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INNER WEST - MARION STREET STRATEGIC ADVICE

1.1 Introduction

SGS Economics and Planning has been commissioned by Inner West Council to provide a strategic review of the planning proposal (PP) submitted for 245 Marion Street, to develop a mixed-use development within the existing IN2 zoning, alongside changes to FSR and building height controls. The review has been completed from a strategic perspective, with respect to the following:

- consistency of the PP with the objective to retain and manage industrial and urban services land;
- the impact of the proposed commercial/office and residential floorspace on the industrial/urban service function of the land, in particular constraining the ability to expand/intensify/adapt in the future;
- functionality of the proposed ‘urban services’ floorspace (located underground in basement levels 1 and 3);
- the potential for land use conflict;
- the suitability/relevance of the EIA’s consideration of the PP with regard to the Industrial Land Strategic Assessment Checklist.

The advice examines the existing urban context and primarily focuses on the broader opportunities and challenges of a mixed-use development in Light Industrial (IN2) zones. It considers the potential impacts of permitting additional (residential) uses in the LEP and the impact that such a precedent might set. To help inform the opinion a number of key questions have been conceived, with the intention to guide the thinking but also assist Council in the future with similar propositions and act as a reference point during the assessment. However, this advice does not examine specific developmental and legislative requirements of the proposed design in detail.

1.2 Context and broader reasoning

This section provides an understanding of current and historic factors that contributed to the ongoing urban dynamics and policy position regarding employment lands, as well as the potential impact decisions and precedents, related to similar planning proposals, might have in the future.

Increasing demand for land in metro areas

- Across Greater Sydney, there are increasing pressures for land driven by various competing land uses. The additional demand is a result of further urbanisation and population growth, as well as an historic approach to the rezoning of low value industrial land for higher value residential land.

Pressures are higher in inner city zones

- Areas closer to city centres, where remnant (although often evolved – e.g. creative uses) industrial land is located¹, have seen substantial increases in value² and are now perceived as more suitable for higher density residential uses by developers.

A gradual loss of industrial land

- In the Sydney metro area, this type of employment land has been exposed to considerable amounts of pressure, resulting in a net loss of industrial land to residential and increasing number of ancillary uses occurring within (sometimes outside of the intended scope – i.e. aged care facilities).

Active Greater Sydney policy protecting further rezonings

- As a result, several mechanisms and policies have been implemented through metro strategies, with the objective to safeguard critical industrial land with a particular focus on urban services, including:
 - objective 23 in the GSC's Region Plan - *A Metropolis of Three Cities*
 - the "no regrets" decision making approach/avoiding inappropriate uses in industrial zones³ in the GSC's thought leadership paper - *A Metropolis that Works*
 - and previous studies such as the Leichhardt Industrial Land Strategy 2014 completed by SGS Economics and Planning

Thought-through, innovative mixed-use solutions

- Although there is a desire for new innovative solutions that can facilitate a number of varying (and sometimes competing land uses), developments need to be a result of careful consideration and implemented in the most appropriate zone.³

Precedents could be far reaching

- The potential precedent and impact on future planning decisions, this and any other similar proposal might set, could be far reaching and substantial. This must be considered when assessing such a proposal.

1.3 Key questions - in relation to proposal

A set of questions covering a range of perspectives, have been identified to help understand the impacts and underlying drivers. These questions have been answered at a strategic principles level to assist Council in their decision-making on this planning proposal.

Note: This advice does not give detailed recommendations on specific developmental and legislative requirements of the proposed design. The questions are provided as a guide for Council during their independent assessment.

Locational factors

Are there any locational factors that might support the rationale for having residential uses in the suggested location and zone (e.g. proximity of mass transit)?

There is a light rail station (Marion) adjacent to the site, that could justify proposed higher (residential) development densities. This aligns with the Greater Sydney Commission's (GSC) vision, under Objective 10 - Greater housing supply, of *More housing in the right location* by facilitating urban renewal in key nodes along mass transit corridors.

¹ This land was once positioned at the fringe of the city. As the city grew and urban sprawl increased, the precincts that remained became part of the Inner-City tissue, reflecting earlier periods of industrialisation.

² Due to its locational advantages and attractiveness to a broad spectrum of demographics.

³ "Seemingly minor tweaks – such as adding artisan premises or small scale live/work as permissible uses to IN zones – or more pervasive actions such as rezoning can act as a Trojan Horse or stepping-stone to uses which, in the longer term, are not in the best interests of maintaining a productive industrial and urban services area." (pg.24) - *A Metropolis that works*

Does the proposed location (in an IN2 zone) impact on the development's value?

Although the building costs would most likely be higher (improved soundproofing, two basement levels) compared to a similar type of development in a residential zone, the land acquisition would be considerably lower⁴, increasing the overall residual land value, and investment of the return. It is therefore of benefit for the proponent to deliver residential on a site where they are likely to have paid industrial land values for.

Availability of urban services floorspace

Is there enough urban services land/floorspace available locally and more broadly?

There was approximately 1,497Ha of employment lands in the Eastern City District in 2017, which represented a 136Ha increase (or 1.6% annually) compared to 2011. However, the amount of undeveloped land has decreased, and represents only 2% of the total quantum of zoned land. This means, that is very limited future supply.

In the Inner West LGA, there was a total of 277Ha of employment lands in 2017, of which 8.9Ha (or 3%) was undeveloped, located mainly in St Peters - Princess Hwy, Bays Precinct and Sydney Airport Environs.⁵ The Draft Employment and Retail Lands Study (ELRS), undertaken by HillPDA, forecasts that there will be a shortfall of industrial and urban services floorspace, in the Marion Street industrial precinct, of between 25,095 sqm and 36,612 sqm by 2036. A previous study by SGS Economics and Planning, completed in 2015, has also identified a future shortage of industrial land in Leichhardt.

Wollongong University's recent ERLS submission shows the actual loss of IN2 and IN1 land in Marrickville was 27% between 2011 and 2017 (without the subsequent loss of such land to the Metro or possibly at Carrington Road). The submission also states that the combined Marrickville/City of Sydney (CoS) loss of industrial zoned land between 2011 and 2013 was 45%.

What is the existing metro policy position on this topic?

What do the District Plan and Employment Strategy anticipate/designate?

The existing position of the GSC (reflected in the metro and district plan) is to retain and manage all existing industrial and urban services land. This means, industrial land *should be safeguarded from competing pressures, especially residential and mixed-use zones*. This approach has the objective to retain this land for economic activities required for Greater Sydney's operation, such as urban services.

The value of small, inner-city industrial precincts (which offer relatively affordable rents, provide high proportions of urban services jobs and support services for local communities - such as vehicle repairs), should not be underestimated. Potential displacements of such businesses have several impacts upon residents, increasing their commuting time to the next closest service (which is often outside the LGA) and overall price of maintenance.

As industrial and urban services land in the Eastern City District is highly constrained, due to the development of residential dwellings and large-scale retail (which are higher-return land uses), and due to the lack of opportunities for new supply capacity, industrial and essential urban services must be retained. The GSC's thought leadership paper *A Metropolis that Works* also advocates for caution in allowing additional permissible uses, which in the longer-term might have impact on the productivity of industrial and urban services areas.³

⁴ NSW Valuer General - Land Values 2019

⁵ GSC - Employment Land Analysis, SGS Economics and Planning 2018

Land use conflicts

Are there any obvious direct conflicts between the permitted land uses in IN2 zones, within the current LEP, and the proposed residential uses on site?

The Leichardt LEP 2013 - Light Industrial (IN2) is an “open zone”. Out of the permitted (with consent) uses that are listed, there might be potential conflicts between certain General and Light Industries and larger Warehouse or distribution centres with residential premises due to:

- noise/vibrations from light manufacturing
- trucks loading/unloading
- operational hours

What impacts would labour intensive uses have on adjacent residential premises (e.g. noise, amenity, air quality, vibrations)?

How will potential conflicts be addressed (e.g. using materials with better sound isolation and improved soundproofing)?

The design of the proposed development appears unlikely to have substantial impacts on nearby premises (eastern boundary neighbour is modern age care facility) as the proposed urban services functions retain the current on site use (car repairs) and put much of them in the basement level. This does implicitly assume however, that the current use will remain as the only urban services use on site in perpetuity, which is a limitation of the proposal in retaining flexible urban services floorspace (and something discussed further on) and doesn't account for additional impacts that the might stem from a change in use in the future.

Floorspace suitability and adaptability

Does the proposal retain flexibility, adaptability and intensification of floorspace for future industrial and/or urban services uses?

Considering the design of the proposed development and that the dedicated urban services floorspace has been tailored towards the specific business currently occupying the premise (car repair shop), the proposal would significantly limit the overall adaptability and repurposing of the space into the future.

Although the proposed development would increase the employment floorspace, compared to the current quantum, it would almost certainly prohibit any further intensification of employment uses - effectively putting a cap on the urban services floorspace. Structural factors contributing to the reduced flexibility are related to the overall accessibility of the designated premises - vehicular lifts would only support access of smaller trucks; and the site's underground location – limiting potential side-access and further modifications/expansions to the space and effectively needing more inner space for driveways. This would also inhibit other uses that require direct access into the site to operate if the current tenant moved out.

While the site's industrial intensification is currently constrained by planning controls (building heights and FSR) and market conditions, the site inherently retains future flexibility to adapt to changes in industrial use by either changing planning controls or when market conditions change to drive higher intensity uses (as is now being observed in and around Botany). The proposal effectively locks in the site's future adaptability by building residential on top that might restrict operations. This presents an opportunity cost for future growth.

What type of urban services uses will the new design be suitable for (compared to the broader objectives and current list of approved uses in IN2 zones)?

Out of the permitted (with consent) uses that are currently listed, the most suitable uses are most likely related to certain Light industries (Car repairs, Printing, niche Furniture making), Storage facilities and Hardware and building supplies. Some of the other listed uses, such as Depots, Distribution and Garden centres would most likely be affected by the proposed layout as they require larger lots, improved truck accessibility and additional flexibility.

How will the ownership structure of the basement urban services floorspace work?

How will the new space compare with other industrially-zoned floorspace on the rental market?

As previous experience has shown, recent mixed-use developments throughout Sydney have resulted in vacant ground-floor retail floorspace. A similar scenario might occur with mixed-use residential/industrial developments. For several reasons, non-residential premises are often more valuable if left vacant, rather than reducing floorspace rents to attract 'lower value' tenants. Retail valuations are often based on the last rent received, so a shop sitting empty is more 'valuable' than one that cuts its rent to attract a tenant. Any rent reduction — even if it lures a tenant — could trigger increased loan repayments, as it changes the loan-to-value ratio (known as LVR) of the property.⁶

In the context of this development proposal, it is unclear how the urban services floorspace will be managed over the long term and how guarantees would remain in place to ensure that the rents remain at local industrial market rates. The delivery of new industrial space is likely to incur a premium rate compared with older (existing stock). If the rents are out of line with the local market, this may in effect price out the intended users (industrial users generally), leading to either vacant floorspace or the proponent pushing for higher value uses to come in under the argument that they cannot find a tenant.

How many tenants will the proposed urban services floorspace support?

In cases where a restructuring of space is suggested, it is important to understand the impact of the proposed subdivision might have on operational needs of different businesses. The current site enables a business who requires a single floor, large lot to operate. By condensing the lot area that urban services operates on and spreading it across several floors, this inhibits the flexibility that the site in its current state can provide current or future tenants. This may be ok in that it provides more targeted (and new floorspace for several businesses, OR it provides floor space for a business that can operate on multiple floors. It does, however, reduce lot use flexibility and further adaptability over the long term as industry trend continue to change.

Although the PP states “*the existing automotive servicing and repair facility located on the site will be retained under the indicative development concept. The facility is proposed to be moved underground, to be located in two basement storeys with 4.5m floor to floor heights as shown in Figure 21*”, it is noted that the graphic representation of the floorspace, is unclear in the Concept Design. It appears to show several small (50sqm) lots. SGS assumes that this is not the intended approach but would suggest Council seek clarification on this point.

Public benefits

What are the overall public benefits outlined in the proposal?

Is the new proposal susceptible to a VPA agreement?

What is the provision of affordable housing?

Although the proposal incorporates a 5% affordable housing 10-year target (as required by the GSC), the additional retail and residential floor space would generate significant uplift in land value.

Past SGS advice to Councils on planning proposal, is that Council's should seek (at least) 50% of the uplift through a VPA as public benefits. The proposed public benefits suggested in the planning proposal would, however, most likely fall well short of this.

1. s7.11 contributions – represent normal contributions required of any development and so **not a public benefit**
2. 5% affordable housing for 10 years – some public benefit although this is required of developments in residential areas where land acquisition costs are higher.
3. Through site pedestrian link – required in configuration of the development therefore **not some minor, localised public benefit**
4. Football stadium funding – report specifies “*contribution value is to be offset against future s7.11 contribution obligations*” therefore **not considered an additional public benefit**

⁶ <https://www.abc.net.au/news/2019-06-06/ghost-shops-haunting-new-developments/11184644>

Impact of precedent

Would the approval of the planning proposal/DA establish a precedent elsewhere?

The approval of such a proposal is likely to set a significant precedent, as it would (in)directly justify the introduction of other (non-employment) uses and potential rezonings elsewhere. If a large proportion of Eastern Sydney's small IN2 zones were to follow the same model, it would significantly impact on the opportunity for these precincts (and the city more broadly) to adapt to future growth (beyond 2036). It would also limit the spectrum of economic activities and hence be in direct conflict with GSC's retain and manage employment lands policy. This precedent is considered very important as a major consideration in this planning proposal.

Is the suggested design an appropriate model for future development?

The development is innovative and has merit in its desire to extend what is considered 'mixed use' development. There is an increasing push to co-locate low impact industrial uses with residential uses – both in terms of them providing local services to residents and addressing the systemic changes in brick and mortar retailing, which are increasing vacant ground floor floorspace in cities. The proposed design however does have limitations, in that it is tailored toward certain industrial uses, rather than being flexible enough to accommodate any other permitted uses not currently present on site. It significantly reduces the ability to adapt/expand/intensify overall. There is also uncertainty about how the urban services floorspace would be managed over the long term and safeguarded against other uses coming in that are not considered urban services.

Alignment with procedural frameworks

Does the Economic Impact Assessment (EIA) align with current approval frameworks?

The accompanying Economic Impact Assessment (EIA), of the planning proposal, has referenced the *Industrial Lands Strategic Assessment Checklist*, a previously active but now superseded framework under *A Plan for Growing Sydney*. The current Retain and Manage policy has been established as a precautionary approach to conversion of industrial land and to step away from the previous industrial lands checklist.

1.4 Conclusions

The analysis SGS has undertaken in this review has distilled the questions that Inner West Council should ask to two key questions.

1. Is an IN2-zoned precinct an appropriate place to deliver such a development?

- Considering the limited supply of land and increasing pressures employment precincts are facing from competing land uses, the fundamental question that needs to be asked is 'does the proposed development need to be located *on this site*'? Intrinsicly, the main risks associated with this proposal are related to its location - i.e. Light Industrial (IN2) zone - and the impact it has on future supply and flexibility.
- While the development is proposed in a location that has potential to support higher density uses (proximity to light rail station), the negative flow on effects the approval could produce (elaborated below) outweigh the overall benefits - i.e. alignment with certain GSC's policy associated to diverse housing, innovative design, urban renewal.
- As specified throughout the advice, Inner West's (and Eastern City District's) employment lands have been susceptible to residential rezonings, and various unintended auxiliary uses making this proposal a high-risk proposition. A precedent this example would set, could put at risk a number of other similar types of precincts elsewhere (by compromising the primary function and overall productivity of these areas) and be in direct conflict with GSC's policy of *Retaining and managing industrial lands* and principles outlined in thought leadership paper *A Metropolis that Works*.

- The proposed design also lacks the flexibility to further expand/intensify or adapt in the future and significantly reduce the functionality a different solution (above ground) could provide in the same type of zone - limiting the number of uses that could potentially occur. Considering the uplift in value the proposal is likely to generate, the public benefits also need to be greater.

2. Is the building typology proposed in the development appropriate?

- This proposal provides an innovative take on mixed use development and one that should be examined closely. The overall design is intelligent and seems to support the current urban services business on site (car repair), although further detail needs to be provided. Traditionally, mixed-use developments have focused on combining retail/commercial with residential uses, so the suggested proposal presents a new approach to land use coexistence.
- The proposed building typology is more appropriate in a mixed-use (B4) or even residential zone that permits ground floor uses - where the provision of local urban services with low impact qualities could be considered as alternative ground floor (and basement) use in mixed-use precincts.

On balance, considering the limitations outlined in this advice, the risks presented by the proposal and the lack of rationale as to why this proposal must happen on an industrially-zoned site rather than elsewhere in the LGA, this proposal is considered not to be suitable in this location. It is noted, however, that as a building typology, this model is something that should be encouraged in other mixed use zones that already permit residential development.