July 2021. The full contributions (100%) are expected from 1 June 2022.

Table ES-1: Affordable Housing Contribution Rates, Clause 7.13

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

Source: City of Sydney

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

A supplementary AH contribution (additional to Tier 1 AH contributions) is proposed by the Program through an amendment to the LEP to provide for a new framework. Sites (or "Planning Proposal land") that will benefit from increased residential development capacity through a site-specific planning proposal process with be required to make '**Tier 2 AH contributions**'.

This would mean the Tier 1 AH contribution ***and*** Tier 2 AH contribution would apply to land where there is a site-specific planning proposal for a residential FSR increase on land. A proposed contribution rate of 12% (including Tier 1 AH contributions) is to apply on additional residential GFA, the result of a site-specific planning proposal.

PYRMONT PENINSULA SUB-PRECINCT MASTERPLANS

The Pyrmont Place Structure Plan considered the existing character and potential capacity of the sub-precincts to guide the land use and urban design framework for the Peninsula. The Sub-precinct Masterplans (completed in 2021) respond to forecast resident and worker populations for the Pyrmont Peninsula which is summarised in Table ES-2.

Table ES-2: Forecast Growth by Precinct (2021-2041)

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

Source: as quoted in Cred (2020)

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

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

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

OPPORTUNITY FOR AFFORDABLE HOUSING

The Study's core objective is to test capacity of development in the Peninsula to contribute to affordable housing outcomes. The Study notes that a SIC is proposed to apply in the Study Area (except in Ultimo precinct). It is beyond the scope of this Study to examine the capacity of development to pay a SIC, however the Study is cognisant of this requirement.

The scope of the analysis tests the capacity of development to contribute to affordable housing in the following scenarios:

- No change to planning controls.
- Change to planning controls (i.e. increased density).

For any additional contributions (including Affordable Housing) to be viable, development without the contribution needs to be viable in the first instance. If development is not feasible (regardless of contributions), the activity will not occur. Therefore, the analysis presumes that sites are feasible to develop even without the requirement for Affordable Housing.

The contribution impact testing is undertaken in three steps:

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

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

2. **Step 2 - Baseline feasibility (with s7.11 contributions and existing Ultimo/Pyrmont Affordable Housing contributions)**

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

3. **Step 3 - Impact testing of Clause 7.13 contributions (Tier 1)**

   Step 3 assumes Clause 7.13 Affordable Housing contributions and potential s7.12 contributions (at 3%) to test impact.

Contribution impact testing assumes all fees and charges are payable (including local contributions), observing the following:

- **Where there is No Change to Planning Controls**
  - Tier 1 AH contributions (1% non-residential, 3% residential) are generally tolerated, in part because AH contributions already apply.
  - Due to design of the Tier 1 AH contributions, they could be lower (as they are calculated net of existing floor area) than existing AH contributions (which are calculated on total floor area) under the City West Program.
  - Where a deepening of market demand is induced by the new Metro station at Pyrmont and results in 10% higher revenue levels, impact from Tier 1 AH contributions is offset.
- **Where there is Change to Planning Controls (increased density)**
  - Sites with planning uplift benefit from an increase in land value. It is through this Surplus Value that development has the capacity to additionally contribute to Tier 2 AH (at 12% of additional residential floor area which includes 3% Tier 1 AH contributions) and other contributions (e.g. SIC) and yet remain viable for development.
  - Tier 2 AH contributions are only payable on ***additional residential GFA*** and thereby are not relevant for sites which benefit from additional commercial GFA. Those sites would only be subject to Tier 1 AH contributions.
  - After payment of Tier 1 and Tier 2 AH contributions, the tested scenarios show there is remaining capacity for development to contribute to other infrastructure (e.g. SIC).

The approach to testing the impact of Tier 2 AH contributions is consistent with the Greater Sydney Region Plan that recommends Affordable Housing of 5%-10% of new residential floor area, *subject to viability testing* and parameters that are tailored to individual areas. The requirement for viability testing implies that Affordable Housing contribution rates could fall outside the recommended 5%-10% range.

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

RECOMMENDATIONS

There is an opportunity for meaningful Affordable Housing outcomes to be delivered in the Peninsula (through key sites, other sites which may be the beneficiary of planning uplift and through improved market desirability from an amenity uplift).

The Study recommends steps are taken to implement the City's AH Program in the Peninsula. This would involve requiring:

- Tier 1 AH contributions pursuant to clause 7.13 of the LEP.
- Tier 2 AH contributions (12%) applicable to ***additional residential GFA*** the result of a rezoning.

The Study highlights the opportunity from an Affordable Housing policy perspective, to examine the viability of requiring Tier 2 AH contributions on ***additional commercial GFA*** the result of a planning uplift (or rezoning).

The Study further recommends that advance notice (at least 12 months) for Tier 1 AH contributions is provided to the market with savings provisions applying to applications lodged during this time. This would allow:

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

Tier 2 AH contributions do not require notice of similar magnitude as Tier 1 AH contributions given that they (Tier 2) are only applicable on sites where there is planning change as result of a planning proposal.

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

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

Glossary of Terms and Abbreviations

Terms

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

Abbreviations

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

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1. Introduction

1.1 Background

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

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

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

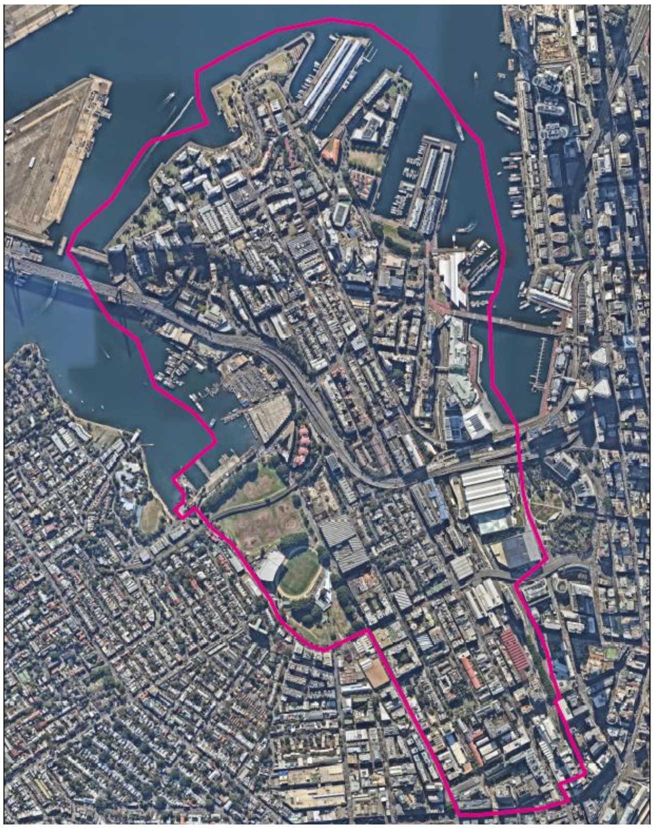
Atlas Urban Economics (Atlas) Atlas is by Department of Planning and Environment (DPE) to carry out a Housing Study to support the implementation of the Pyrmont Peninsula Place Strategy with a focus on Affordable Housing (**AH**).

1.2 Study Area

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

The Peninsula is one of the Sydney Central Business Districts (CBD) largest fringe office markets, whilst Ultimo accommodates several tertiary education campuses. **Figure 1.1** illustrates the formal boundaries of the defined Peninsula.

Figure 1.1: Pyrmont Peninsula Investigation Area



Source: GSC (2019)

1.3 Scope and Approach

Atlas has been engaged by the DPE to carry out a Housing Study to support the Pyrmont Peninsula Place Strategy with a particular focus on AH. Atlas are also engaged to provide development feasibility advice to the project team to assist in sub-precinct masterplanning.

Owing to the iterative nature of the project, the Housing Study has been delivered in two stages:

- **Part A: Affordable Housing Policy Review** reviewed the context of affordable housing policy and contributions framework in the Peninsula, namely the City West Affordable Housing Program. Part A also reviewed affordable housing policies across Australia and internationally to form a view on 'best practice' approaches which could be implemented in the Peninsula.

  Part A was completed in July 2020 and publicly exhibited with the Place Strategy and other technical studies.

- **Part B: Affordable Housing Feasibility Study** carries out a market appraisal of the Study Area and tests the commercial viability of different masterplanning options for the Peninsula. Specifically, testing is carried out to identify the tolerance of development in the Peninsula to the AH contributions pursuant to the City of Sydney AH Program.

  This report covers Part B (Affordable Housing Feasibility Study).

The following tasks have been undertaken for Part B:

- Review of the Peninsula's strategic context, including its location, existing and proposed planning controls, major infrastructure projects and the AH contributions schemes which apply across the Peninsula.
- Review the Pyrmont Peninsula Sub-precinct Masterplans and in particular the sites identified for change in the context of forecast employment and residential floorspace.
- Property market appraisal of the Study Area to identify patterns of supply and demand, the trends and drivers that influence land use and market activity.
- Generic feasibility testing of hypothetical planning controls to examine the financial implications of contribution rates under the City of Sydney AH Program.
- Recommendations on affordable housing contributions in the Peninsula in the context of other contributions required for infrastructure.

1.4 Assumptions and Limitations

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

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

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

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

Despite the assumptions made and limitations of generic feasibility testing, the analysis is considered to be appropriate in examining the opportunity for, and impacts of affordable housing contribution rates in the Study Area.

2. Strategic Context

2.1 Location Context

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

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

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

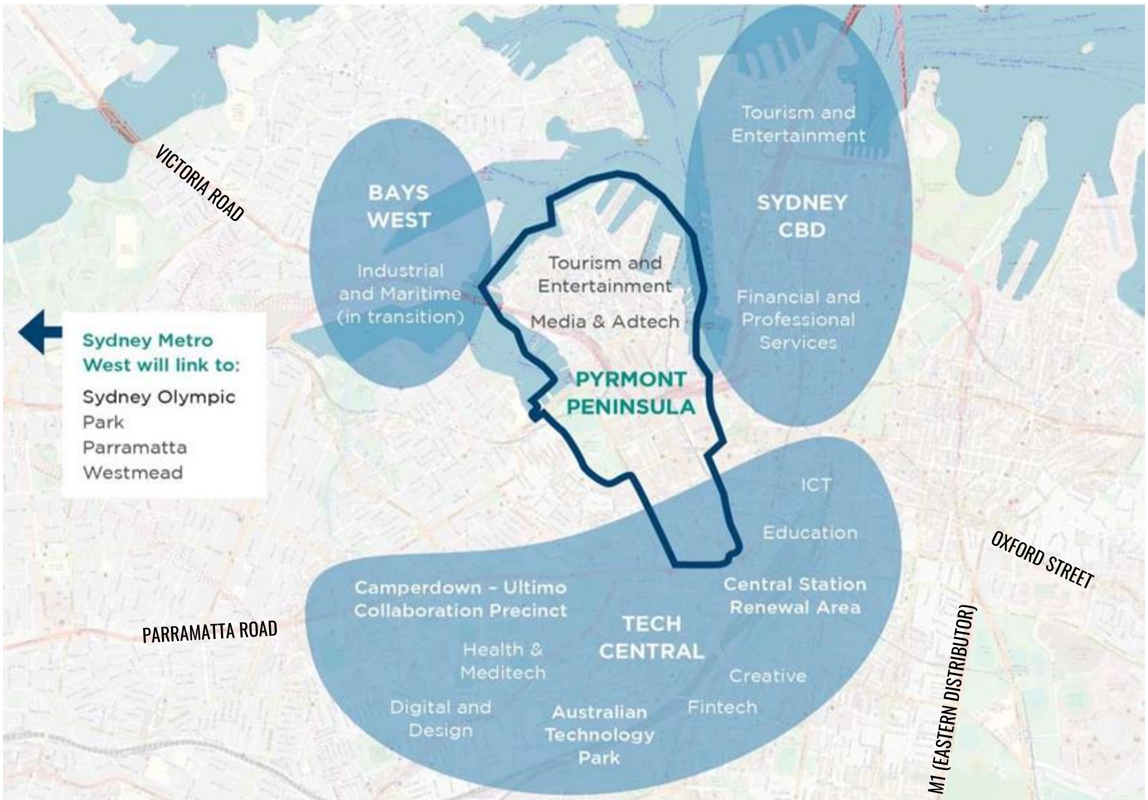
The southern section of the Peninsula falls within the Camperdown-Ultimo Collaboration Precinct. Anchored by the Royal Prince Alfred Hospital, TAFE NSW, University of Notre Dame, University of Sydney and University of Technology Sydney and various medical and research institutions, the precinct has been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

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

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

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

Figure 2.1: Locational Context Map



Source: PWC (2020)

2.2 Existing Planning Context

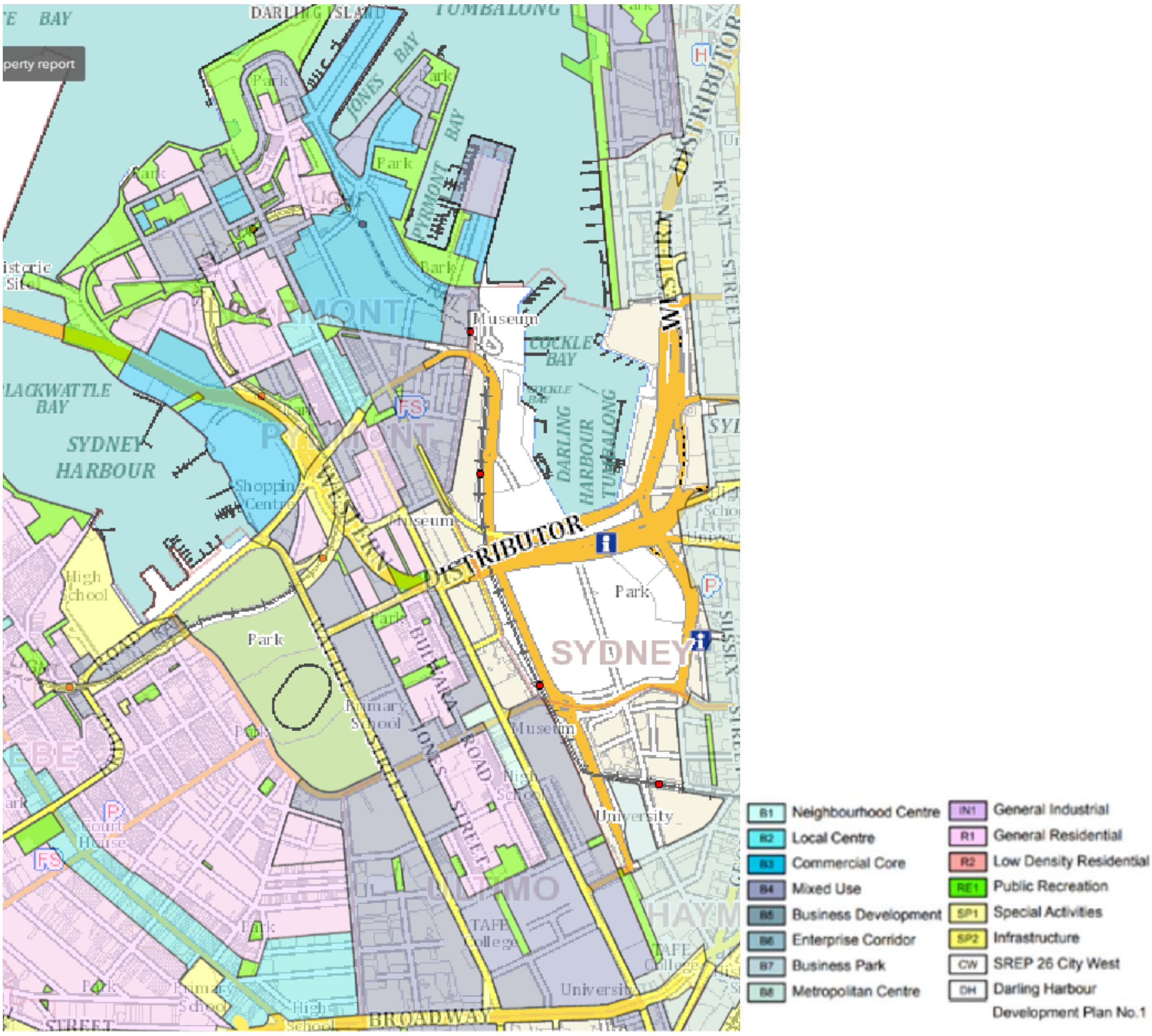
Land use and development across the Peninsula is primarily governed by the Sydney Local Environmental Plan 2012 (SLEP). Parts of the Peninsula are subject to other State planning instruments, predominantly along the harbour foreshore. The key instruments include:

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

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

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

Figure 2.2: Applicable Planning Instruments, Pyrmont Peninsula



Source: DPE (2020)

2.3 Pyrmont Peninsula Place Strategy (2020)

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

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

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

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

Pyrmont Peninsula Structure Plan

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

Figure 2.3: Structure Plan, Pyrmont Peninsula Place Strategy

Source: DPE (2020)

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

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

2.4 Infrastructure Programme

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

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

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

Figure 2.4: Station Location, Pyrmont Metro Station

Source: Sydney Metro (2021)

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

2.5 Affordable Housing Contributions Policy

This section provides an overview of the local planning framework which governs AH delivery in the Peninsula.

2.5.1 Local Strategic Planning Statement - City Plan 2036

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

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

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

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

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

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

Source: City of Sydney (2019)

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

2.5.2 City West Affordable Housing Program

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

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

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

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

The floorspace contribution required for both these categories is:

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

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

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

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

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

2.5.3 City of Sydney Affordable Housing Program

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

A contribution requirement would be required on 'residual land' and 'Central Sydney' to apply to 'new' floor area (i.e. additional to existing floor area) and/ or to the floor area that is changing in use. This is different to the application in Green Square Urban Renewal Area where the contribution requirement is applied to 'total' floor area.

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

Table 2.2: Contribution Rates, Clause 7.13

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

Source: City of Sydney

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

Planning Proposal Land

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

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

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

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

The Study notes that the Greater Sydney Commission recommends that Affordable Housing rates of 5%-10% of new residential floor area be considered "subject to feasibility".

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

Table 2.3: Proposed AH Contribution Rates, Planning Proposal land

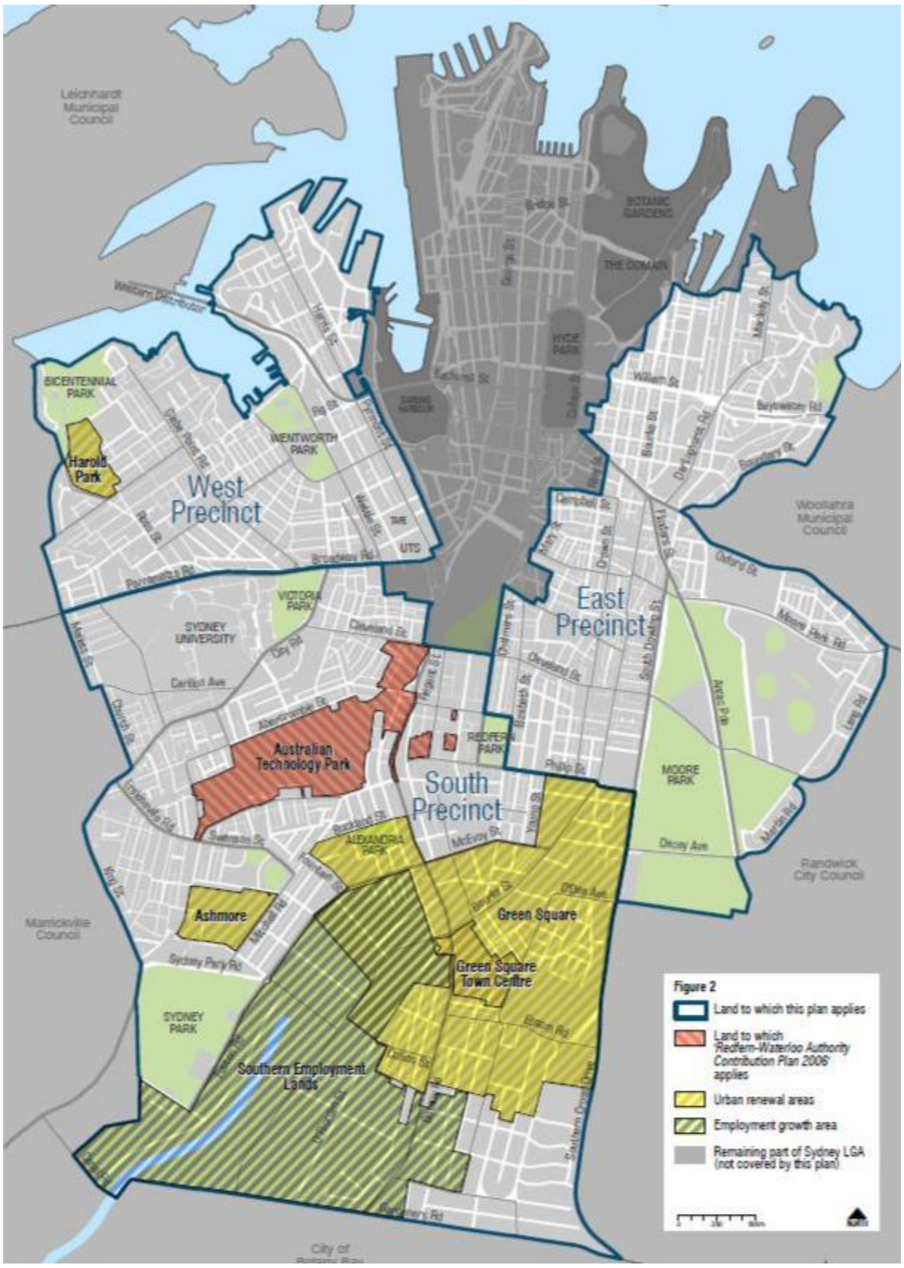
Precinct	Proportion of Additional Floor Area for AH
West	12%
South	12%
East	24%

Source: City of Sydney

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

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

Figure 2.5: Affordable Housing Contribution Precincts



Source: City of Sydney

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

3. Pyrmont Peninsula Sub-precinct Masterplans

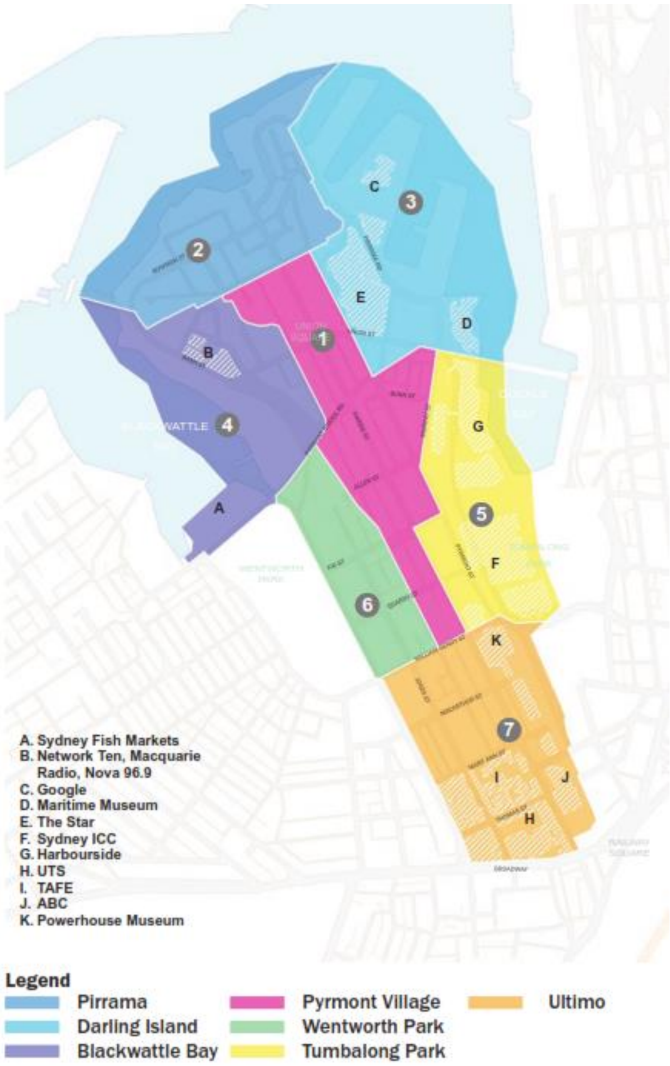
3.1 Overview of Sub-precincts

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

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

Figure 3.1 illustrates the seven sub-precincts identified in the Pyrmont Place Strategy Structure Plan.

Figure 3.1: Pyrmont Peninsula Sub-precincts



Source: DPE (2020)

3.2 Distribution of Land Uses

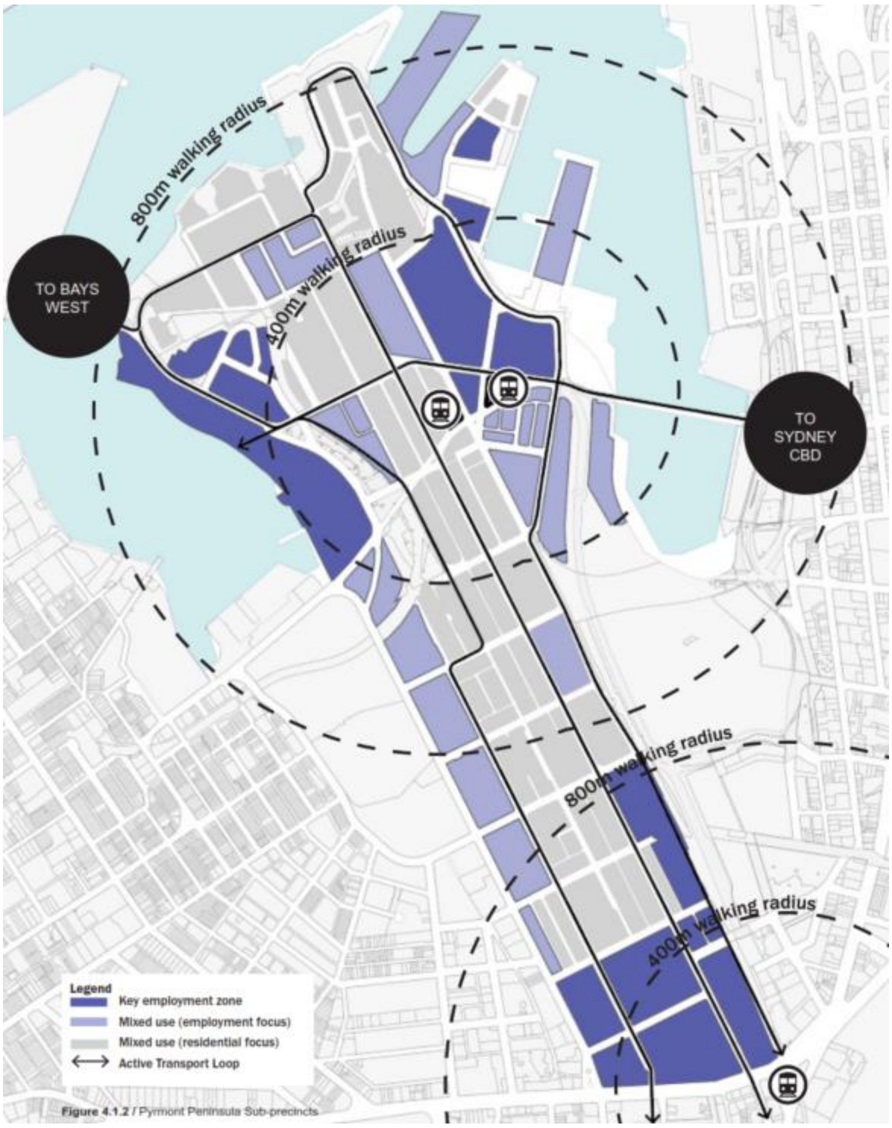
The Pyrmont Place Structure Plan considered the existing character and potential capacity of each sub-precinct to guide the land use and urban design framework for the Peninsula. A proposed distribution of land uses is based on principles:

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

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

Figure 3.2 illustrates the proposed distribution of land uses across the Peninsula as per the Structure Plan.

Figure 3.2: Land Uses, Pyrmont Peninsula Structure Plan



Source: DPE (2020)

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

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

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

Source: as quoted in Cred (2020)

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

3.3 Potential Development Activity

3.3.1 Areas of Change

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

Ultimo

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

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

Blackwattle Bay

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

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

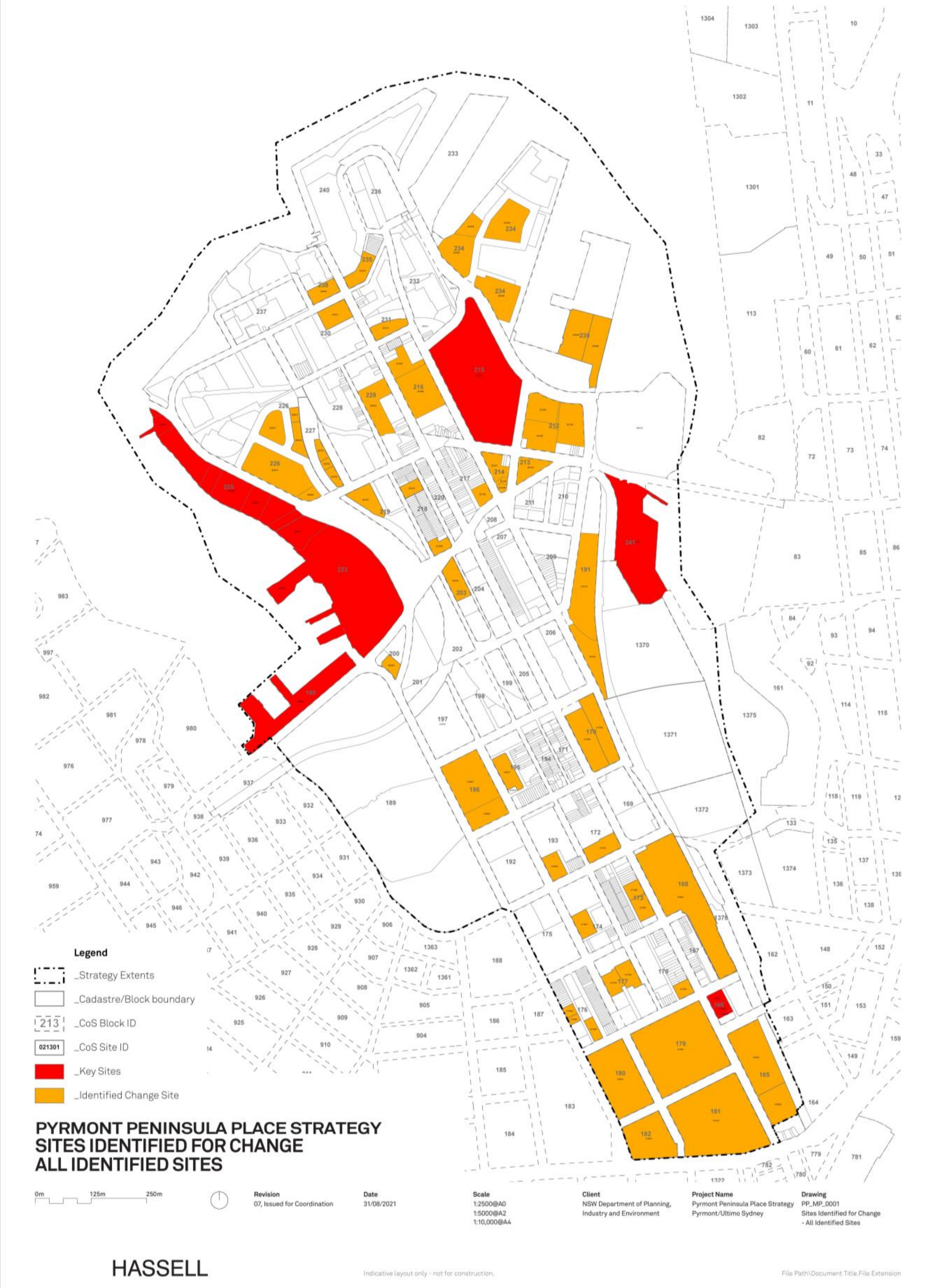
Tumbalong Park

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

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

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

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



Source: DPE (2020)

Darling Island

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

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

3.3.2 Key Sites

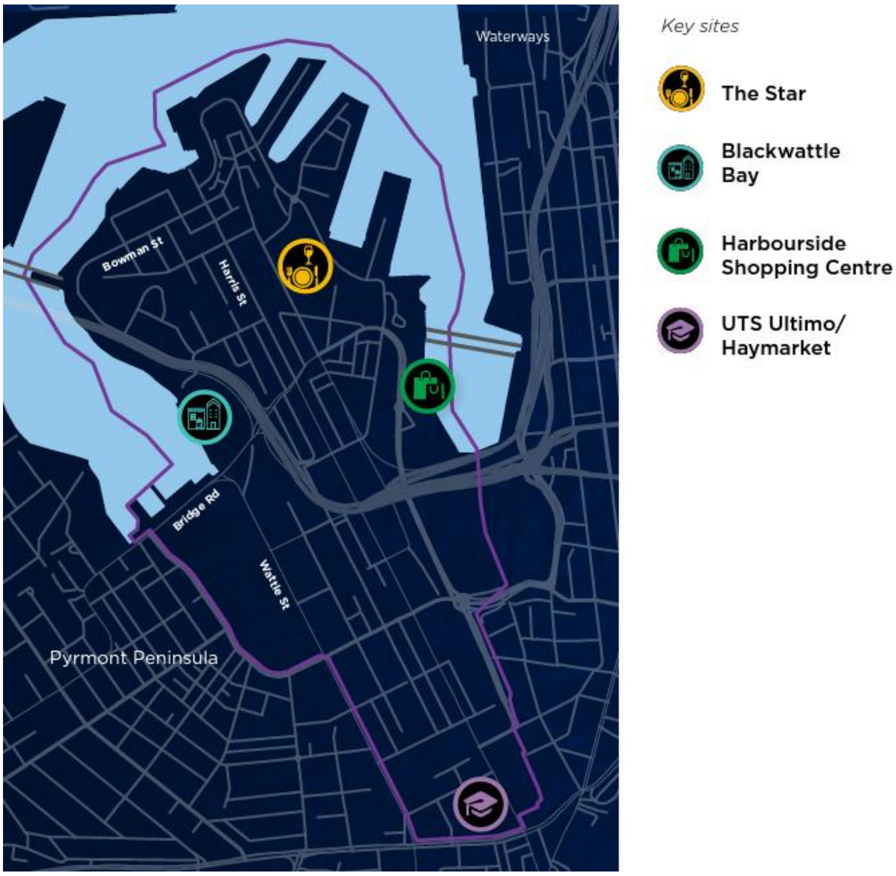
Structure planning as part of the Place Strategy identified the Ultimo, Blackwattle Bay, Tumbalong Park and Darling Island sub-precincts as having the greatest capacity for sustainable development activity over the coming decades.

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

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

Figure 3.4 illustrates the location of the four key sites across the Peninsula.

Figure 3.4: Key Sites, Pyrmont Peninsula Structure Plan



Source: DPE (2020)

3.4 Opportunity for Affordable Housing

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

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

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

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

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

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

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

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

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

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

The Pyrmont Peninsula Study Area is the beneficiary of transport and planning investment and is identified to have the potential to accommodate increased development capacity, providing opportunity for employment and housing. The next chapter examines the viability of implementing the City of Sydney AH Program in the Study Area.

4. Feasibility Analysis

4.1 Scope of Analysis

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

The core objective of the analysis is to test the capacity of development to contribute to AH outcomes. The Study recognises that a SIC is proposed to apply in the Study Area (except in Ultimo precinct). It is beyond the scope of this Study to examine the capacity of development to pay SIC.

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

- No change to planning controls.
- Change to planning controls (i.e. increased density).

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

The Pyrmont Infrastructure Delivery Plan (GLN, 2021) prepared for the Place Strategy recommended the City consider s7.12 contributions at 3% of development cost (to replace the current s7.11 contributions). Accordingly, this analysis presumes s7.12 local contributions (3% of cost of development) for the purposes of impact testing.

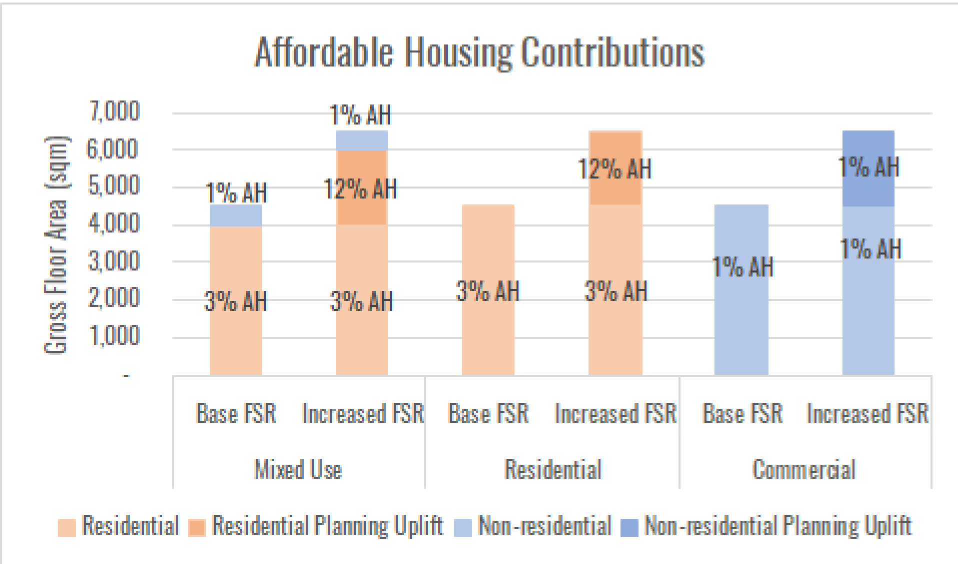
Affordable Housing Contributions

Two tiers of AH contributions are required under the City's Program. The Program applies to the Sydney LGA and does not currently apply to the Study Area.

- Tier 1 - clause 7.13 rates on new development (net of existing floorspace) - 3% for residential, 1% for non-residential.
- Tier 2 - a contribution where a site-specific planning proposal results in an FSR increase on land. A contribution of 12% (which includes Tier 1 of 3%) applies to the additional residential GFA as a consequence of the increased FSR. Any additional non-residential GFA as consequence of the increased FSR is not subject to a Tier 2 contribution.

Figure 4-1 illustrates the requirements for AH contributions under the City's Program.

Figure 4-1: Conceptual Illustration of AH Contributions (2 tiers)



Source: City of Sydney (2020)

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

Local Contributions

The Pyrmont Infrastructure Delivery Plan (GLN, 2021) prepared for the Place Strategy recommends the City consider s7.12 contributions at 3% of development cost (to replace the current s7.11 contributions). Accordingly, this analysis presumes s7.12 local contributions (3% of cost of development) for the purposes of impact testing.

State and Regional Infrastructure Contributions

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

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

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

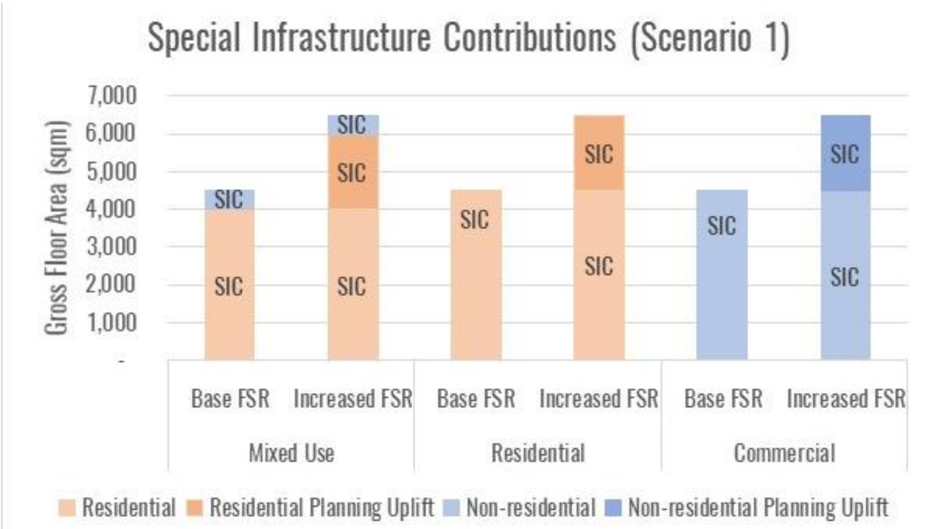
A SIC framework is proposed to apply to the Peninsula except in the sub-precinct of Ultimo, referred to as '**the Draft SCA**'.

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

1. **Scenario 1** - flat rate SIC applied to development in the Draft SCA.
2. **Scenario 2** - two rates (low base rate and additional rate) applied to development in the Draft SCA.

Figure 4-2 illustrates conceptually how a flat rate SIC would operate if it were applied to development.

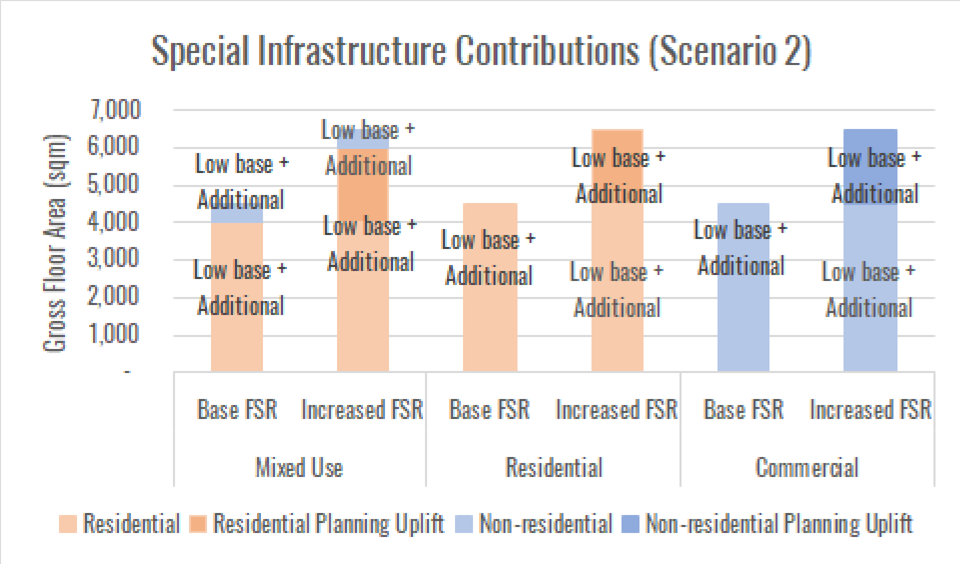
Figure 4-2: Conceptual Illustration of SIC Scenario 1



Source: Atlas

Figure 4-3 illustrates how a SIC would operate if two rates were applied. In this scenario, a low base contribution is applied and an additional contribution in a rezoning as a result of major transport infrastructure.

Figure 4-3: Conceptual Illustration of SIC Scenario 2



Source: Atlas

<u>Contribution Impact Testing</u>

The objective of the contribution impact testing is to assess if, after additional contributions, investment hurdle rates are within acceptable range.

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

Table 4.1: Benchmark Hurdle Rates*

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

Source: Atlas

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

Section 4.2 examines the feasibility of AH contributions in the Study Area in circumstances where there is no change to planning controls and in circumstances where there is a rezoning (resulting in increased floorspace capacity).

4.2 Affordable Housing Contributions

AH contributions are already payable in the Study Area (under the City West Program).

This section tests the capacity of land in the Study Area to contribute to two tiers of AH ('**Clause 7.13**' and '**Planning Proposal' contributions**).

Section 4.2.1 investigates the capacity of land to contribute to Tier 1 AH contributions - clause 7.13 contributions (that would ***replace*** the AH contributions currently payable). The testing is undertaken for land where there is no change ***and*** for land where there is a change to planning controls.

Section 4.2.2 then tests the capacity of land that is the beneficiary of planning uplift (e.g. increase in FSR) to contribute to Tier 2 AH contributions - Planning Proposal contributions (over and above clause 7.13 contributions).

For any additional contributions (including AH) to be viable, development without the contribution needs to be viable in the first instance. If development is not feasible (regardless of contributions), the activity will not occur. Therefore, the analysis presumes that sites tested are feasible to develop even without the requirement for AH contributions.

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

4.2.1 Impact of Tier 1 AH Contributions - clause 7.13 contributions (Sites with No Planning Change)

Methodology

The contribution impact testing is undertaken in three steps:

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

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

2. **Step 2 - Baseline feasibility (with s7.11 contributions and Ultimo/Pyrmont AH contributions)**

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

3. **Step 3 - Impact testing of Clause 7.13 contributions (Tier 1)***

   Step 3 assumes Clause 7.13 Affordable Housing contributions and s7.12 contributions (at 3%) to test impact.

*Tier 1 AH contributions are assumed to apply on a 'net/new basis', i.e. applied to proposed GFA net of existing GFA. This aligns with its application in Central Sydney but is different to its application in Green Square where AH contributions apply to total GFA. We note that the latter is a major urban renewal area rezoned from legacy industrial lands.

The Study has assumed that Tier 1 AH contributions will apply to 'new floor area' similar to Central Sydney given similar circumstances under which development in the Study Area is expected to occur. The Peninsula is already zoned for urban development with greater capacity expected to be unlocked by various changes to planning controls.

The results of the impact testing are measured against performance indicators, i.e. residual land value, development margin and project IRR to conclude the impact of the clause 7.13 contributions on feasibility.

Tested Sites and Scenarios

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

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

The impact of AH contributions is tested in the following contributions scenarios:

- Current AH contribution rates.
- Tier 1 AH contributions rates (which replace current AH contribution rates under the City West Program).

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

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

Table 4.2: Capacity Testing Scenarios and Contributions Assumptions

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	AH Contributions Assumptions
1	Wentworth Park (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Retained at FSR 4:1 1. All Base Case fees and charges 2. Tier 1 AH contributions (3% residential, 1% non-residential)
2	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential)	Increased to FSR 5:1 1. All Base Case fees and charges 2. Tier 1 AH contributions (3% residential, 1% non-residential)

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	AH Contributions Assumptions
3	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Increased to FSR 10:1 1. All Base Case fees and charges 2. Tier 1 AH contributions (3% residential, 1% non-residential)
4	Pyrmont Village (Commercial-only)	Base FSR 2:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Increased to FSR 4:1 1. All Base Case fees and charges 2. Tier 1 AH contributions (1% non-residential)
5	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Increased to FSR 6:1 1. All Base Case fees and charges, 2. Tier 1 AH contributions (3% residential, 1% non-residential)
6	Pirrama (Commercial-only)	Base FSR 6.5:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Increased to FSR 7.5:1 1. All Base Case fees and charges 2. Tier 1 AH contributions (1% non-residential)

Source: Atlas

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

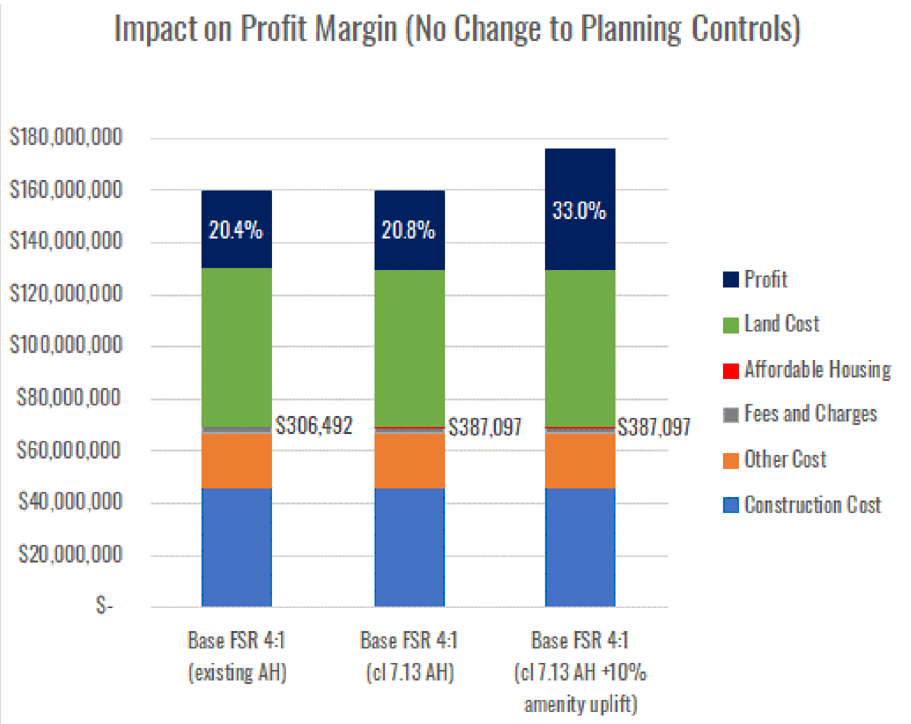
Testing Outcomes

In this section a series of graphs illustrates the impact of the Tier 1 AH contributions (clause 7.13) for a selection of land use typologies - mixed use development, residential and commercial.

Figure 4-4 shows the impact of Tier 1 AH contributions on profit margin of a mixed use development in the Pirrama sub-precinct assuming there was no change to planning controls (Base FSR being 4:1).

The testing also examines the impact if there were an amenity uplift (as a consequence of improved transport accessibility resulting from a new Metro station) and consequently lift in overall revenue levels.

Figure 4-4: Pirrama Mixed Use, Impact of Tier 1 AH Contributions on Profit Margin



Source: Atlas

The following observations can be made:

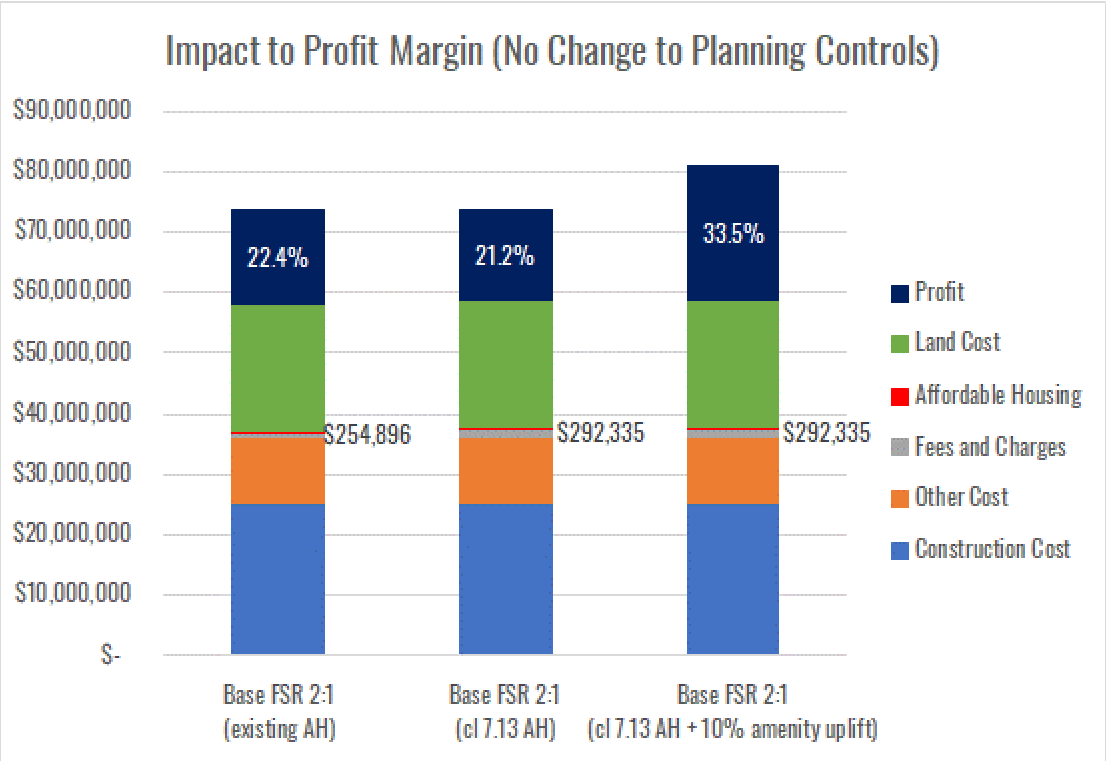
- AH contributions ($306,492) are already payable, and therefore inclusion of Tier 1 AH contributions ($387,097) result in marginal impact.
- Even though Tier 1 AH contributions are higher for residential (3% compared to 0.8% currently payable), the Tier 1 AH contributions are payable on GFA (net of existing floorspace) whereas the current 0.8% AH is payable on total floor area.
- Imposition of Tier 1 AH contributions results in a minor impact, with profit margin falling to 20.8%.
- In circumstances where market demand deepens (owing to an amenity uplift from improved transport accessibility from the Metro project) and revenue levels increase by 10%, any impact from AH contributions is more than offset.

Figure 4-5 shows the impact of Tier 1 AH contributions on profit margin of a commercial development in the Pyrmont Village sub-precinct assuming there was no change to planning controls (Base FSR being 2:1). The testing also examines the responsiveness of impact if there were an amenity uplift and consequently lift in overall revenue levels.

The following observations can be made:

- AH contributions ($254,896) are already payable, and therefore inclusion of Tier 1 AH contributions ($292,335) result in marginal impact.
- Imposition of Tier 1 AH contributions results in a relatively minor impact, with profit margin falling from 22.4% to 21.2%.
- In circumstances where market demand deepens (owing to an amenity uplift from improved transport accessibility from the Metro project) and revenue levels increase by 10%, any impact from AH contributions is more than offset.

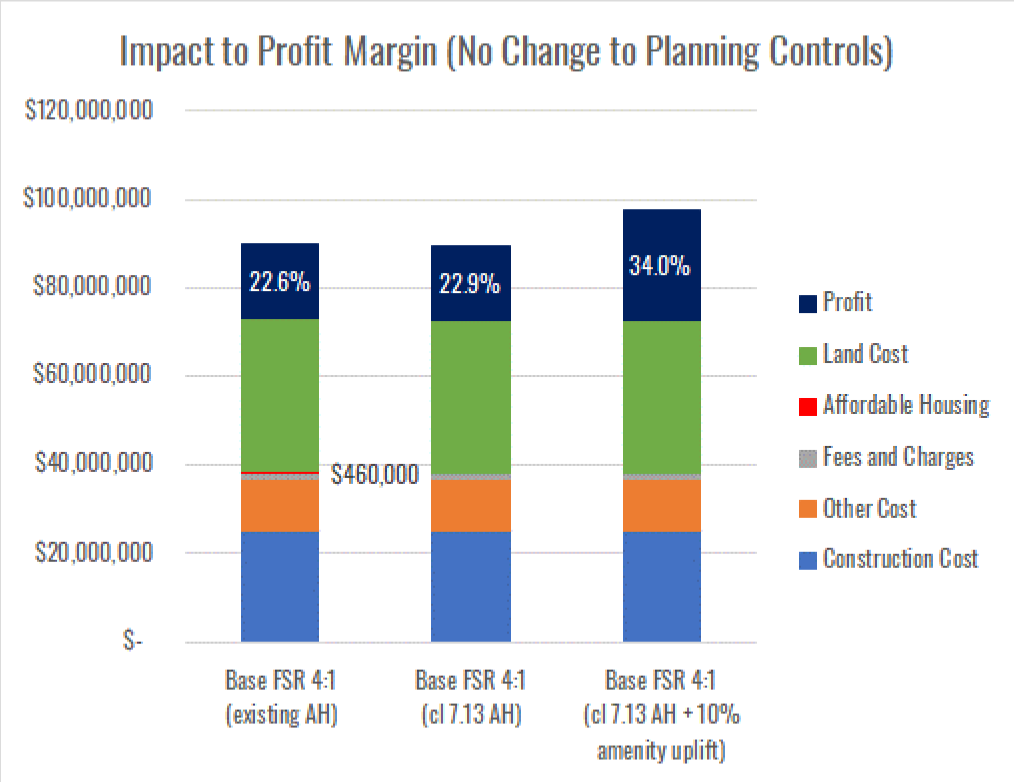
Figure 4-5: Pyrmont Village Commercial, Impact of Tier 1 AH Contributions on Profit Margin



Source: Atlas

Figure 4-6 shows the impact of Tier 1 AH contributions on profit margin of a residential development in the Wentworth Park sub-precinct assuming there was no change to planning controls (Base FSR being 4:1). The testing also examines the responsiveness of impact if there were an amenity uplift and consequently lift in overall revenue levels.

Figure 4-6: Wentworth Park Residential, Impact of Tier 1 AH Contributions on Profit Margin



Source: Atlas

The following observations can be made:

- Even though Tier 1 AH contributions are higher for residential (3% compared to 0.8% currently payable), the Tier 1 AH contributions are payable on GFA (net of existing floorspace) whereas the current 0.8% AH is payable on total floor area. In this example, the Tier 1 AH contributions is not payable (after existing floorspace is offset).
- In this case, as Tier 1 AH contributions (net of existing floorspace) is zero, there is an improvement to profit (22.9%).
- In circumstances where market demand deepens (owing to an amenity uplift from improved transport accessibility from the Metro project) and revenue levels increase by 10%, the improvement to profit is even greater (34.0%).

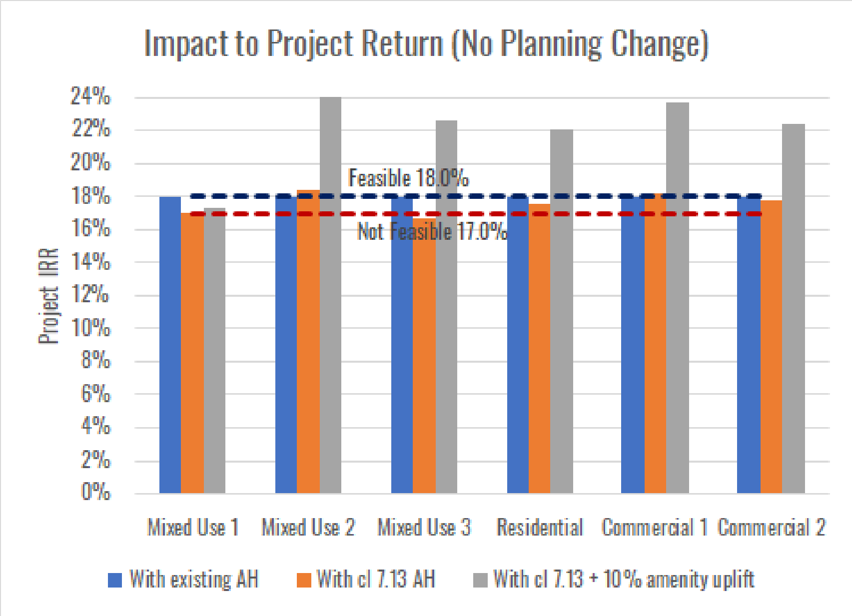
Figure 4-4, **Figure 4-5** and **Figure 4-6** considered the impact of Tier 1 AH Contributions on development margin in a cross-section of land use typologies (Mixed Use, Commercial, Residential) in select sub-precincts in the Study Area.

Figure 4-7 considers the impact on project IRR to all the six land use typologies tested in the Study Area.

Despite no change to planning controls, implementation of Tier 1 AH contributions has relatively marginal impact. This is because:

- AH contributions are already payable (under the City West Program).
- Tier 1 AH contributions are payable on floorspace (net of existing floorspace) whereas current AH contributions are payable on total floor area.
- In some cases Tier 1 AH contributions are less that current AH contributions.
- An amenity uplift of 10% to overall revenue levels more than offsets impact of the Tier 1 AH contributions.

Figure 4-7: Impact of Tier 1 AH Contributions on Project IRR



Source: Atlas

The next section examines opportunity for supplemental AH contributions (Tier 2) for sites that benefit from increased FSR.

4.2.2 Impact of Tier 2 AH Contributions - Planning Proposal contributions (Sites with Increased FSR)

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value and development profit. It is through this increase that a site will have the capacity to make a Tier 2 AH contribution (over and above Tier 1, clause 7.13 contributions) while remaining viable for development.

The rationale of Tier 2 AH contributions is that land can contribute from the receipt of planning uplift which then results in an increase in development profit and the value of the land (or 'Surplus Value[3]'). After contributing to AH, there should still be sufficient incentive for the developer/ investor to be rewarded for investment risk.

This affirms the rationale behind the Greater Sydney Region Plan's recommendation that Affordable Housing rates of 'new residential floor area' be considered (subject to viability testing).

The analysis presumes that development under a site-specific planning proposal is feasible without Tier 2 AH contributions. Similar sites examined in section 4.2.1 are assumed to be beneficiaries of increased density and are tested in this section.

Similar to section 4.2.1, key performance indicators relied upon are residual land value and hurdle rates (development margin and project IRR). The objective of feasibility testing is to assess if, after contribution to AH, residual land values and hurdle rates are within acceptable range.

Tested Sites and Scenarios

Table 4.3 details the land use and contributions assumptions adopted for impact testing of the Tier AH contributions. They are similar to those in **Table 4.2**; sites with increased FSR are now tested for capacity to pay Tier 2 AH contributions.

Table 4.3: Capacity Testing Scenarios and Contributions Assumptions

Site.	Sub-precinct (Land Use)	Base Case Contributions Assumptions	Additional Contributions Assumptions
2	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential)	Increased to FSR 5:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% residential)

[3] Surplus Value is defined as the difference between the assumed cost of land and residual land value of development without the additional contributions (s7.12, AH)

Site.	Sub-precinct (Land Use)	Base Case Contributions Assumptions	Additional Contributions Assumptions
3	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Increased to FSR 10:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% residential)
4	Pyrmont Village (Commercial-only)	Base FSR 2:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Increased to FSR 4:1 • All Base Case fees and charges • Tier 1 AH contributions (1% non-residential)
5	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Increased to FSR 6:1 • All Base Case fees and charges, • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% residential)
6	Pirrama (Commercial-only)	Base FSR 6.5:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Increased to FSR 7.5:1 • All Base Case fees and charges • Tier 1 AH contributions (1% non-residential)

Source: Atlas

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

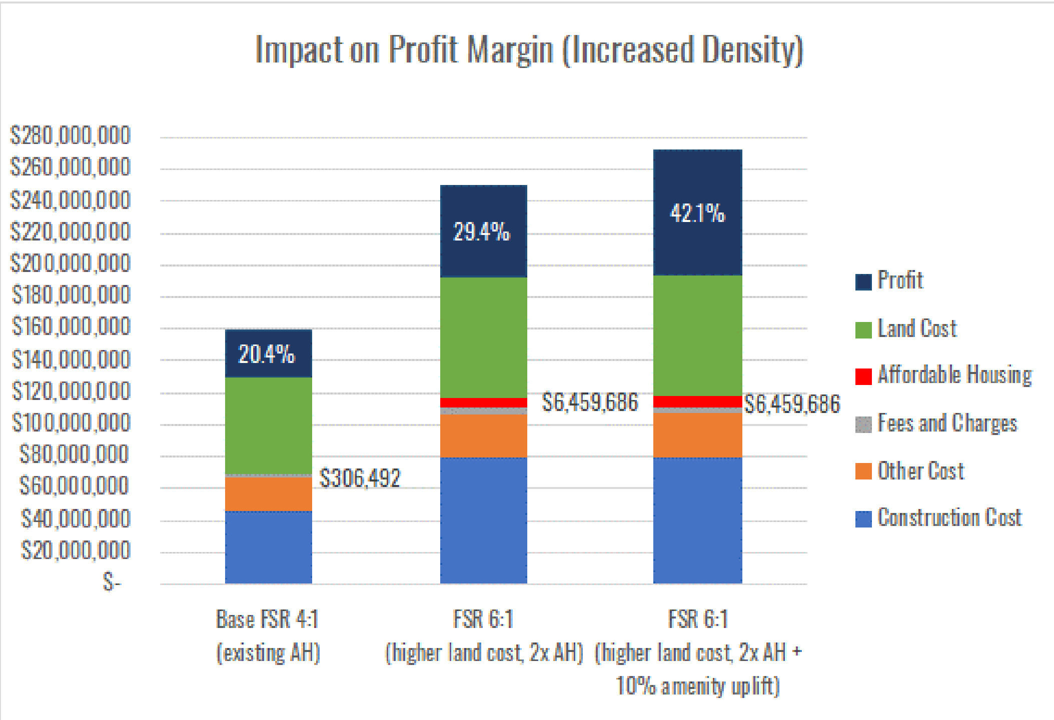
Testing Outcomes

In this section a series of graphs illustrates the impact of the Tier 2 AH contributions and RIC charges (separately and together) for a similar selection of land use typologies - mixed use development, residential and commercial.

Figure 4-8 shows a scenario where the same mixed use development site in the Pirrama sub-precinct is increased from FSR 4:1 to FSR 6:1. Accordingly, Tier 2 AH contributions (12%) would be applicable on the additional residential component.

The graph shows a comparison between Base FSR of 4:1 and increased FSR of 6:1 with both tiers of AH contributions. The testing also examines the impact if there were an amenity uplift and consequently lift in overall revenue levels.

Figure 4-8: Pirrama Mixed Use, Impact of Tier 1+2 Affordable Housing Contributions on Profit Margin



Source: Atlas

The following observations are relevant:

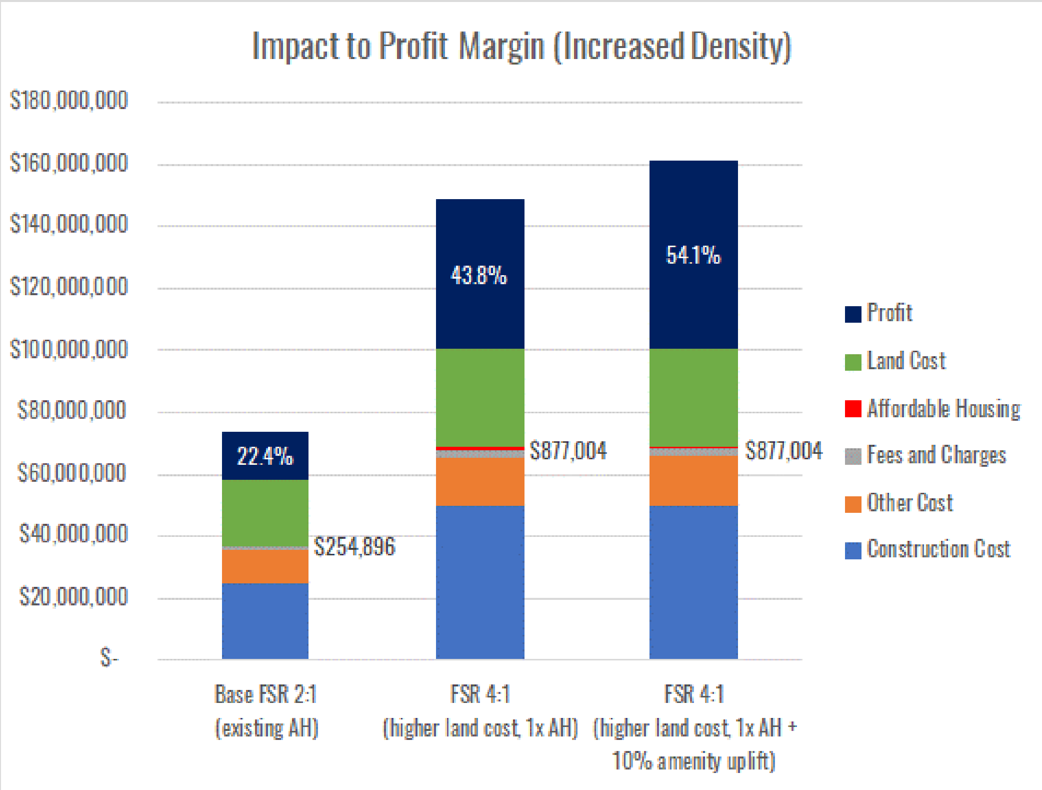
- A rezoning from FSR 4:1 to FSR 6:1 results in larger development with greater sales revenue potential.
- Notwithstanding a higher land cost assumption (to reflective of the increased density) ***and*** payment of Tier 1 and Tier 2 AH contributions, the profit margin is 29.4%.
- In circumstances where an amenity uplift from improved transport accessibility results in increased revenue levels by 10%, profit margins increase notwithstanding the AH contributions assumed to be payable.

The cumulative effects of planning uplift and amenity uplift can result in significant gains for development feasibility. Developments' capacity to contribute to additional contributions (whether for AH or other infrastructure) will be from these gains. The impact testing shows that after contribution to Tier 1+2 AH, there remains capacity for contributions.

Figure 4-9 shows the impact of Tier 2 AH contributions on profit margin of the same commercial development in the Pyrmont Village sub-precinct assuming there was an increase in FSR from 2:1 to 4:1.

The testing also examines the responsiveness of impact if there were an amenity uplift and consequently lift in overall revenue levels.

Figure 4-9: Pyrmont Village Commercial, Impact of Tier 1+2 AH Contributions on Profit Margin



Source: Atlas

The following observations can be made:

- A rezoning from FSR 2:1 to FSR 4:1 results in larger development with greater sales revenue potential.
- The Tier 2 AH contributions are not applicable to this commercial-only site. Only Tier 1 AH contributions are applicable.
- Notwithstanding a higher land cost assumption (to reflective of the increased density) and payment of a modest Tier 1 AH contribution (1% non-residential GFA), a healthy profit margin of 43.8% is observed.
- In circumstances where an amenity uplift from improved transport accessibility results in increased revenue levels by 10%, profit margins increase notwithstanding the AH contributions assumed to be payable.

The impact testing shows that after contributions to Tier 1 AH, there remains healthy capacity for contributions given the non-applicability of Tier 2 AH contributions to commercial planning uplift.

Figure 4-10 shows the impact of Tier 1 AH contributions on profit margin of a residential development in the Wentworth Park sub-precinct assuming an increase from FSR 4:1 to 5:1.

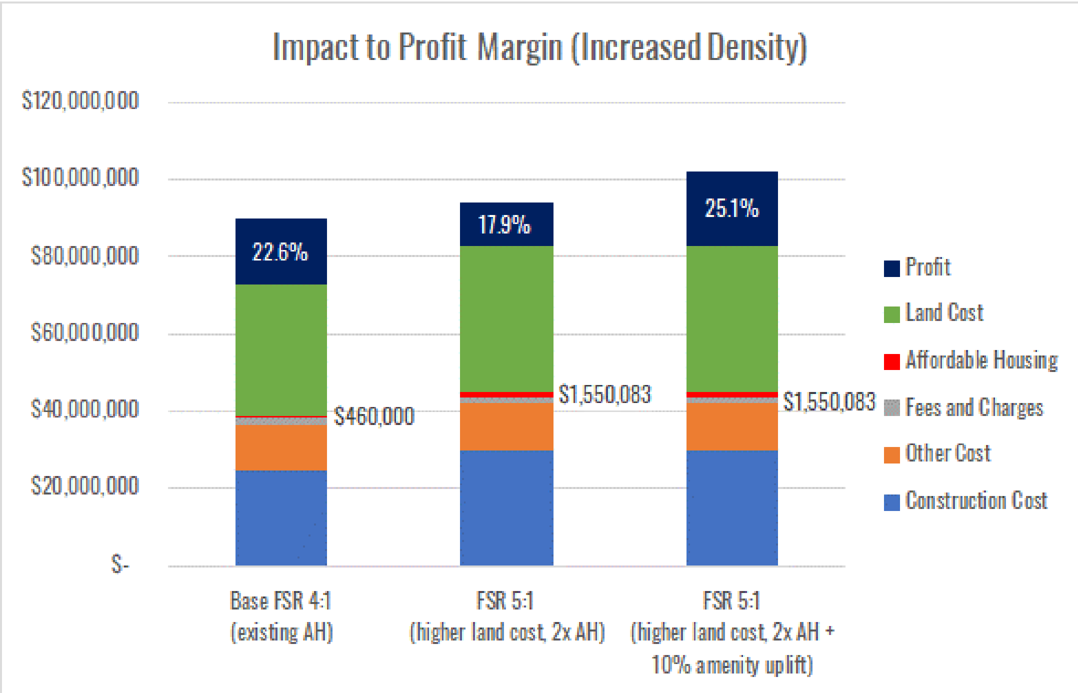
The testing also examines the responsiveness of impact if there were an amenity uplift and consequently lift in overall revenue levels.

The following observations can be made:

- Compared to the preceding two site examples, a rezoning from FSR 4:1 to FSR 5:1 (while more modest) nevertheless results in larger development with greater sales revenue potential.
- After a higher land cost assumption (to reflective of the increased density) ***and*** payment of Tier 1 and Tier 2 AH contributions, the profit margin falls to 17.9%.
- In circumstances where an amenity uplift from improved transport accessibility results in increased revenue levels by 10%, profit margins increase and the AH contributions assumed to be payable are offset.

These observations indicate that sites with greater planning uplift have greater capacity for both tiers of AH contributions. Notwithstanding, the cumulative effect of planning uplift and amenity uplift assist to offset any negative impact.

Figure 4-10: Wentworth Park Residential, Impact of Tier 1+2 AH Contributions on Profit Margin

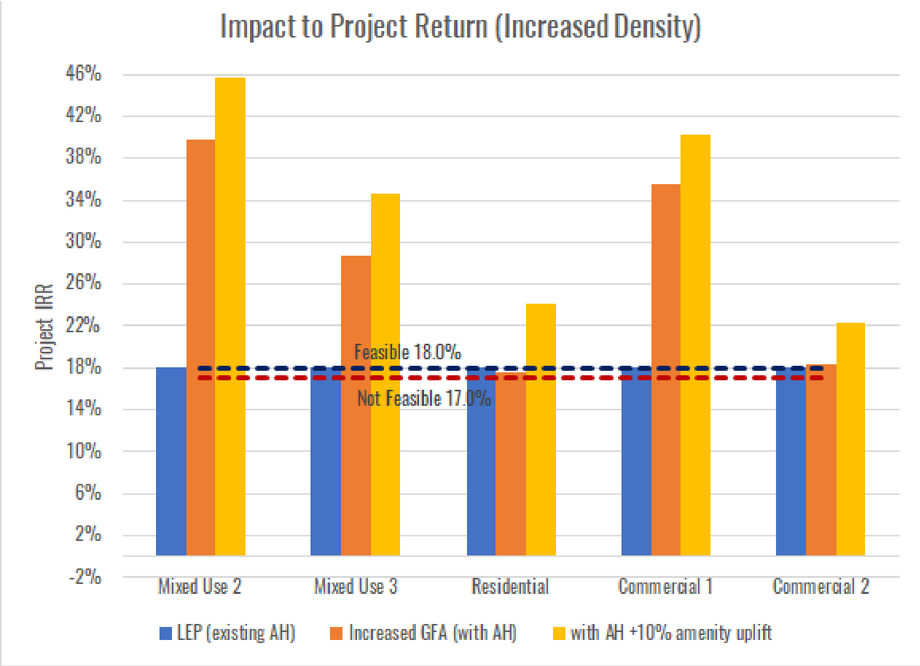


Source: Atlas

Figure 4-8, **Figure 4-9** and **Figure 4-10** considered the impact of Tier 1+2 AH Contributions and a RIC on development margin in a cross-section of land use typologies (Mixed Use, Commercial, Residential) in select sub-precincts in the Study Area.

Figure 4-11 considers the impact on project IRR to the five land use typologies (with increased FSR) tested in the Study Area.

Figure 4-11: Impact of Tier 1+2 AH Contributions on Project IRR



Source: Atlas

The capacity of development to contribute to AH varies across the Study Area. The analysis shows that sites which benefit from significant planning uplift (increased FSR) have better tolerance to Tier 1+2 AH contributions. The effects of an amenity uplift - improved revenue due to improved accessibility (regardless of quantum of increased FSR) results in further improved tolerance of the tested contributions and in most cases offsetting the impact.

4.3 Observations of Impact

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

Contribution impact testing in section 4.2.1 and 4.2.2 assumes all existing fees and charges are payable (including local contributions) and makes the following observations:

- **No Change to Planning Controls**
    - The tested Tier 1 AH contributions are generally tolerated, with feasibility either Feasible or Marginal-to-Feasible.
    - Existing AH contributions are on total floor area, with Tier 1 AH contributions calculated on GFA (net of existing floor area). This can result in minimal Tier 1 AH contributions if proposed GFA does not exceed existing floor area.
    - Where a deepening of market demand is induced by the new Metro station at Pyrmont from an amenity uplift, impact from Tier 1 AH contributions is offset.
- **Change to Planning Controls (increased density)**
    - Tier 2 AH contributions are tolerated, with Surplus Value acting to mitigate any impact.
    - While the Study does not assume land is purchased speculative on the presumption of rezoning, the testing results indicate tolerance notwithstanding a higher price were paid for land.
    - As Tier 2 AH contributions are only payable on ***additional residential GFA***. Accordingly, sites which benefit from ***additional commercial GFA*** are only subject to Tier 1 AH contributions.

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

Table 4-4 compares the impact of both tiers of AH contributions to Surplus Value in various assumed rezoning scenarios.

Table 4-4: Comparison of Impact to Surplus Value in Assumed Rezoning Scenarios

Particulars	Reference	Mixed Use 2	Mixed Use 3	Residential	Commercial 1	Commercial 2
GFA (sqm)	a	10,000	9,000	5,000	5,500	15,000
GFA After Rezoning (sqm)	b	26,000	13,500	6,000	11,000	17,000
Planning Uplift (sqm)	c = (b - a)	16,000	4,500	1,000	5,500	2,000
Residential GFA	d	5,000	4,500	1,000	-	-
Commercial GFA	e	11,000	-	-	5,500	2,000
Site Value Before Rezoning	f	$77,000,000	$69,000,000	$40,000,000	$27,500,000	$75,000,000
Site Value After Rezoning (assuming s7.12 contributions)	g	$186,800,000	$115,300,000	$52,800,000	$58,300,000	$90,100,000
Surplus Value	h = (g - f)	$109,800,000	$46,300,000	$12,800,000	$30,800,000	$15,100,000
Affordable Housing Contributions						
Existing AH Contributions*	i = $32.13/sqm (resi), $46.16/sqm (non-resi)	$335,330	$303,200	$160,650	$253,880	$692,400
Tier 1 AH Contributions^	j = $10,588 x (a - existing GFA)	$1,203,230	$1,089,515	$813,158	$-	$1,101,576
Additional Contributions over Existing	k = (j – i)	$867,900	$786,315	$652,508	($253,880)	$409,176
Tier 2 AH Contributions	l = ($10,588 x d x 12%)	$6,352,800	$5,717,520	$1,270,560	$-	$-
AH Contributions (over Existing)	m = (k + l)	$7,220,700	$6,503,835	$1,923,068	$-	$409,176
% Surplus Value	**n = (m ÷ h)**	**6.6%**	**14.0%**	**15.0%**	**(0.8%)**	**2.7%**
Remaining Surplus Value	o = (1 -n)	93.4%	86.0%	85.0%	100.8%	97.3%

*Existing AH contributions are payable on total floor area

^Tier 1 AH contributions are payable on GFA less existing floor area (existing GFA assumed at FSR 2:1)

Source: Atlas

As a proportion of Surplus Value, the AH contributions in the tested scenarios range from nil to 15%, with those sites that benefit from non-residential planning uplift retaining most of their Surplus Value (as Tier 2 AH contributions are ***not*** required). In some cases Tier 1 AH contributions could be lower than the existing AH contributions that are payable. This is because Tier 1 AH contributions are levied on 'new' floor area.

It is through this Surplus Value that development has the capacity to contribute to other infrastructure (e.g. SIC) and yet remain viable for development. The rationale is that the Surplus Value could erode but development still remain viable.

4.4 Key Findings and Implications

A number of key observations are worth highlighting:

- Due to design of the Tier 1 AH contributions, they could be lower (as they are calculated net of existing floor area) than existing AH contributions (which are calculated on total floor area) under the City West Program.
- The tested Tier 1 AH contributions are generally tolerated in part because AH contributions already apply in the Peninsula, with feasibility either Feasible or Marginal-to-Feasible. Key to mitigating feasibility impacts is notice. Supportive market conditions also assist with offsetting the impact.
- If a development without a Tier 2 AH contribution (but with Tier 1 AH contributions) is in the first instance viable, there will be some capacity to contribute ***in addition to*** Tier 1.
- The analysis shows that were market demand to deepen in response to improved accessibility from the Metro station, leading to an amenity uplift, higher revenues act to offset the additional AH contributions regardless of planning change.

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value. It is through this value increase (or Surplus Value) that a site will have the capacity to contribute to AH while remaining viable for development. Surplus Value is the difference between the assumed cost of land and development site value without AH contributions.

The analysis demonstrates that tolerance to AH contributions is directly related to the ***quantum*** of planning uplift. Using the examples in **Table 4-4**, this can be illustrated by the following notional sites:

- Mixed Use 1 (planning uplift of 16,000sqm or +260%) - after AH contributions, retains 93.4% of its Surplus Value.
- Mixed Use 2 (planning uplift of 4,500sqm or +150%) - after AH contributions, retains 86.0% of its Surplus Value.

Sites that are the beneficiary of commercial planning uplift are not subject to Tier 2 AH contributions and would accordingly retain higher proportions of its Surplus Value.

While the impact testing and illustrated scenarios in **Table 4-4** indicate remaining capacity for development to contribute to other infrastructure (e.g. SIC), it would be important to ensure that any additional contributions requirement (whether for AH, local or state/ regional infrastructure) does not erode the Surplus Value to the extent that development is no longer viable. This rewards the developer/ investor for their entrepreneurial effort and investment risk.

The impact testing is consistent with the Greater Sydney Region Plan that recommends target Affordable Housing contributions of 5%-10% of new residential floor area, subject to viability testing and parameters that are tailored to individual areas. The requirement for viability testing implies that viable Affordable Housing rates could fall outside the recommended 5%-10% range.

Impact of COVID-19

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

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

Land use markets in the Pyrmont Peninsula are generally desirable locations for investment and are well placed to be resilient in the wake of COVID-19. On balance, we expect the foregoing AH contribution rates will be tolerated when they are eventually made.

5. Conclusion and Recommendations

5.1 Development Feasibility

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

Residential uses are generally a more valuable use (on a dollar rate per square metre). Planning incentives will therefore be required to encourage commercial uses where both are permissible in a land use zone.

If development is not feasible in the first instance, the issue of additional contributions (even business-as-usual contributions) is moot. The impact testing assumes that development as a starting point (without AH contributions), is feasible.

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

Contribution impact testing finds that:

- Tier 1 AH contributions are generally well tolerated, in part because AH contributions already apply in the Peninsula.
- Sites that are the recipients of residential planning uplift benefit from an increase in site value and consequently carry Surplus Value. The capacity of development to contribute to Tier 2 AH is from this Surplus Value.
- As Tier 2 AH contributions are only payable on ***additional residential GFA***, thereby not relevant for sites which benefit from additional commercial GFA. Those sites would only be subject to Tier 1 AH contributions.
- Impact testing shows that Tier 2 AH contributions are tolerated, with Surplus Value declining by between nil and 24% (development yet remaining viable).
- After payment of both tiers of AH contributions, the tested scenarios show there is remaining capacity for development to contribute to other infrastructure (e.g. SIC).

Notwithstanding impact from various contributions (even though minor), careful staggering and phasing-in will be necessary.

5.2 Recommendations

There is an opportunity for meaningful AH outcomes to be delivered in the Peninsula (through key sites, other sites which could be the beneficiary of planning uplift and through improved market desirability from an amenity uplift).

In a business-as-usual scenario (no rezoning), advance notice is key to offsetting impact with natural market cycles also assisting to offset impact. In a rezoning scenario, impact to feasibility is tested to be much less (if any).

The Study recommends steps are taken to implement the City's AH Program in the Peninsula. This would involve requiring:

- Tier 1 AH contributions pursuant to clause 7.13 of the LEP.
- Tier 2 AH contributions (12%) applicable to ***additional residential GFA*** the result of a rezoning.

The Study highlights the opportunity from an AH policy perspective, to examine the viability of requiring Tier 2 AH contributions on ***additional commercial GFA*** the result of a rezoning.

The Study recommends that advance notice (at least 12 months) of Tier 1 AH contributions is provided to the market with savings provisions applying to applications lodged during this time. This would allow:

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

Tier 2 AH contributions do not require notice of similar magnitude as Tier 1 AH contributions given they (Tier 2) are only applicable on sites where there is planning change as result of a planning proposal.

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

Even though the Study is tasked with reviewing the opportunity for AH contributions and its implementation implications, it is necessary for the Study to also consider implications of the SIC proposed in the Peninsula. The impact testing shows that in instances where there is planning change, after payment of existing fees and charges (including local contributions) and AH contributions, there is remaining scope for other infrastructure contributions (e.g. SIC). Notwithstanding, staging of the various contributions is important to avoid a 'layering of charges' that could undermine investment confidence.

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

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

Clear and definitive notice to the market of intentions to implement AH contributions and SIC would provide certainty for investment and development planning. Over time, market dynamics will adjust as the market accounts for the cost of the various charges. It is therefore critical for the various rates to be clearly articulated so that parties are informed at the outset and able to make informed decisions on site purchase.

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

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Schedules

SCHEDULE 1

Generic Feasibility Testing Assumptions

Project Timing

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

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

Development Yields and Scenarios

Table S1-1 summarises the areas selected and the respective notional development typologies (mixed use development and residential flat building) for contribution impact testing.

Table S1-1: Sub-precincts, Notional Developments and Scenarios Tested

Site.	Sub-precinct	Development Type and Contributions Tested	Development Type and Contributions Tested
1	Wentworth Park	Mixed use development Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Mixed use development Retained at FSR 4:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential)
2	Wentworth Park	Residential flat building Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential)	Residential flat building Increased to FSR 5:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% additional residential)
3	Darling Island	Mixed use development Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Mixed use development Increased to FSR 10:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% additional residential)
4	Pyrmont Village	Commercial-only development Base FSR 2:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Commercial-only development Increased to FSR 4:1 • All Base Case fees and charges • Tier 1 AH contributions (1% non-residential) • Tier 2 AH contributions (12% additional residential)
5	Pirrama	Mixed use development Base FSR 4:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (0.8% residential, 1.1% non-residential)	Mixed use development Increased to FSR 6:1 • All Base Case fees and charges • Tier 1 AH contributions (3% residential, 1% non-residential) • Tier 2 AH contributions (12% additional residential)
6	Pirrama	Commercial-only development Base FSR 6.5:1 • All applicable fees and charges, including s7.12 contributions (3%), AH contributions (1.1% non-residential)	Commercial-only development Increased to FSR 7.5:1 • All Base Case fees and charges • Tier 1 AH contributions (1% non-residential) • Tier 2 AH contributions (12% additional residential)

Source: Atlas

A nominal 5%-10% of non-residential floorspace is assumed to be provided on the ground floor of a mixed use development, with residential units in the levels above. A residential flat building is assumed to comprise 100% residential uses, a commercial-only development is assumed to comprise 100% commercial uses.

Table S1-2 outlines the unit mix and internal area assumptions (based on research and observations of development activity).

Table S1-2: Residential Unit Mix and Parking Assumptions

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

Source: Atlas

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

Revenue Assumptions

Average end sale values are adopted based on market research and analysis. Residential revenue assumptions are based on NSA (net saleable area/ lettable area) and detailed in Table S1-3.

Table S1-3: Residential Revenue Assumptions

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

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

Other revenue assumptions:

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

Cost Assumptions

- Assumed cost of land based on applicable planning controls, informed by desktop research.
- Legal costs, valuation and due diligence assumed at 0.5% of land price and stamp duty at NSW statutory rates.
- Construction costs are estimated with reference to past experience and cost publications:
    - Retail and commercial construction (warm shell) assumed at $3,000/sqm of building area
    - Residential construction assumed at $3,000/sqm to $4,000/sqm of building area, balconies at $1,000/sqm.
    - Basement car parking at $55,000 per car space.
- Provisional allowance for:
    - Site works at 2% of construction cost
    - Lead-in and services infrastructure at 2% of construction cost
- Professional fees at 10% of construction costs expensed 5.5% (pre-construction) and 4.5% (during construction).
- Development management fee of 2%.
- Construction contingency at 5%.
- Statutory fees:
    - DA fees of 1% and CC fees of 0.5% of construction costs.

- Long service levy of 0.35% of construction costs.
- s7.12 contributions at 3% of development cost greater than $200,000.

- Finance costs:
  - Land value assumed as equity contribution with balance funded at interested capitalised monthly at 6% per annum.
  - Establishment fee at 0.35% of peak debt.

Hurdle Rates and Performance Indicators

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

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

The following benchmark hurdle rates are assumed.

Table S1-4: Performance Indicators and Target Hurdle Rates

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

Source: Atlas

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