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INNER WEST COUNCIL - 3 MYRTLE STREET AND 3-5 CARRINGTON ROAD STRATEGIC ADVICE

1.1 Introduction

SGS has been engaged to provide strategic planning advice to Inner West Council with respect to the proposed development of the 3 Myrtle Street and 3-5 Carrington Road site (the site). The planning proposal seeks to amend the additional permitted uses of the IN2 – Light Industry zone to include build to rent residential. It also seeks to increase built form controls. This strategic review focuses on the proposed changes to land use.

Specifically, SGS has been asked to consider four particular aspects of the proposal and how it relates to local and metropolitan policy settings. These are:

- Consistency with both local and metropolitan policy directions regarding industrial land planning (including the precinct’s proximity to the airport and size of lots and the proposal’s impact on future lot function flexibility)
- whether it can be guaranteed that the ‘Hybrid live-work dwellings’ floorspace envisioned by this proposal would only accommodate those who work in the creative sector and whether the flexible live-work space will actually be utilised for genuine productive employment use.
- whether the live/work floorspace proposed provides any additional benefit in terms of safeguarding the employment role of the precinct compared to standard residential apartments.
- the potential for land use conflict both within the site and between the proposed development and surrounding residential and the Carrington Road industrial precinct.

SGS has undertaken a review of the pertinent documents submitted for the Planning Proposal. This strategic review reflects on the questions above and identifies a series of observations and questions to help Inner West Council in their decision-making. It is therefore structured in a way that highlights the key issue as a series of sub-headings, with discussion provided underneath. The advice then provides a series of questions that may aid Inner West Council in arriving at their decision.

1.2 Strategic review

The following section outlines identified key issues and provides commentary in response.

Alignment with local and state policy direction

The proposal acknowledges the retain and manage designation reflected in the GSRP, Eastern city District Plan and the Draft Inner West Employment Lands Study. The Planning Proposal contends that as the site is not being re-zoned away from IN2 and the amount of floorspace intended for light industrial and creative use is not lost, that the proposal is therefore consistent with the retain and manage designation.

It is important to consider this in context, as it is a central thesis in the argument, and in IWC’s response to the planning proposal. While the proposal could be considered to meet the ‘retain’ designation, the ‘manage’ designation is less certain. While there is limited guidance on what ‘manage’ means as a

formal planning term, in this context it could be considered that the management of industrial land in an area of high demand and strategic location (discussed later) should give effect to the retention of long term flexibility for the site to evolve to meet future industrial need. The introduction of residential both introduces land use conflict risk and the risk of rental price point increase (both discussed later).

With this in mind, it is doubtful that the proposal appropriately ‘manages’ the ongoing use of the IN2 zoning to the point at which any currently permissible use under controls could feasibly operate on the site once the proposed redevelopment takes place, given the floorspace flexibility reduction and the introduction of a potentially conflicting land use.

Recognition of metropolitan and broader industrial trends

The proposal is designed to capture the increasing creative industrial market through the provision of flexible creative spaces with high ceilings and specific noise and other design controls to mitigate impacts. There is an increasing demand for this type of product, particularly in inner city areas such as Marrickville, although the EIA does not really drill down into this evidence. In this context, the proposal is likely to meet a growing demand and, at face value, appears designed in a way to best facilitate this (although the rental price points are not clear and how these align with market demand for the targeted industries).

However, wider metropolitan and macro-economic trends are also at play and should be considered here. Briefly, work undertaken by SGS for the GSC, Bayside Council, Inner West and the City of Sydney all indicate that demand remains strong for appropriately-sized and zoned industrial land close to major ports and customer bases in the inner city. Additionally, a NSW Government focus on regional freight linkages and supply chains, reflected in the suite of work being commissioned in regional NSW as well as the inner city focus on the freight line duplication attest to the fact that large sites close to nationally-significant freight infrastructure are likely to continue to be in high demand to support state-wide supply chains. This is reflected in the fact that the study site sits within the TfNSW ‘Freight Activity Precinct’ designation due to its proximity to the Port, Airport, Westconnex and Cooks River IMT.

Another perspective not covered is that COVID-19 has likely sped up the structural transition towards online retail. This requires sub-regional distribution and return points strategically proximate to areas of population density. Sites such as the study site are those where demand is likely to be attracted in the coming years. This demand will be further exaggerated by current industrial operations in the City of Sydney’s enterprise precinct being pushed out by higher value industrial uses, but who still require a local footprint to ensure supply chain and customer relationships are maintained. While this demand is not necessarily as clearly defined now, it should not be considered less important. The intention of inner city industrial land is to ensure that both current and future business and economic needs can be met and supported by the operational environment that the industrial zone designation creates. This includes operational flexibility and a minimisation of land use conflict.

On balance, while the proposal addresses a segment of growing demand in the creative sector, the more strategic role of these inner city IN2 precincts for future freight & logistics functions has not been sufficiently considered and are also unlikely to fit the proposed built form and land use structure that the proposed development presents.

Consideration of long-term land use flexibility

As raised above, the proposal risks reducing the long term flexibility of the site’s operability as an industrial precinct due to the introduction of residential and the compartmentalisation of functions into a series of smaller industrial units set across several floors.

The lack of flexibility comes about due to two things. Firstly, the redevelopment of the site and the introduction of residential (albeit in what appears as single-ownership Build-to-Rent – discussed later) introduces a land use conflict risk. This risk is reflected in issues such as noise and vehicular movement risk. The proposed development addresses this risk by focusing the intended tenant profile as creative

industry which is less likely to have negative amenity impacts compared with other industrial uses. However, that in itself reduces the long term flexibility of the site as it is ultimately then constrained to small-scale operations on what is otherwise a relatively large lot in an inner city industrial precinct. This can be considered a reduction in industrial flexibility.

Secondly, the spread of industrial floorspace across multiple floors further constrains the cross-section of industrially-focused businesses that can operate on the site, as not all can operate above ground floor, due to low loading, weight bearing and other operational requirements.

Together, while the proposed design would certainly meet a growing market for industrial function – and do so with flexible floorspace for this market - it would do so at the expense of more ‘strategic’ flexibility with respect to retaining a large lot in an IN2 zone with no land use conflict risk introduced.

Safeguarding of industrial function

The proposal identifies that the anticipated use of the non-residential floorspace is to be for industrial uses. However, it is unclear how this will be managed and how the businesses will be vetted and monitored to ensure that the functions are primarily industrial in nature. It is acknowledged that planning can only do so much to control this and that the zone’s permitted land uses will in theory govern this, however it is likely that many of the uses will be let or sub-let and control on operation is difficult to sustain.

The risk in this situation is that the non-residential uses are let as flexible floorspace which, due to market price point, operating constraints or other factors means that the intended target market – creative industrial – are not those who end up taking leases. The lack of any detailed market analysis in the EIA and planning proposal means it is not clear how much demand there is for this product. If the price point or floorspace characteristics do not suit industrial users, it is likely it will be let to more creative uses further towards the *commercial* end of the spectrum (such as architecture firms), who do not need an industrially-zoned premises to operate.

This observation raises a critical question when considering this planning proposal. While the intent is to retain industrial function through the unique built form and lot structure, does the proposal create a risk that businesses that could locate on the site in its current form (or some other ‘standard’ industrial typology), could not operate in what is being proposed? If the answer to this is yes, then the site is not sufficiently safeguarding industrial land use flexibility and operational integrity.

Build to rent mechanism

The proposal seeks to introduce build-to-rent as an additional permitted use under the existing IN2 zone. The intent here appears to be to both satisfy an increasing housing typology demand for this product and to keep the introduction of strata residential away from the industrial precinct, which would have a significantly detrimental impact on the industrial function from a use and flexibility perspective. While the detailed mechanics of the Build to Rent model are not made clear, it is assumed that such a model would keep the site under single title and retain a greater degree of flexibility on the site for future use.

It is unclear whether the Build to Rent mechanism would remain in perpetuity, or whether it would act as a Trojan Horse – introducing residential and setting the pre-conditions for a gradual transition to strata development which will have a detrimental and sustain impact on the IN2 zone functionality. This argument links to the point above about how the ongoing ownership would be monitored to ensure that residential functions do not over-ride industrial operational need.

Setting a precedent for residential

Notwithstanding the merits of the build-to-rent model, it still introduces a traditionally conflicting land use into an industrial zoning. The planning proposal seeks to mitigate this by pairing the residential use with small scale creative industrial uses that are able to operate better alongside residential. It is further supported by apparent design details to treat noise, access and so on. As a result, the site-specific land use conflicts would likely be resolved, as the planning proposal suggests.

There is a broader question here however, regarding the creating of precedent. The EIA contends that there is no precedent set because the site is unique. This is considered a weak argument. The introduction of this additional permitted use will in all likelihood create a significant precedent that will have implications for all IN2-zoned land in the LGA. While the land use conflict may not exist on a site-specific basis, the introduction of residential into an IN2 precinct, coupled with the precedent set that would likely trigger other developments to try the same would fundamentally alter the nature of the IN2 zone both here and across the LGA.

It is recognised also that there is already a significant amount of residential within the IN2 zone that 'flies under the radar' so to speak. Formalising it through a mechanism such as this will likely trigger a wave of more visible and permanent residential development being sought which would fundamentally alter the character and operability of this industrial precinct.

So, while the treatment of the design to have residential co-exist on site with industrial uses is well considered, the wider implications are considered significant and detrimental to the long term integrity of the IN2 zone.

Lack of supporting evidence

A general critique of the proposal and its relevant accompanying reports is that, from an economic and strategic land use perspective, the proposal lacks several clear pieces of analysis.

Firstly, as mentioned, there appears to be no market sounding and assessment to support both the need and the market access to the proposed product. The first of these issues can be covered by general acknowledgement of a growing need for flexible floorspace for the creative sector/s and is less of an issue. The lack of market alignment however leaves a hole in the justification however, as it does not make clear what the price point for these new units will be and how that compares to what is currently on the market. The risk here, as identified earlier, is that the products may not be priced in line with what businesses that require a traditional industrial space in this area can afford. If such a situation arose, then there is a significant risk that the spaces would not fulfil the industrial function that they need to under the IN2 designation.

Secondly, the proposal takes a narrow view of the economy in which the development would operate in. While it recognises the need for creative spaces and that the BTR model has merit, it lacks a more strategic view of the displacement impact on current or future businesses that would otherwise desire a large lot in a strategic located industrial precinct. The argument is quite a reductive one, implying that as there is demand for what is proposed, there is no demand for what is lost. This should be given much more attention, both for a supply-demand perspective at an LGA level (at least) and also with a view to what industrial/freight & logistics trends are emerging in the inner city's industrial market that are likely to be attracted to a site in a precinct such as this.

Thirdly, there is no attempt to examine the impacts of displacement in the EIA. The planning proposal is not clear on whether the incumbent use could remain operating in the new development, although it appears unlikely. The use of a narrow input-output model does not capture the supply chain disruption that the displacement of the current business elsewhere will have from an economic perspective.

Without these balanced perspectives, it is not possible to undertake a balanced net community benefit assessment, that the EIA attempts to provide.

1.3 Questions to aide decision-making

The strategic review has raised several questions that may aide IWC in their decision making regarding the planning proposal.

1. Is there demonstrable evidence to indicate that the site in its current structure (i.e. large lot with standard industrial operational environment) is no longer in demand now or into the future?
2. Can what is being proposed locate elsewhere (for instance a B2,3 or 4 zone) and still operate as proposed or does it require an industrial zoning designation in order to operate?
3. Can any of the currently permitted uses under the IN2 zoning operate in what is being proposed, or does the proposal restrict the number of currently permissible uses that could feasibly and unconditionally operate in the new development?
4. Does the proposal sufficiently demonstrate that the loss of the large lot industrial precinct and the full flexibility of future industrial use can be met elsewhere nearby?
5. Is there sufficient certainty that the rest of the industrial precinct, and indeed other IN2 zoned land in the LGA will not be adversely affected by the introduction of residential use either through land use conflict or precedent?

1.4 Summary

The proposed mixed use development is a very well considered built form typology that will meet a growing need in Inner City Sydney. The design identifies a market and proposes a well-considered re-conception of mixed use which will be increasingly attractive in Sydney.

However, in SGS's view, the planning proposal does not sufficiently prosecute the justification for why this has to happen in an industrial precinct. While a series of measures have been taken to pro-actively address the inevitable concerns regarding the introduction of residential into industrial zoning, it does not validate why an industrial zone is required to deliver such a development.

The proposal leaves too many doors ajar that risk introducing long term and permanent change to the role and function of the industrial precinct to support industries that require the planning controls that an IN2 zone provides – including protection from land use conflict. The submission does not fully grasp the strategic nature and future demand for large lot industrial floorspace close to strategic trade gateways and economic and population centres.

The continued demand for industrial land in inner city is evident in the high land and rental values and low vacancies observed in the eastern city's industrial market. While the proposal meets the demand for newly emerging uses, it is not sufficiently clear that those uses cannot form part of a reconsideration of local centres rather than continuing to reduce the supply of strategically located industrial land.

This is an excellent model that should be encouraged across Sydney's B2, B3 and B4 zones as it reconceives the concept of mixed use through flexible employment floorspace and housing diversity.

It is not considered appropriate however to introduce such a model into industrially-zoned land however due to the risk of precedent setting it creates.