

RELEVANT INFORMATION FOR THE CENTRAL SYDNEY PLANNING COMMITTEE

FILE: S108285 **DATE:** 25 March 2015
TO: Members of the Central Sydney Planning Committee
FROM: Graham Jahn, Director City Planning, Development and Transport
SUBJECT: Information Relevant To Item 9 - City of Sydney Employment Lands
Planning Proposal and Draft Sydney Development Control Plan 2012
Amendment and Affordable Housing Program - At the CSPC - 26 March
2015

Recommendation

That the members of the Central Sydney Planning Committee note the information contained in this memo.

Purpose

To provide comment on a late submission by Goodman Australia (Goodman) prepared by Deloitte Access Economics (Deloitte) and based on a development scenario provided by Goodman.

To note receipt of *Urbanisation of South Sydney* by Goodman with input from Erin Saunders of Urban Advisory Services.

Background

Deloitte has prepared a report for Goodman on the potential economic benefits of allowing market residential into the southern employment lands through 'mixed-use' zoning. Goodman is a significant land owner in the area and has recently purchased the Sydney Corporate Park site, the largest single landholding in the area.

The Goodman submission with attachments was provided by the City of Sydney's (CoS) document management unit to the relevant Council officers on Tuesday 17 March 2015 (after briefing). It is not captured in the submissions assessed in the report to the Planning and Development Committee which was submitted to Secretariat on 9 March 2015.

The City has been working with the Department of Planning and Environment and UrbanGrowth to deliver enhanced housing and enterprise business capacity in the former industrial lands of South Sydney. In the main, the housing component of development will be concentrated in the 278 ha Green Square Urban Renewal Area (Green Square) in a B4 Mixed Use zone. The projected population of Green Square is 53,100 at a density of 19,100pp/km². This long-term plan, anchored by a heavy rail station and substantial investment in community infrastructure, has seen existing businesses displaced as residential is built.

In concert, an enhanced business and service focus is to be provided within the adjoining 265 ha Southern Employment Lands (SEL). The Employment Lands Planning Proposal proposes zoning for a diverse range of industrial and enterprise business types. To survive against residential development, these uses typically require different ground rents and contextual compatibilities than otherwise available in a mixed use zone. Studies to date acknowledge that as a result of rezoning some warehouse, transport and freight industries will likely relocate over time to be replaced with higher order business enterprises, such as education, creative industries, artisan foods and distribution centres serving the CBD and the east.

The proposed zoning generally reflects the recommendations of the Employment Lands Study by SGS Economics and Planning, including:

- A significantly reduced area zoned “**IN1 Industrial**” for 24/7 industrial uses, such as concrete batching plants, metalwork shops, repair shops and heavy depots along Alexandra Canal.
- A large central area zoned “**B6 Enterprise Corridor**” for a wide range of 24/7 commercial and community activity, including business premises, such as offices, creative studios, exhibition spaces; shops; child care centres; hotels and motels; community facilities; depots; recreational and entertainment uses, such as gyms, small bars and restaurants; light and high tech industrial uses, and warehousing and distribution centres. No residential development is permitted.
- Smaller pockets in the north and the south-east zoned “**B7 Business Park**”. This zone will continue to permit most of the wide range of uses permitted in the B6 zone above, but will prohibit those uses that are generally not compatible with residential uses, such as depots.

In addition to serving a wide range of current and future business needs, it is proposed to permit residential dwellings in the B7 zone. Affordable housing will be permitted ‘as of right’ and in ‘investigation areas’ a managed mixed-use model is proposed which allows both market and affordable housing to be achieved by site specific planning proposal requests.

As above, the Planning Proposal is evidence-based. It has been prepared on the recommendations of the Employment Lands Study which was commissioned by the City and co-funded by the Department of Planning and Environment. Additional technical studies were also undertaken, including an economic study by Hill PDA, transport study by Jacobs SKM, and Urban Design Analysis and an Affordable Housing Needs Analysis by the CoS. This evidence-base is far more detailed than the Goodman submission.

The Goodman submission:

- overstates differences between the SGS recommendations and zoning proposed by the City, in particular in the ‘investigation areas’ where the proposed mixed use approach will support the wider growth of the SEL and better meet Council’s own *Sustainable Sydney 2030* targets for affordable housing;
- agrees the SEL area is good for employment and new business growth in new industries, but only admits this in the context of the Goodman mixed-use model with significant residential uplift;
- does not address the imbalanced contest between residential site values compared to all other uses. Where B4 mixed-use currently exists in the former Green Square industrial areas, land has been converted to between 90-100% residential use. There is significant developer resistance to providing even the basic ground floor

retail provisions. This would indicate that the 50,000 - 75,000 jobs target proposed by the Goodman submission in a Mixed Use zone is not plausible;

- does not assess the economic benefit of the SGS/CoS proposal to support new business and services in the Global Economic Corridor (which is not a Global Housing Corridor);
- does not take into account the future service and employment needs of the Green Square residential population as it forms; and
- provides no spatial basis to evidence the supposed yields of 50,000 jobs (75,000 in one document) and 30,000 dwellings (57,000 residents) which, in turn, have been used by Deloitte for economic benefit calculations.

Deloitte Report

The SEL are the last remaining employment areas in the Local Government Area. The Deloitte report suggests that mixing residential and employment uses together will deliver on both the housing and employment goals of the NSW Government's *Plan for Growing Sydney*. The report does not address whether existing strategically located employment land in the Global Economic Corridor needs to be protected in any way from the market forces of residential redevelopment, noting only that the displacement of traditional heavy freight uses to the west should occur. It sets out in the Executive Summary three economic consequences of a mixed-use scenario (ie, permitting housing throughout):

1. The value of reduced travel times for new residents travelling to the CBD or local employment compared to living elsewhere and the value of avoided emissions and road wear.
2. Improved efficiency of freight by relocating freight-related businesses to the west with the suggested benefit lying in the use of more productive (B-Double) freight-related vehicles and bringing supply chains together.
3. Stamp duty, rates and other payments to governments although this is acknowledged by Deloitte as not being a direct economic benefit as these are 'transfer payments' that would happen wherever development takes place and are normally excluded in a cost benefit analysis.

As above, SGS's recommendations are misrepresented in the Deloitte report. SGS argues for a predominantly mixed-business outcome with some mixed-use (which includes residential development) at the north and south periphery of the SEL. It does not argue the mixed-use outcome across the entirety of the SEL which is proposed by the Deloitte report. Where CoS proposed zoning varies from the SGS recommendations only in that market housing resulting in the SGS proposed mixed use areas should also include affordable housing.

In relation to point 1 of the Deloitte report, the value of hypothetically reduced travel times for 57,000 additional residents assumed to be going to the CBD to work in finance and professional services has not been evaluated against the public cost of avoiding delayed travel times from congestion. There is no consideration of the capacity of the road system to move additional commuters any quicker than a likely alternative location or the public cost of light rail or heavy rail enhancement to carry significantly greater daily commutes. What is certain is that the existing roads and rail service does not have sufficient spare capacity to realise the hypothetical value of reduced travel times for 57,000 additional residents and 50,000 workers.

In relation to point 2, the main methodical weakness in the Deloitte report is that the analysis compares the current situation and mix of businesses and resident workers with a somewhat overstated Goodman-derived mixed-use scenario. It makes no comparison between the enhanced CoS proposed zoning and the Goodman mixed-use model. In either case, the gradual move towards a more mixed-business (as distinct from mixed-use which includes residential) and higher order economy is anticipated. In both cases, more traditional warehousing will adapt or relocate according to their business needs, while new more focused logistics and back of house for high-end retailing, internet sales, archival, distribution, and professional and creative services for the higher value east and CBD markets will take their place.

SGS also envisage a gradual transition in general freight logistics and distribution to the west, with other more productive uses that rely on markets in the east noted above likely to take their place. We have already seen the displacement by residential redevelopment of high-end vehicle sales and workshops from the inner city for high-end brands, such as Porsche, Ferrari, Audi, Mercedes, Maserati, Jaguar and Bentley, as well as many creative, educational, travel and wholesaling related businesses.

In relation to point 3, transfer costs like stamp duty and rates are irrelevant if the Goodman scenario simply replaces development that would occur in another location to this location.

Comment on Goodman mixed-use scenario

The Deloitte report relies entirely on a Goodman-derived development scenario in order to evaluate points 1, 2 and 3 in their Executive Summary. It does not evaluate the SGS/CoS mixed-business scenario as a comparison or benchmark.

The Goodman scenario proposes 57,000 residents (30,000 dwellings with an average occupancy of 1.9 residents per dwelling), in addition to 50-75,000 workers over 200 hectares.

The Goodman scenario envisages the equivalent of three times the office worker population of Barangaroo* in addition to more residents than Green Square within an area that is 78 hectares smaller.

Goodman Mixed Use Model 200 ha (2 km²) (265 ha excluding Canal area and Main Road reserves)	Green Square Urban Renewal Area 278 ha (2.78 km²)
57,000 residents is 28,500pp/km ²	53,190 residents is 19,130pp/km ²
50,000 workers is 25,000 workers/km ² 75,000 workers is 37,000 workers/km ²	22,000 workers is 7,914 workers/km ²

* Barangaroo South will provide about 283,900 m² of office space for about 14,500 workers over 11 ha (1,318 workers/ha) as well as 1,520 residents and 80-100 retail shops.

Both Goodman and SGS conclude that the site would not be competitive for high-rise offices which provide the most compact worker density, so it is implausible that a spatial model could provide for 50-75,000 workers on the site in less dense formats and still provide for a substantial residential population. For comparison, at the current Barangaroo building density (av. 40 storey buildings over 11 ha), 50,000 office workers would require 38 ha land area; or at half the Barangaroo density (20 storey buildings) 50,000 office workers would require 76 ha of land. In this scenario, it would leave 124 ha for 57,000 residents which is a residential density of 46,000pp/km².

According to the ABS in April 2014, the densest locality in any Australian city is Ultimo/Pymont at 14,300pp/km².

The Deloitte reliance on the Goodman supplied development scenario shows a weakness in the scenario definition and the inherent limitations of economists relying on spatial models beyond their area of expertise.

Comment – SGS mixed-use scenario

The 246 page SGS Study analyses a number of land-use scenarios, including:

- Base Case – 2.286 million m² with 17,247 workers and 387 dwellings.
- Residential scenario – 2.286 million m² with 14,260 workers and 6,645 dwellings.
- Commercial scenario – 2.286 million m² with 36,643 workers and 283 dwellings.
- Mixed-economy scenario – 2.286 million m² with 27,502 workers and 854 dwellings.

SGS concluded that the recommended scenario should be the mixed-economy scenario [not mixed-use scenario] because:

“it is consistent with the roles for the area discussed in Section 2 of the strategic context, balances the range of competing uses in the study area discussed in Section 3 and scores highest from a policy perspective against the strategic assessment of employment lands described in Appendix 7.”

SGS goes on to say

“This scenario raises the need for a more comprehensive review of the significance of the industrial areas in general in the subregion. If the main study area is dedicated to a higher order mixed business role, then it is important that other employment land precincts within the inner Sydney area also be protected so that they may play their own role in the subregion and Sydney’s broader economic geography”. [SGS Study p 657].

This means that the depot and batching functions, for example, may in time end up serving subregional needs as the last industrial lands are lost in other LGAs.

Other Comments

The Lachlan Precinct, located in the Green Square, has recently been rezoned for mixed uses residential redevelopment south of Lachlan Street and north of O’Dea Avenue. In making this decision, the Central Sydney Planning Committee paid regard to their strategic intention to provide for business growth in the Southern Employment Lands.

The Goodman scenario is based on a 'genuine' mixed-use zoning intended to deliver significant employment outcomes (50,000-75,000 workers). However, there is no evidence for, or example in the City's south areas, that a redevelopment area zoned mixed-use delivers this proportionate outcome. The current and recent experience in mixed-use zones is that almost 100% of the site results in a residential use, despite employment uses being permitted in the zone. The poor feasibility for non-residential uses is entirely related to land prices paid and the lost revenue against the higher and better use.

In particular, comparable B4 mixed-use zones in the Ashmore Precinct and the Epsom Park Precinct have not delivered any significant employment outcomes because the land is sold at residential land rates. These rates are more than double or triple the values for non-residential uses. Therefore, there is little if any current evidence to suggest that a mixed-use zone for the proposed core business area could deliver any meaningful employment outcome in the face of such powerful land economics.

It is more likely that businesses that serve markets in the CBD and the east (including education and back of house retail, batching plants and depots) will be forced to relocate, reducing rather than increasing the number of jobs available in the area.

The Deloitte report also considers the 'benefits' of displacing the existing worker population to the west based on an analysis of where they are likely to live. The report says that *"evidence suggests that the relocation of industrial jobs to areas with lower industrial rental rates may also improve journey to work times"*. However, the evidence provided in the Report from ABS 2011 data does not appear to back that conclusion, as the top 20 locations for the top three Southern Employment Land industries are indeed close to those lands (including east of the site). This is at variance with calculations in point 1, as the majority of existing workers would have increased costs to travel further afield to relocated businesses.

Figure 3.4: Employed in SIA: Place of Residence (SIA based industries)

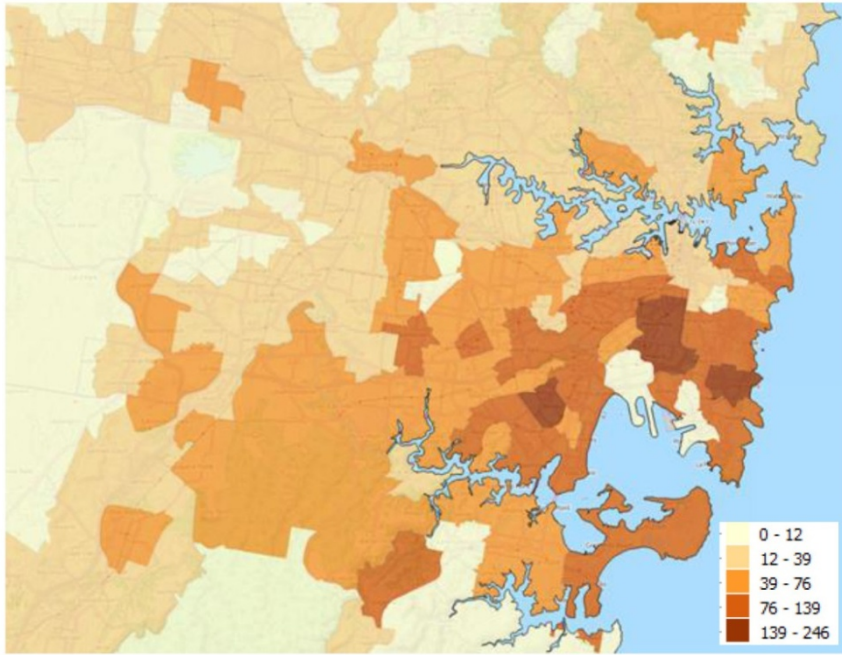
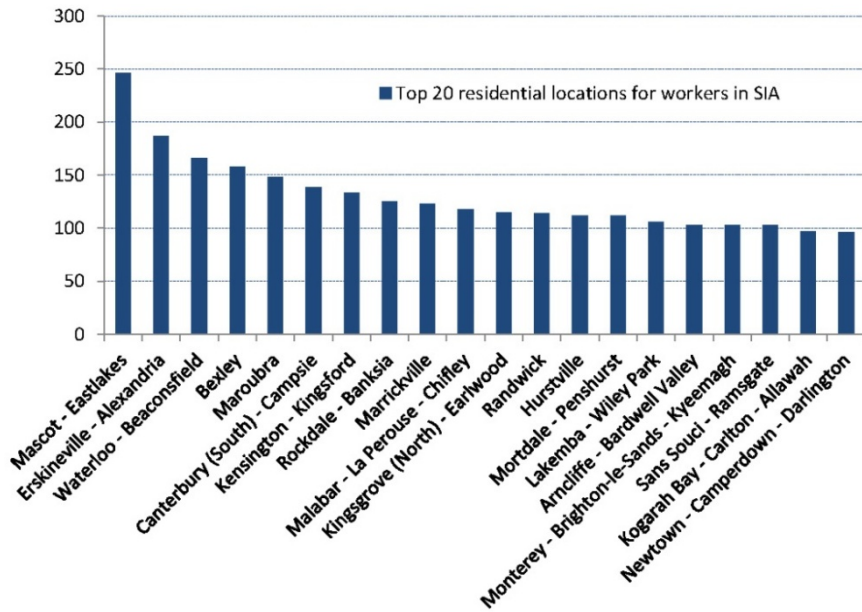


Chart 3.3: Residential location for top three industries of workers in SIA



Affordable housing

The Goodman cover letter accompanying the report notes that an analysis of the proposed affordable housing scheme was undertaken. It is noted, however, that while a table titled *Rosebery Affordable Housing Scenario* was included with the report there is no discussion about what it means, on what site it was based, how the land cost was determined and what conclusions should be drawn from it. It is not possible for the City to make an analysis of Goodman’s assertion that the Affordable Housing program will not work.

The *Urbanisation of South Sydney* power-point attached to the submission mentions a \$100 million affordable housing fund resulting from Goodman's proposed mixed use scheme, although it is not clear how this may be achieved. It is noted, that using the median sale price for a strata dwelling in the most recent NSW Rent and Sales report, this fund provides for the equivalent of 138 affordable housing dwellings, or 0.5 per cent of the 30,000 dwellings proposed by Goodman.

This is on par with the number of dwellings likely to be achieved under the *Employment Lands Affordable Housing Program* levy in the SGS/CoS proposal and considerably less than the estimated 730 dwellings that would potentially result from the Program and site specific planning proposals in the investigation areas together.

Conclusion

The SELs are located in the Global Economic Corridor which stretches from Sydney Airport and Port Botany up to Macquarie Park, including Randwick health and education precincts, Green Square, Sydney CBD, North Sydney, St Leonards and Chatswood. It creates a 'core outside the CBD' (Hutton 2004) that includes not only office spaces and educational facilities, but also industrial lands.

In Melbourne, industrial brown field areas close to the CBD have been transformed into successful employment precincts, which may be one factor contributing to Melbourne's strong economic growth over the past decade. There is the potential for the SEL to help fill this role for Sydney in the future by providing high value employment lands.

Space for economic and productive activity must be protected as the population grows. While passive space for residential living through land conversion is under high levels of production for a future population, productive space for their future jobs and business activities must be preserved for an efficient city. The Southern Employment Lands is within the Global Economic Corridor and its true value to the City will be realised in future years as replacement businesses for Sydney's former manufacturing might are realised.

Delivering on housing, as well as preserving strategic lower value land for the new population's jobs and business needs, is one of the greatest challenges of the *Plan for Growing Sydney*.

There are many locations suitable for residential redevelopment in the inner city areas, with substantial development already in the pipeline, however, few areas remain to provide new residents with the jobs and services they need. The SGS/CoS proposal ensures that services and new business can grow in a strategic location to serve a rapidly increasing population. It recognises that finance and professional sector jobs in the CBD are only one part of the business and employment equation.

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Approved



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