Attachment C

Review of Affordable Housing Contribution Rates - Atlas Urban Economics - October 2024

City of Sydney Affordable Housing Contributions

Review of Contribution Rates

City of Sydney

October 2024

Document Control

Executive Summary

BACKGROUND

The City of Sydney Council (**the City**) has a long history of procuring affordable housing outcomes through development and the planning system. Historically, affordable housing contributions were only required at Ultimo/ Pyrmont and later in the Green Square Urban Renewal Area. The City of Sydney Affordable Housing Program has in recent years been expanded. Effective 1 July 2021, inclusionary zoning contributions are required across the LGA with additional contributions required where there is a rezoning.

The Sydney Local Environmental Plan (2012) (**LEP**) sets out Affordable Housing contributions in clause 7.13 (LGA-wide requirement), 7.13B (site-specific requirement) and 6.70 (Blackwattle Bay requirement). The percentage rates in the LEP are applied to a dollar amount that is set out in the City of Sydney Affordable Housing Program (**the Program**) to calculate an equivalent cash amount required. The equivalent dollar amount per square metre of Total Floor Area (TFA) is $11,176 (1 March 2024 to 28 February 2025) and is based on the Sydney LGA median strata dwelling price.

The Program also provides the background, requirements and operational detail for the Affordable Housing contribution provisions in the LEP that apply in the Sydney local government area (**LGA**).

Table ES-1 summarises the percentage contribution rates that apply in clause 7.13 and 7.13B respectively.

Table ES-1: Percentage (%) Contribution Rates

Land Use	Clause 7.13 Contributions (broad-based)*	Clause 7.13B Contributions (Planning Proposal Land)
Residential	3% x residential TFA	Rate^ applies to new floor area and varies by precinct: • Central Sydney - 13% • West and South precincts - 12% • East precinct - 21%
Non-residential	1% x non-residential TFA	Not applicable

*applies to all floor area in the development, except in Central Sydney and on Residual Land where it applies to new or more intensely used floor area
^inclusive of broad-based contribution requirements under clause 7.13
Source: City of Sydney (2023)

To ensure that contributions received under the Program deliver on the intended Affordable Housing outcomes, the City seeks to understand if the current contribution settings are appropriate, or if alternate rate settings should be considered.

Atlas Economics (**Atlas**) is engaged by the City to carry out a review of the Affordable Housing Contribution rates (**the Study**). The Study considers the viability of various rates in the context of development feasibility and supply.

PURPOSE AND APPROACH

The overarching objective of the Study is to identify if current rates are appropriate, if alternate rates are required and the implications that result from the implementation of alternate rates. The Study Area is the Sydney LGA which is comprised of various contribution precincts, including:

- Central Sydney (**Central**): Sydney CBD.
- East precinct (**East**): Surry Hills, Darlinghurst, Potts Point, Elizabeth Bay, Woolloomooloo and Rushcutters Bay.
- West precinct (**West**): Pyrmont, Glebe, Forest Lodge, Newtown and Enmore.
- South precinct (**South**): Alexandria, Beaconsfield, Redfern, Waterloo, Zetland, Eveleigh, Rosebery and Erskineville.

To fulfil the requirements of the brief the Study undertakes the following:

- Examines the cost of procuring/ delivering on-site housing against the equivalent monetary contribution that would be received under the current rates and if it delivers on the Program's objectives.
- Tests alternate rates and their impact on development feasibility.
- Considers if alternate rates would result in adverse impact to development supply.

CURRENT v ALTERNATE CONTRIBUTION RATES

Deliverability of Housing Objectives

The Study observes a residential price hierarchy:

- The pricing of new stock can achieve a premium of 30% over existing (old) stock.
- Residential pricing in the East and Central precincts is much higher as luxury product is increasingly delivered. By and large, residential product in the South and West precincts is positioned at the middle end of the market.

The price spread for existing median priced strata units is within a relatively 'tight' range - $8,000/sqm GFA to $14,000/sqm GFA. The spread for new residential units is however much wider - $12,500/sqm GFA to $45,000/sqm GFA due to the increasing prevalence of luxury product in some markets (in particular the East and Central precincts).

The current dollar rate ($11,176/sqm of TFA) is based on the Sydney LGA median strata unit price. It enables purchase of median priced (older) residential strata stock in the LGA, but not new residential units. This difficulty is greatest in the East and Central precincts where the current rate is equivalent to a fraction (circa 25%) of new residential prices.

Additionally, the current flat rate results in a disproportionate burden on development. 'Lower value' areas contribute a greater proportion of revenue compared to 'higher value' areas in the Central and East precincts.

There is accordingly a case for the City to consider alternate dollar rates that would be more aligned to the delivery of new housing outcomes across the various precincts.

Alternate Rate Geography Options

The Study considered alternate dollar rates that could be implemented according to the following geographies:

- An LGA-wide dollar rate to reflect the 'best fit' of new residential unit prices.
- Individual dollar rates to apply in various suburbs/ postcodes within the LGA.
- Dollar rates to apply in each of the four contribution precincts (Central, East, West, South).

While dollar rates developed at the suburb/ postcode level would represent a precise alignment between the equivalent dollar contribution and the intent of the Program, the approach lacks simplicity and poses a heavier administrative burden.

At the other end of the spectrum, a single LGA-wide rate would be simple to administer, but equally, similar to the present approach there would still be challenges for the delivery of housing outcomes in high-cost areas in the East and Central precincts. There would additionally be a disproportionate burden on developments in lower priced areas.

The Study finds a precinct-based approach to developing the dollar rates to be preferable, balancing simplicity and precision.

Clause 7.13 Contributions

The Study recommends amending the dollar rate to a precinct rate that reflects the value of new residential units. There would be no change to the percentage contribution rate in clause 7.13 - 1% (non-residential) and 3% (residential).

The Study additionally recommends specifying dollar rates based on $/sqm GFA (not $/sqm TFA). It would simplify the development assessment process where GFA is a lodged metric of development.

The move away from a flat dollar rate to precinct dollar rates is intended to reflect the pricing hierarchy. The approach seeks to achieve an equitable outcome - that regardless of location, developments make the same proportional contribution (%).

Clause 7.13B Contributions

The Study recommends amending the dollar rate to the same precinct rates as clause s7.13 as well as simplifying the multiple percentage contribution rates in the Program to a uniform 20% residential rate for all precincts.

A uniform percentage rate with the equivalent monetary contribution differentiated by a precinct dollar rate to reflect the residential pricing hierarchy across the LGA seeks to achieve an equitable outcome across the LGA. That is, regardless of location, Planning Proposal land makes the same proportion (%) of Affordable Housing contributions per additional GFA enabled by a planning proposal.

In the commercial office sector, structural trends continue to change how users perceive and demand space. In a post-COVID environment, businesses and employees have much higher expectations of their workplaces, generally seeking high-amenity and high-quality spaces. This underpins demand for contemporary space and an opportunity for commercial space in Central Sydney enabled by a planning proposal to contribute to Affordable Housing.

POLICY RECOMMENDATIONS

Equivalent Dollar Rates by Gross Floor Area (sqm)

The Study recommends transitioning away from dollar rates applied to TFA to dollar rates applied to GFA. This is because:

- It is easier for the market to understand (given that apartments are generally traded on $/sqm internal rates). Internal rates could be converted to $/sqm GFA by adopting a generic efficiency factor.
- It would simplify the development assessment process where GFA is a lodged metric of development.

A contribution based on GFA rates does not remove the requirement for ancillary areas (in an in-kind contribution). If a 'standard' apartment has a balcony, car space, storage area, etc., these areas should form part of the in-kind contribution.

Precinct-based Rates and Phasing-in

The Study recommends precinct-based rates and a phasing-in over four years from adoption by Council of the proposed changes to the LEP and Program. By this time the proposed changes would have been publicly exhibited, Council would have made its decision and the market would have received clear notice of the intended changes to the dollar rates.

Table ES-2: Recommended Implementation of New Rates

Contribution	% Rate	Equivalent Dollar Rate ($/sqm GFA)^	Phasing-in (from Council adoption)^
Clause 7.13*	• 1% non-residential (no change) • 3% residential (no change)	• Central - $17,500 • East - $20,000 • West - $15,000 • South - $12,500	Start Year 1 and 2 - 0% Start Year 3 and 4 - 50% Start Year 5 - 100%
Clause 7.13B**	• 20% residential (all precincts) • 2% non-residential (Central precinct only)		

*applicable on total GFA except in Central Sydney and Residual Land where the % requirement is applied to new and more intensely used floor area

**applicable on new/ additional GFA which is achieved/ enabled by a planning proposal

^indexed annually in accordance with the method of indexation set out in the City of Sydney Affordable Housing Program

^^full implementation of Affordable Housing rates in 4 years (after the formal exhibition and adoption by Council of changes)

Source: Atlas

Table ES-3 illustrates the transition from current TFA rates to alternate GFA rates over a four-year period.

The calculations are based on the current dollar rates (column a) which are converted to an equivalent GFA rate (column b). The eventual rates would be based off the prevailing 'current' rates when the LEP is made.

Table ES-3: Example Transition of Equivalent Dollar Rates (from 1 March 2024 rates)

Precinct	Current Rates (1 Mar 24 to 28 Feb 25)		Alternate Rates ($/sqm GFA)	
	(a)	(b) = (a x 1.1)	End of Year 2 (c) = [b + ((d – b) x 50%)]	End of Year 4* (d)
Central	$11,176	$12,294	$14,897	$17,500
East	$11,176	$12,294	$16,147	$20,000
West	$11,176	$12,294	$13,647	$15,000
South	$11,176	$12,294	$12,397	$12,500

*the recommended rates (in $2024 terms) are not indexed to the year of implementation

The Study is aware of the City's desire to encourage and enable BtR housing and co-living developments as asset classes to establish. While the implementation of new Affordable Housing rates is introduced over several years, a moratorium for BtR and co-living could be considered wherein the current rates still apply during the implementation period.

IMPACT ON DEVELOPMENT FEASIBILITY AND SUPPLY

The Study acknowledges that a number of headwinds currently make it very challenging for development to be feasible. This is a result of the cumulative influence of high existing-use values (and therefore the cost to consolidate a development site), elevated construction costs and relatively soft end sale values of completed product.

Higher contributions are unlikely to be tolerated by many developments today. As the economic environment stabilises, the phased introduction of Affordable Housing contributions would give development markets the opportunity to adjust.

Engine Room of Growth

The impact of any new development contribution including alternate Affordable Housing contributions on development feasibility is particularly relevant where the impact is substantial, therefore presenting an impact on future supply. The issue of impact on feasibility is therefore critical in areas planned for large scale development supply.

Dwelling projections indicate the Sydney LGA could accommodate more than 40,000 additional dwellings by 2041. The South precinct is the engine room of growth and is expected to account for the largest share of new housing at 45%. This is followed by the East precinct at ~25% and the Central and West precincts at ~15% each.

The Study understands that the majority of development supply is from development applications (rather than planning proposals). The rate settings of clause 7.13 contributions are therefore critical. In contrast, planning proposals are in and of themselves risky. Proponents would be aware that amendments to planning controls sought are not a given.

Tolerance to Alternate Contribution Rates

The Study tests a worst-case scenario - where land is purchased at a price that does not reflect the higher obligations of the contribution rates. In those circumstances, the testing shows that a gradual phasing-in over four years allows for real revenue growth to offset the impact to feasibility.

In circumstances where the market has advanced notice and due diligence and site negotiations result in land being purchased at a price that is reflective of the alternate rates, development feasibility can be preserved.

If the cost of land is given the opportunity to adjust, i.e. a lower price is paid for land, the combination of the lower cost of land, gradual introduction ***and*** real revenue growth completely offset any impact. Even if the price paid for land does not account for the alternate rates, the combination of phasing-in ***and*** real revenue growth generally offset the impact.

The contribution impact testing makes the following critical observations:

- The phasing-in of the alternate Clause 7.13 precinct rates ($ rates) at end of Year 2 at 50% results in a relatively minor impact on feasibility. By full implementation (end of Year 4), natural market growth offsets any impact.
- The phasing-in of the alternate Clause 7.13B precinct rates ($ rates and % rates) at end of Year 2 at 50% results in a relatively minor impact on feasibility. By full implementation (end of Year 4), any impact is offset.

With notice, developers have the opportunity to pay a price for land that reflects the various fees and charges that are payable. The rationale for gradual implementation is so that land values (and landowner expectations) adjust gradually.

Contributions In-kind (Completed Dwellings)

The implementation of new Affordable Housing rates would make the contribution rates more equivalent to in-kind contributions, potentially leading to more contribution of completed dwellings. Depending on the size of the development, the contribution of dwellings could be nominal (one or two dwellings).

While the contribution (dedication of dwellings) would be 'quick' (i.e. delivered alongside development), the Study recommends the City consult extensively with CHPs to understand their operational requirements and appetite to receive strata-titled dwellings that are dispersed across the LGA and that could include luxury product. This could lead to further detail provided in the Program about the acceptability of in-kind contributions.

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Schedules

Terms and Abbreviations

Terms

Build-to-rent housing	Build-to-rent housing is large scale, purpose-built rental housing that is held in single ownership and professionally managed.
Co-living housing	Co-living housing is a compact form of rental accommodation where communal facilities and shared spaces are provided for within a development.
New floor area	The additional GFA achieved by a planning proposal on land zoned for residential purposes. If the whole of the site is restricted to a non-residential purpose, refers to the total GFA.
Planning Proposal land	Land that has been the subject of a planning proposal to change the planning controls that apply to the site to increase development capacity. Planning Proposal land is identified in the Sydney Local Environmental Plan 2012 or other environmental planning instrument.
Residual land	Land in the LGA other than in Central Sydney, Ultimo/ Pyrmont, Green Square Urban Renewal Area and Southern Employment Lands.
Study Area	Sydney LGA

Abbreviations

BtR	Build-to-rent housing
CHP	Community Housing Provider
DCJ	Department of Communities and Justice
EP&A Act	Environmental Planning and Assessment Act 1979
EPI	Environmental planning instrument
GFA	Gross floor area - which is the sum of the floor area of each floor of a building measured from the internal face of external walls, or from the internal face of walls separating the building from any other building, measured at a height of 1.4 metres above the floor, and includes mezzanine areas, habitable rooms in a basement or attic and any shop, auditorium, cinema, and the like in a basement or attic. GFA excludes *inter alia*, terraces and balconies with outer walls less than 1.4 metres high.
Housing SEPP	State Environmental Planning Policy (Housing) 2021
HPC	Housing and Productivity contributions
LAHC	Land and Housing Corporation
LEP	Sydney Local Environmental Plan 2012
LGA	Local government area
NSA	Net saleable area
RFB	Residential flat building
SEPP	State Environmental Planning Policy
TFA	Total floor area - which is the total area of each floor of a building within the outer face to the external walls and includes balconies
The Program	The City of Sydney Affordable Housing Program

1. Introduction

1.1 Background

The City of Sydney Council (**the City**) has a long history of procuring affordable housing outcomes through development and the planning system. Historically, affordable housing contributions were only required at Ultimo/ Pyrmont and later in the Green Square Urban Renewal Area. The City of Sydney Affordable Housing Program has in recent years been expanded.

Effective 1 July 2021, inclusionary zoning contributions are now required across the LGA with additional site-specific contributions required through a planning agreement where there is a rezoning.

The *Environmental Planning and Assessment Act 1979* and *State Environmental Planning Policy (Housing) 2021* enable the imposition of Affordable Housing contributions and specify the manner in which the contributions are to be applied.

Definition of Affordable Housing

“Affordable Housing” is defined in the Environmental Planning and Assessment Act 1979 (**EP&A Act**) as “*housing for very low income households, low income households or moderate income households, being such households as are prescribed by the regulations or as are provided for in an environmental planning instrument*”.

Section 7.32 permits requiring land or contributions for Affordable Housing if a SEPP identifies there is a need for Affordable Housing within the area. The relevant SEPP is State Environmental Planning Policy (Housing) 2021 (**Housing SEPP**) that identifies a need for affordable housing in the LGA.

Clause 13 of the Housing SEPP defines Very Low, Low and Moderate income households as being:

- Households whose gross incomes are within specified ranges and pay no more than 30% of gross income in rent, or
- Households that are eligible to occupy rental accommodation under the National Rental Affordability Scheme (NRAS) and that pay no more rent than would be charged under the NRAS. The rent charged for a dwelling in NRAS must be at least 20% less than the market value rent for the dwelling.

Affordable Housing Contributions

The Sydney Local Environmental Plan (2012) (**LEP**) sets out Affordable Housing contributions in clause 7.13 (LGA-wide requirement), 7.13B (site-specific requirement) and 6.70 (Blackwattle Bay requirement).

The percentage rates in the LEP are applied to a dollar amount that is set out in the City of Sydney Affordable Housing Program (**the Program**) to calculate an equivalent cash amount required. The equivalent dollar amount per square metre of Total Floor Area (TFA) is $11,176 (1 March 2024 to 28 February 2025) and is based on the Sydney LGA median strata dwelling price.

The Program also provides the background, requirements and operational detail for the Affordable Housing contribution provisions in the LEP that apply in the Sydney local government area (**LGA**).

Table 1-1 summarises the percentage contribution rates that apply in clause 7.13 and 7.13B respectively.

Table 1-1: Percentage (%) Contribution Rates

Land Use	Clause 7.13 Contributions (broad-based)*	Clause 7.13B Contributions (Planning Proposal Land)
Residential	3% x residential TFA	Rate^ applies to new floor area and varies by precinct: • Central Sydney - 13% • West and South precincts - 12% • East precinct - 21%
Non-residential	1% x non-residential TFA	Not applicable

*applies to all floor area in the development, except in Central Sydney and on Residual Land where it applies to new or more intensely used floor area
^inclusive of broad-based contribution requirements under clause 7.13
Source: City of Sydney (2023)

The City of Sydney Affordable Housing Program (**the Program**) provides the background, requirements and operational detail for the Affordable Housing contribution provisions that apply in the Sydney local government area (**LGA**). The contribution rates (% and dollar equivalent) were informed by economic feasibility testing undertaken in 2016 and 2020.

To ensure that contributions received under the Program deliver on the intended Affordable Housing outcomes, the City seeks to understand if the current contribution settings are appropriate, or if alternate rate settings should be considered.

Atlas Economics (**Atlas**) is engaged by the City to carry out a review of the Affordable Housing Contribution rates (**the Study**). The Study considers the viability of various rates in the context of development feasibility and housing supply.

1.2 Scope and Approach

The Study undertakes the necessary research, analysis and modelling to consider:

- The alignment/ equivalence of current Affordable Housing rates (% and $ equivalent) with the desired contribution under the Program, or if alternate rates (% and $ equivalent) are required.
- If required, how alternate rates (% and $ equivalent) could be implemented, balancing simplicity of administration and precision.
- Implications of alternate rates (% and $ equivalent) for development feasibility and housing supply in the Sydney LGA.
- Policy considerations for Affordable Housing contributions.

The overarching objective of the Study is to identify if current rates are appropriate, if alternate rates are required and the implications that result from the implementation of alternate rates.

Study Area

The Study Area incorporates the Sydney LGA which is comprised of various contribution precincts (for s7.11 and affordable housing levies). Central Sydney is subject to Central Sydney Development Contributions Plan (2020) while the rest of the LGA is subject to the City of Sydney Development Contributions Plan (2015).

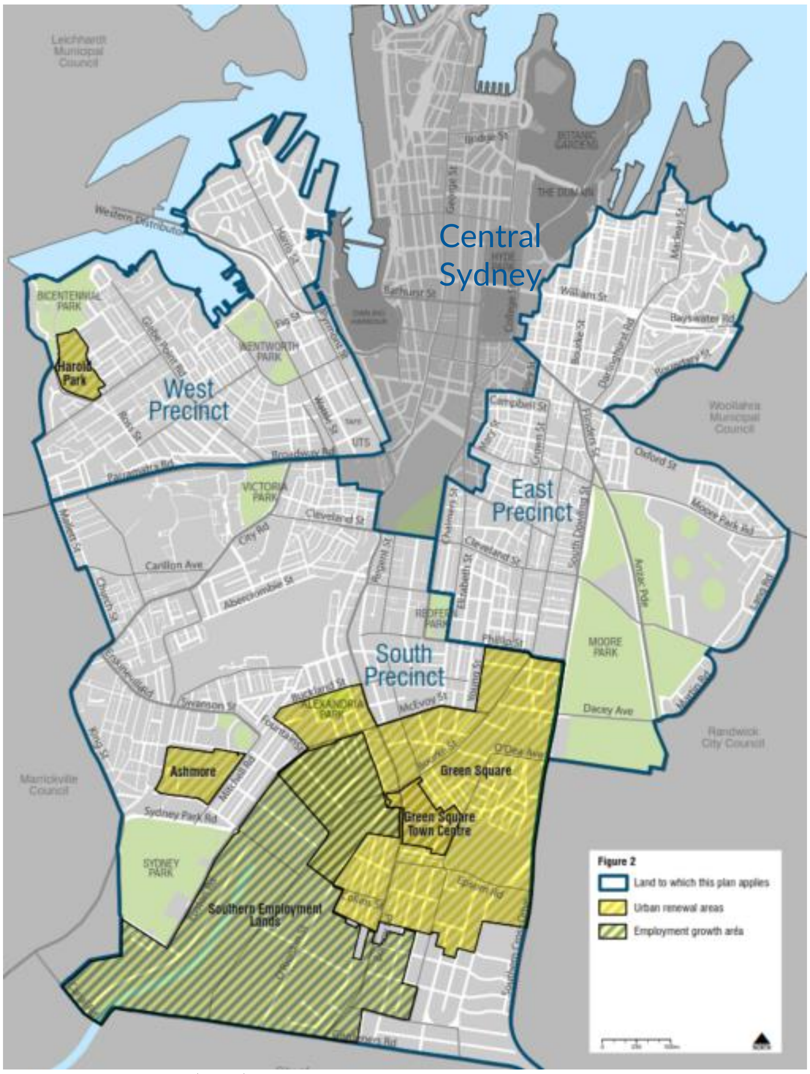
The contribution precincts encompass several suburbs and reflect different characteristics, including:

- **Central Sydney (Central)**: Sydney CBD.
- **East precinct (East)**: Surry Hills, Darlinghurst, Potts Point, Elizabeth Bay, Woolloomooloo and Rushcutters Bay.
- **West precinct (West):** Pyrmont, Glebe, Forest Lodge, Newtown and Enmore.
- **South precinct (South):** Alexandria, Beaconsfield, Redfern, Waterloo, Zetland, Eveleigh, Rosebery and Erskineville.

Overall, the Study Area comprise different lot patterns, physical characteristics and locational attributes. Importantly, these factors influence land use pricing and values, development patterns and outcomes.

Figure 1-1 illustrates the geographical boundaries of the s7.11 contribution precincts. S7.13B affordable housing contribution precincts (for Planning Proposal land) correspond with the s7.11 precincts.

Figure 1-1: Contribution Precincts



Source: City of Sydney (2015)

<u>Alignment of Current Rates with Desired Affordable Housing Outcomes</u>

The Program sets out the objectives, principles and operational requirements for various Affordable Housing contributions. Together with the LEP, it describes percentage contribution rates that denote the housing outcomes desired. These are:

- For all development across the LGA (which are also identified in the LEP)[1]:
  - 1% of total non-residential TFA.
  - 3% of total residential TFA.
- For development on Planning Proposal land:
  - Central Sydney - 13% of new residential GFA.
  - West and South precincts - 12% of new residential GFA.
  - East precinct - 21% of new residential GFA.

The Program also states the equivalent monetary contribution intended to deliver on the housing outcomes desired.

To understand alignment of current rates with the Program's desired housing outcomes, the Study examines the cost of procuring/ delivering on-site housing against the equivalent monetary contribution that would be received under current rates. This enables an understanding of whether the current contribution rate settings are delivering on the Program's intent.

[1] Applied to all TFA in the development except in Central Sydney and Residual Land where the contributions requirement is applied to floor area that is in addition to floor area that is existing/ built

Testing the Impact on Development Feasibility

In circumstances where current rates are not aligned with the Program's desired housing outcomes, alternate rates and approaches for application are investigated.

As a basic premise, for any (additional) Affordable Housing contributions to be viable, development without the contribution needs to be feasible in the first instance. If development is not feasible (regardless of contributions), the development will not occur. Therefore, to test the impact of alternate contribution rates, the analysis presumes that the development scenarios tested are feasible in the first instance without the alternate contribution rates.

The contribution impact testing is undertaken in three steps.

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

   Step 1 develops notional development yields which are then tested in Step 3.

2. **Step 2 - Identification of all applicable fees and charges**

   Step 2 identifies and develops a set of assumptions for all applicable statutory fees and charges that are payable including local contributions and the Housing and Productivity contributions (**HPC**).

3. **Step 3 - Impact testing of additional contributions (alternate Affordable Housing rates)**

   Step 3 tests alternate rates to examine impact on feasibility (when included in addition to fees and charges in Step 2).

The Study reiterates that if development is not feasible in the first instance (whether due to lack of market demand or planning controls that are not feasible), the issue of Affordable Housing contributions is moot.

Implications for Development Supply

The impact of any new development contribution including alternate Affordable Housing contributions on development feasibility is relevant where the impact is substantial, therefore presenting an impact on future supply. Accordingly, the issue of impact on feasibility is critical to understand in areas planned for large scale development supply.

The Study examines historical and projected (future) patterns of development supply in the LGA in considering the relative appropriateness of contribution rates.

1.3 Assumptions and Limitations

The review of impact on development feasibility is undertaken in the context of other fees and charges applicable (including local contributions, Housing and Productivity contributions and water/ DSP infrastructure charges).

The Study is a generic assessment which makes observations at an aggregate level across the tested locations. The following limitations are highlighted:

- It is not possible to examine the impact of Affordable Housing contributions on every land use or subset of land use. Notional development typologies (considered to be representative of future development activity) are nominated for the purposes of contribution impact testing. They are notional only; they are not urban design or engineering tested.
- Case study areas are selected for the purposes of examining the impact of the Affordable Housing rates by land use, utilising notionally assumed development typologies and yields.
- Generic feasibility testing is based on high-level revenue and cost assumptions and does not consider site-specific nuances 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 impacts of Affordable Housing contributions at a strategic and generic level in the tested locations.

2. Market Context

2.1 Market Activity Analysis

The Australian economy has been facing a heightened level of uncertainty over the past 24-30 months. Global upstream cost pressures resulting from the war in the Ukraine, pent-up COVID-related domestic demand and a resurgence in migration-driven population growth have resulted in a significant uptick in broad based inflation across the domestic economy. The labour market is tight and has contributed to wages growth amidst this inflationary backdrop.

In response, the Reserve Bank of Australia (**RBA**) tightened monetary policy with successive increases to the official cash rate, rising from 0.1% in April 2022 to 4.35% in November 2023 to return inflation (which peaked at 7.8% in December 2022) to its target range of 2%-3%. Inflation fell through 2023 with the latest measure at 3.8% in June 2024.

Rapid increases to interest rates have begun to affect many parts of the economy - notably with substantial declines in investment activity, dwelling approvals, household consumption and residential property values.

Against this backdrop, the national housing and development sector has been impacted over the past 12-24 months:

- Following a period of soft or declining dwelling values, the residential market in Greater Sydney has started to strengthen. Market confidence has increased, with an expectation of potential interest rate cuts in 2024.
- Demand for housing also remains buoyed by population growth, with NSW recording net overseas migration of ~175,000 people in the year to June 2023.
- Demand for housing has been most felt in the rental market, with a chronic undersupply of rental properties (resulting from a rise in owner occupiers during the COVID-19 period) driving historically low residential vacancy rates.
- Owing to rising cost pressures, new unit approvals have been declining since Q3 2022 and are now approaching levels observed in March 2012 (ABS, 2023).
- Rises in building costs over 2021-2022 have resulted in a number of development projects delayed or deferred. Dwelling completions across Greater Sydney over 2022 were 27% below the previous 5-year average (DPHI, 2023).
- Softening dwelling prices have resulted in a shortage of existing stock being brought to market, as vendors adopt a 'wait and see' mentality and are avoiding marketing their properties for sale in a declining market. New house listings were down in early 2023 but have rebounded towards the end of 2023 (CoreLogic RP Data, 2023).

Accordingly, the influence of current economic conditions on property markets is nuanced. Despite the softening in housing prices, housing affordability across Greater Sydney is amongst its worst levels on record.

Not only is Greater Sydney the least affordable capital city in Australia (ANZ/CoreLogic, 2023), it is consistently ranked amongst top three most unaffordable cities globally and is now only outranked by Hong Kong (Demographia, 2023).

2.1.1 Residential Uses

The housing boom of 2012-2017 resulted in extraordinary price growth in the residential markets of Sydney, Melbourne and Brisbane. However, market conditions over the course of 2017-2019 began to slow amid tightening credit conditions, which saw many purchasers (notably investors) retreat from the market. Significant declines were witnessed across many markets in Greater Sydney throughout 2018 and 2019, with purchasers becoming more selective on location and overall product quality. In March 2019 house prices in Sydney and Melbourne were reported to have fallen to 2016 levels.

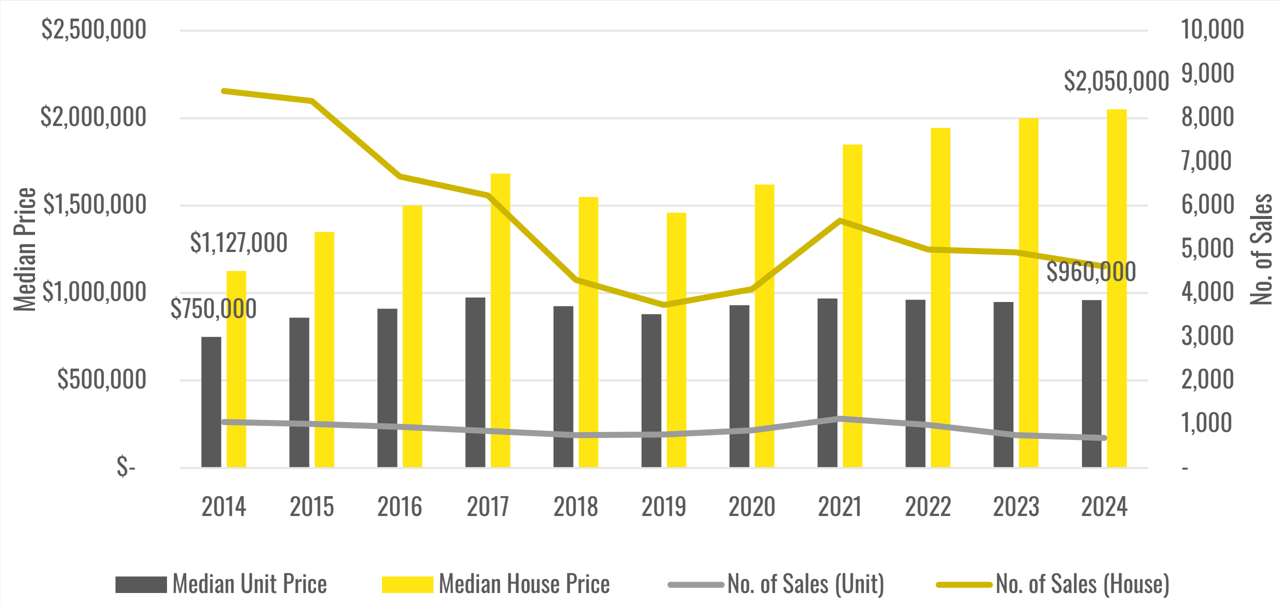
After the Federal election in May 2019, market conditions began to improve - driven by cash rate reductions by the RBA, a review of servicing buffer requirements by the Australian Prudential Regulation Authority (APRA) which eased lending conditions for purchasers and provided policy certainty around negative gearing and capital gains tax.

The renewed burst of activity in 2019 was dampened by the outbreak of COVID-19 in early 2020. After the initial 'shock' of the COVID-19 outbreak, the cumulative impact of record low interest rates, improved household savings, low listing volumes, post-lockdown lifestyle changes, government incentives and strong consumer sentiment drove growth in the residential market to a decade-high in 2021. House prices in particular, experienced extraordinary growth in a single year (2021-2022). Unit prices also experienced strong growth, though not as significant as house prices.

In 2014, the median house price in the Sydney LGA was $1.13 million. In 2024, this grew to $2.05 million, averaging annual growth of 6.9%. Whilst units also recorded price growth, this was modest - averaging 2.8% per annum over the same period.

Figure 2-1 illustrates median dwelling price trends and sale volumes in the Study Area over the 2014-2024 period.

Figure 2-1: Median Dwelling Prices, Sydney LGA (2014-2024)



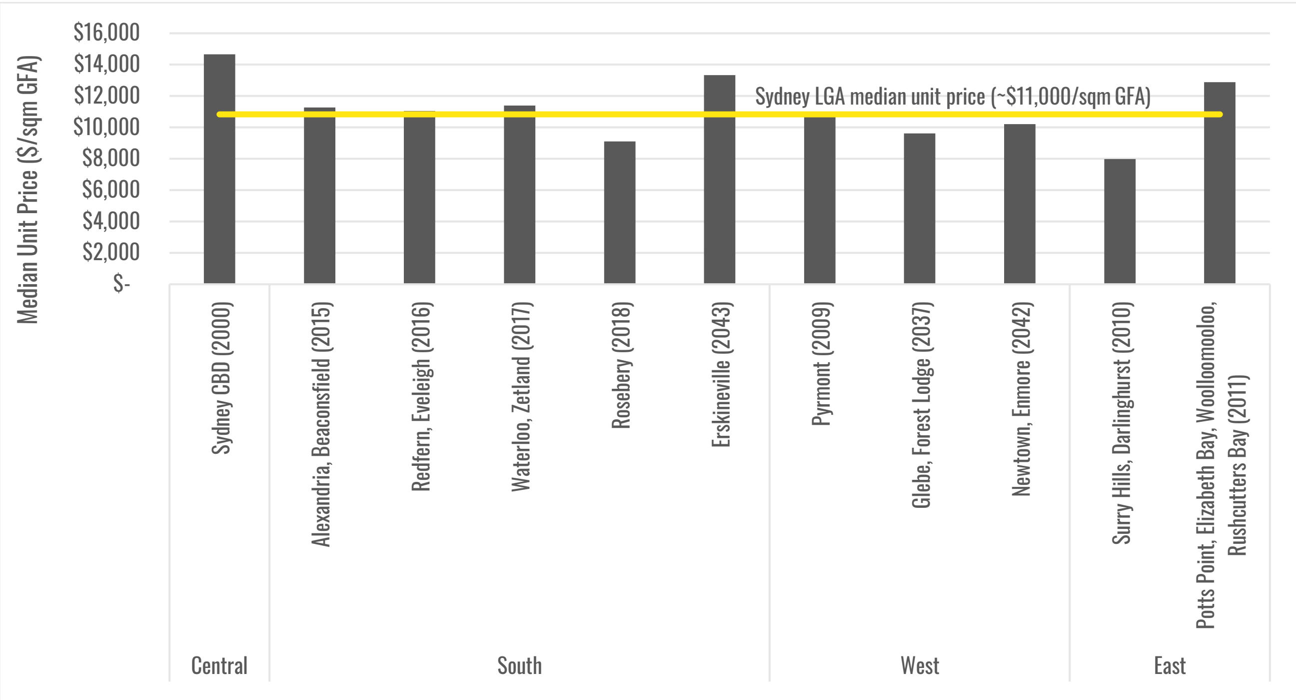
Source: PriceFinder (2024)

Established Unit Prices

The Study Area comprises different localities - each with unique attributes, with a price hierarchy across residential markets. This influences the type of development undertaken and cost of procuring/ delivering Affordable Housing across the LGA.

Figure 2-2 illustrates the median prices of established strata units (analysed to $/sqm GFA) by postcode in 2024. The postcodes are grouped by contribution precinct and are compared to the median price of strata units in the Sydney LGA. The median unit prices range from $8,000/sqm GFA to $15,000/sqm GFA, with an LGA median of ~$11,000/sqm GFA.

Figure 2-2: Established Stock Median Unit Prices by Postcode (2024)



Source: DCJ (2024)

Atlas ECONOMICS

New Unit Prices

All things being equal, new dwelling stock generally achieves higher prices than established/ existing dwelling stock.

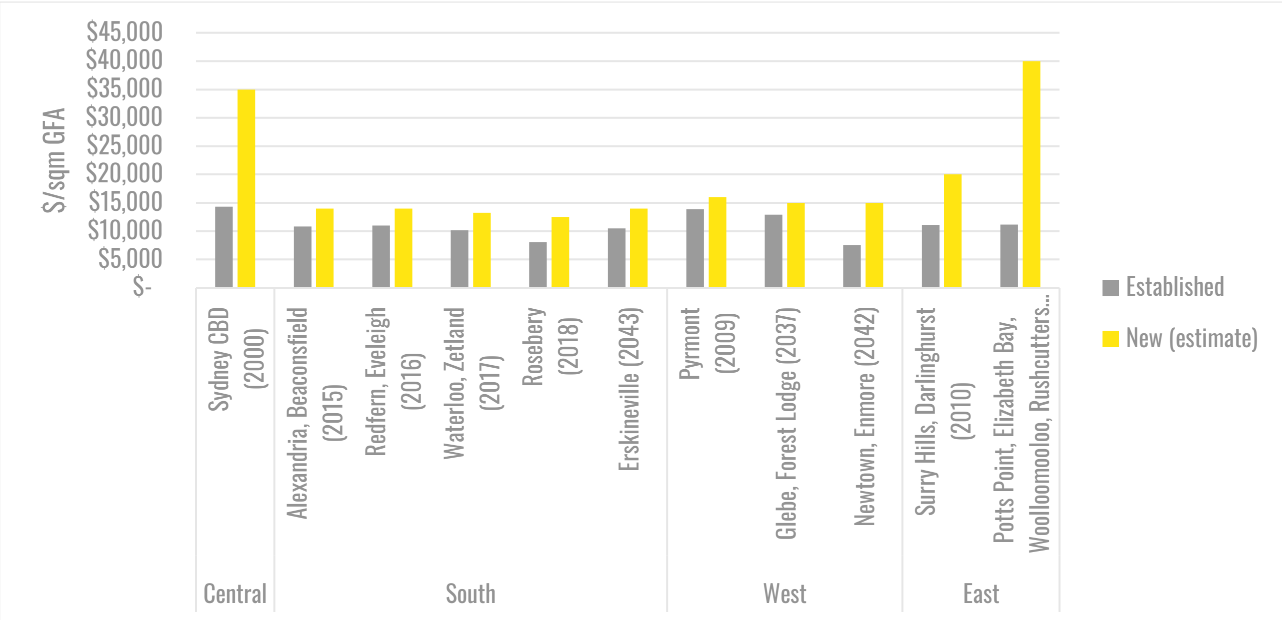
Analysis of new apartment sales affirms the market premium for new product. On average, new apartments attract a 30% premium compared to established units. This is reflective of areas within the South and West precincts, where new apartment prices broadly range from **$14,000/sqm to $20,000/sqm of net saleable area (NSA).** Example projects include '**The Wentworth**' in Glebe (West precinct) and '**Arbor**' in Erskineville (South precinct). New residential developments in these precincts are predominantly positioned at the middle end of the market. Many are small, boutique projects; larger developments may include additional features such as communal spaces and rooftop gardens.

New apartments in Central Sydney and East precinct typically achieve higher price points compared to existing unit pricing. Many are luxury developments with a high standard of finish and harbour/ city views. Examples include '**111 Castlereagh**' in the Sydney CBD and '**Nautique**' in Rushcutters Bay. Research indicates prices range from **$35,000/sqm to $60,000/sqm NSA**. Key buyer cohorts include high net worth individuals and downsizers attracted to large floorplans and luxury inclusions. These sale price represent premium developments in high value areas such as the Sydney CBD and Barangaroo in Central Sydney; and Rushcutters Bay and Potts Point in the East precinct.

Relevantly, Central Sydney and the East precinct also comprise lower- value areas where residential developments are more aligned with standard, contemporary finishes as observed elsewhere in Greater Sydney. These reflect localities such as Haymarket (Central Sydney) and Darlinghurst and Surry Hills (East precinct). Recently constructed apartments in these areas are priced from $20,000/sqm to $25,000/sqm NSA, reflecting the lowest range of values in the Central and East precincts. Apartment sale prices are typically traded and quoted on an NSA basis. Assuming a generic efficiency factor of 85% (NSA being 85% of GFA), the new residential prices can be converted from NSA to GFA rates.

Figure 2-3 provides an overview of new unit prices observed (converted to $/sqm GFA), drawn from new apartment sales - developments either currently marketing or that have recently completed. The new unit prices are compared with median prices of established units in the same postcode areas. Examples of new residential projects are detailed in SCHEDULE 1.

Figure 2-3: New Units Analysed Prices by Contribution Precinct (2024)



Source: various

Overall, the findings reveal a price grading across sub-markets. That is, the Study Area has a distinct pricing hierarchy which has direct implications for:

- The delivery of Affordable Housing in the LGA.
- Capacity of development to contribute to Affordable Housing.
- Appropriate forms of contribution to Affordable Housing (in-kind versus equivalent monetary).

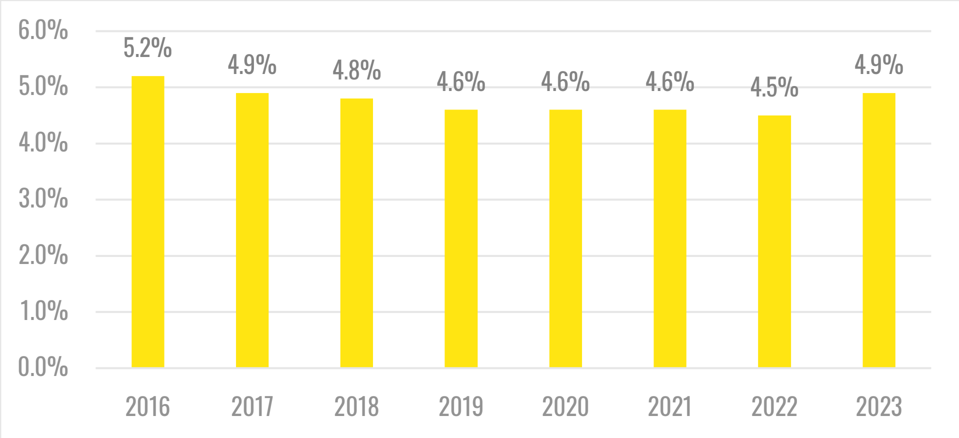
This hierarchy of pricing has direct implications for the setting of Affordable Housing rates, considered in Chapter 3.

2.1.2 Non-residential Uses (Office)

The Sydney CBD commercial office market was the beneficiary of large volumes of investor capital in 2016, resulting in the tightening of prime office yields in major CBD markets.

Figure 2-4 illustrates the tightening of office yields from 2016 to 2022, after which they softened in 2023 due to a combination of factors (i.e. increased vacancy due to 'normalising' of hybrid working practices, rising interest rates).

Figure 2-4: Prime Office Yields, Sydney CBD (2016-2023)



Source: Statista

<u>Re-setting of Demand Patterns</u>

In recent years office and retail markets have faced headwinds on a number of structural fronts, resulting in the re-setting of demand for office and retail floorspace.

Trends resulting from the COVID-19 pandemic have 're-set' structural demand for some sectors, with hybrid working now entrenched in the modern office workplace. Research shows the average Australian worker now spends more than a quarter of their working week (27%) outside the office.

The dispersed nature of office employment activity has meant lower occupancy rates in the office, and consequently less demand for purpose-built office space and a smaller worker population (on any given day) to support local retail services.

The re-setting of demand is evident in market indicators with vacancy and incentive levels staying elevated since 2020. All CBD markets have fallen casualty to elevated vacancy levels, with markets that are small and with ageing stock most at risk.

Relevantly, market expectations of office floorspace have shifted. With prime grade office space available at competitive terms (attractive incentives and lower rents), on lease expiry, many tenants have or are reducing and/ or upgrading their premises to enjoy better amenity. Many businesses view their office premises as a necessary tool to 'attract' their employees to spend more time in the office.

<u>Implications for Future Supply</u>

Vacancy rates in all office markets have remained elevated since 2020. All office markets are 'working through' the floorspace that is currently vacant. Landlords are offering generous incentives and tenants have the ability to 'pick and choose' office premises that suit their requirements.

In the six months to July 2024, the Sydney CBD vacancy rate was at 11.6%, down from the previous six-month period of 12.2%. This represented a marginal decrease amid indications of stabilisation, further assisted with the lack of new office supply delivered in 2023/ 24.

The re-setting of structural demand for floorspace has direct implications for how sites are planned for future development. The take-up of office and retail space is expected to be slower in the immediate term as the market cycles through vacant space amid a shift in the demand for space per capita.

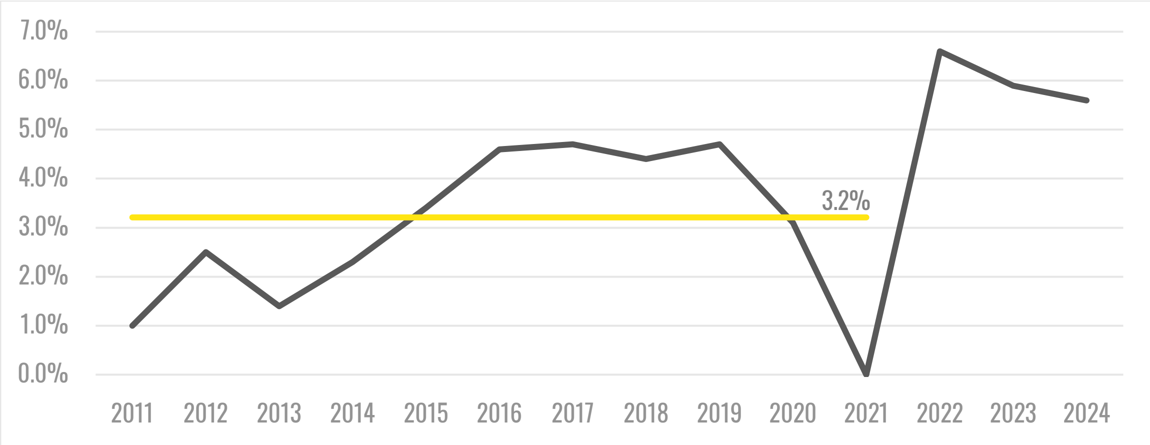
2.1.3 Development Activity

<u>Cost of Construction</u>

The cost of construction generally increases by 2.5% to 3.5% per annum, averaging 3.2% over the 10-year period to 2021. Global supply chain disruptions resulted in a spike in the cost of construction from 2021, with prices yet to normalise.

Figure 2-5 shows generic construction cost movements and the 10-year average over the 2011-2021 period against cost movements over the last three years from 2021.

Figure 2-5: Construction Cost Movements, Greater Sydney Region (2011-2024)



Source: RLB (2024)

The cost of production for apartments increased significantly from 2021 due to the higher cost of capital (driven by interest rate rises) and significant increase in the cost of construction.

If increases in the cost of production can be offset by higher revenues, a project's development margin/ profit can be preserved and the feasibility of development will not be adversely affected. Over the 2021-2024 period however, growth in apartment end sale values has been relatively flat owing to the reduction in household borrowing capacity from rising interest rates.

<u>Development Site Sales</u>

There are very limited development site sales in the last 12-18 months. This is broadly due to recent development trends, where softening sale prices and rising construction costs have rendered development feasibility challenging.

Table 2-1 analyses selected development site sales across the Study Area.

Table 2-1: Development Site Sales, Study Area

Address (site area)	Suburb (Precinct)	Sale Price (Sale Date)	$/sqm GFA (GFA)	Comments
47 Bent St (540sqm)	Paddington (Central)	$8,250,000 (Mar 2024)	$12,180/sqm (680sqm)	Aged, corner apartment building. Sold off-market, with holding income.
44-48 & 52 O'Dea Ave (16,930sqm)	Waterloo (South)	$121,000,000 (Sep 2023)	$3,250/sqm (37,240sqm)	Sold with DA consent for 368 apartments and retail. Fully cleared site with partial excavation. Situated 1km northeast of the Green Square train station.
189 Kent St (1,195sqm)	Sydney (Central)	$200,000,000 (July 2023)	$13,880/sqm (14,410sqm)	Circa 1960s office building, sold with development consent for two high-rise, mixed-use towers including ground floor retail and 125 apartments. Sold with holding income, having existing tenancies.
1 Onslow Pl (470sqm)	Elizabeth Bay (East)	$15,041,428 (Oct 2022)	$12,800/sqm (1,175sqm)	Older RFB site sold without DA consent. Building to be refurbished to provide six, 3-bedroom units with harbour views. Each unit will occupy a full-floor and comprise 2 car spaces. Higher rate ($/sqm GFA) observed due to refurbishment.
117 Victoria St (1,201sqm)	Potts Point (East)	$35,000,000 (Sep 2022)	$9,630/sqm (3,630sqm)	Older apartment building sold without development consent, with holding income. DA is being assessed for demolition and construction for a 25-unit RFB of up to 8 storeys,

Address (site area)	Suburb (Precinct)	Sale Price (Sale Date)	$/sqm GFA (GFA)	Comments
95 Macleay St (320sqm)	Potts Point (East)	$8,500,000 (Apr 2021)	$10,380/sqm (820sqm)	'La Strada' restaurant site. Sold without development consent. A DA has since been lodged and approved for a 6-storey, boutique RFB with ground floor retail and 5 units.
562-576 Harris St (769sqm)	Ultimo (West)	$7,900,000 (Jul 2022)	$6,850/sqm (770qm)	Corner location zoned B4 Mixed Use. Improved site comprising a single storey brick building over 4 allotments. Sold in-one-line without DA consent, with a short term lease remaining.
2-60 Cumberland St (3,666sqm)	Sydney CBD (Central)	$150,010,000 (Nov 2021)	$17,820/sqm (8,420sqm)	Former Sirius public housing block. Development to be partially demolished and reconfigured to accommodate 76 apartments. DA approved in June 2021 for apartments, commercial and retail premises and 2 basement levels.
147-149 Glebe Point Rd (346sqm)	Glebe (West)	$3,305,000 (Nov 2021)	$7,180 /sqm (460sqm)	Situated within the Glebe main village strip, 650m south of the Glebe light rail stop. Two storey commercial building sold with DA consent for 5 apartments and ground floor retail.
108-112 Victoria St (490sqm)	Beaconsfield (South)	$2,451,000 (Sep 2021)	$4,980/sqm (490sqm)	Improved site with 3 older style dwellings. DA approved site for three, 4-bedroom terraces (3 levels) with parking and self-contained studios with separate rear lane access. Situated 650m south of the Green Square strain station.
5-11 Botany Rd (1,812sqm)	Waterloo (South)	$20,100,000 (Jul 2021)	$4,540/sqm (4,430sqm)	Improved site comprising three, 2-storey buildings. Sold without consent. DA since lodged and approved for a 5 storey, 130-room boarding house. Construction has not yet commenced.

Source: various

The development sites indicate a broad range from $3,000/sqm to $18,000/sqm of GFA. Development sites in the South precinct are at the lower end of the range; whilst the higher end of the range represents development sites in the East precinct. Development sites in the Central and East precincts disclose rates towards, and in excess of $10,000/sqm GFA with rates even higher where buildings are to be refurbished/ adaptively reused and where there is valuable holding income.

As a general observation, development site sale prices in Sydney pre-2021 were generally higher than recent site sales, reflecting the stronger market conditions (prior to rises in interest rates and construction costs).

The price hierarchy of development sites (between areas and precincts) is broadly aligned to the price hierarchy of residential units (**Figure 2-3**). This is unsurprising, as developers aim to overcome the high cost of land with residential product aimed at the high end of the market.

Development site values are additionally a function of existing uses/ buildings. Many development sites in the South precinct are improved with older style industrial buildings at the end of their economic useful life. In contrast, sites purchased in established urban areas in the Central, East and West precincts can be improved with functional and valuable buildings and therefore cost more to consolidate for development.

2.2 Housing Supply

2.2.1 Historical and Projected Dwelling Growth

Based on the most recent 2021 Census, there were some 123,500 private dwellings recorded across the Sydney LGA. Nearly 40% of these dwellings were located in the South precinct (~48,200 dwellings). This was followed by the 30% of dwellings in the East precinct (~36,530 dwellings). Whilst the East precinct accommodates a large proportion of dwellings, it records the lowest annual rate of dwelling growth.

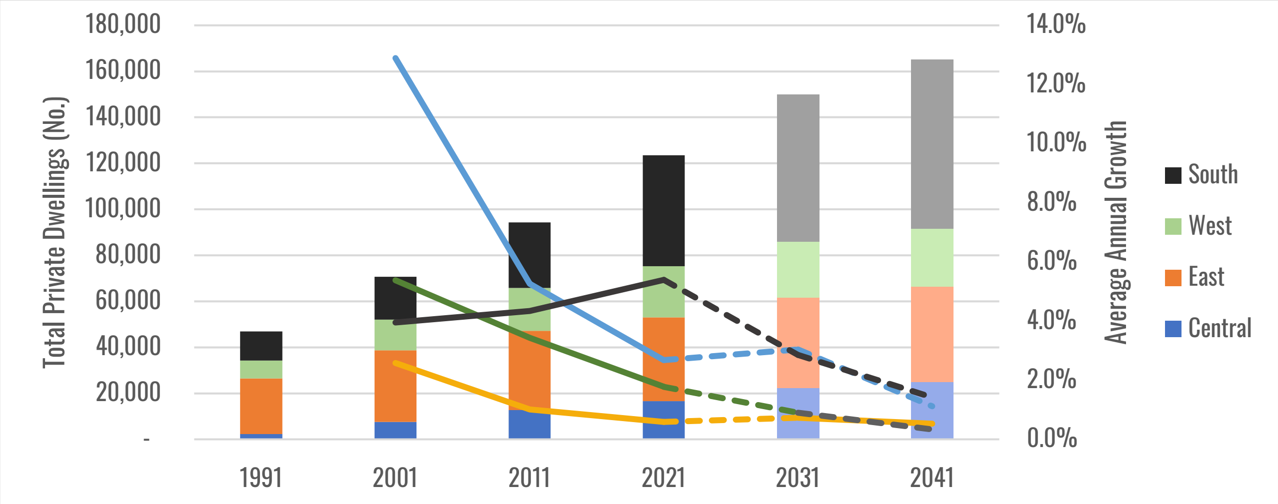
Annual rates of historical growth vary by precinct over the 2011-2021 period:

- Lowest in the East precinct - average of 1% per annum.
- Highest in the South precinct - average of 5% per annum.

Looking ahead, the rate of dwelling production is expected to remain low in the coming decade and decline further over 2031-2041. This is illustrated in **Figure 2-6**.

The dwelling projections indicate the LGA could potentially accommodate 165,000 dwellings in 2041. The South precinct is expected to accommodate the largest share of new housing at 45%. This is followed by the East precinct at ~25% and the Central and West precincts at ~15% each.

Figure 2-6: Historical and Projected Housing Supply by Precinct (1991-2041)



Source: Profile.id/Forecast.id

The historical and projected dwelling growth rates enable key observations:

- **The South precinct is the LGA's engine room of growth**. This is expected, given the location of the Green Square urban renewal area within the South precinct.
- **The East precinct is projected to grow housing at modest rates.** Areas in the East precinct are generally subject to fragmented lot and ownership patterns, making it challenging for new development to be financially feasible. In the last decade, luxury residential development has become commonplace as developers seek to overcome the high cost of development with residential product aimed at the high end of the market, particularly where site characteristics are supportive (e.g. proximity to water or valuable views).
- **The West precinct is projected to grow housing at modest rates**. Like the East precinct, there are pockets within the West precinct that lend themselves to luxury product, e.g. sites that offer water views or proximity.
- **Central Sydney** is expected to contribute to overall housing supply at relatively robust rates. The type of residential development is however expected to be aimed at the upper middle to luxury end of the market, leveraging the urban amenity of the CBD and available water views. This follows the reduction in residential floorspace incentives across Central Sydney in 2021. Notwithstanding the increasing prevalence of luxury residential product in Central Sydney, residential development south of Market Street (towards the Southern sub-precinct) is generally of medium specification - aimed at the middle end of the market.

The patterns of housing supply are relevant to the Study as they assist in an understanding of likely impact any alternate contribution rates may have on development supply.

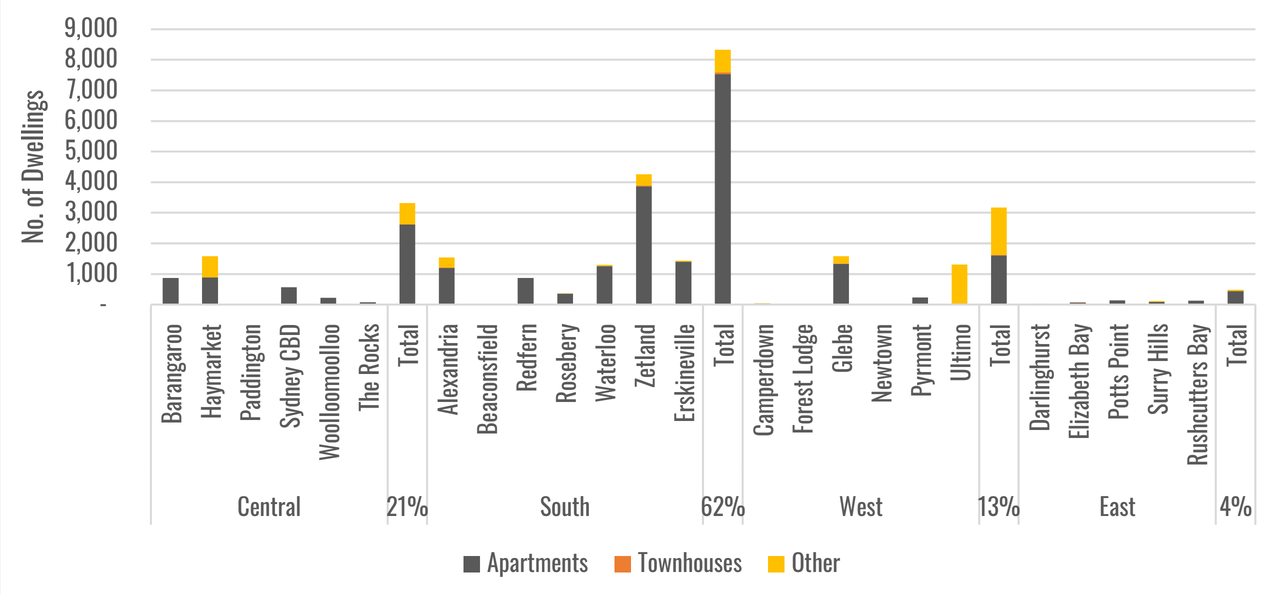
2.2.2 Development Pipeline

A review of the development pipeline in the LGA indicates there are 15,300 dwellings proposed and at various stages of planning. These will be delivered through ~80 residential projects. These include large-scale residential masterplanning such as Barangaroo South Stage 1B, Sydney Metro development, Regent Redfern Hotel redevelopment, Park Sydney Erskineville and Blackwattle Bay Precinct redevelopment – all of which are in early planning stages with rezoning underway. Smaller-scale projects represent a mix of DA-approved sites, those in concept planning and those under construction.

Dwellings in the development pipeline can be broadly categorised as: apartments, townhouses and 'other' residential developments such as boarding houses, social/ affordable housing, student accommodation, co-living units, etc.

Figure 2-7 illustrates the development pipeline by precinct.

Figure 2-7: Development Pipeline by Precinct



Source: BCI

Key observations include:

- Nearly 80% of proposed dwellings in the Study Area represent apartments (~12,200 apartments).
  - This is followed by the 20% of 'Other' developments. Townhouses represent <1% of proposed dwellings.
  - The dominance of high-density is reflective of the cost of land, planning controls and development feasibility.
- The South precinct dominates pipeline supply.
  - Of the 12,200 proposed apartments, over 60% are within the South precinct (~7,500 dwellings). This includes the suburbs of Alexandria, Zetland and Waterloo, where large-scale residential projects are being progressed.
  - New developments include a mix of high-rise projects (>10 storeys) and warehouse conversions. Many are in their early planning stages.
- While Central Sydney has more than 20% share of pipeline supply, a large proportion of dwellings proposed include student accommodation, boarding houses and co-living units. A large proportion of the development pipeline in the Central precinct is focused in the Southern sub-precinct (that is, in and around the Haymarket area).
- The East precinct will accommodate the lowest share of new apartments (4%) across the Study Area (~440 units).
  - This is aligned with projected dwelling supply and reflects the boutique-style, small-scale nature of developments.
  - Planned residential projects are of a high-end nature, including luxury terraces and whole-floor units.

The conversion of a development pipeline and transition into the construction phase is subject to broad economic and market factors. If they proceed, some of these residential developments could reach completion in the coming 12-24 months, with a majority likelihood of delivery over the next five years.

Overall, the development pipeline provides an understanding of supply patterns across the Study Area. Broadly and from a spatial perspective, the development pipeline closely reflects the housing supply projections shown in section 2.2.1.

2.3 Key Findings and Implications

Pricing Hierarchy and Delivery of Affordable Housing

Development site values are often a function of existing uses/ buildings. In established areas (most of the Study Area), existing buildings/ uses are valuable and therefore are costly to consolidate for development.

Many development sites in the South precinct are improved with older style industrial buildings at the end of their economic useful life. In contrast, sites in established urban areas in the Central, East and West precincts can be improved with functional and valuable buildings and therefore cost more to consolidate for development.

The price hierarchy of development sites is broadly aligned to the price hierarchy of residential units, i.e. the price of development sites is highest in the Central and East precincts where residential units are also the most valuable. This is unsurprising, as developers aim to overcome the high cost of land with residential product for the high end of the market.

Overall, the findings reveal a price grading across sub-markets. The price hierarchy is relevant as it has implications for:

- The cost of delivery of Affordable Housing in the LGA.
- Capacity of development to contribute to Affordable Housing.
- Appropriate forms of contribution to Affordable Housing (in-kind versus equivalent monetary).

To deliver new housing under the Program, contributions levied must be calibrated according to the cost of that new housing.

Structural Trends

All development markets are undergoing a period of structural change. Supply chain disruptions and labour shortages and the resultant inflationary cost environment amid rising interest rates have made development feasibility challenging. Record insolvencies of building and construction companies exacerbate the challenges of delivery and supply.

In the commercial office sector, structural trends continue to change how users perceive and demand space. In a post-COVID environment, businesses and employees have much higher expectations of their workplaces, generally seeking high-amenity and high-quality spaces. Office space in secondary locations or of secondary quality is at highest vacancy risk.

Vacancy rates in all office markets have been elevated since 2020. All office markets are 'working through' the floorspace that is currently vacant. Landlords are offering generous incentives and tenants can 'pick and choose' premises that suit.

The re-setting of demand for floorspace has direct implications for how sites are planned for future development. The take-up of office and retail space is expected to be slower in the immediate term as the market cycles through vacant space amid a shift in the demand for space per capita.

Distribution of Future Supply

The Study is cognisant of the importance of ensuring any alternate Affordable Housing contribution rates should not undermine future supply of floorspace.

The concentration of dwellings has historically been focused in the East precinct - which has some of the highest densities in Australia and older/ ageing building stock. More recently and in the past two decades, dwelling growth has been focused in various urban renewal areas in the South precinct.

Dwelling projections indicate the Sydney LGA could accommodate more than 40,000 additional dwellings by 2041. The South precinct is the engine room of growth and is expected to account for the largest share of new housing at 45%. This is followed by the East precinct at ~25% and the Central and West precincts at ~15% each.

The patterns of housing supply are relevant to the Study as they assist in an understanding of likely impact any alternate contribution rates may have on development supply.

3. Affordable Housing Contributions

3.1 Legislative Basis of Contribution Requirements

Inclusionary Zoning

Section 7.32 of the EP&A Act permits an environmental planning instrument (**EPI**) to require land or contributions for Affordable Housing if a SEPP identifies there is a need for Affordable Housing. The relevant SEPP is the Housing SEPP.

Clause 14 of the Housing SEPP identifies there is a need for affordable housing within each area of the State.

Clause 15 of the Housing SEPP requires the consent authority to consider the following before imposing contributions under s7.32 of the EP&A Act.

- Affordable Housing must aim to create mixed and balanced communities.
- Affordable Housing must be created and managed so that a socially diverse residential population, representative of all income groups, is developed and maintained in a locality.
- Affordable Housing must be made available to very low, low and moderate income households, or a combination of the households.
- Affordable Housing must be rented to appropriately qualified tenants at an appropriate rate of gross household income.
- Land provided for Affordable Housing must be used for the purposes of the provision of affordable housing.
- Buildings provided for Affordable Housing must be managed to maintain their continued use for affordable housing.
- Affordable Housing must consist of dwellings constructed to a standard that, in the opinion of the consent authority, is consistent with other dwellings in the area.

Affordable Housing contributions under an EPI form a condition of consent, payable prior to issue of construction certificate.

Rezoning

The Greater Sydney Region Plan (**the Region Plan**, GCC, 2018) recommended that within Greater Sydney, Affordable Rental Housing Targets of 5%-10% of new residential floorspace should be applied, where viable.

The Greater Cities Commission (**GCC**) issued Information Note 4 (GCC, 2017) to clarify application of the Affordable Rental Housing Targets in the Greater Sydney Region Plan and District Plans.

The GCC proposed Affordable Rental Housing Targets apply as follows:

- apply to land that is the subject of upzoning - a change of land use to residential or an increase in permissible residential development density.
- vary by precinct according to the local development viability.
- apply only to new areas nominated by the relevant planning authority; not apply retrospectively to rezoned land.
- be announced prior to rezoning to give the market certainty about the amount of affordable housing to be provided, and so that it can be factored into underlying land prices.
- apply to land within new urban renewal or land release areas (both government and private) identified via a local or district housing strategy, or another form of appropriate research that illustrates a current or future need for affordable rental housing.
- be calculated as a proportion of all residential floor space above the base floor space ratio - that is, the residential floor space ratio that was permissible before the upzoning within the nominated area.

Information Note 4 provides some parameters for an approach to development feasibility testing, including that the testing should consider "*the feasibility of residential development, with a normal risk/ return margin, including the cumulative costs of local, and where appropriate State contributions*".

3.2 Current Contribution Rates

3.2.1 Inclusionary Zoning

Contribution In-kind

Clause 7.13 of the LEP identifies Affordable Housing contribution rates (%) that apply to the different types of development.

- 1% of non-residential total floor area (TFA).
- 3% of residential total floor area (TFA).

The Program identifies that the contributions may be satisfied by dedication of dwellings. In simple terms, a development of 100 dwellings would contribute 3 dwellings.

A development that proposes 10,000sqm TFA (1,000sqm non-residential TFA and 9,000sqm residential TFA) would be required to contribute/ dedicate 280sqm TFA for Affordable Housing. This is comprised of:

- 10sqm arising from 1% x 1,000sqm non-residential TFA; and
- 270sqm arising from 3% x 9,000sqm residential TFA.

The Program specifies a range of requirements that must be satisfied, including that dwellings must be dedicated free of cost, owned by Government or nominated community housing provider (CHP) and used as Affordable Housing in perpetuity.

Monetary Contribution

The Program provides for an equivalent monetary contribution to be made to satisfy the contribution requirement. This is calculated by multiplying the published dollar amount by the percentage contribution rate and TFA proposed.

Taking the same example of a 10,000sqm TFA development, the equivalent monetary contribution is calculated at $3,129,342. This is arrived at by applying the current dollar amount of $11,176.22 as follows:

- $111,762 (10sqm x $11,176.22) arising from 1% of 1,000sqm non-residential TFA.
- $3,017,579 (270sqm x $11,176.22) arising from 3% of 9,000sqm residential TFA.

In Central Sydney and on residual land, the contribution is only calculated on new or more intensely used floor area. This is because the areas were not rezoned when the contributions were introduced (unlike Green Square for example).

The Study acknowledges that TFA is larger than GFA. Applying a generic conversion factor of 110% the equivalent dollar amount is $12,294/sqm GFA ($11,176 x 110%).

3.2.2 Planning Proposal Land (Rezoning)

Clause 7.13B identifies an additional contribution requirement where land is rezoned and there is an increase in the FSR. Schedule 6C specifies the percentage contribution required when land is rezoned. The equivalent monetary contribution is calculated in accordance with the Program as follows:

- Central Sydney - 13% on new floor area achieved in the Planning Proposal.
- South and West precincts - 12% on new floor area achieved in the Planning Proposal.
- East precinct - 21% on new floor area achieved in the Planning Proposal.

Using an example development of 9,000sqm GFA - if a Planning Proposal amended FSR to enable 12,000sqm GFA (11,000sqm residential GFA, 1,000sqm non-residential GFA), the equivalent monetary contribution is shown in **Table 3-1**.

Table 3-1: Planning Proposal Land, Example Contrbutions by Precinct

Precinct	Contribution Rate	New GFA	Equivalent Monetary Contribution	
Central Sydney	13%	3,000sqm	13% x 3,000sqm x $12,294	$4,794,660
East precinct	21%	3,000sqm	21% x 3,000sqm x $12,294	$7,745,220
West and South precincts	12%	3,000sqm	12% x 3,000sqm x $12,294	$4,425,840

3.3 New Housing Outcomes

Since 2013, annual affordable housing contributions have ranged from $20 million to $40 million annually, a function of economic and market conditions. As at June 2024, the City has collected $404 million in contributions and distributed them to City West Housing to build and manage Affordable Housing. There have been 1,400 dwellings (built, in the pipeline and expected) that have resulted from the City's affordable housing contribution schemes.

In-kind v Monetary Contributions

The Program requires that dwellings that are contributed must be in a location and of a size and quality to the satisfaction of the City and the receiving CHP. In circumstances where a recommended CHP is unwilling to accept the in-kind contribution, they may be dedicated to another eligible CHP to remain Affordable Housing in perpetuity, and to be owned and managed in accordance with the Program.

Where monetary contributions are instead made, the contributions are distributed to the City's recommended CHPs for the purposes of procuring/ delivering Affordable Housing in the Sydney LGA. Existing dwellings could be purchased for the purposes of Affordable Housing.

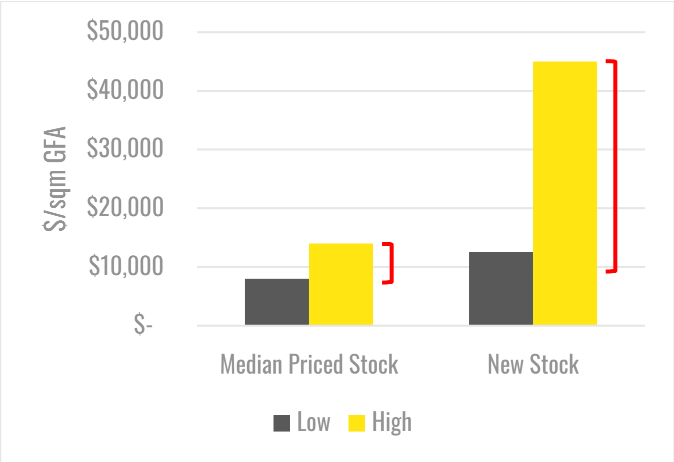
Alignment of Monetary Contributions with Delivery of Housing Outcomes

The analysis in section 2.1.1 indicates a distinct residential price hierarchy across sub-markets. All things being equal, it is most expensive to procure/ deliver new housing in the East and Central precincts, followed by the West and South precincts.

- The price spread for an existing median priced strata unit is less distinct between sub-markets - ranging from $8,000sqm GFA to $14,000/sqm GFA.
- In contrast, the price spread for new units is much wider between markets - $12,500/sqm GFA to $45,000/sqm GFA. This is due to an increasingly prevalence of luxury residential product in some markets (East and Central precincts).

Figure 3-1 illustrates the difference in spread of residential unit values in the Study Area for median priced (established/ older) stock compared to new/ off-the-plan stock.

Figure 3-1: Relative Values of Residential Units, Study Area



Source: Atlas

The City's published dollar contribution amount is $11,176/sqm TFA (1/3/24 to 28/2/2025). The rate is derived from the median price of a residential strata dwelling in the Sydney LGA. Monetary contributions collected equivalent to this dollar rate would enable the City or its nominated CHP to purchase median priced (older) residential strata stock in the LGA.

Monetary contributions collected at the current dollar rate *would not* enable purchase or delivery of new residential units given the large price differential between median priced (old) stock and new stock. This incongruence is most stark in the East and Central precincts where new residential stock is increasingly of a luxury, high end nature.

There is accordingly a case for the City to consider alternate dollar rates that would be more aligned to the delivery of new housing outcomes across the various precincts.

Alternate Dollar Rates

This section examines alternate dollar rates that could potentially be used to calculate equivalent monetary contributions for Affordable Housing.

Chapter 2 examined the relative spread of new residential unit prices across the LGA, various suburbs and between contribution precincts. Alternate dollar rates which better reflect the cost of delivery/ purchase of new dwellings could be considered based on the following geographies:

- An LGA-wide dollar rate to reflect the 'best fit' of new residential unit prices.
- Individual dollar rates to apply in various suburbs/ postcodes within the LGA.
- Dollar rates to apply in each of the four contribution precincts (Central, East, West, South).

Figure 3-2 shows the spread of rates if a multi-rate approach was taken. Relevantly, **Figure 3-2** shows that the current rate ($11,176/sqm) ***does not*** enable delivery or purchase of new Affordable Housing dwellings in any of the areas shown.

Figure 3-3 shows the spread of rates were a single LGA-wide rate ($19,500/sqm) to be applied or if four rates were applied by contribution precinct. The four rates shown represent the *lower* bounds of new residential prices within the precincts.

Figure 3-2: New Residential Prices, Spread by Select Suburbs v Current Rate (GFA terms)

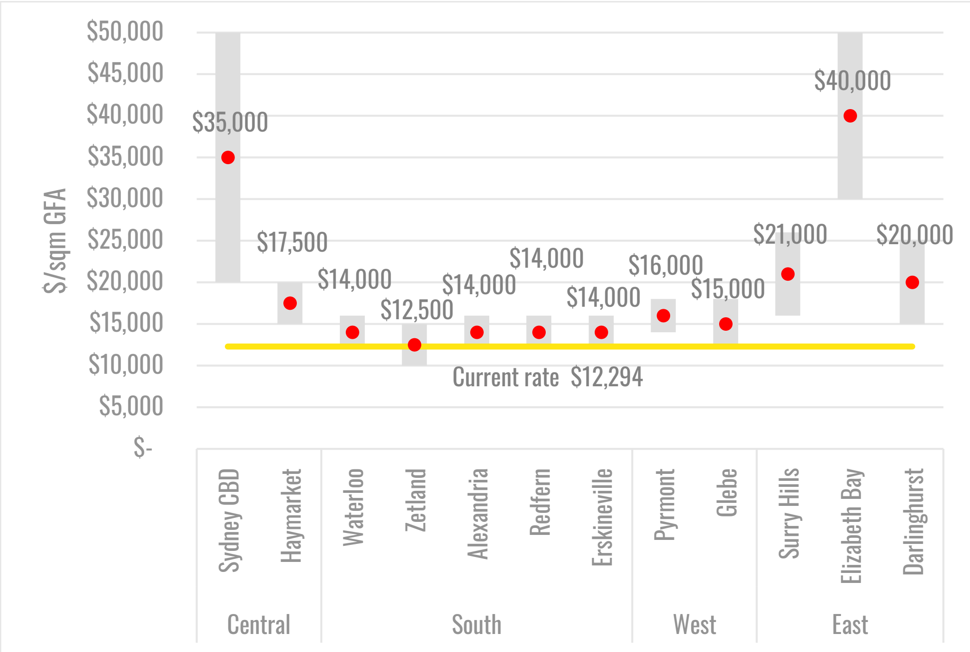
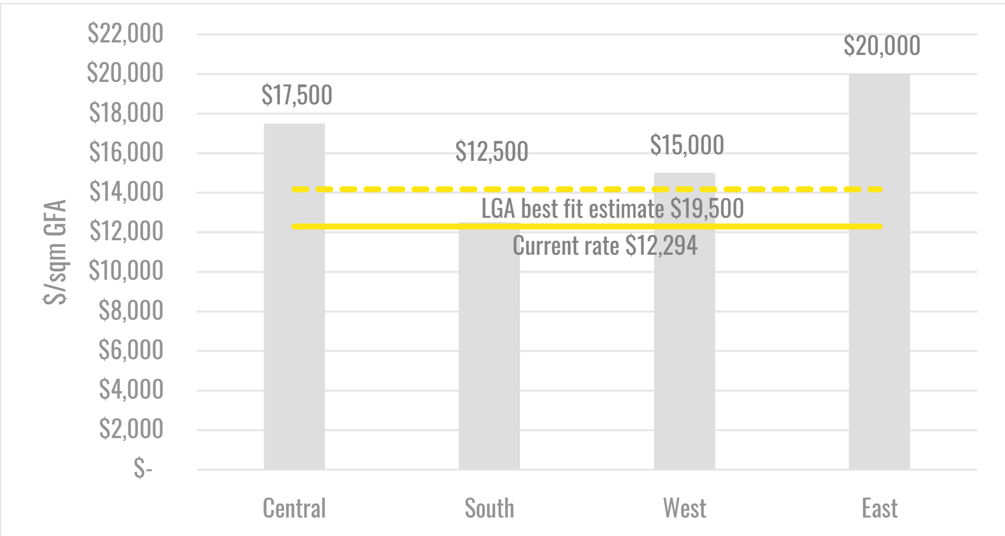


Figure 3-3: New Residential Prices, LGA-wide Rate v Contribution Precinct Rate v Current Rate



Source: Atlas

There would be greater precision if dollar rates were applied by suburb/ postcode (similar to **Figure 3-2**), however it could be confusing to applicants and be a higher administrative burden on the City.

At the other end of the spectrum, a single LGA-wide rate would be simple to administer (similar to the present) however as **Figure 3-3** demonstrates, there would be similar challenges for delivery of housing outcomes in high-cost areas in the East and Central precincts. There would additionally be a disproportionate burden on developments in lower priced areas.

Based on analysis of market activity and observed sale prices of new residential units in the Study Area, **Table 3-2** develops a schedule of alternate dollar rates ($/sqm GFA) based on the geography approaches described above.

The Study notes that the precinct-based rates nominated are towards the lower end of the respective observed ranges.

Table 3-2: Alternate Dollar Rates ($/sqm GFA)

Precinct	Select Suburb	Current Rate (LGA-wide)	Alternate Dollar Rates		
			Suburb Rate	LGA-wide Rate	Precinct Rate
Central	Sydney CBD	$12.294 (equivalent to $11,176/sqm TFA)	$20,000 - $50,000	$19,500	$17,500
	Haymarket		$15,000 - $20,000		
South	Waterloo		$12,000 - $16,000		$12,500
	Zetland		$10,000 - $15,000		
	Alexandria		$12,000 - $16,000		
	Redfern		$12,000 - $16,000		
	Erskineville		$12,000 - $16,000		
West	Pyrmont		$14,000 - $18,000		$15,000
	Glebe		$12,000 - $18,000		
East	Surry Hills		$16,000 - $26,000		$20,000
	Elizabeth Bay		$30,000 - $50,000		
	Darlinghurst		$15,000 - $25,000		

Source: Atlas

The dollar rates represent the cost of delivering a residential unit (at an aggregate level) - that is, the cost of land, cost of development and profit/ risk to a developer.

The Study highlights that the above dollar rates are quoted in $/sqm GFA terms. They would be approximately 10% lower if quoted in $/sqm TFA terms (due to the inclusion of balconies in TFA).

The following chapters consider the impact of the alternate rates on development feasibility.

4. Review of Broad-based Contribution Rates

4.1 Testing of Clause 7.13 Contributions

Clause 7.13 of the LEP identifies Affordable Housing contribution rates (%) that apply to the different types of development.

- 1% of total non-residential floor area.
- 3% of total residential floor area.

The Program provides for Affordable Housing contributions to be either satisfied as contributions in-kind (completed dwellings that are dedicated/ gifted) or as equivalent monetary contributions. The objective of this chapter is to test the impact of the latter form of contribution (equivalent monetary) on development feasibility.

Current and Alternate Rates

Chapter 3 found that monetary contributions collected under the current dollar rate would not enable purchase or delivery of new residential units given the large price differential between median priced (old) stock and new stock. This difficulty is greatest in the East and Central precincts where new residential stock is increasingly of a luxury, high end nature.

Chapter 3 considered various dollar rates that would be more aligned to the intent of the Program - which is to require a proportional contribution from development for Affordable Housing.

While dollar rates developed at the suburb/ postcode level would represent a precise alignment between the equivalent dollar contribution and the intent of the Program, the approach lacks simplicity and poses a heavier administrative burden. This approach is not taken forward for testing.

In contrast, dollar rates developed at the contribution precinct level (Central, East, West and South) would be less precise, however be simpler to understand and administer. A single LGA-wide rate would be the simplest, though the difference in pricing across locations would require the application of differential percentage contribution rates to the single dollar rate.

Contribution Assumptions

Any new/ additional development contributions have the potential to have a cumulative impact on development feasibility.

Table 4-1 lists potential alternate rates (single LGA rate, precinct rates) against other applicable statutory fees and charges. Relevantly, the rates are in $/sqm GFA terms (not $/sqm TFA).

Table 4-1: Tested Rates and Other Fees and Charges

Precinct	Affordable Housing % Rate	Tested Equivalent Dollar Rate ($/sqm GFA)			Local Contributions	Housing and Productivity Contributions (HPC)*
		Current rate	Alternate LGA rate	Precinct rate		
Central	Non-residential - 1% Residential - 3%	$12,294	$19,500	$17,500	s7.12 (3%)	$12,000 per dwelling (House) $10,000 per dwelling (Unit) $30/sqm GFA (commercial/ retail)
East				$20,000	s7.11	
West				$15,000	s7.11	
South				$12,500	s7.11	

Source: Atlas

*Housing and Productivity contributions are phased-in from 1 October 2023, at 50% thereafter at 75% from 1 July 2024, fully implemented from 1 July 2025.

Timing Assumptions

Contribution impact testing is carried out to show the impact of new/ alternate Affordable Housing contributions.

The gradual implementation of alternate Affordable Housing rates is also considered to test if natural market growth can assist with mitigation of impact. Revenue levels are assumed to be flat in 2024 (recognising the current economic headwinds and inflationary cost environment). In Year 2 onwards a modest 1% per annum growth in revenue (net of cost) is assumed.

Table 4-2 lists the contribution assumptions and full implementation of alternate Affordable Housing rates within four years (after formal exhibition and adoption by Council).

Table 4-2: Tested Rates Phasing-in Timeline

Charge	Fully Implemented Rate	Plan-making	Year 1	Year 2	Year 3	Year 4
Alternate Affordable Housing contributions	• Central - $17,500/sqm	0%	0%	0%	50%	50%	100%
	• East - $20,000/sqm	0%	0%	0%	50%	50%	100%
	• West - $15,000/sqm	0%	0%	0%	50%	50%	100%
	• South - $12,500/sqm	0%	0%	0%	50%	50%	100%
Local infrastructure contributions (s7.11, s7.12)	applicable rates in plans	100%	100%	100%	100%	100%	100%
Housing and Productivity contributions	• $12,000/ dwelling (House) • $10,000/ dwelling (Unit) • $30/ sqm (commercial/ retail)	75%	100%	100%	100%	100%	100%

Source: Atlas

Measure of Feasibility Impact

The objective of the testing is to assess if, after Affordable Housing contributions, hurdle rates are within acceptable range. Key performance indicators relied upon are hurdle rates (development margin[2] and project IRR[3]). Benchmark hurdle rates and their 'feasible' ranges by land use typology are indicated in **Table 4-3**.

Table 4-3: 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 adopted benchmark hurdle rates align with industry/ market expectations and are consistent with Atlas' previous work.

4.2 Tested Scenarios

Table 4-4 describes a selection of locations and development scenarios for the purposes of testing the feasibility impact.

Table 4-4: Notional Development Scenarios, Compliant with LEP

Precinct	Suburb	Site Area (sqm)	Zone	Notional Development and Yields	Density
Central	Sydney CBD (City Core)	2,000	SP5	Commercial, 27,500sqm commercial GFA	FSR 13.75:1
	Sydney CBD (Midtown)	2,000	SP5	Mixed use residential, 21,120sqm GFA	FSR 10.56:1
	Sydney CBD (Southern)	2,000	SP5	Mixed use residential 17,600sqm GFA	FSR 8.8:1
East	Elizabeth Bay	470	R1	RFB (part refurb, part development), 1,175sqm GFA	FSR 2.5:1
	Darlinghurst	400	MU1	Mixed use residential, 960sqm GFA	FSR 2.4:1
West	Glebe	800	MU1	Mixed use residential, 1,600sqm GFA	FSR 2.0:1
	Pyrmont	500	MU1	Mixed use residential, 1,520sqm GFA	FSR 3.0:1
South	Waterloo	16,900	MU1	Mixed use residential, 34,500sqm GFA	FSR 2.0:1
	Beaconsfield	480	R1	Medium density residential, 488sqm GFA	FSR 1.0:1
	Alexandria	3,200	E4	Mixed business/ enterprise, 4,000sqm GFA	FSR 1.25:1

Source: Atlas

Where land is urban, the cost of land (to a developer) will be reflective of the existing uses and development potential. Where lot patterns are fine grain in nature and property values are high, where possible, development will be motivated to deliver a luxury product to offset the high cost of land. This activity is observed in Elizabeth Bay, Rushcutters Bay, etc.

A series of graphs illustrates the impact of alternate Affordable Housing rates (in **Table 4-4** scenarios) at the **Table 4-1** rates. The alternate rates are assumed at 100% implementation from Day 1 - this is intended to test a ***worst-case scenario***.

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

4.2.1 Central Precinct

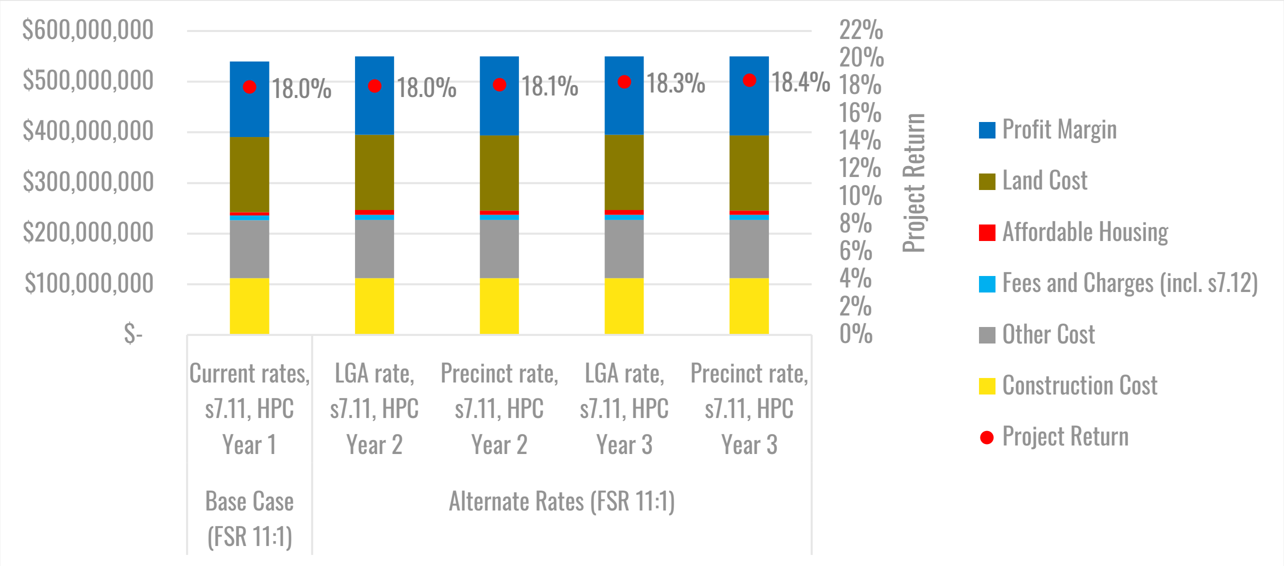
Three sites in the Central Precinct are tested - two mixed use (commercial, residential) and a commercial-only developments.

Mixed Use Residential

Figure 4-1 and **Figure 4-2** illustrate the impact to project return (IRR) in two mixed use development in the Midtown and Southern sub-precincts respectively. The following observations are made on impact of the alternate rates:

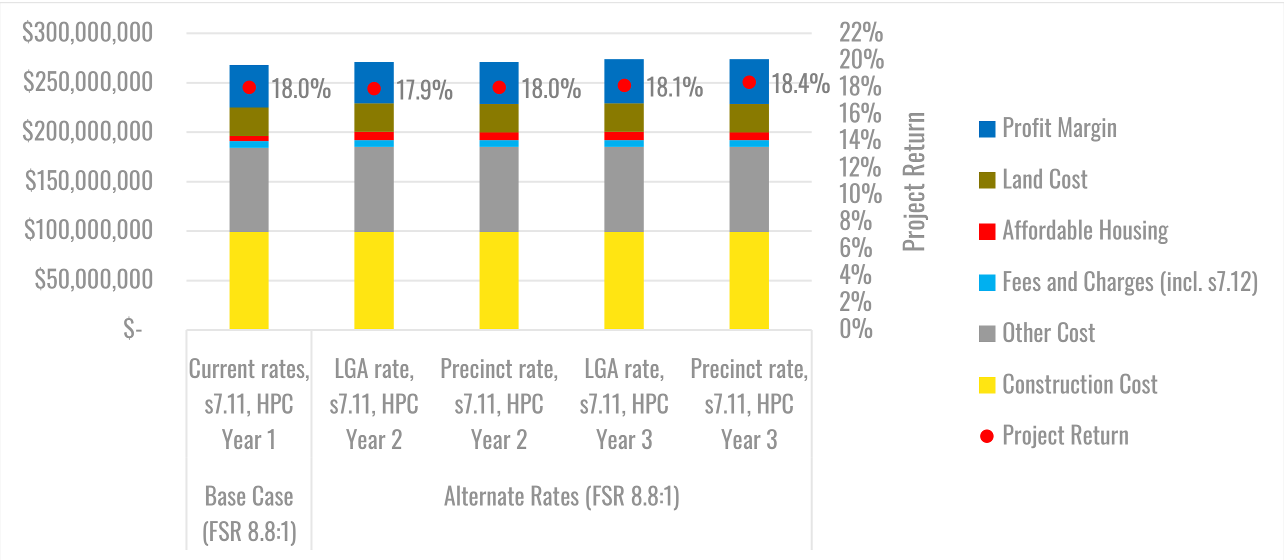
- If alternate Affordable Housing contributions are implemented in full, 2-3 years' of real growth offset the impact of the higher rates.
- Expectedly, tolerance in the higher priced sub-precinct of Midtown is better, with project returns preserved by real growth of revenue.
- Despite lower sale prices in the Southern precinct, tolerance to a fully implemented alternate rate is assisted by real revenue growth over 2-3 years.
- The impact of an LGA rate ($19,500/sqm) is expectedly higher than the precinct rate ($17,500/sqm).

Figure 4-1: Impact of Alternate Contributions (Precinct rate and LGA rate), Midtown precinct



Source: Atlas

Figure 4-2: Impact of Alternate Contributions (Precinct rate and LGA rate), Southern precinct

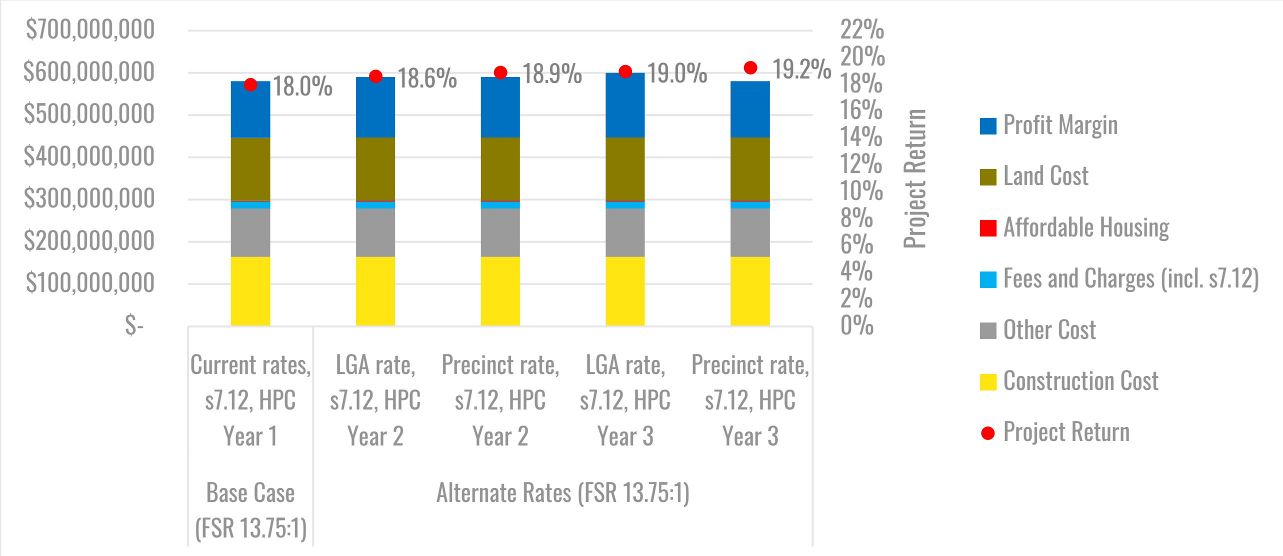


Source: Atlas

Commercial

Figure 4-3 illustrates the impact to project return in a commercial-only development in the City Core, Sydney CBD. The impact of the alternate rates is comparatively minor and offset by Year 2, given the low percentage requirement (1%).

Figure 4-3: Impact of Alternate Contributions (Precinct rate and LGA rate), City Core precinct



Source: Atlas

4.2.2 East Precinct

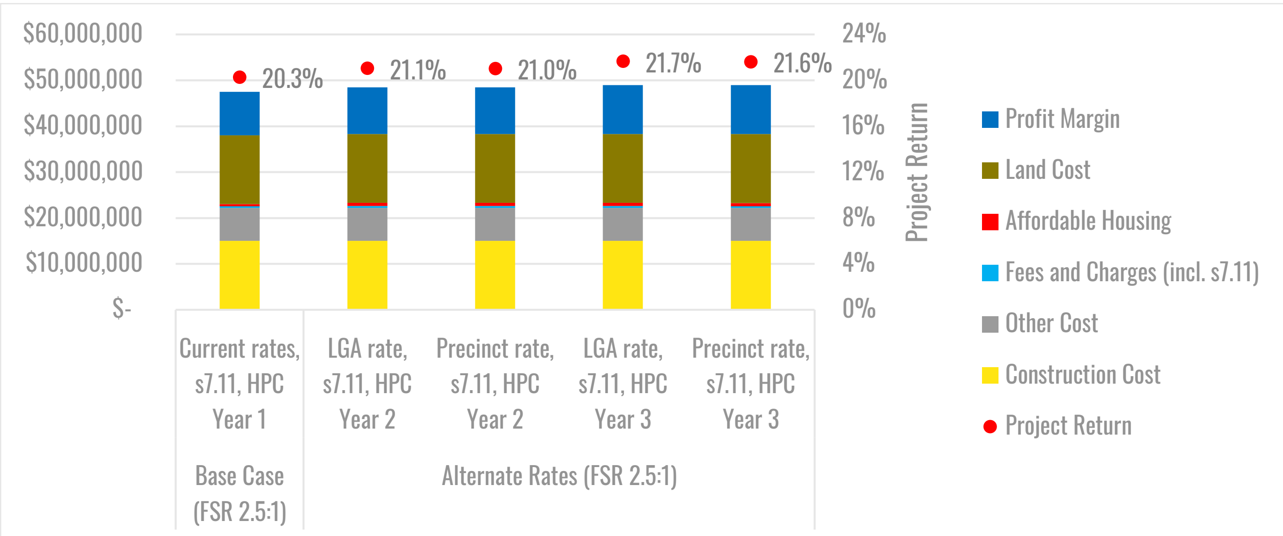
Two locations are selected for testing - Elizabeth Bay and Darlinghurst both for residential development. These locations represent the two bookends in the East precinct in terms of the price hierarchy.

Figure 4-4 and **Figure 4-5** illustrates the impact to project return (IRR) in assumed residential developments in Elizabeth Bay and Darlinghurst. The development in Elizabeth Bay is a part adaptive reuse/ redevelopment of an existing building while the one in Darlinghurst is a redevelopment. The following observations are made on the impact of alternate rates:

- If alternate rates are implemented in full, 2-3 years' of real growth offset the impact of the higher rates.
- The impact of an LGA rate ($19,500/sqm) is expectedly lower than a precinct rate ($20,000/sqm).

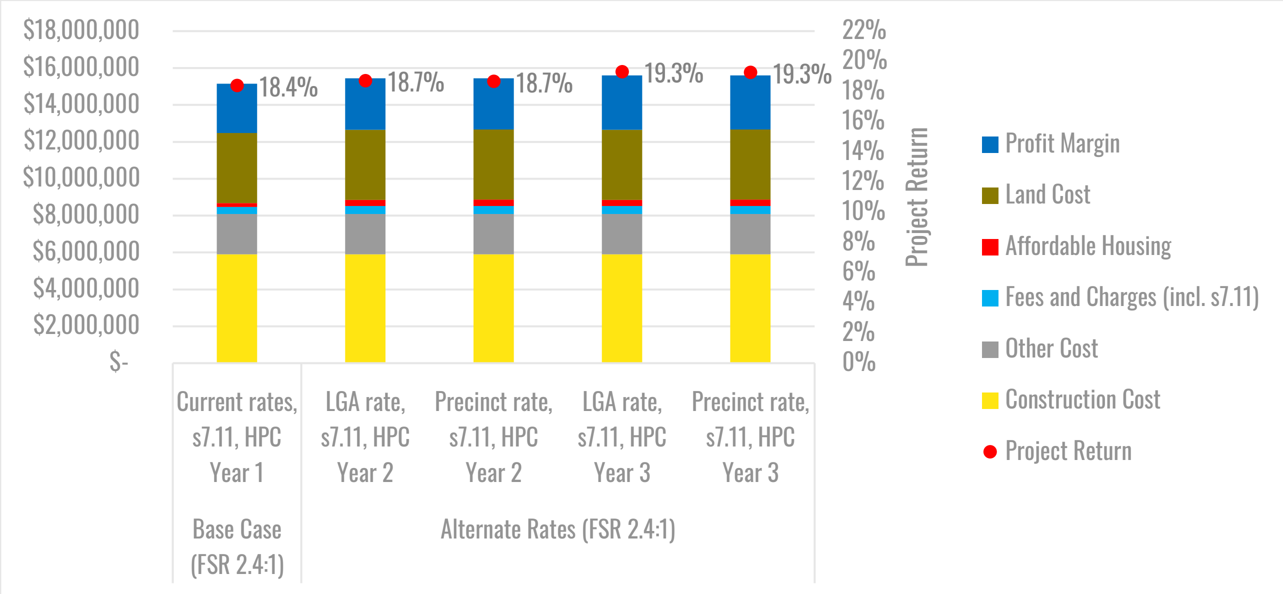
Tolerance to alternate rates is better (i.e. the impact to feasibility is less) in an adaptive reuse development if the cost of construction is lower than the cost of a comprehensive redevelopment. This is demonstrated by the notional Elizabeth Bay development in **Figure 4-4** where project return comfortably exceed the minimum hurdle rate by Year 2.

Figure 4-4: Impact of Alternate Contributions (Precinct rate and LGA rate), Elizabeth Bay



Source: Atlas

Figure 4-5: Impact of Alternate Contributions (Precinct rate and LGA rate), Darlinghurst



Source: Atlas

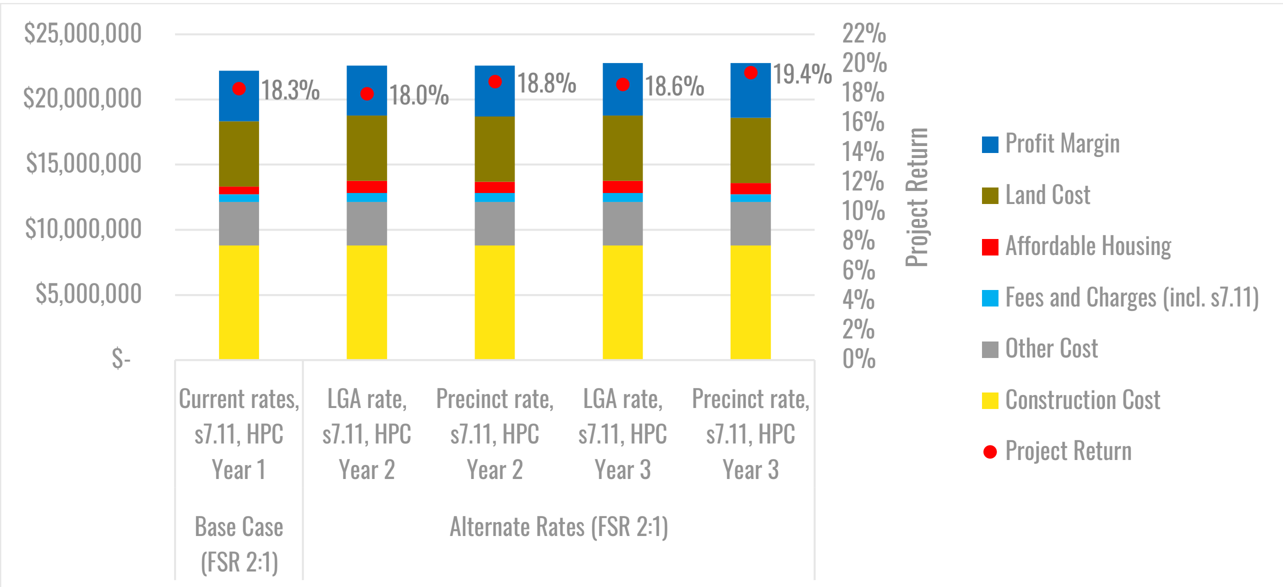
4.2.3 West Precinct

Two locations are selected for testing - Glebe and Pyrmont - both for mixed use and residential development.

Figure 4-6 and **Figure 4-7** illustrate the impact to project return (IRR) in assumed mixed use and residential development in Glebe and Pyrmont. The following observations are made on the impact of alternate rates:

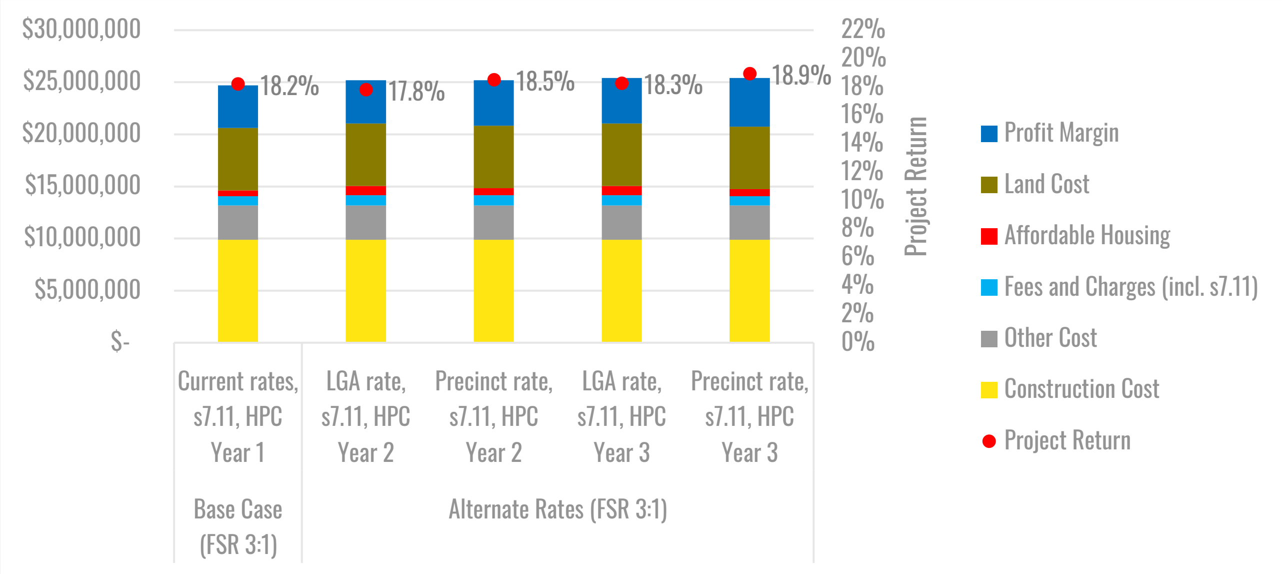
- If alternate Affordable Housing contributions are implemented in full, 2-3 years' of real growth offset the impact of the higher rates.
- Expectedly, tolerance in the higher priced suburb of Pyrmont is better, with project returns preserved by real growth of revenue.
- Despite lower sale prices in Glebe, tolerance to a fully implemented alternate rate is assisted by real revenue growth over 2-3 years.
- There is greater tolerance to a precinct rate ($15,000/sqm) compared to an LGA rate ($19,500/sqm).

Figure 4-6: Impact of Alternate Contributions (Precinct rate and LGA rate), Glebe



Source: Atlas

Figure 4-7: Impact of Alternate Contributions (Precinct rate and LGA rate), Pyrmont



Source: Atlas

4.2.4 South Precinct

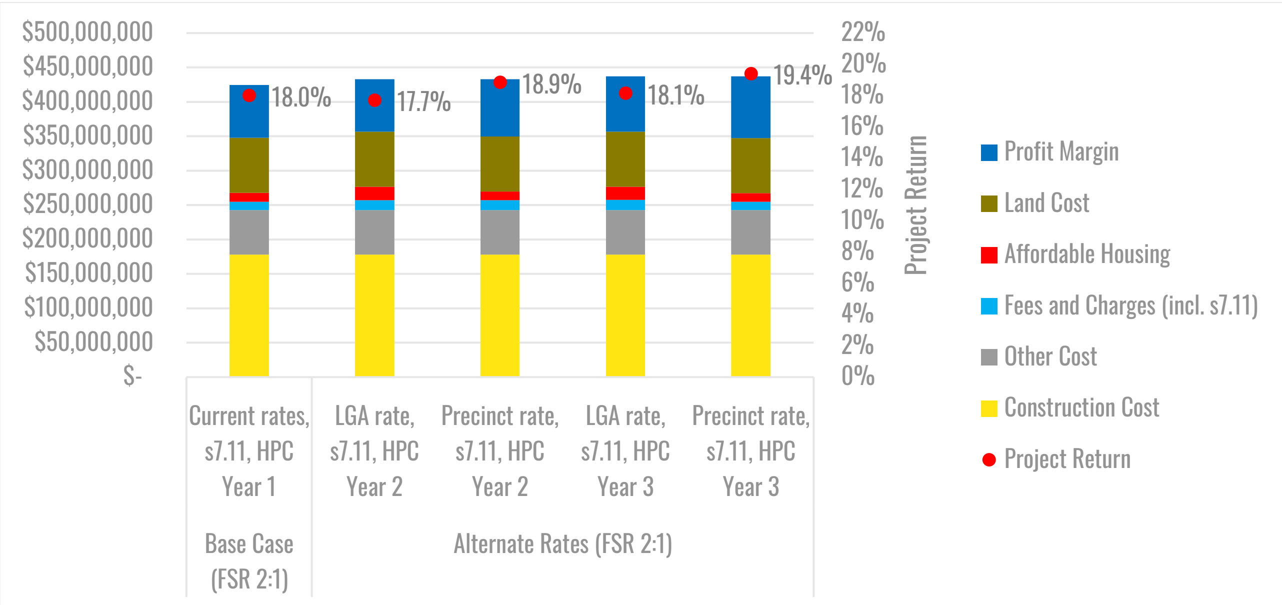
Mixed Use Residential

Two locations are selected for testing - assumed to be developed for mixed use (residential, commercial/ retail) at Waterloo and residential-only at Beaconsfield.

Figure 4-8 and **Figure 4-9** illustrate the impact to project return (IRR) in assumed mixed use developments in Waterloo and Beaconsfield. The following observations are made on the impact of alternate rates:

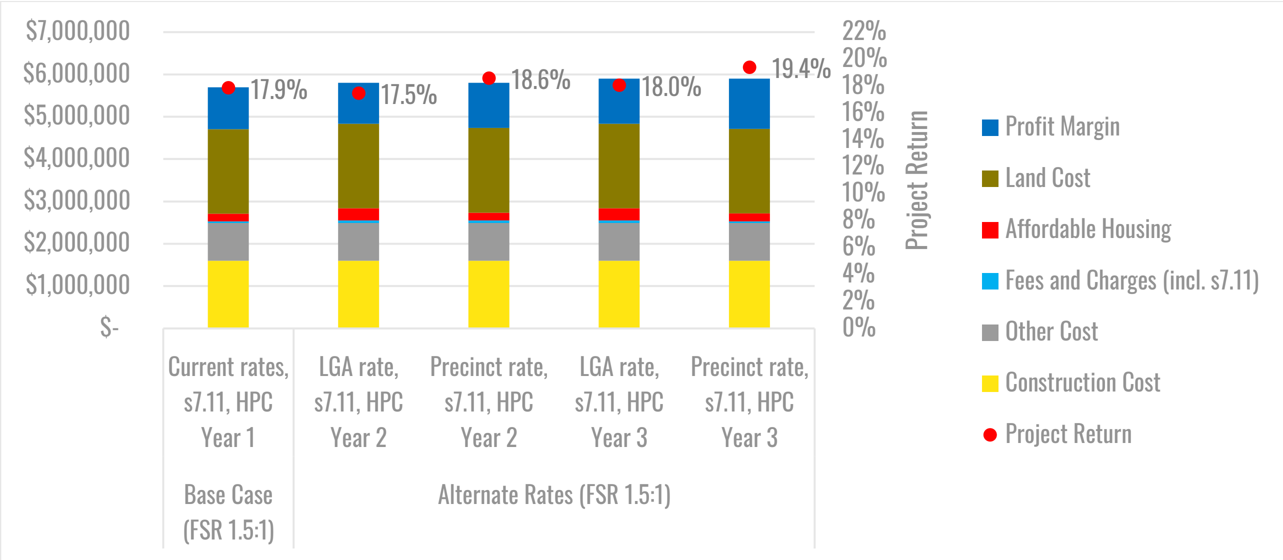
- If alternate Affordable Housing contributions are implemented in full, at least one year of real growth is needed for the impact to feasibility to be offset. This is because the increase represented by the alternate rates is the smallest in the South precinct in relative terms.
- Unsurprisingly, there is much greater tolerance to a precinct rate ($12,500/sqm) than to an LGA-rate ($19,500/sqm).
- By Year 2, the impact of the alternate precinct rate is offset, assisted by the growth of revenue in real terms.

Figure 4-8: Impact of Alternate Contributions (Precinct rate and LGA rate), Waterloo



Source: Atlas

Figure 4-9: Impact of Alternate Contributions (Precinct rate and LGA rate), Beaconsfield



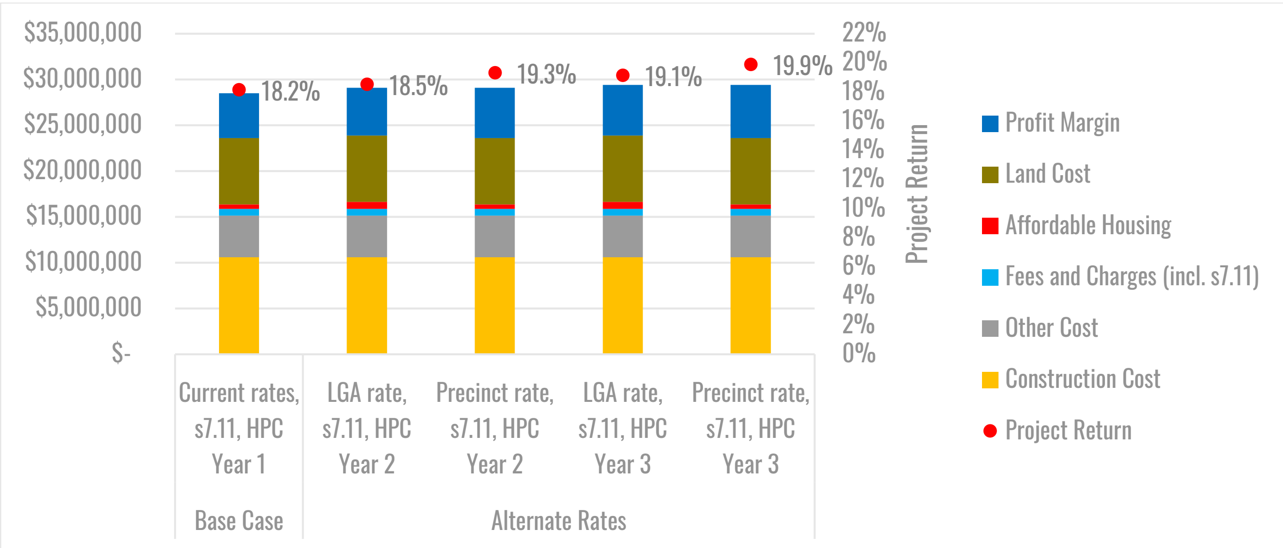
Source: Atlas

<u>Industrial</u>

Figure 4-10 illustrates the impact to project return (IRR) in assumed industrial development in Alexandria.

The impact of the alternate rates is minor and offset by Year 2, given the low percentage contribution requirement (1%).

Figure 4-10: Impact of Alternate Contributions (Precinct rate and LGA rate), Alexandria



Source: Atlas

4.3 Key Findings and Implications

The analysis in Chapter 3 highlighted the residential price hierarchy across sub-markets wherein housing stock is most expensive to procure/ deliver in the East and Central precincts, followed by the West and South precincts.

Monetary contributions collected under the current dollar rate would enable the City or its nominated CHP to purchase median priced (older) residential strata stock in the LGA. These contributions would not enable purchase or delivery of new residential units given the large price differential between median priced (old) stock and new stock. This misalignment is greatest in the East and Central precincts where new residential stock is increasingly of a luxury, high end nature.

Reflecting the value of new residential units, the Study tested a single LGA rate as well as precinct rates. The impact to feasibility from a single LGA rate is disproportionate in lower value precincts (i.e. West and South) and is considered too imprecise to warrant further consideration. **Table 4-5** lists the alternate rates ($) tested in the sample locations by precinct.

Table 4-5: Alternate Precinct Rates Tested, Clause 7.13 Contributions^

Precinct	Location	Total GFA	Current Clause 7.13 Rates			Alternate Clause 7.13 Rates		
			Dollar Rate ($/sqm)*	Contribution Rate* (%)	Contribution Amount	Dollar Rate ($/sqm)**	Contribution Rate* (%)	Contribution Amount
			(a)	(b)	(c) = (a x b)	(d)	(e)	(f) = (d x e)
Central	City Core	Commercial	$12,294	1%	$123	$17,500	1%	$175
	Midtown	Retail, Residential	$12,294	1%, 3%	$123, $369	$17,500	1%, 3%	$175, $525
	Southern	Retail, Residential	$12,294	1%, 3%	$123, $369	$17,500	1%, 3%	$175, $525
East	Elizabeth Bay	Residential	$12,294	3%	$369	$20,000	3%	$600
	Darlinghurst	Residential	$12,294	3%	$369	$20,000	3%	$600
West	Glebe	Retail, Residential	$12,294	1%, 3%	$123, $369	$15,000	1%, 3%	$150, $450
	Pyrmont	Residential	$12,294	3%	$369	$15,000	3%	$450
South	Waterloo	Retail, Residential	$12,294	1%, 3%	$123, $369	$12,500	1%, 3%	$125, $375
	Beaconsfield	Retail, Residential	$12,294	1%, 3%	$123, $369	$12,500	1%, 3%	$125, 375
	Alexandria	Industrial	$12,294	1%	$123	$12,500	1%	$125

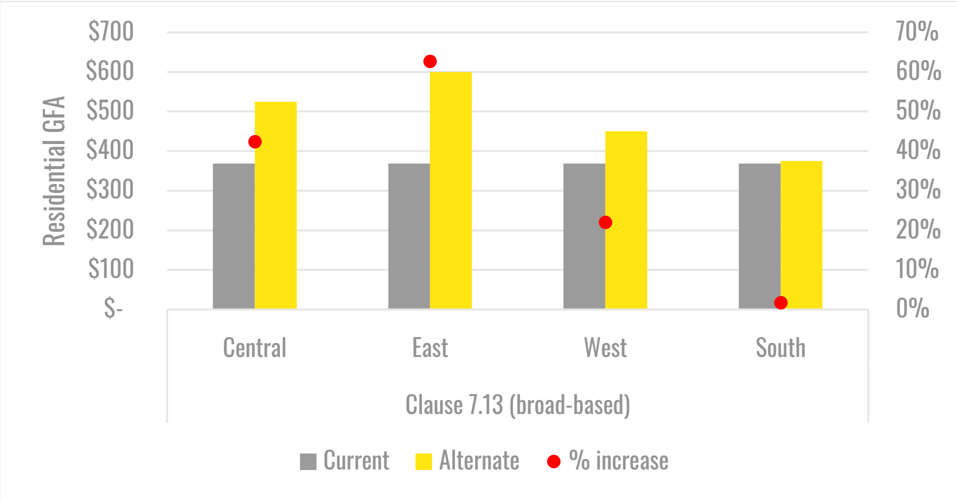
*$11,176/sqm converted to $/sqm GFA by applying generic 110% factor **based on $/sqm GFA

^on total floor area except in Central Sydney and Residual land where the % requirement is applied to new or more intensely used floor area

Source: Atlas

Figure 4-11 shows a comparison of the current and alternate equivalent monetary contribution amounts when applied to the residential GFA contribution requirement under clause 7.13.

Figure 4-11: Comparison of Current Clause 7.13 Rates v Alternate Rates by Precinct (Residential)



Source: Atlas

In percentage increase terms, the alternate rates represent ~42% increase over current rates in the Central precinct and ~63% increase over current rates in the East precinct. This is because current rates are disproportionately misaligned in the Central and East precincts where new residential product has increasingly been of a luxury nature. The current rate in these precincts is equivalent to a fraction (circa 25%) of new residential prices.

The alternate rates represent a more modest increase in West and South precincts - equivalent to increases of 22% and 2% respectively. The misalignment of current rates is not as large in these precincts and therefore the increase to achieve alignment with new residential prices is not as dramatic.

Phased Introduction

The feasibility testing above (in section 4.2) tested a worst-case scenario. That is:

- Land is purchased at a price that does not reflect the higher obligations of the alternate rates; and
- The alternate rates are implemented in full.

In the above circumstances, the testing shows that a gradual phasing-in over four years (to the beginning of Year 5) allows for real revenue growth to offset the impact to feasibility. The impact on development feasibility arising from this gradual introduction is shown in **Table 4-6** and **Figure 4-12**.

If however, the alternate rates are gradually introduced (according to the timetable in **Table 4-2**), additional modelling finds that ***even if*** land is purchased at a price that does not reflect the alternate higher rates, the impact to feasibility by the end of Year 4 is mitigated.

Table 4-6: Impact of Alternate Clause 7.13 Dollar Rates ($) on Project Return by Precinct, Phased-in over 4 years

Precinct	Location	Notional Development	Year 0	Year 1	Year 2	Year 3	Year 4
			0%	0%	50%	50%	100%
Central	Midtown	Mixed use residential	18.0%	18.3%	18.3%	18.6%	18.7%
	Southern	Mixed use residential	18.0%	18.4%	18.3%	18.7%	18.8%
	City Core	Commercial-only	18.0%	18.4%	18.9%	19.3%	19.6%
East	Elizabeth Bay	Mixed use residential	20.3%	20.9%	21.2%	21.9%	21.6%
	Darlinghurst	Mixed use residential	18.5%	19.1%	19.1%	19.7%	19.8%
West	Glebe	Mixed use residential	18.0%	19.1%	19.1%	19.8%	20.0%
	Pyrmont	Mixed use residential	18.0%	18.5%	18.6%	19.2%	19.5%
South	Waterloo	Mixed use residential	18.0%	18.6%	19.0%	19.5%	20.0%
	Beaconsfield	Medium density residential	18.0%	18.6%	18.9%	19.5%	19.4%
	Alexandria	Mixed business/ enterprise	18.3%	18.9%	19.4%	20.0%	20.5%

Source: Atlas

Finally, in circumstances where the market has advanced notice and due diligence and site negotiations result in land being purchased at a price that is reflective of the alternate rates, any adverse impact to feasibility would be avoided.

The phased introduction of any alternate Affordable Housing rates would allow sites already purchased to be progressed for development. It would also ensure the market pays an appropriate price for land opportunities. The Study is however, cognisant of the fact that landowner expectations will adjust no further than existing use values. If a site is worth less as a development opportunity (and worth more in its existing 'as is' use), development will not be the highest and best use and will therefore not occur (regardless of contributions).

There are numerous instances across the Study Area where sites are worth more in their existing use, whereby it is not a commercial proposition for those existing buildings to be redeveloped.

The Study is concerned with ensuring development and renewal of sites is still able to occur if there is a commercial proposition for them to redevelop.

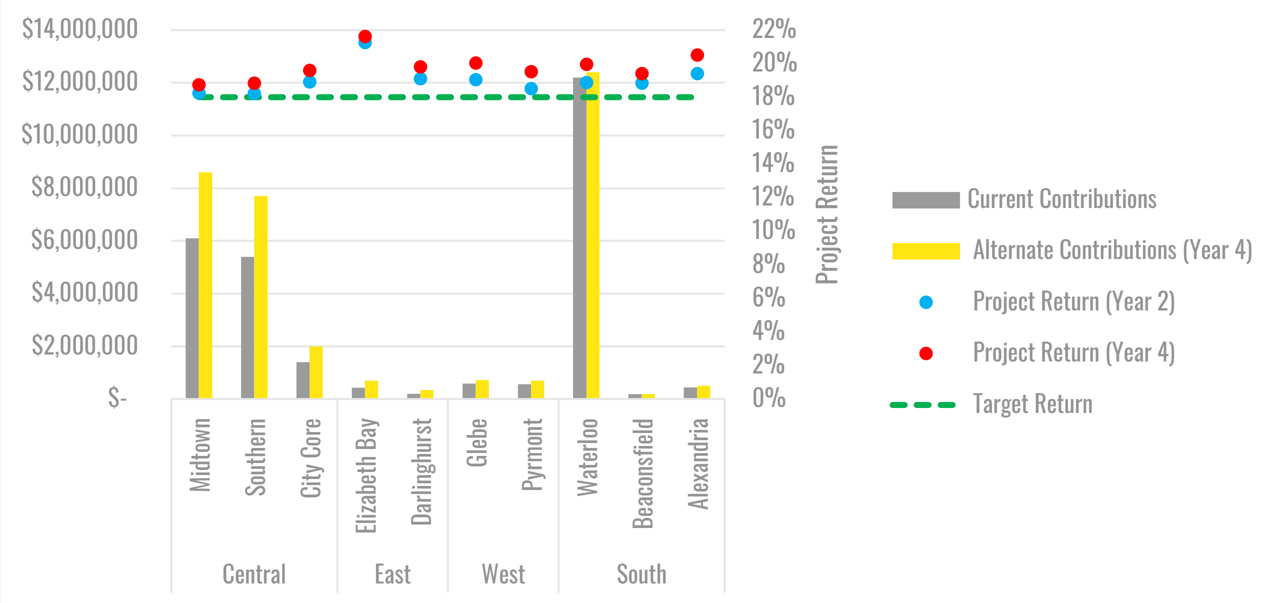
Impact on Development Feasibility

If the cost of land is not given the opportunity to adjust (i.e. the price paid for land does not account for the alternate rates), the testing shows that the combination of gradual introduction ***and*** real revenue growth generally offset the impact.

If the cost of land is given the opportunity to adjust, i.e. the price paid for land is lower, then the combination of the lower cost of land, gradual introduction ***and*** real revenue growth will completely offset any impact.

Figure 4-12 illustrates the impact of the phased-in alternate precinct dollar rates (at clause 7.13 rates of 1% and 3%) on the notional development sites tested and the resultant project returns in Year 2 (50% transition) and in Year 4 (100%, fully implemented).

Figure 4-12: Impact of Alternate Clause 7.13 Dollar Rates ($) by Precinct



Source: Atlas

Feasibility testing finds that the impact of alternate contribution rates (set at the precinct level) can be ameliorated by a gradual introduction of the new dollar rates and natural market growth over time.

5. Review of Planning Proposal Contribution Rates

5.1 Clause 7.13B Contributions

Clause 7.13B identifies an additional contribution requirement where land is rezoned and there is an increase in the FSR ('**Planning Proposal land**'). Schedule 6C in the LEP specifies the percentage contribution required when land is rezoned.

The Program provides for Affordable Housing contributions to be satisfied in-kind (completed dwellings that are dedicated/ gifted) or as equivalent monetary contributions. The equivalent monetary contribution is calculated on new floor area[4]:

- Central Sydney - 13% on new floor area.
- South and West precincts - 12% on new floor area.
- East precinct - 21% on new floor area.

The difference in % contribution rates between precincts acknowledges the price hierarchy that exists between precincts.

Alternate Dollar Rates and % Rates

Chapter 4 tested alternate dollar rates - a single LGA-wide rate and four precinct rates which were multiplied against the % rates specified in Clause 7.13. The single LGA rate resulted in a disproportionate feasibility impact on lower value precincts and was considered too imprecise to warrant further consideration. The four precinct rates strike a balance between simplicity and precision against impact on development feasibility.

This chapter tests alternate clause 7.13B contributions at the same dollar rates by precinct as those in Chapter 4. The testing in this chapter solves for an appropriate % rate for Planning Proposal land that could accompany the alternate dollar rates.

Table 5-1 shows current rates (dollar rates and precinct % rates) against the set of alternate dollar rates tested by precinct.

Table 5-1: Current and Alternate Rates ($/sqm GFA), Planning Proposal Land

Precinct	Current Rates		Alternate Rates		
	$ rate	% rate	Precinct $ rate	Current % rate	% rate
Central	$12,294/sqm	13%	$17,500/sqm	13%	To be solved
East	$12,294/sqm	21%	$20,000/sqm	21%	To be solved
West	$12,294/sqm	12%	$15,000/sqm	12%	To be solved
South	$12,294/sqm	12%	$12,500/sqm	12%	To be solved

Source: Atlas

Worst Case Scenario Tested

Similar to the tested scenarios in section 4.2, this section also tests a worst-case scenario. That is, land is purchased at a price that does not reflect the application of alternate rates. The testing examines if a gradual phasing-in over four years allows for real revenue growth to offset the impact to feasibility in a planning proposal.

Revenue levels are similarly assumed to be flat in Year 1 (recognising the current economic headwinds and inflationary cost environment). In Year 2 onwards a modest 1% per annum growth in revenue assumptions (net of cost) is assumed.

Measure of Feasibility Impact

The objective of the testing is to assess if, after Affordable Housing contributions, hurdle rates are within acceptable range.

Key performance indicators relied upon are the hurdle rates of development margin[5] and project IRR[6]. Benchmark hurdle rates and their 'feasible' ranges by land use typology were indicated in **Table 4-3**. If a development achieves a project return of at least 18% and a development/ profit margin of at least 20%, it is considered to be feasible.

[4] The floor area achieved/ enabled by the Planning Proposal
[5] Development Margin is profit divided by total costs (including selling costs)
[6] Project IRR is the project return on investment, the discount rate where the cash inflows and cash outflows are equal

5.2 Tested Scenarios

The Study develops a series of development scenarios to test the impact of alternate Clause 7.13B contribution rates. **Table 5-2** lists existing land use zones and planning proposal scenarios in select locations for testing alternate clause 7.13B rates.

Table 5-2: Notional Development Scenarios, Planning Proposals

Precinct	Suburb	Site Area (sqm)	Zone	Notional Development and Yields	Base Density	Planning Proposal
Central	Sydney CBD	2,000	SP5	Commercial, 38,500sqm commercial GFA	FSR 13.75:1	FSR 19.25:1
	Sydney CBD	2,000	SP5	Mixed use residential, 23,120sqm GFA	FSR 10.6:1	FSR 11.6:1
	Sydney CBD	2,000	SP5	Mixed use residential 19,600sqm GFA	FSR 8.8:1	FSR 9.8:1
East	Elizabeth Bay	470	R1	RFB (part refurb, part development), 1,410sqm GFA	FSR 2.5:1	FSR 3.0:1
	Darlinghurst	400	MU1	Mixed use residential, 1,120sqm GFA	FSR 2.4:1	FSR 2.8:1
West	Glebe	800	MU1	Mixed use residential, 2,000sqm GFA	FSR 2.0:1	FSR 2.5:1
South	Waterloo	16,900	MU1	Mixed use residential, 43,000sqm GFA	FSR 2.0:1	FSR 2.5:1

Source: Atlas

As a general premise, planning uplift is generally accompanied by financial upside (greater revenue potential, land value and profit). It is from this financial upside that a site has the capacity to contribute to additional Affordable Housing contributions.

Various percentage rates are iteratively tested with the precinct dollar rates - a 20% rate (residential) is found to be broadly tolerable across precincts. In the following sections, a series of graphs illustrates the impact of alternate 7.13B contributions at precinct dollar rates multiplied with 20% on additional residential GFA compared against current (dollar and %) rates.

5.2.1 Central Precinct

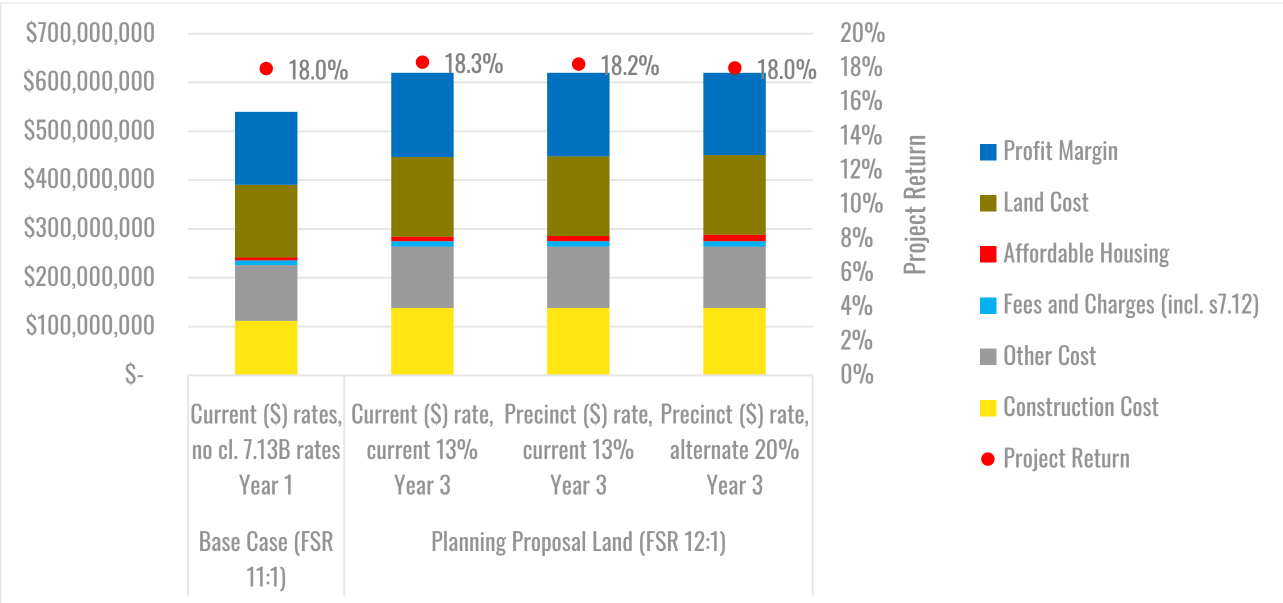
Three notional planning proposal sites are tested - additional residential FSR in two mixed use developments and additional commercial FSR in a commercial-only development.

<u>Mixed Use Residential</u>

Figure 5-1 illustrates the impact to project return (IRR). The following comments are made on impact of the alternate rates:

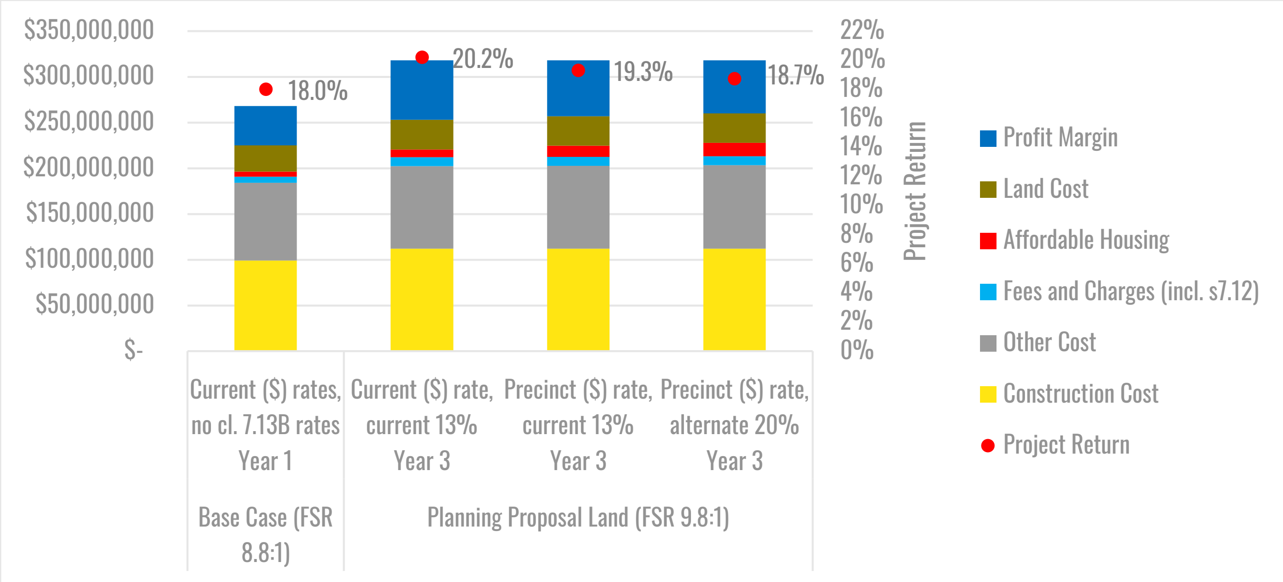
- At present, a 13% contribution of additional residential GFA is required in Central precinct in a Planning Proposal. The testing applies an alternate percentage rate of 20% to the precinct rate of $17,500/sqm.
- If fully implemented by Year 3, the impact of the alternate rates is offset.

Figure 5-1: Impact of Alternate Contributions (Precinct rate), Midtown precinct



Source: Atlas

Figure 5-2: Impact of Alternate Contributions (Precinct rate), Southern precinct



Source: Atlas

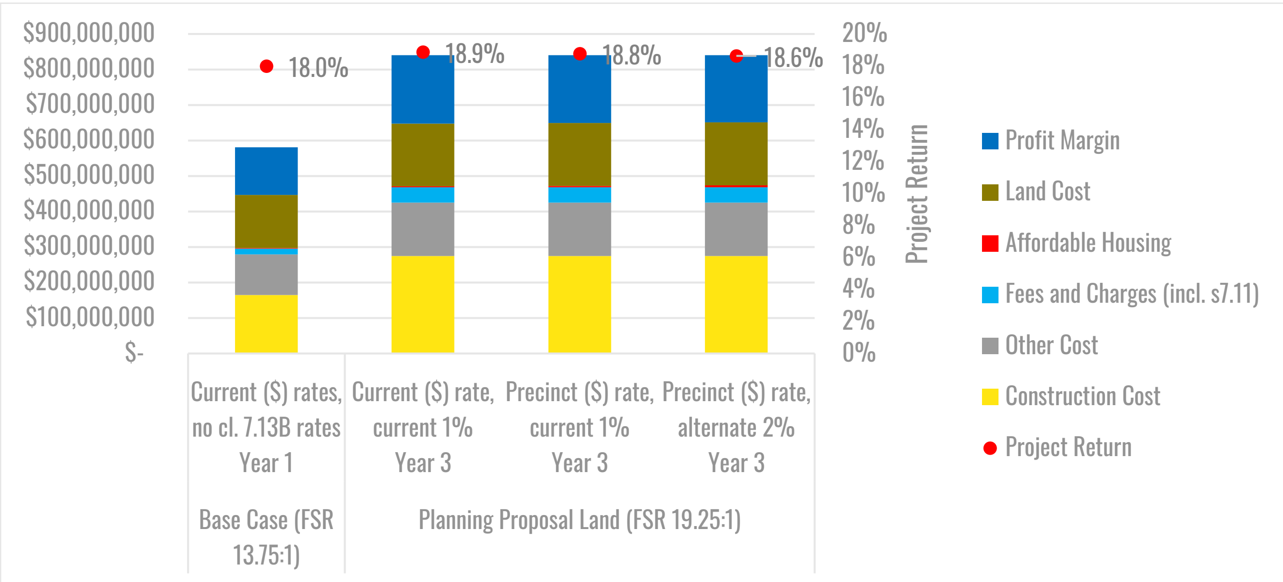
<u>Commercial</u>

Figure 5-3 illustrates the impact to project return in a commercial-only development in Sydney CBD.

At present, there is no additional Affordable Housing contribution requirement on additional non-residential GFA enabled by a Planning Proposal, only the 1% required under clause 7.13. The testing applies an additional 1% on the additional GFA (equivalent to 2%, including the 1% under clause 7.13).

If fully implemented by Year 3, the impact of the additional contributions rates is offset, assisted by the growth of revenue in real terms.

Figure 5-3: Impact of Alternate Contributions (Precinct rate), City Core precinct



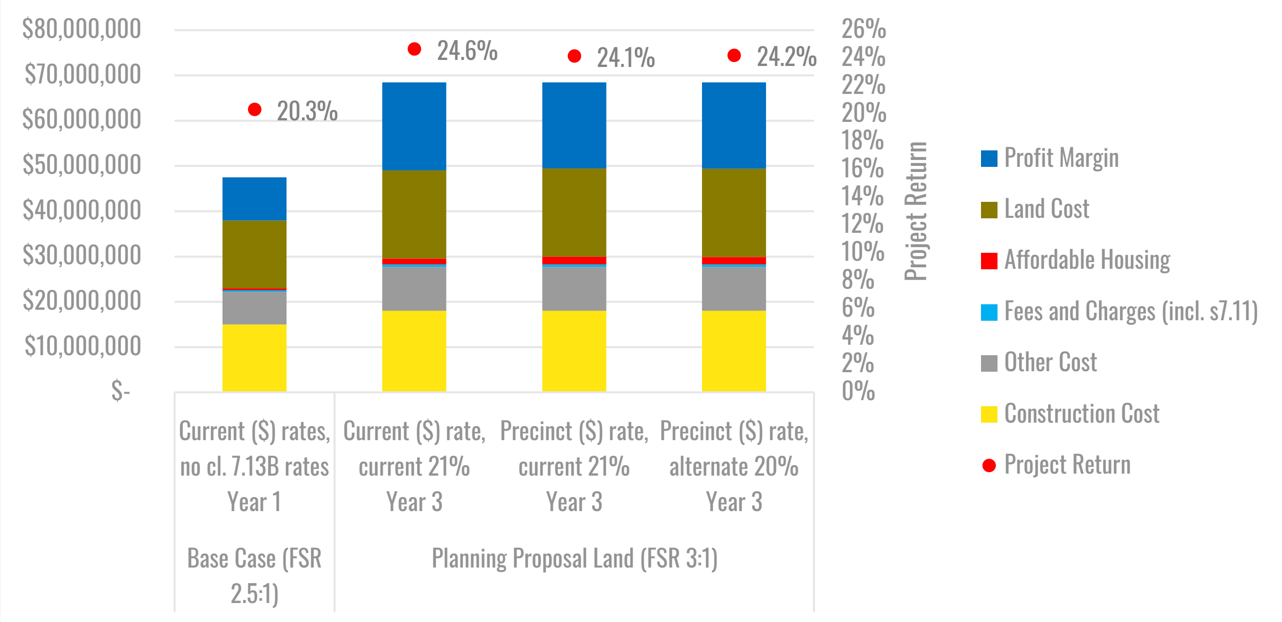
Source: Atlas

5.2.2 East Precinct

Planning proposals for sites in Elizabeth Bay and Darlinghurst are assumed to seek increased residential FSR.

Figure 5-4 illustrates the impact to project return at the precinct rate and alternate 20% rate in a notional development in Elizabeth Bay, compared to the current (dollar and %) rates. The testing shows that the alternate contribution rates are comfortably tolerated when fully implemented.

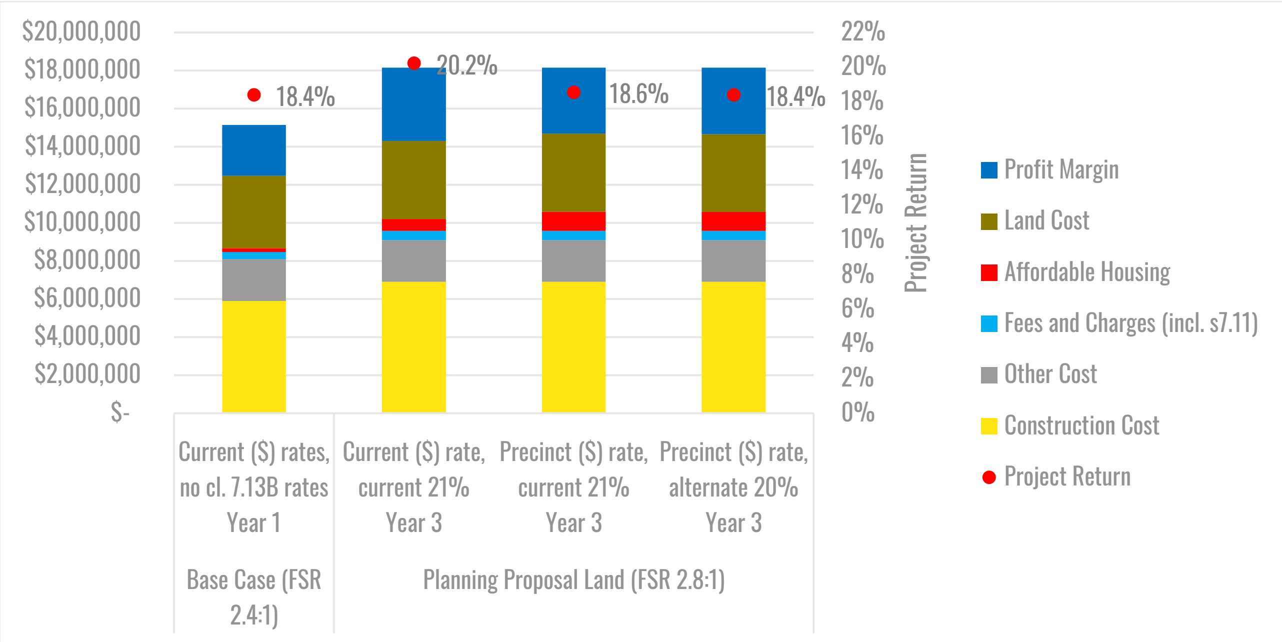
Figure 5-4: Impact of Alternate Contributions (Precinct rate), Elizabeth Bay



Source: Atlas

Figure 5-5 shows the impact to project return at the precinct rate and alternate 20% rate in a notional development in Darlinghurst. It also shows that the alternate contribution rates are comfortably tolerated when fully implemented.

Figure 5-5: Impact of Alternate Contributions (Precinct rate), Darlinghurst



Source: Atlas

Similar to the testing in Chapter 4, the development in Elizabeth Bay is a part adaptive reuse/ refurbishment of an existing building while the one in Darlinghurst is a redevelopment. Both are assumed to seek additional FSR in a planning proposal:

- At present, Planning Proposal land in the East precinct is required to contribute 21% (which includes 3% under clause 7.13) of the additional residential GFA to Affordable Housing. The testing applies 20% (which also includes 3% under clause 7.13) to the precinct rate of $20,000/sqm.
- In both instances, the alternate contribution rates are feasibly tolerated.

The testing assumes the worst-case scenario - i.e. that the price paid for land does not account for the higher contribution rates. If the market was notified in advance and had the opportunity to pay an appropriate price for land, there would conceivably be no impact on feasibility.

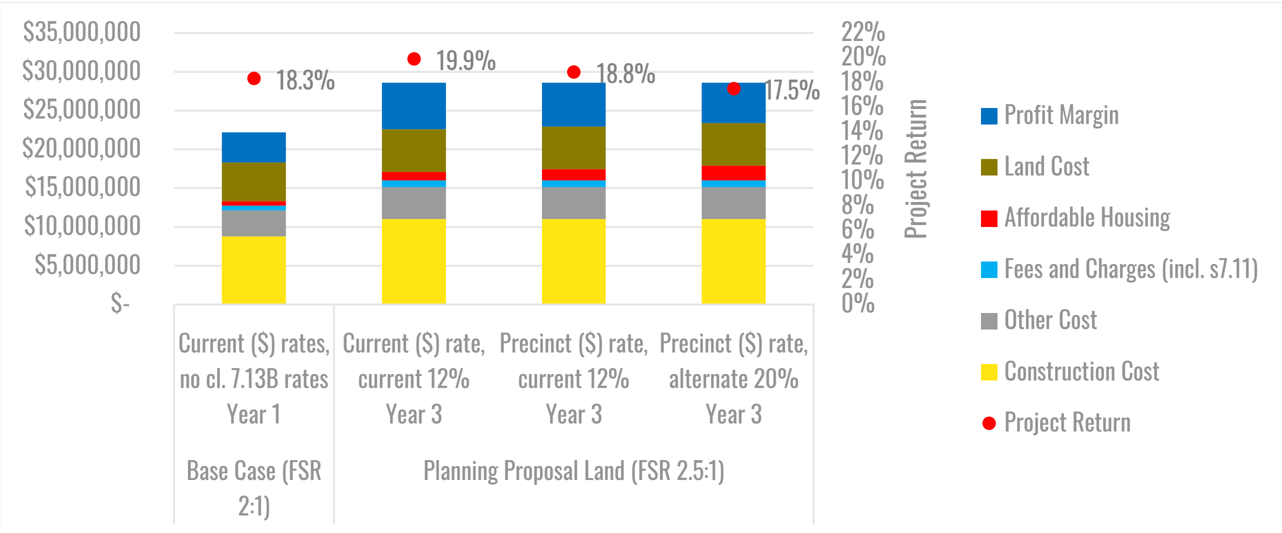
5.2.3 West Precinct

Planning proposals for a site in Glebe is assumed to seek increased residential FSR.

Figure 5-6 illustrates the impact to project return in an assumed mixed use development in Glebe. The following observations are made on the impact of alternate rates:

- At present, Planning Proposal sites in the West precinct are required to contribute 12% (which includes 3% under clause 7.13) of the additional residential GFA to Affordable Housing. The testing applies 20% (which also includes 3% under clause 7.13) to the precinct rate of $15,000/sqm.
- If fully implemented by Year 3, the impact of the alternate rates is almost offset, assisted by the growth of revenue in real terms.

Figure 5-6: Impact of Alternate Contributions (Precinct rate), Glebe



Source: Atlas

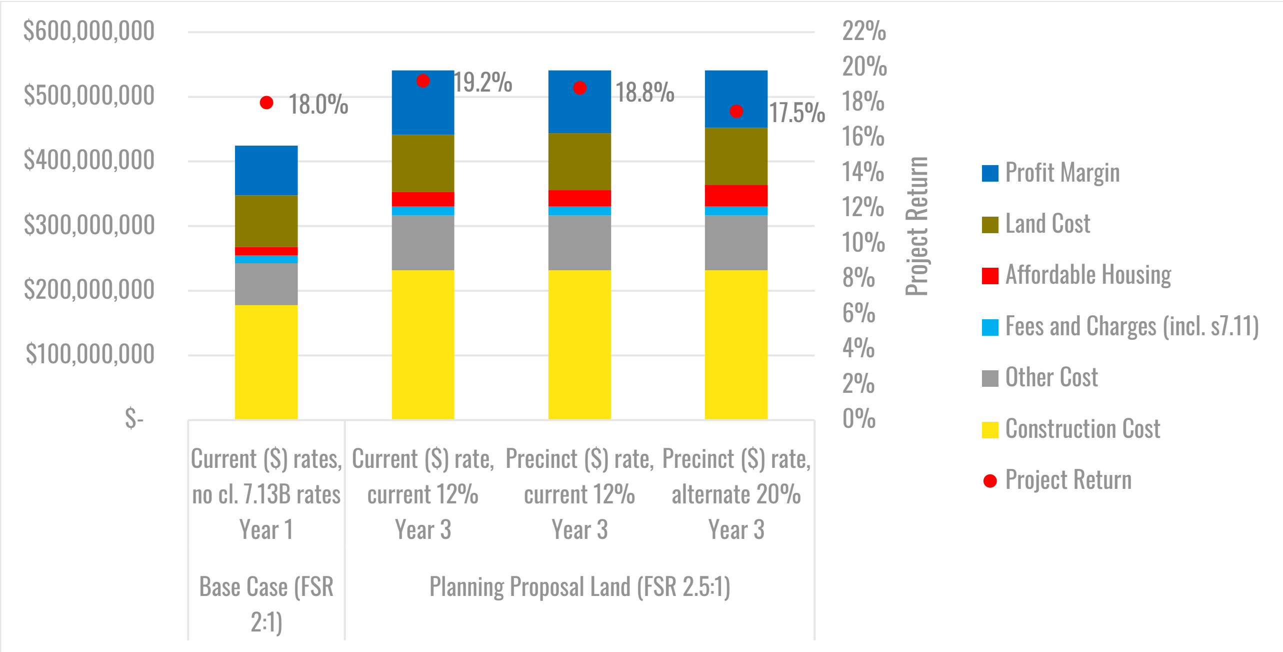
5.2.4 South Precinct

A planning proposal for a site in Waterloo is assumed to seek increased residential FSR.

Figure 5-7 illustrates the impact to project return in an assumed mixed use development in Waterloo. The following observations are made on the impact of alternate rates:

- At present, Planning Proposal sites in the South precinct are required to contribute 12% (which includes 3% under clause 7.13) of the additional residential GFA to Affordable Housing. The testing applies 20% (which also includes 3% under clause 7.13) to the precinct rate of $12,500/sqm.
- If implemented fully by Year 3, the impact of the alternate rates is almost offset, assisted by the growth of revenue in real terms.

Figure 5-7: Impact of Alternate Contributions (Precinct rate), Waterloo



Source: Atlas

5.3 Key Findings and Implications

In Chapter 4 the Study tested Clause 7.13 alternate dollar rates (while retaining existing percentage contribution rates).

Chapter 5 tests Clause 7.13B contributions by applying the same precinct dollar rates as those tested for Clause 7.13 (Chapter 4). The testing then solved for percentage rates that balance delivery of housing outcomes and feasibility impact.

Table 5-3 lists the alternate contribution rates tested ($ and %) in the sample locations by precinct, compared against current Clause 7.13B rates ($ and %). The approach moves away from having fixed dollar ($) and differential percentage (%) rates to having differential dollar rates by precinct with a standard percentage (%) rate.

Table 5-3: Alternate Rates Tested, Planning Proposal Land

Precinct	Location	Additional GFA	Current Clause 7.13B Rates			Alternate $ Rates, Current % Rates			Alternate Rates ($ and %)		
			Dollar Rate ($/sqm)	% Rate*	Contribution Amount	Dollar Rate ($/sqm)	% Rate*	Contribution Amount	Dollar Rate ($/sqm)	% Rate*	Contribution Amount
			(a)	(b)	(c) = (a x b)	(d)	(e)	(f) = (d x e)	(g)	(h)	(i) = (g x h)
Central	City Core	Commercial	n/a	n/a	$-	$17,500	n/a	$-	$17,500	2%	$350
	Midtown	Residential	$12,294	13%	$1,598	$17,500	13%	$2,275	$17,500	20%	$3,500
	Southern	Residential	$12,294	13%	$1,598	$17,500	13%	$2,275	$17,500	20%	$3,500
East	Elizabeth Bay	Residential	$12,294	21%	$2,582	$20,000	21%	$4,200	$20,000	20%	$4,000
	Darlinghurst	Residential	$12,294	21%	$2,582	$20,000	21%	$4,200	$20,000	20%	$4,000
West	Glebe	Residential	$12,294	12%	$1,475	$15,000	12%	$1,800	$15,000	20%	$3,000
South	Waterloo	Residential	$12,294	12%	$1,475	$12,500	12%	$1,500	$12,500	20%	$2,500

*applied on new floor area and is inclusive of Clause 7.13 contribution (1% or 3% whichever the case may be)
Source: Atlas

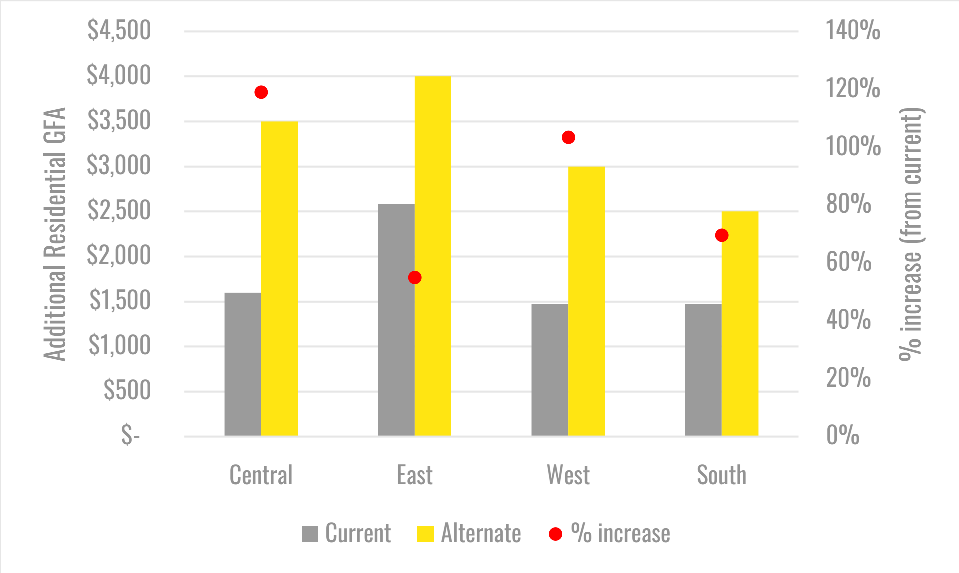
The percentage rates tested to be appropriate are:

- 20% (applied to residential floor area achieved in a Planning Proposal) and;
- 2% (applied to commercial floor area achieved in a Planning Proposal in Central Sydney).

The move away from differential percentage rates to a standard percentage rate *and* from a flat dollar rate to differential dollar rates (by precinct) is intended to reflect the residential pricing hierarchy across the LGA. The approach seeks to achieve an equitable outcome across the LGA - that regardless of location, Planning Proposal land make the same proportion (%) of Affordable Housing contributions per additional GFA enabled by a planning proposal.

Figure 5-8 shows a comparison of the current and alternate equivalent contribution amounts ($/sqm) when additional residential GFA is achieved via a planning proposal.

Figure 5-8: Comparison of Current Clause 7.13B Rates v Alternate Rates by Precinct (Residential)



Source: Atlas

In percentage increase terms, the alternate rates represent ~119% increase over current rates in the Central precinct and ~55% increase over current rates in the East precinct. This is because current rates are disproportionately misaligned in the Central and East precincts where new residential product has increasingly been of a luxury nature. Current rates in these precincts are equivalent to a fraction (circa 25%) of new residential prices.

The alternate rates represent a more modest increase in West and South precincts - equivalent to increases of 103% and 69% respectively. The misalignment of current rates is not as large as in these precincts and therefore the increase to achieve alignment with new residential prices is not as dramatic.

Phased Introduction

The purchase of land with the intention of advancing a planning proposal to amend planning controls carries risk. A proponent would be aware of the planning risk associated with a planning proposal, the technical studies required and the need to demonstrate strategic and site-specific merit. There would be requirement to offset any environmental impact and also a requirement to contribute to public benefit, executed in a planning agreement.

Clause 7.13B and the Program provide a proponent with detail on the Affordable Housing requirements on Planning Proposal land, allowing a proponent to account for these along with all the other requirements and cost associated with a planning proposal. If a proponent did not have the risk appetite for a planning proposal, they would not progress with one, being able to progress under existing controls instead, as a standard development application on a development site.

The phased introduction of Clause 7.13B contribution rates (for Planning Proposal land) would allow planning proposals already in train to be completed and eventually progressed for development. It would also ensure the market pays an appropriate price for land opportunities and that landowner expectations have the opportunity to gradually adjust.

Given the risk profile of planning proposals and Planning Proposal land, in that they are not an as-of-right entitlement, they carry risk and uncertain outcomes, a similar phased introduction of clause 7.13 contributions is considered appropriate.

Worst-case Scenario

In a worst-case scenario (i.e. the price paid for land is not reflective of the contributions), the feasibility impact is greatest in the East precinct where the increase in contributions is greatest. With real revenue growth, the impact is ameliorated over time. If the price paid for land is reflective of the new contributions, impact to feasibility can be mitigated/ avoided.

Irrespective of the price paid for land, planning proposals are in and of themselves risky. Proponents of planning proposals would be aware that amendments to planning controls sought are not a given. In contrast, development applications have less planning risk attached to them - proponents are able to better predict a development outcome and statutory fees and charges (including Affordable Housing contributions).

Impact on Development Feasibility

Similar to the clause 7.13 contributions, if the cost of land is not given the opportunity to adjust (i.e. the price paid for land does not account for the alternate rates), the testing shows that the combination of gradual introduction ***and*** real revenue growth generally offset the impact.

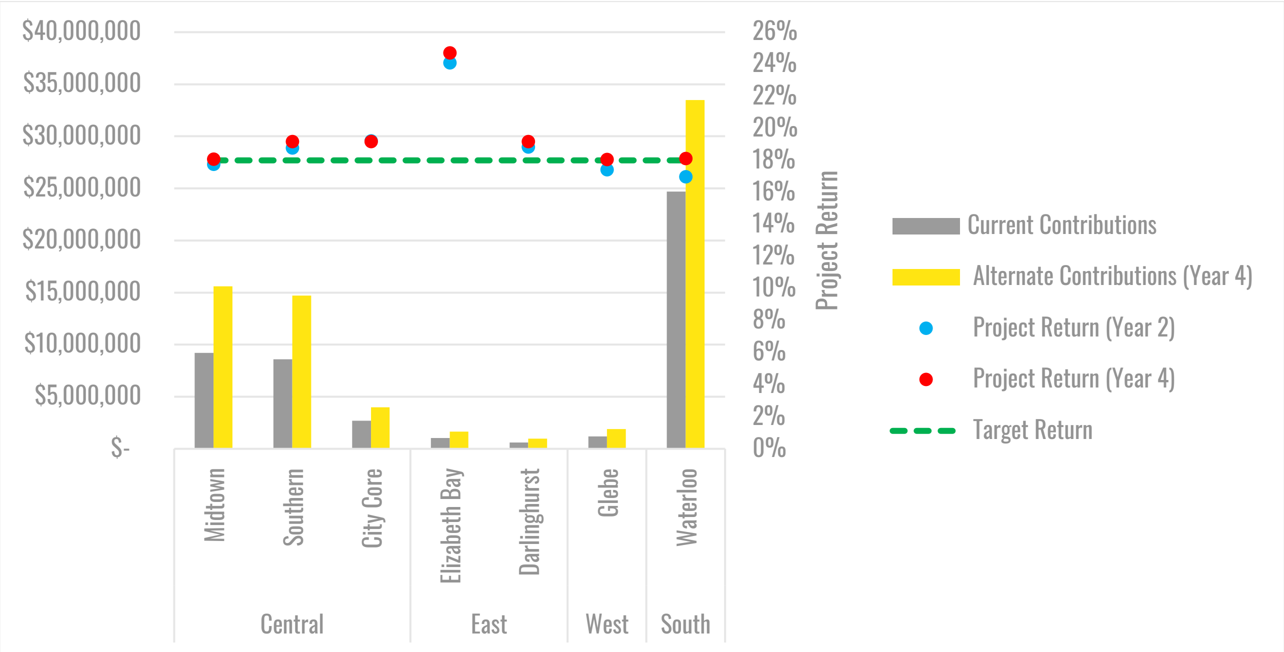
If the cost of land is given the opportunity to adjust, i.e. the price paid for land is lower, then the combination of the lower cost of land, gradual introduction ***and*** real revenue growth will completely offset any impact.

Figure 5-9 illustrates the impact of the phased-in alternate 7.13B percentage contribution rates (with the alternate precinct dollar rates) and the resultant project returns in Year 2 (50%) and in Year 4 (100%, fully implemented)

The alternate 7.13B percentage contribution rates (applied to additional GFA or new floor area) are:

- Residential in all precincts - 20% (inclusive of clause 7.13 contribution of 3%).
- Commercial in Central Sydney - 2% (inclusive of clause 7.13 contribution of 1%).

Figure 5-9: Impact of Alternate Clause 7.13B Contribution Rates ($ and %) by Precinct



Source: Atlas

The testing assumes that public benefits with a cost implication (e.g. construction of public access laneway, embellishment of public open space) will not be simultaneously required of Planning Proposal land - in line with current guidance in the Program. Should contributions to other public benefit items be required (to be executed in a planning agreement), the Affordable Housing requirement should be reduced.

6. Considerations for Implementation of Review

6.1 Development Feasibility

The Study acknowledges that a number of headwinds currently make it very challenging for development to be feasible. This is a result of the cumulative influence of high existing-use values (and therefore the cost to consolidate a development site), elevated construction costs and relatively soft end sale values of completed product.

As a basic premise, for any (additional) contributions to be viable, development needs to be feasible in the first instance. If development is not feasible (regardless of contributions), the development will not occur. Therefore if development is not feasible (whether due to lack of market demand or high cost of land), the issue of Affordable Housing contributions is moot.

Structural Trends

The development pipeline has been severely constrained by the cumulative effects of escalating construction costs, labour shortages, rising interest rates and softer demand. In residential markets, softer demand has been driven by rising interest rates and reduced borrowing capacity. In commercial office markets, softer demand has been driven by tenant retreat and a preference shift away from secondary quality space.

The cost of construction has been under significant upward pressure in the last 24-36 months. Some industry commentators expect cost rate escalations to return to trend from 2025. This does not mean construction cost prices will return to their previous levels, merely that annual cost rises will be circa 3%-4%, down from their current rises in excess of 10% per annum.

The imposition of alternate Affordable Housing contributions today is unlikely to be tolerated by many developments, given the factors aforementioned. As the market and economic environment begins to stabilise, the phased introduction of Affordable Housing contributions would give development markets the opportunity to adjust gradually.

Tolerance to Alternate Contribution Rates

The impacts to development feasibility from implementation of the alternate Clause 7.13 contribution rates is generally tolerated when phased-in over four years from adoption of the Program (50% in Year 2 and fully implemented by Year 4).

The Study highlights that the feasibility testing examines the 'worst case' where land has already been purchased for development and the price paid did not contemplate the new Affordable Housing contributions.

If the cost of land is given the opportunity to adjust, i.e. the price paid for land is lower, then the combination of the lower cost of land, gradual introduction ***and*** real revenue growth will completely offset any impact. Even if the price paid for land does not account for the alternate rates, the testing shows that the combination of gradual introduction ***and*** real revenue growth generally offset the impact.

The contribution impact testing makes the following critical observations:

- The phasing-in of the alternate Clause 7.13 precinct rates ($ rates) in Year 2 at 50% results in a relatively minor impact on feasibility. In subsequent years, natural market growth helps to offset any impact as the alternate rates are assumed to be fully implemented by Year 4.
- The phasing-in of the alternate Clause 7.13B precinct rates ($ rates and % rates) in Year 2 at 50% results in a relatively minor impact on feasibility. In subsequent years, natural market growth helps to offset any impact as the alternate rates are assumed to be fully implemented by Year 4.

The gradual implementation of the alternate rates is generally tolerated by development (in circumstances where land has already been purchased).

With notice, developers have the opportunity to pay a price for land that reflects the various fees and charges that are payable. The rationale for gradual implementation is so that land values (and landowner expectations) adjust gradually.

If developers pay a price for land that is reflective of the various contribution obligations, development can tolerate the alternate rates and no phasing-in would be required.

6.2 Impacts on Development Supply

The Study is cognisant of the importance of ensuring any alternate Affordable Housing contribution rates should not undermine future supply of floorspace.

Though the Study acknowledges that site-specific feasibility impacts are not the issue in question; feasibility impact is relevant for policy decisions where it threatens development supply and achievement of planning objectives. The impact on feasibility is only relevant in this context.

The impact on feasibility and ultimately the impact on development supply is a nuanced issue. Negative impacts are more likely to be tolerated in a rising market and/ or if planning or amenity uplifts can be expected. Supportive market conditions help to mitigate any impact, allowing the contributions to be absorbed within 'naturally-occurring' price increases.

In a flat market, developers may still proceed with development and accept the increase in contributions subject to acceptable reduction in development margin. If the impact to development margin is not acceptable (making the project no longer bankable), the development will not proceed.

In the Study Area, dwelling projections indicate that in the next 2-5 years), as a proportional share of total dwellings, a large proportion is expected to occur in the South precinct where residential product is generally positioned at the middle end of the market. The alternate Clause 7.13 rates are approx. 12% higher than current rates in the South precinct. Here, if advance notice was provided and market participants have the opportunity to adjust to a gradual implementation of new Affordable Housing charges, the nature of the observed feasibility impacts could be ameliorated.

The impact to feasibility is expected to be greatest in the East precinct, where the alternate rates are almost 63% higher than current dollar rates. Given the relatively minor scale of future supply and the pursuit of small-scale development/ adaptive reuse, on balance, any feasibility impact is not expected to affect the large scale future supply of floorspace.

6.3 Policy Considerations

If contributions to Affordable Housing were made in-kind (as completed dwellings within a development), on the face of it, the objects of the Program would be satisfied. Dedication of completed dwellings does not always result in the optimum Affordable Housing outcome (discussed at greater length below).

The move away from a flat dollar rate to differential dollar rates (by precinct) is intended to reflect the residential pricing hierarchy. The approach seeks to achieve an equitable outcome across the LGA - that regardless of location, developments make the same proportional contribution (%) to Affordable Housing. When fully implemented, this would represent a planning obligation that is equitable, with contribution dollar amounts reflective of the price and value hierarchy that exists.

The equivalent monetary contribution is currently calculated based on the median strata dwelling price in the Sydney LGA. The Study shows that the price levels of existing dwelling stock is lower than newly completed stock, which is unsurprising as buildings depreciate due to physical and functional obsolescence. Monetary contributions collected under the current rates would facilitate purchase of median priced (older) residential strata stock in the LGA, but not new residential units.

The Study found a price spread for existing median priced strata unit is within a relatively 'tight' range - $8,000/sqm GFA to $14,000/sqm GFA. The spread for new residential units is however much wider - $12,500/sqm GFA to $45,000/sqm GFA due to the increasing prevalence of luxury product in some markets (in particular the East and Central precincts).

Implementation of alternate rates would better align monetary contributions to the delivery of new housing outcomes.

Clause 7.13 Contributions

A clause 7.13 contributions amount is currently calculated as follows:

- For in-kind contribution (completed dwellings) - the percentage contribution rate specified in clause 7.13, being 3% of floor area for residential development and 1% of floor area for non-residential development.
- For monetary contribution - the product of the percentage contribution rate in clause 7.13 and the dollar rate (which is based on the LGA median strata dwelling price) and is currently inform across the LGA.

The Study recommends amending the dollar rate to a precinct rate that reflects the value of new residential units. There would be no change to the percentage contribution rate in clause 7.13 - 1% (non-residential) and 3% (residential).

The Study additionally recommends specifying dollar rates based on $/sqm GFA (not $/sqm TFA). This is because:

- Market sales activity is recorded/ quoted in $/sqm internal terms (generally excluding balconies, car spaces, storage areas, etc.). These $/sqm internal rates could be converted to $/sqm GFA.
- It would simplify the development assessment process where GFA is a lodged metric of development.

The majority of development (housing) supply in the Study Area is understood to result from development applications rather than from planning proposals. A gradual implementation period would avoid 'shocking' the market and allow sites already purchased to be progressed for development at the current rates. Market participants could factor-in the new rates into investment and purchase decisions. It would also allow landowner expectations to adjust.

Clause 7.13B Contributions

A clause 7.13B contributions amount is currently calculated as follows:

- For in-kind contribution (completed dwellings) - the percentage contribution rate specified in the Program, which is differentiated by precinct.
- For monetary contribution - the product of the percentage contribution rate in the Program and the dollar rate (which is based on the LGA median strata dwelling price) and is currently inform across the LGA.

The Study recommends amending the dollar rate to similar precinct rates as clause s7.13 as well as simplifying the multiple percentage contribution rates in the Program to - 20% (residential) and 2% (non-residential in the Central precinct).

This would result in a flat % rate, with the overall contribution differentiated by precinct dollar rate - which is intended to reflect the residential pricing hierarchy across the LGA. The approach seeks to achieve an equitable outcome across the LGA - that regardless of location, Planning Proposal land make the same proportion (%) of Affordable Housing contributions per additional GFA enabled by a planning proposal.

While a proponent would be aware of the inherent risk in a planning proposal, a gradual implementation period would allow planning proposals already in train to be progressed and eventually developed at the current rates. Market participants could factor-in the new rates into investment and purchase decisions. It would also allow landowner expectations to adjust.

It is relevant to note that compared to development applications, Planning Proposal land plays only a minor role in the City's development supply.

CHP Requirements and Form of Contributions

Not all forms of in-kind contribution result in optimum affordable housing outcomes. To decide on the most appropriate form of contribution, it is necessary to understand the CHP sector, their resources and how they operate.

CHPs generally operate in a not-for-profit sector and have tax advantages. They are exempt from GST, land tax and in some cases local contributions. A CHP can generally build dwellings for a cheaper cost than a developer can.

In the absence of any regular/ recurrent funding, CHPs rely on Government capital grants and funding subsidy programs (such as NRAS), developer contributions and mixed tenure developments where market housing is either sold or rented at market rents to cross-subsidise or fund delivery of affordable housing elsewhere.

CHPs who have a large balance sheet (from a large housing asset base) have the potential to use debt finance to undertake development activity (secured against their balance sheet). They however need to be able to service that debt - generally from operating surpluses (the amount that rental income exceeds rental management expenses) in the business.

Developer (cash) contributions and concessional land purchases are valuable sources of funds, particularly where rents are income-based and do not grow commensurate with the cost to operate the dwellings. By using their structural tax advantages, CHPs can combine cash or land contributions received to build new stock in a cost-effective manner.

Atlas' work with CHPs overwhelmingly shows that strata titled units designed for the purchaser market are not preferred by CHPs. They are not suitable from a tenant requirement and management perspective. For example, luxury kitchen appliances are expensive to install and to maintain. Further, strata levies erode rental income otherwise received by a CHP.

CHPs prefer separation of ownership and actively seek to have input into the design of the dwellings. In particular:

- They prefer dwellings held under Torrens title (rather than strata title or 'salt and peppered' throughout a development) as this enables autonomy of, and more effective management post-completion. This also enables holistic review of rents and operating costs to ensure appropriate level of services and monitor financial sustainability.
- During design, CHPs incorporate features suitable to the needs of expected tenant cohorts. The use of materials and finishes that are robust and cost-effective ensure functionality and cost-effectiveness during management.

Contributions to the CHP sector will assist to build their balance sheet and enable them to grow. This would leverage the structural advantages that the CHP sector brings to development and management of housing (being tax concessions, exemptions, and 'know-how'). Direct distribution to a CHP will result in greater affordable housing outcomes compared to when CHPs are merely engaged to manage the dwellings at a fee-for-service.

Application to Build-to-rent Housing and Co-Living Development

In the interest of encouraging the fledgling Build-to-rent (**BtR**) and co-living sectors, a fixed term moratorium to new Affordable Housing rates could be considered. These developments would be subject to current rates during that time.

6.4 Steps for Implementation

The Study shows the role that gradual implementation can play in mitigating adverse feasibility impact. This allows:

- Sites already purchased to be progressed for development and those in the pipeline to be delivered.
- Market participants to factor-in the new Affordable Housing charges in their due diligence and purchase negotiations.
- Development momentum that is building in certain markets to continue.

As with all contributions policy, landowner expectations and market behaviour adjust over time. Though, in established urban areas like the Study Area, property values will only adjust to the extent of their existing use.

Implementation that provides clear notice to the market will ensure any adverse impact to future investment can be mitigated as far as possible. The impact testing shows that gradual ***staging*** of the new contributions/ charges is critical.

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, rising end sale values (a result of natural market cycles) also help to offset the impact of the new charges.

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.

Precinct-based Rates and Phasing-in

The Study recommends the adoption of precinct-based rates to recognise the price hierarchy between sub-markets.

Table 6-1: Recommended Implementation of New Rates

Contribution	% Rate	Equivalent Dollar Rate ($/sqm GFA)^	Phasing-in (from Council adoption)^^
Clause 7.13*	• 1% non-residential (no change) • 3% residential (no change)	• Central - $17,500 • East - $20,000 • West - $15,000 • South - $12,500	Start Year 1 and 2 - 0% Start Year 3 and 4 - 50% Start Year 5 - 100%
Clause 7.13B**	• 20% residential (all precincts) • 2% non-residential (Central precinct only)		

*applicable on total GFA except in Central Sydney and Residual Land where the % requirement is applied to new and more intensely used floor area

**applicable on new/ additional GFA which is achieved/ enabled by a planning proposal

^indexed annually in accordance with the method of indexation set out in the City of Sydney Affordable Housing Program

^^full implementation of Affordable Housing rates in 4 years (after the formal exhibition and adoption by Council of changes)

Source: Atlas

Equivalent Dollar Rates by Gross Floor Area (sqm)

The Study recommends transitioning away from dollar rates applied to TFA to dollar rates applied to GFA. This is because:

- It is easier for the market to understand (given that apartments are generally traded on $/sqm internal rates). Internal rates could be converted to $/sqm GFA by adopting a generic efficiency factor.
- It would simplify the development assessment process where GFA is a lodged metric of development.

A contribution based on GFA rates does not remove the requirement for ancillary areas to be delivered (in an in-kind contribution). If a 'standard' apartment in a development has a balcony, car space, storage area, etc., these areas should form part of the in-kind contribution of the dwelling on completion.

Table 6-2 illustrates the transition from current TFA rates to alternate GFA rates over a four-year period. When the LEP is made, GFA rates would apply to new development applications and begin to phase-in (50% in Year 2 and fully implemented by Year 4).

The calculations in **Table 6-2** are based on the current dollar rates (column a) which are converted to an equivalent GFA rate (column b). Columns c and d show the new dollar rates when phased-in at the specified milestones (from the current rates). In reality however, the current rates could be subject to several indexation reviews before the LEP is made. The eventual transitioned rates would ultimately be based off the prevailing 'current' rates when the LEP is made.

Table 6-2: Example Transition of Equivalent Dollar Rates (from 1 March 2024 rates)

Precinct	Current Rates (1 Mar 24 to 28 Feb 25)		Alternate Rates ($/sqm GFA)	
	(a)	(b) = (a x 110%)	End of Year 2 (c) = [b + ((d – b) x 50%)]	End of Year 4* (d)
Central	$11,176	$12,294	$14,897	$17,500
East	$11,176	$12,294	$16,147	$20,000
West	$11,176	$12,294	$13,647	$15,000
South	$11,176	$12,294	$12,397	$12,500

*the recommended rates (in $2024 terns) are not indexed to the year of implementation

Source: Atlas

The Study is aware of the City's desire to encourage and enable BtR housing and co-living development as asset classes to establish. While implementation of new Affordable Housing rates is introduced over several years, a moratorium for BtR and co-living could be considered wherein the current rates still apply during the implementation period.

Contributions In-kind (Completed Dwellings)

The implementation of new Affordable Housing rates would make the contribution rates more equivalent to in-kind contributions, potentially lead to more contribution of completed dwellings. Depending on the size of the development, the contribution of dwellings could be nominal (one or two dwellings.

The Study recommends the City consult extensively with CHPs to understand their operational requirements and appetite to receive strata titled dwellings that are dispersed across the LGA and that could include luxury product. This could lead to further detail provided in the Program about the acceptability of in-kind contributions.

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Schedules

SCHEDULE 1

Analysis of Market Activity

Residential Sales Activity

A review of residential sales activity analyses a mix of recently completed and off-the-plan sales in the Study Area. Informal enquiries to marketing agents indicate market response and purchaser cohorts.

Central Precinct

Few new projects have been recently completed in the Sydney CBD. These include the Greenland Centre, 111 Castlereagh and Sirius developments. The developments range up to 67 storeys and offer premium residential product with a high level of building amenity and city/ harbour views.

Table S1-1: Off-the-Plan/ Recently Completed Apartments, Central Precinct

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
'Sirius', 2-60 Cumberland St, The Rocks			
	1b: $2.5m to $3.5m 2b: $3m to $3.5m 3b: $5m to $15m	60sqm to 195sqm	$41,500 to $77,000
Premium apartment complex to deliver a mix of 1-3 bedroom units. The development provides easterly views to the Sydney Opera House and is 750m northwest of the Circular Quay light rail stop. To date, only 4 of the 76 units remain for sale off-the-plan, with the majority sold to wealthy owner-occupiers and international investors. Limited car parking is provided, mostly for units over $5m. Completion is expected late 2024. Sale prices of the apartments generally range from $40,000/sqm to $54,500/sqm, with higher rates reflecting sub-penthouse/ penthouse units on the upper levels.			
111 Castlereagh St, Sydney			
	1b: $2.1m to $2.3m 2b: $3.1m to $5.95m 3b: $5.85m to $9.95m	62sqm to 152sqm	$27,500 to $64,500
Circa 20 storey development to deliver 98 apartments in a mix of 1-, 2- and 3- bedroom units. Situated above the former David Jones department store with views over Hyde Park and beyond to Sydney Harbour. Car parking is generally limited to a few 2-bedroom units, including up to 2 car spaces for 3-bedroom units. A price difference of $250k to $600k is observed for car parking inclusion, with greater price variance for 3-bedroom units. Marketing commenced in December 2022 with over 50% sold thus far. Local downsizers are the primary buyer cohort, many relocating from the Eastern Suburbs or North Shore.			

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
'Greenland Centre', 115-119 Bathurst St, Sydney			
	1b: $1.05m to $1.15m 2b: $2.1m to $3.375m 3b: $3.68m to $4.95m	52sqm to 169sqm	$22,000 to $39,000
Circa 2021 mixed use development comprising ground floor retail and 479 apartments over 67 storeys. Apartments on the upper levels provide panoramic views of the CBD, Blue Mountains, Hyde Park and Sydney Harbour. The residences comprise a high standard of finish with decked balconies and a range of building amenities including an indoor-outdoor pool, gym, sauna and spa, sun deck and multi-function residents' room. It also provides direct access to the adjoining 5-star Primus Hotel with rooftop bar and pool. The project attracted significant market interest during its off-the-plan campaign, with over 95% of the 250 apartments sold in its initial release stage. Buyers included a mix of local and international purchasers.			
'Darling Square', 35 Tumbalong Bvd, Haymarket			
	1b: $680,000 to $1.1m 2b: $1.6m to $2.1m 3b: $3.7m to $4.3m	44sqm to 170sqm	$14,000 to $38,000
Darling Square is a large-scale development comprising 6 residential buildings ranging 8 to 40 storeys, totalling ~1,500 apartments and 29 retail tenancies. The project was progressed across several stages, reaching completion in 2019. Off-the-plan sales commenced circa 2016, with sale prices ranging from $630,000 for studio units to $3.5m for 3- bedroom penthouse units. The project attracted significant market interest during its off-the-plan campaign, with several stages selling out upon public launch. The vast majority of buyers were local residents; with offshore buyers representing ~25% of purchasers. Building amenities include a rooftop garden, gym, pool, BBQ facilities and private resident's park. Recently re-sales indicate strong price growth compared to the off-the-plan sale prices. Purchasers are particularly drawn to the open space provisions, rich retail amenity and community facilities (i.e. library) located within and close to the development.			

Source: Various

The off-the-plan apartment sale prices in the Central Precinct (Sydney CBD) are upwards of $25,000/sqm of NSA (or upwards of $21,500/sqm GFA in equivalent terms). Sale prices generally increase with building level and unit type, with some larger 3-bedroom units capable of achieving rates of beyond $60,000/sqm of NSA (or $50,000/sqm GFA).

Informal discussions with selling agents who are active in the CBD reveal that Unit 901 in Sirius is on the market with an asking price of $15m, reflecting a rate of $76,920/sqm NSA. The unit is a sub-penthouse with premium inclusions such as fully-integrated appliances, underfloor heating, home automation controls and a private plunge pool. This represents the top end of luxury residential product.

Recent re-sales within the Greenland Centre indicate sale prices ranging $22,000/sqm to $39,000/sqm NSA (equivalent to $18,000 to $33,000/sqm GFA). The upper-level units comprise mostly 3-bedroom floorplans with excellent city harbour views, achieving values over $30,000/sqm NSA.

Residential prices in the southern portion (Haymarket) of the Sydney CBD are generally at the lower end of the price range. Recent re-sales within the Darling Square development reflect prices ranging from $14,000/sqm to $38,000/sqm NSA. The upper value range reflects units on higher building levels, typically Levels 20 to 40. These units benefit from harbour and city views, which attract a price premium. Overall, recent re-sale prices average ~$18,000/sqm NSA (equivalent to $15,300/sqm GFA).

East Precinct

Examples of new residential projects in the East Precinct are '1 Onslow Place' in Elizabeth Bay and 'Nautique' in Rushcutters Bay. These developments are luxury builds targeted at the high-end market.

Table S1-2: Off-the-Plan/ Recently Completed Apartments, East Precinct

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
1 Onslow Pl, Elizabeth Bay			
	3b: $8.25m to $12.5m	124sqm to 206sqm	$55,000 to $66,500
Situated 1km north of the Kings Cross train station. The development comprises an existing, older style building which is being completely refurbished to accommodate six, 3-bedroom apartments. This includes 5 full-floor apartments and a double storey penthouse with a private pool. All units include secure, double car parking accessed via car lift and turning circle. Premium standard of finishes with wrap around balconies with views over Elizabeth Bay, Calcutta marble benchtops and fully integrated high-end appliances. The development is understood to have received very strong market interest. Off-the-plan marketing commenced late 2023, with 3 of the 6 apartments sold thus far. Completion is expected to occur in 2025.			
'Nautique', 100 Bayswater Road, Rushcutters Bay			
	1b: $1.1m to $1.7m 2b: $2.35m to $2.9m 3b: $5m to $10m	47sqm to 166sqm	$22,000 to $64,500
Situated west of the Rushcutters Bay Park with northerly harbour views, the development will comprise 123 apartments in a mix of 1-3 bedroom units over 8 storeys. Communal facilities include a rooftop pool, double-height lobby and 24/7 concierges service, and ground floor cafe and wine bar. Purchasers also receive a one-year membership to the Vault Hause Group. Each unit will comprise a premium fit-out with engineered oak flooring, large living spaces and a range of integrated appliances. The project is underway with completion imminent. Off-the-plan sales commenced late 2021, with over 50% of units sold within its initial week of launching. Buyers are predominantly owner occupiers including young professional couples, small families and wealthy downsizers. Purchasers are drawn to its surrounding retail amenity in Potts Point, exclusive membership and premium building fit-out.			

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
'East Sydney Collection', 22-38 Yurong St, Darlinghurst			
	$1.27m to $6.5m	70sqm to 245sqm	$18,000 to $26,500
Brand new, 4-level development comprising 27 residences including a mix of lofts, apartments and terraces. Communal facilities include an expansive rooftop garden. Units are provided views of Hyde Park, St Marys Cathedral and the city skyline. The development includes 1-3 bedroom floorplans with sale prices ranging approximately $1.3m to $6.5m. Dwelling inclusions comprise herringbone parquetry flooring, stone benchtops and V-ZUG appliances. The development is some 600m northeast of the Museum train station, with buyers understood to be attracted to the city-fringe location, surrounding retail amenity and public transport access.			
Various modern developments, Darlinghurst and Surry Hills			
 Top to bottom (clockwise): 18 Neild Ave in Darlinghurst, 81 Foveaux St, 228 Elizabeth St and 8 Fitzroy Pl in Surry Hills	1b: $870,000 to $1.1m 2b: $1.2m to $1.7m 3b: $1.8m to $1.85m	48sqm to 118sqm	$13,000 to $23,000
Whilst many residential developments in the East Precinct reflect boutique, premium developments, there are also several modern developments which comprise a mid-range finishing. These are generally located in in-land areas such as Darlinghurst and Surry Hills. Building amenities are minimal and include communal rooftop terraces and BBQ facilities. Apartments within these developments generally do not comprise any notable city or waterfront views. If provided, city views are generally limited to the communal rooftop area. Analysis of recent re-sales within these developments reflect a price range from $13,000/sqm to $23,000/sqm NSA, or some $20,000/sqm NSA on average.			

Source: various

New apartments in the East Precinct generally attract sale prices upwards of $20,000/sqm NSA (upwards of $17,000/sqm GFA). The lower price range is reflective of smaller units on lower building levels. These units can lack notable views and are typically marketed as an entry point to the East Precinct to international/ local investors.

Waterfront developments are typically positioned at the premium end of the market, providing luxury inclusions and excellent harbour/ city views. Notably, new penthouse-style units within these waterfront developments have achieved rates over $60,000/sqm NSA (equivalent to $50,000/sqm GFA). These are larger, 3-bedroom floorplans which attract a mix of small families, young professional couples and wealthy downsizers.

West Precinct

There are very few apartment projects being marketed off-the-plan. Some recently completed developments are considered.

Table S1-3: Modern/ Recently Completed Apartments, West Precinct

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
'The Wentworth', 48-64 Wentworth Park Rd, Glebe			
	1b: $1.1m to $1.6m 2b: 1.5m to $1.95m	76sqm to 96sqm	$14,500 to $20,500
Newly completed 'New York' style, boutique apartment development. Fronts Wentworth Park, 550m east of the Glebe light rail stop. The development comprises 36 units in a mix of 1- and 2- bedroom floorplans, most of which include car parking. Communal facilities include shared workspace and lift access. Market investigations indicate a broad mix of buyers, many of whom are drawn to the public transport accessibility and proximity to the Sydney CBD.			
2 Jones Bay Rd, 25 Bowman St. 2 Distillery Dr, 8 Darling Island Dr and 108 Miller St			
	1b: $1.4m to $1.5m 2b: $3.1m to $3.4m 3b: $2.45m to $4.15m	50sqm to 130sqm	$21,000 to $33,000
There are very few recently completed apartment developments in Pyrmont. Apartment developments comprise a mix of building densities and standard of finishes. These include warehouse conversions and modern apartment buildings. Overall, apartment sale prices in Pyrmont typically average $20,000/sqm to $25,000/sqm of NSA, with higher rates reflective of high-end projects with excellent waterfront positions (i.e. The Revy at 8 Darling Island Road).			

Source: Various

The West precinct encompasses the markets of Pyrmont, Ultimo, Glebe and parts of Chippendale. Good public transport accessibility, a number of major universities and close proximity to the Sydney CBD remain major drawcards for the local apartment market, attracting a broad mix of buyers.

The waterside locations of Pyrmont and Glebe attracts the highest price points across the Western precinct, with apartments typically achieving prices of $20,000/sqm of internal area. Recent off the plan sales at 'The Wentworth' in Glebe have been achieving price points ranging from $15,000/sqm to $20,500/sqm (averaging around $18,000/sqm).

New apartments in the West Precinct would be expected to average $18,000/sqm to $20,000/sqm (equivalent to $15,000/sqm to $17,000/sqm GFA). Slightly higher pricing could be achieved albeit likely requiring longer marketing periods.

South Precinct

Numerous new apartment developments are underway across the South precinct.

Table S1-4: Off-the-plan/ Recently Apartments, South Precinct

Address	Sale Price Range	Net Saleable Area (NSA)	$/sqm NSA
'Arbor', 57 Ashmore St, Erskineville			
	1b: $725k to $785k 2b: $1m to $1.1m 3b: From $1.7m	70sqm to 100sqm	$13,600 to $16,000
'Arbor' will comprise an 8-storey mixed use development with ground floor retail, onsite childcare centre and upper floor apartments. The development is situated 750m southwest of the Erskineville train station. Completion is expected early 2025.			
'The Frederick', 77-93 Portman St, Zetland (Completed)			
	1b: From $780k 2b: From $1.35m 3b: $1.745m to $2.045m	Average 50sqm to 110sqm	Average $15,500 to $19,000
Situated in the Green Square Town Centre. Development to deliver 151 apartments in a mix of 1-3 bedroom apartments in 23 storeys. The high rise built form provides upper floor units with view of the city skyline and nearby parklands. Building amenities include a gym, well-being studio, co-working business lounge and club lounge with panoramic views of Sydney. 'The Frederick' represents the first of four residential buildings in the masterplan; and will be co-located with other retail/ recreational land uses in the precinct. Buyers are understood to be predominantly drawn to the amenity-rich location supported by public transport, leisure, health and education facilities.			

The South precinct broadly encompasses Erskineville, Newtown, Redfern and the Green Square urban renewal area. In the last decade, the South precinct has recorded significant growth in high density development, particularly as Green Square and the Ashmore precincts have become progressively delivered. The apartment market attracts a broad mix of buyers. These include single professionals and couples, families, downsizers and both domestic and international investors. It is notably more affordable than other parts of the Sydney LGA and does not attract the luxury product and pricing observed in the Central and East precincts.

The majority of new apartments across the South precinct achieve price points averaging $15,000/sqm of NSA (equivalent to $12,800/sqm GFA). This includes sale prices achieved for the final release of the Ashmore precinct ('Abor') in Erskineville. Higher price points are observed for more premium developments such as 'The Frederick' at Green Square (located within the Green Square Town Centre), which has achieved prices of up to $19,000/sqm of NSA. This represents the upper range of values in the precinct. Higher price points generally reflect developments which provide good views, enjoy public transport accessibility and have higher standard of building inclusions.

SCHEDULE 2

Generic Feasibility Analysis Assumptions

Development Typologies and Yields

Land use scenarios for the purposes of examining the impact of alternate contribution rates on development feasibility.

Table S2-1 summarises the scenarios for testing the broad-based contribution rates (clause 7.13) and **Table S2-2** summarises the scenarios for testing the Planning Proposal contribution rates (clause 7.13B).

Table S2-1: Notional Development Scenarios, Compliant with LEP

Precinct	Suburb	Site Area (sqm)	Zone	Notional Development and Yields	Density
Central	City Core	2,000	SP5	Commercial, 27,500sqm commercial GFA	FSR 13.75:1
	Midtown	2,000	SP5	Mixed use residential, 21,120sqm GFA	FSR 10.56:1
	Southern	2,000	SP5	Mixed use residential 17,600sqm GFA	FSR 8.8:1
East	Elizabeth Bay	470	R1	RFB (part refurb, part development), 1,175sqm GFA	FSR 2.5:1
	Darlinghurst	400	MU1	Mixed use residential, 960sqm GFA	FSR 2.4:1
West	Glebe	800	MU1	Mixed use residential, 1,600sqm GFA	FSR 2.0:1
	Pyrmont	500	MU1	Mixed use residential, 1,520sqm GFA	FSR 3.0:1
South	Waterloo	16,900	MU1	Mixed use residential, 34,500sqm GFA	FSR 2.0:1
	Beaconsfield	480	R1	Medium density residential, 488sqm GFA	FSR 1.0:1
	Alexandria	3,200	E4	Mixed business/ enterprise, 4,000sqm GFA	FSR 1.25:1

Table S2-2: Notional Development Scenarios, Planning Proposals

Precinct	Suburb	Site Area (sqm)	Zone	Notional Development and Yields	Base Density	Planning Proposal
Central	City Core	2,000	SP5	Commercial, 38,500sqm commercial GFA	FSR 13.75:1	FSR 19.25:1
	Midtown	2,000	SP5	Mixed use residential, 23,120sqm GFA	FSR 10.6:1	FSR 11.6:1
	Southern	2,000	SP5	Mixed use residential 19,600sqm GFA	FSR 8.8:1	FSR 9.8:1
East	Elizabeth Bay	470	R1	RFB (part refurb, part development), 1,410sqm GFA	FSR 2.5:1	FSR 3.0:1
	Darlinghurst	400	MU1	Mixed use residential, 1,120sqm GFA	FSR 2.4:1	FSR 2.8:1
West	Glebe	800	MU1	Mixed use residential, 2,000sqm GFA	FSR 2.0:1	FSR 2.5:1
South	Waterloo	16,900	MU1	Mixed use residential, 43,000sqm GFA	FSR 2.0:1	FSR 2.5:1

Source: Atlas

We highlight that development types tested are ***not*** urban design or capacity tested. They are developed from observations of development activity in the Study Area for the purposes of testing the impact of alternate contribution rates.

Revenue Assumptions

Efficiency ratios are used to convert GFA to net saleable (NSA) for residential (85%) and net lettable area (NLA) for commercial (90%). Revenue assumptions are then applied to the converted saleable/ lettable areas.

Revenue assumptions are developed based on a market appraisal undertaken for each of the selected locations.

Residential

Table S2-3 shows the residential revenue assumptions adopted for notional development scenarios compliant with the LEP.

Table S2-3: Revenue Assumptions, Notional Scenarios Compliant with LEP

Precinct	Suburb	Notional Development and Yields	Revenue Assumptions
Central	City Core	Commercial, 27,500sqm commercial GFA	Not applicable
	Midtown	Mixed use residential, 151 units	$35,000/sqm to $45,000/sqm NSA
	Southern	Mixed use residential, 142 units	$20,000/sqm to $22,000/sqm NSA
East	Elizabeth Bay	RFB (part refurb, part development), 6 units	$45,000/sqm to $55,000/sqm NSA
	Darlinghurst	Mixed use residential, 12 units	$18,000/sqm to $24,000/sqm NSA
West	Glebe	Mixed use residential, 20 units	$16,000/sqm to $18,000/sqm NSA
	Pyrmont	Mixed use residential, 19 units	$20,000/sqm to $22,000/sqm NSA
South	Waterloo	Mixed use residential, 368 units	$15,000/sqm to $18,000/sqm NSA
	Beaconsfield	Medium density residential, 3 dwellings	$12,000/sqm to $14,000/sqm NSA
	Alexandria	Mixed business/ enterprise, 4,000sqm GFA	Not applicable

Source: Atlas

Table S2-4 shows the residential revenue assumptions adopted for notional development scenarios for Planning Proposals.

Table S2-4: Revenue Assumptions, Notional Scenarios of Planning Proposals

Precinct	Suburb	Notional Development and Yields	End Sale Values
Central	City Core	Commercial, 38,500sqm commercial GFA	Not applicable
	Midtown	Mixed use residential, 176 units	$35,000/sqm to $45,000/sqm NSA
	Southern	Mixed use residential, 169 units	$20,000/sqm to $22,000/sqm NSA
East	Elizabeth Bay	RFB (part refurb, part development), 8 units	$45,000/sqm to $55,000/sqm NSA
	Darlinghurst	Mixed use residential, 14 units	$18,000/sqm to $24,000/sqm NSA
West	Glebe	Mixed use residential, 25 units	$16,000/sqm to $18,000/sqm NSA
South	Waterloo	Mixed use residential, 460 units	$15,000/sqm to $18,000/sqm NSA

Source: Atlas

Non-residential

Table S2-5 shows the non-residential revenue assumptions adopted for development scenarios compliant with the LEP.

Table S2-5: Revenue Assumptions, Notional Scenarios Compliant with LEP

Precinct	Suburb	Notional Development and Yields	Revenue Assumptions
Central	City Core	Commercial, 27,500sqm commercial GFA	Avg. Net Rents $1,000/sqm to $1,400/sqm NLA, market capitalisation 4.5% to 5.5%
	Midtown	Mixed use residential, 151 units	Avg. building capital values $16,000/sqm to $18,000/sqm
	Southern	Mixed use residential, 142 units	Avg. building capital values $12,000/sqm to $14,000/sqm
East	Elizabeth Bay	RFB (part refurb, part development), 6 units	Not applicable
	Darlinghurst	Mixed use residential, 12 units	Avg. building capital values $10,000/sqm
West	Glebe	Mixed use residential, 20 units	Avg. building capital values $9,000/sqm
	Pyrmont	Mixed use residential, 19 units	Avg. building capital values $12,000/sqm to $14,000/sqm
South	Waterloo	Mixed use residential, 368 units	Avg. building capital values $9,000/sqm to $11,000/sqm
	Beaconsfield	Medium density residential, 3 dwellings	Not applicable
	Alexandria	Mixed business/ enterprise, 4,000sqm GFA	Avg. Net Rents $400/sqm to $500/sqm NLA, market capitalisation 5.5% to 6.5%

Source: Atlas

Table S2-6 shows the non-residential revenue assumptions adopted for the notional development scenarios for Planning Proposals.

Table S2-6: Revenue Assumptions, Notional Scenarios of Planning Proposals

Precinct	Suburb	Notional Development and Yields	End Sale Values
Central	City Core	Commercial, 38,500sqm commercial GFA	Avg. Net Rents $1,000/sqm to $1,400/sqm NLA, market capitalisation 4.5% to 5.5%
	Midtown	Mixed use residential, 176 units	Avg. building capital values $16,000/sqm to $18,000/sqm
	Southern	Mixed use residential, 169 units	Avg. building capital values $12,000/sqm to $14,000/sqm
East	Elizabeth Bay	RFB (part refurb, part development), 8 units	Not applicable
	Darlinghurst	Mixed use residential, 14 units	Avg. building capital values $10,000/sqm
West	Glebe	Mixed use residential, 25 units	Avg. building capital values $9,000/sqm
South	Waterloo	Mixed use residential, 460 units	Avg. building capital values $9,000/sqm to $11,000/sqm

Source: Atlas

Other revenue assumptions:

- 50% of dwellings are pre-sold prior to construction and the balance sold on completion at a rate of 4-12 dwellings per month (depending on location).
- For the non-residential in a mixed use development, sale is assumed to occur as development nears completion.
- GST is included on the residential sales but excluded on non-residential sales.
- Marketing costs assumed at 1%-2% of gross sales revenue (depending on scale) and legal costs at $1,500 per dwelling.
- Sales commission at 2.5% of gross residential sales and 1.5%-2.0% of non-residential sales (depending on scale).

Cost Assumptions

Cost assumptions are generic in nature and based on a review of DAs, past experience and industry cost publications.

- Legal and due diligence costs assumed at 1% of land cost and is assumed to be paid on exchange in Month 1.
- The site is assumed to be appropriately zoned with design and development planning immediately upon settlement.
- Building areas (where applicable) are calculated by applying a generic 110%-115% ratio to GFA to which construction costs are applied.
- Construction costs are estimated with reference to past experience and cost publications:
    - Residential construction assumed at $4,000/sqm to $6,000/sqm, and up to $10,000/sqm of building area (depending on location), balconies at $1,000/sqm.
    - Commercial construction assumed at $5,500/sqm of building area.
    - Industrial construction assumed at $1,000/sqm to $1,500/sqm of building area.
    - Basement car parking at $60,000 to 70,000 per car space.
- Provisional allowance for landscaping costs at $1,000/sqm.
- Professional fees at 8%-9% of construction costs depending on land use scenario.
- Development management fee of 1%.
- Construction contingency at 5%.
- Statutory fees:
    - DA fees of 1% and CC fees of 0.5% of construction costs.
    - Long service levy of 0.25% of construction costs.

- Local contributions based on:
  - s7.12 rates in Central Sydney (3% on cost of development)
  - s7.12 rates for rest of Study Area (Studio/ 1 bedroom - $15,206, 2 and 3 bedroom - $20,000)
- Affordable Housing (current dollar rates) - $11,176.2/sqm TFA (equivalent to $12,294/sqm GFA)
- Housing and Productivity contributions:
  - Residential units - $10,000 per dwelling
  - Retail/ commercial - $30/sqm GFA
  - Industrial - $15/sqm GFA

- Holding costs including land tax, Council and water rates.
- 100% debt funded with interest capitalised monthly (nominal 7% per annum)
- Finance establishment cost of 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 is 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 S2-7: Performance Indicators and Target Hurdle Rates

Performance Indicator	Commercial and Residential			Industrial		
	Feasible	Marginal to Feasible	Not Feasible	Feasible	Marginal to Feasible	Not Feasible
Development Margin	>20%	18%-20%	<18%	>18%	16%-18%	<16%
Project Return (IRR)	>18%	17%-18%	<17%	>18%	16%-18%	<16%

Source: Atlas

The adopted benchmark hurdle rates align with industry/ market expectations.

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