INNER WEST

Appendix 4 – Feasibility Testing

March 2022

Contents

Parramatta Road Feasibility Testing

Inner West Council

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SGS Economics & Planning

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1. Introduction

SGS Economics and Planning and Savills have been appointed by Inner West Council to analyse the financial feasibility of development along the Parramatta Road corridor. This will inform changes to land zoning and principal planning controls along the corridor which will implement the Parramatta Road Corridor Urban Transformation Strategy (PRCUTS).

This project is divided into the two stages. The first considers the Leichhardt Precinct of the PRCUTS, while the second focuses on land zones IN2 and B6 along Parramatta Road west of Leichhardt.

The scope of this project includes:

- An explanation of the existing market profile, supply and demand for land uses in the Leichhardt Precinct and along Parramatta Road
- Determining project internal rate of return (IRR) with base planning controls that currently apply as well as proposed planning controls
- Determine whether increasing the FSR control along Parramatta Road can deliver a feasible IRR, and if so what the FSR tipping point to enable this is
- Determine the tipping point for financial feasibility in Leichhardt as the mix between residential and non-residential floorspace is changed
- Consider varying assumptions to the feasibility modelling such as parking, access, costs, sustainability requirements and the need to amalgamate sites
- Provide best practice examples of planning mechanisms to encourage site amalgamation as part of mixed-use development, and recommend planning controls to encourage site amalgamation
- Make recommendations on the design of mixed use development and stratum titling to ensure floor space is suitable to accommodate non-residential uses that are in highest demand in Leichhardt

1.1 Structure of this report

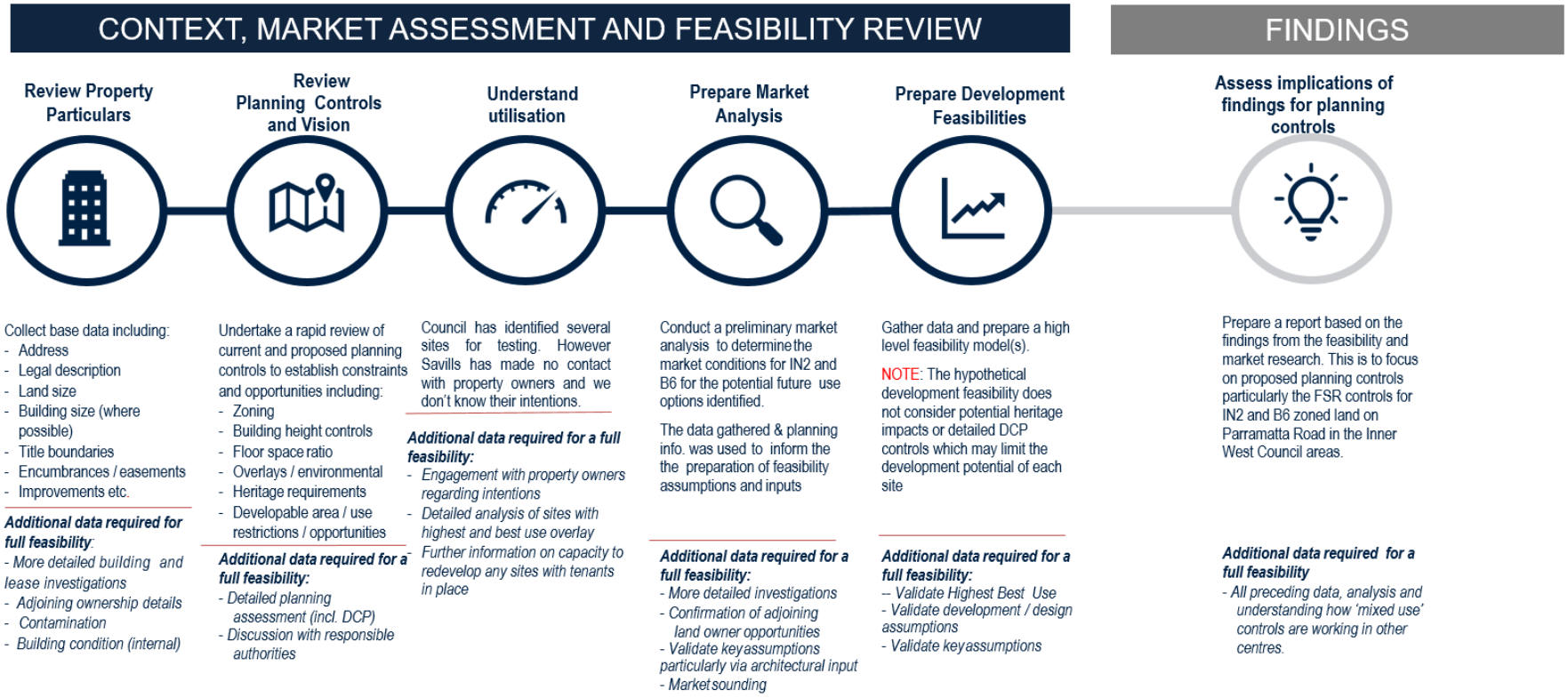
This report contains the following sections:

- 'Chapter 2 – Leichhardt Core Property Market and Feasibility' summarises Savills feasibility testing in the Leichhardt Core and discusses the property market and floorspace demand
- 'Chapter 3 – Leichhardt Statutory Planning Options' discusses planning mechanisms to encourage amalgamation and appropriate design outcomes in Leichhardt
- 'Chapter 4 – B6 and IN2 Feasibility' summarises Savills feasibility testing along the Parramatta Road Corridor west of the Leichhardt Core and provides recommendations on the planning approach in this corridor
- 'Appendix A – Savills feasibility assumptions' lists the assumptions used in Savills feasibility analysis

1.2 Savills feasibility methodology

Savills has undertaken feasibility modelling for this report to inform strategic planning along Parramatta Road. This modelling has been undertaken with Estate Master and is intended to inform strategic planning using high level assumptions. Savills market analysis and feasibility methodology is summarised in the figure overleaf.

FIGURE 1: SAVILLS PROPERTY MARKET TESTING AND FEASIBILITY MODELLING METHODOLOGY



Source: Savills 2020

2. Leichhardt Core Property Market and Feasibility

2.1 Leichhardt context

Council has created a draft structure plan for the Leichhardt Precinct from PRCUTS. This masterplan identifies key development principles, FSR controls, height controls and character areas. The existing B2 Local Centre zone is intended to be retained, and to facilitate mixed use development around Norton Street and along Parramatta Road. In this chapter the feasibility of mixed use development with a non-residential component along Norton Street has been considered.

Floorspace ratio controls (FSRs) would range up to 3:1 along much of Parramatta Road in the Leichhardt Core and Frame and along the most of the eastern side of Norton Street between Norton Street and Balmain Road, and between Parramatta Road and Marion Street. An FSR of 1.9:1 would apply to the block between Norton Street and Renwick Street, and FSRs of 1:1 and 0.5:1 would apply elsewhere. Council is considering requiring a minimum non-residential component in some of the B2 zone to enable long-term employment use.

As outlined in Council's Draft Leichhardt Precinct Guidelines which were provided for this report, the future character for Norton Street is to be a vibrant shopping street containing a mix of uses and maintaining the distinct local style characterised by historic terrace housing. Multiple ways to realise this vision are outlined, with those of most relevance to this study including:

- revitalising Norton Street and key sites along Parramatta Road through appropriate intensification of residential and retail uses with minimal adverse impacts on the adjoining low-density residential areas
- intensifying employment in the Leichhardt/Norton Street Centre by requiring minimum employment floorspace on the ground and first floors of mixed-use developments – subject to the findings of feasibility analysis in this report
- maximising east-west connections to improve permeability and create new laneway experiences and connections
- providing activated streetscapes and improved public domain particularly on north-south streets to create new 'green lungs'
- reducing parking rates across the Precinct to reflect existing public transport and the prospect of enhanced public transport along Parramatta Road, plus making a contribution to achieving low carbon standards
- incorporating car parking (including unbundled and decoupled parking) in future development to unlock existing car parks

2.2 Property market

Savills analysed the local retail, residential and office property markets and consulted with estate agents both inside Savills and others operating within Leichhardt. The results of this analysis are summarised below.

Retail

Savills found that local agents report a moderate level of leasing enquires for retail, but on inspection interest falls away due to the "emptiness in the once vibrant Leichhardt main street". This is particularly the case in the Forum (23 Norton Street).

In Norton Plaza (Pre-COVID) the Coles supermarket was generating a moving annual turnover (MAT) of $17,455/m² and lies 37.9% above the benchmark for a Neighbourhood Shopping Centre. The specialty tenancies within Norton Plaza were also trading 28.0% ($11,274/m2) above the average of $8,808/m². The average gross specialty rent of $1,574/m² lies significantly above the average of $1,022/m² for similar Neighbourhood Shopping Centre. Whilst the average gross specialty rents for Norton Plaza may appear high, we are of the opinion the Norton Plaza trades between a typical Neighbourhood and Sub-Regional Shopping Centre and based on the turnover these specialty rentals appear sustainable in the medium term. Furthermore, household incomes in the Main Trade Area are approximately 45% above the Sydney average.

Retail agents in Savills and locally advise that retailers in Leichhardt typically want more parking or longer stay / free parking; more through links to parking spaces and parking on side lanes. We understand this needs to be balanced with Council's desire to encourage a reduction in private vehicle use and also note that increased walking and public transport use is more environmentally sustainable.

Savills and local agents have found buyer and leasing activity in Leichhardt has been low during COVID. Buyer activity for retail assets is typically a result of factors including local businesses looking to purchase their existing tenancies, owner occupiers wishing to secure their location, investors seeking retail assets with strong, long term leases, and demand from developers.

Retail market outlook

Savills notes that generally sales activity for retail is also driven by fluctuations in capital values. In a strong market, investors typically look to capitalise on their investment and reinvest in other areas with greater growth prospects. Conversely, some sellers are motivated by increasing vacancies and it is not uncommon to see a newly leased asset placed on the market for sale. Increases in holding costs and perceived risks can also drive retail assets onto the market. The move to online shopping and COVID has forced some retailers to close storefronts and increased the number of properties listed for lease or sale, including in Leichhardt. In Leichhardt several owners have been seeking to sell their retail tenancies for 1-2 years. Particularly in the Forum this is difficult as strata fees (reported to be $15,000 per quarter for 163 m2) are higher than rents achievable.

Savills note that a driving factor of supply and demand for retail in some areas, including parts of the Inner West, was the surge of residential property values (pre-COVID) which coincided with an increase in the redevelopment of mixed use sites. This surge in redevelopment has seen an increase in the supply of ground floor retail space, which is often required under planning provisions. A good example of this trend can be seen across South Sydney and Canterbury Road, which saw a surge in retail supply

when developments reached completion. This has led to an oversupply of such stock, which has now been an issue in some areas for five to ten years. In other areas, adaptation to changing demands has resulted in renewed tenant demand. Examples of this can be seen in parts of Zetland and Summer Hill. These two local retail precincts have traditionally been dominated by local businesses that service the local population and whilst this remains the case, both of these areas saw an increase in demand as they became more 'go to' locations for small restaurants and bars.

Savills view is the retail market appears to be facing a longish recovery period, for which we cannot know the full extent as yet, but it seems capital values will decline and demand will be weaker than average for the next few years in Leichhardt.

First floor uses

Savills desktop analysis and brief inspections on Norton Street (between Parramatta Road and Marion Street) indicate around 28% of buildings don't have a first floor. Of the buildings with a first floor (i.e. 51 buildings) around 60 per cent of these buildings appear to have the first floor used for retail/restaurant or office space and around 40 per cent appear to have the space used for shop top / residential development.

Savills analysis indicates it is mainly medical services (such as doctors, dentists , pathology, skin and laser clinics) and other health and beauty (massage, hair, nails) and a small number of professional services (such as accountants, psychologists and lawyers) that occupy first floor space. Local real-estate agents report a lack of parking, lower rents elsewhere and a limited number of buildings with a lift can all be disincentives to prospective tenants considering first floor space. These types of 'population serving' firms are also found in Renwick Street, Balmain Road and side streets (such as Wetherill Street).

Savills found local real estate agents indicate there is some demand for small first floor office space (c. 50 m2 - 100 m2) including from people wanting to find an alternative to working at home and population serving business, but very low demand for larger space. For example, 93 Norton Street (500 m2+) has been for lease for over a year despite the owner indicating they would lease the space for $400 m2 gross for a 5 year deal. First floor space in 92 – 94 Norton Street (circa 400 m2) has been on the market for around 3 months, interest has been low but the owner is offering it at $2,400 per week (which is $315 m2 gross) and is also adding glass partitions to lease the space. The former occupant was a construction company.

Further, demand from larger restaurants or medical services that take two floors has been weak over the past 12 months.

Recent sales and leasing activity

Apartment sales

New apartment sales in Leichhardt achieve an average price of approximately $14,500 per square meter. 'Off the plan' sales achieve a higher sales rate compared to 'established' products.

Price per square metre provided is a blended rate noting the absence of detailed property information at this time (floor plans etc.).

Retail sales

There are a limited number of recent (2020) sales of retail assets within Norton Street. The largest sale in the past few years was Norton Plaza which sold for $12,944 psqm ($153.2 million in August 2019). Sales of new retail with a lease in place, particularly for tenants attracting non- discretionary spending, can achieve a price of $9,000 psqm to $13,000 psqm.

Development site sales

There are a very limited number of recent comparable development site sales in Leichhardt. We observe differences in the price per square metre as there is a broad range of unit mixes in developments. There is more consistency when looking at rate per GFA at around $3,500 m2.

Retail and commercial leasing data

Offices in Leichhardt typically lease for $350 m2 - $550 m2 with around $400 m2 gross ($350 m2 net) an average for well located space. The rents are typically lower on Parramatta Road, in converted industrial buildings which are popular with creatives and some professional services firms and in surrounding streets (Renwick, Balmain Road, Wetherill Street etc.) that are popular with some medical centres and personal services companies.

Retail space on Norton Street (between Parramatta Road and Marion) can lease from $550 m2 - $800 m2, with some interest from non-discretionary retailers and food and beverage, but a loss of interest particularly in the Forum due to subdued activity. Rents in the Plaza are significantly higher $1,574 m² for specialty shops.

There is moderate interest in first floor offices, but larger space (circa over 200 m2+) is very hard to lease with several tenancies on the market for over 12 months on Norton Street.

2.3 Feasibility results

Savills tested the feasibility of development on various sites along Norton Street, including the provision of a required amount of non-residential floorspace. This amount was varied to determine the tipping point, above which an increase in the non-residential floorspace requirement may make development unfeasible, and below which development is likely to be feasible.

Feasibility testing assumptions are outlined in Appendix A.

A summary of feasibility results is shown in the table below. Development was found to be viable in all cases including the provision of non-residential floorspace generally at 0.6:1-0.7:1.

TABLE 1: SAVILLS NON-RESIDENTIAL TIPPING POINT FEASIBILITY RESULTS FOR LEICHHARDT

Location	Proposed FSR	Employment tipping point	Savills comments
97 Norton Street East side of road, site of 880sqm, currently large retail tenancy (JB Hi-FI)	3:1	0.7:1 non-residential (616 sqm of floorspace)	Feasibility based on between 400 m2 – 670 m2 of commercial/retail space (with a total GFA on the site tested 97 Norton Street of 2700 m2). We note JB-HI-FI leases around 900 m2 which would be 1:1, but on the ground floor. We believe it will be difficult to lease over around 200 m2 – 250 m2 on a first floor and would recommend Council consider allowing the ground floor to be used to meet the retail / commercial floorspace if necessary. – as there are relatively few tenancies for large occupiers outside the Plaza.
33 Norton Street East side of road, narrow site approximately 221 sqm	3:1	0.7:1 non-residential (155 sqm of floorspace)	Uses 176 m2 of commercial/retail space (88 m2 on ground floor and 88 m2 on first floor).
Norton Plaza East side of Norton Street, with access from Balmain Road, currently shopping centre, approximately 1.099 ha	3:1	1.5:1 non-residential (16,485 sqm of floorspace)	The feasibility / tipping point for Norton Plaza is difficult to determine without knowing whether the entire centre would need to be knocked down to be developed. We note extra retail demand for over 10,000 m2 of retail space in Leichhardt and note Norton Plaza already has two floors and is developed at around 1:1
62-64 Norton Street West side of road, amalgamated site of 429 sqm	1.9:1	0.6:1 non-residential	Feasibility Identifies between 186 m2 and 410 m2 as tipping point for non-residential. We note having over around 200 – 250 m2 on first floor will be hard to lease. Highest and best use suggests setting retail / commercial at around 12.5 % of total GFA.

Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*

Savills also tested whether a developer acquiring additional land as part of a development and dedicating it to Council to provide a through-site link would compromise development feasibility. In all cases development was found to be unfeasible unless either the FSR on the base site was increased (generally by 1:1), or floorspace rights were transferrable from the land dedicated to Council onto the land to be developed.

TABLE 2: SAVILLS SITE AMALGAMATION FEASIBILITY RESULTS FOR LEICHHARDT

Location	Proposed FSR	Results
106 Norton Street and 105 Renwick Street West site of Norton Street, 105 Renwick Street is narrow and could be used to provide a through-site link, but could not host development without further amalgamation of adjacent properties.	1.9:1	▪ Development not feasible based on 1.9:1 floorspace rights of 106 Norton Street alone. ▪ Development is feasible if GFA is calculated based on FSR and combined site area of 106 Norton Street and 105 Renwick Street.
62-64 Norton Street West side of Norton Street (also in table above). Site could be amalgamated with properties behind to provide through-site link	1.9:1	▪ Development not feasible based on 1.9:1 floorspace rights of 62-64 Norton Street alone. ▪ Development is feasible if GFA is calculated based on FSR and combined site area, including amalgamated sites behind.
97 Norton Street West side of Norton Street (also in table above). Adjacent property on Norton Street could be purchased and dedicated to Council as a through-site link to the adjoining laneway at the rear, providing access to McDonald St	3:1	▪ It would not be feasible for a developer to purchase the site next door exclusively for the purpose of providing a through site link, although development would be feasible if allowable GFA was calculated using FSR of both sites.

Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*

Car parking

Underground car parking is typically very expensive to construct, and so how much car parking is provided in a mixed use development can have a large impact on overall development feasibility.

Savills adopted the following car parking rates for apartments in Norton Street, based on PRCUTS parking rates:

- Studio apartments: 0 car spaces
- 1-bedroom apartments: 0.3 car spaces per apartment
- 2-bedroom apartments: 0.7 car spaces per apartment

Based on speaking with local agents and reviewing sales prices for over 40 x 1 bedroom and over 100 x 2-bedroom units it is around $50,000 more expensive to buy an apartment with parking compared to an apartment with no parking. This makes sense, as it is line with the cost to build basement parking depending on the site (Savills modelled this cost at $50,570 per space).

Feedback from local real-estate agents and Savills Residential Marketing Team indicates that most buyers and renters looking for a one bedroom or studio apartment in in Leichhardt are open to having no parking. This assumes the apartment is close to shops and transport. In fact, almost 45 per cent of 1-bedroom units that sold in Leichhardt in the past 12 months had no car parking. However, real estate agents report it is much more difficult to sell or lease 2-bedroom units without parking. The occupiers are typically couples or two adults sharing a unit with at least one driver and there is higher demand for 2-bedroom apartments with a car space. Savills found that from 100 x 2-bedroom apartment sales in Leichhardt only 17 of these apartments had no parking space.

The development cost for a car parking space, and the amount it adds to an apartment's sale price are similar. As such the inclusion or not of basement car parking would not substantially impact on development feasibility, but only if there was a market for apartments with no car parking spaces. As a developer can sell a 2-bedroom apartment faster by providing a car space for a 2-bedroom apartment under current market demand, having no parking spaces in a development for 2-bedroom apartments would negatively impact development feasibility.

Sustainability costs

Savills added $10,500 per apartment to the construction cost of each apartment to allow for sustainability requirements. The allowances were informed by other residential projects.. Savills modelling showed that this cost does not make development in Leichhardt unfeasible.

2.4 Floorspace demand analysis

The market demand for commercial spaces along Norton Street is strongly related to the local property market, which is outlined in Section 2.2 above. SGS have also conducted economic analysis of likely non-retail floorspace demand, based on past employment in the Leichhardt Precinct and employment projections. The results of this analysis are contained in this section and should be viewed alongside the property market discussion of Section 2.2 to paint a more complete picture of the likely future employment prospects of Norton Street and the Leichhardt Precinct.

Inner West EaRLS

The Inner West Employment and Retail Lands Strategy (EaRLS) is supported by a Study prepared by HillPDA. According to the study:

- The Leichhardt Core contains 58,743 sqm of employment generating floorspace, of which 26,707 sqm (46%) is retail, 25,056 sqm (43%) is non-retail, and 6,980 sqm (12%) is vacant
- Approximately 11,511 sqm of additional retail floorspace is likely to be required by 2036 and 20,065 sqm of additional office floorspace, making 31,576sqm in total
- There is capacity for around 25,492 sqm of additional employment generating floorspace under current planning controls, or 1,159 jobs at 22 sqm GFA per employee
- If the PRCUTS planning recommendations were implemented, the capacity for additional employment generating floorspace would increase from 25,492 sqm to 41,257 sqm, or to 1,875 jobs at 22 sqm GFA per employee
- Realisation of floorspace demand would require redevelopment of a significant proportion of Norton Street, which may be hampered by current built form and heritage properties

The Strategy recommends securing commercial floorspace at ground and podium level along Norton Street and enabling the evolution of the Centre into an office/professional services mixed use precinct with improved development and urban design outcomes.

It is noted that the HillPDA study supporting EaRLS does not appear to forecast an increasing market share for online retail, which could reduce the additional retail demand likely to be captured at Norton Street.

Parramatta Road Corridor Urban Transformation Strategy (PRCUTS)

The PRCUTS contains growth projections of 3,250 additional jobs in the Leichhardt Precinct in the short term (by 2023), increasing to 3,602 in the long term (by 2050).

These additional jobs are associated with 37,000sqm of additional employment generating floorspace in the Leichhardt Core (as defined in PRCUTS), all of which is anticipated to be delivered in the short term (by 2023), and 77,000sqm in the Frame area, with 34,000sqm of this to be delivered in the short term (by 2023).

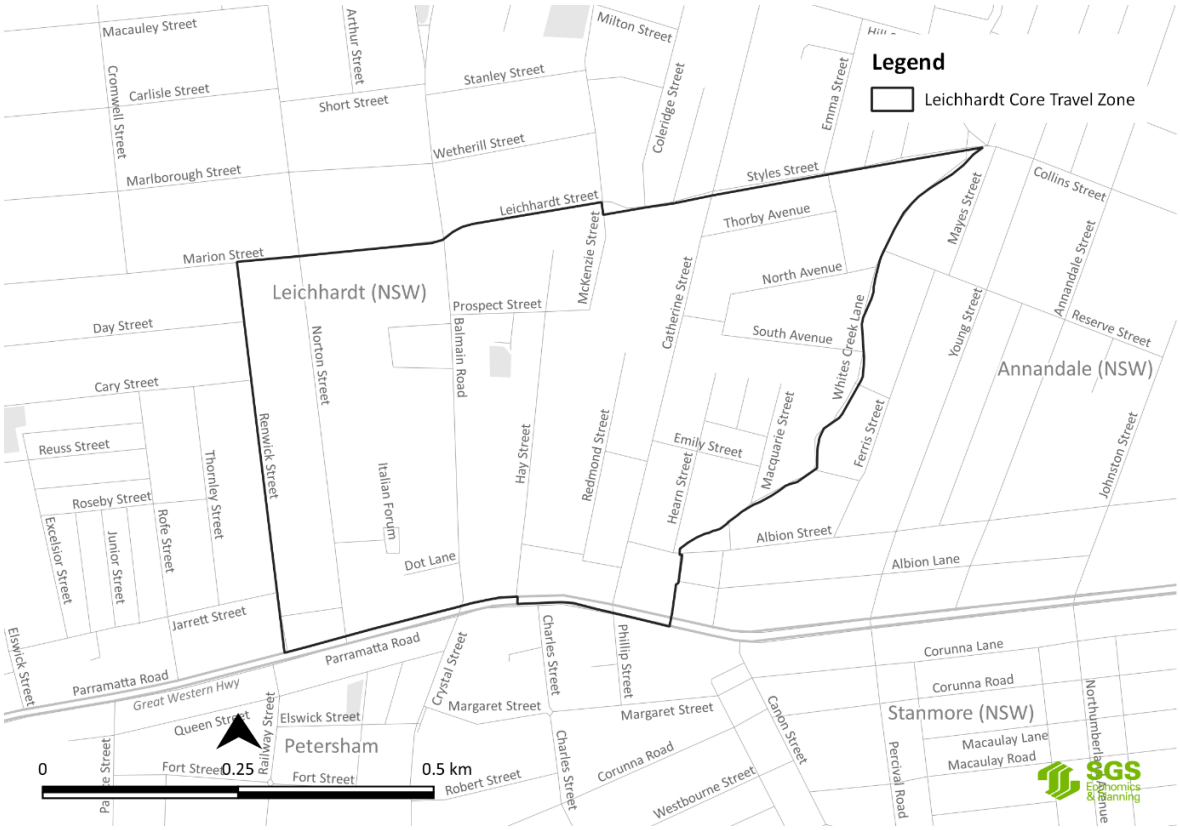
It is possible to derive the number of additional jobs anticipated in the Leichhardt Core based on the short term employment project and floorspace breakdown between the Core and Frame Area. On this basis, PRCUTS proposes accommodating around 1,700 additional jobs in the Leichhardt Core and the remaining 1,902 (or 1,550 in the short term) in the Frame Area.

Small area growth forecasts

SGS has assessed the TZP19 small area employment forecasts prepared by Transport for NSW to provide additional context for how much growth may be accommodated in the Leichhardt Core. These projections inform strategic planning across the NSW Government but are based on high-level industry growth rates and so do not reflect local economic circumstances and development intentions.

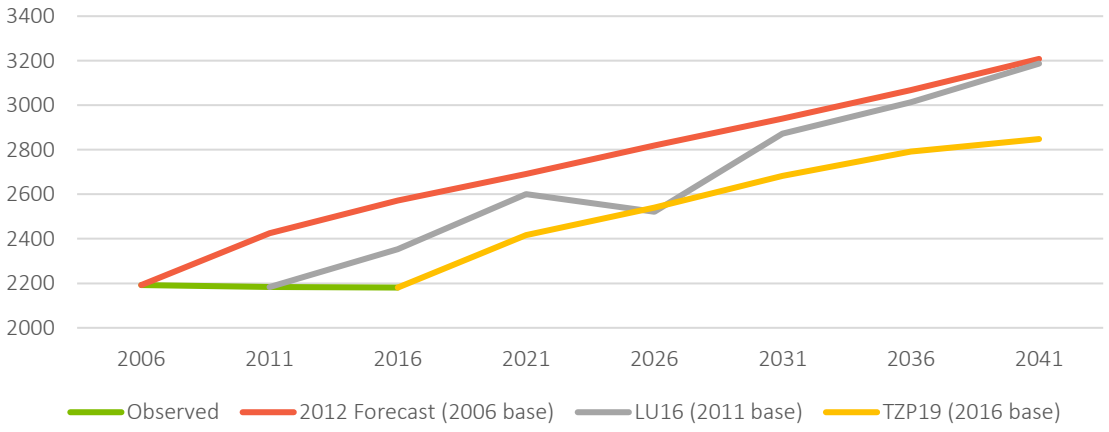
The travel zone containing the Leichhardt Core is shown in the figure below. It contains all properties in the Core currently zoned B2 Local Centre Zone between Renwick Street, Balmain Road, Parramatta Road and Marion Street. It also extends east to the Whites Creek Lane, but captures few other employment generating uses besides premises along Parramatta Road. As such, it provides a good estimate of employment within the Leichhardt Core.

FIGURE 2: LEICHHARDT CORE AREA USED FOR SMALL AREA GROWTH FORECASTS



The observed employment in 2006, 2011 and 2016 (adjusted from reported workplaces in the census) is shown in the figure overleaf, along with employment forecasts from 2012, 2016 and 2020 (labelled 2012 forecast, LU16 and TZP19). Overall, observed employment in Leichhardt was static between 2006 to 2016, with little increase or decrease.

FIGURE 3: COMPARISON OF OBSERVED AND FORECASTS EMPLOYMENT IN LEICHHARDT CORE

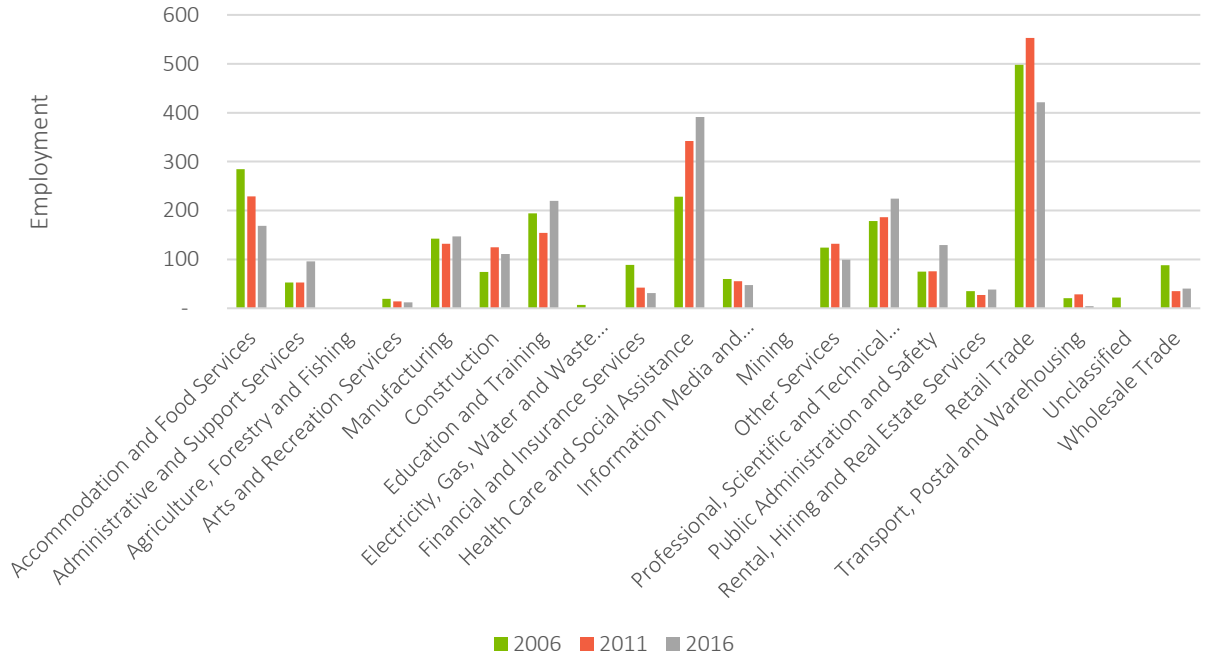


Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*, TfNSW 2016 *LU16 Forecasts*, TfNSW 2012 *Land use forecasts*

By contrast, employment forecasts are generally based on metropolitan-wide economic industry growth trends and so forecast a consistent increase in local employment from their base year. As a result, forecasts are unlikely to provide an accurate estimate of future employment in Leichhardt, which past trends indicate to be a no-growth context.

The Leichhardt Core's employment composition has shifted somewhat between 2006-2016 despite the lack of change in overall employment. Hospitality and retail employment have declined while other population services like education, training and health care have increased. This speaks to an overall shift in the function of the centre not represented in employment forecasts.

FIGURE 4: SHIFT IN THE INDUSTRY COMPOSITION OF THE LEICHHARDT CORE BETWEEN 2006-2016



Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*, TfNSW 2016 *LU16 Forecasts*, TfNSW 2012 *Land use forecasts*

Forecast results

Small-area employment forecasts should not be used to estimate future employment for a single travel zone as they are high-level and do not consider local circumstances, as discussed above. In addition, some of the growth associated with nearby areas could instead be accommodated at Norton Street, and vice versa.

Nonetheless, small area forecasts provide a baseline demand estimate capturing how employment would grow if the local economy behaved similarly to other parts of Greater Sydney and the distribution of employment growth mirrored current employment locations. This would depend on there being enough capacity to accommodate implied demand.

The baseline demand forecast implied by the most up to date small area employment forecasts is shown in the table below. Projections imply demand for around 13,450 sqm of additional employment generating floorspace by 2036, or around 670sqm per year.

TABLE 3: EMPLOYMENT AND FLOORSPACE FORECAST FOR LEICHHARDT CORE

	2016	2026	2036	Change
Employment	2,181	2,540	2,792	611 (+28%)
Additional floorspace requirement (at 22 sqm/job)	-	7,900	13,450	

Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*

Population serving employment

Office floorspace can be broadly understood to be one of two types, each of which has distinctly different drivers.

'Population-serving' commercial activity is closely linked to demand from the local population. These commercial uses provide services for people within a relatively restricted local catchment. Typical activities include accounting, legal services, and medical services.

'Business-serving' commercial activities choose to locate in areas that suit the broader requirements of the business. For these uses, proximity to customers is important but sits alongside other broader locational factors. These are diverse and include:

- access to skilled employees
- Public transport accessibility (for example to the proposed Sydney Metro stop)
- proximity to trade gateways (i.e. ports and airports)
- access to key business inputs, (e.g. administrative functions associated with a winery locating within a wine region)
- the location of clusters of related businesses
- proximity to collaborators

The approximate demand for additional population serving commercial floorspace can be estimated based on forecast population growth and standard Greater-Sydney per-capita wide ratios commonly used by SGS. Norton Street would be a natural destination for much of this employment associated with local population growth.

For Norton Street to grow more than what would be indicated by population-serving employment forecasts, it would need to compete with other centres to attract business-serving commercial activity.

The tables below show:

- Population growth forecast provided by Council for Leichhardt and adjoining suburbs which fall within Norton Street's potential catchment as a large centre
- Additional population serving employment that would be associated with this population growth
- Additional floorspace (above the current amount) that would be needed to accommodate this additional employment at 22sqm/job

TABLE 4: FORECAST POPULATION GROWTH IN LEICHHARDT AND SURROUNDS

	2016	2026	2036	Change
Leichhardt	15,514	16,775	20,563	5,049 (+33%)
Broader catchment (Annandale, Lilyfield, Lewisham and Petersham)	29,966	33,771	35,962	5,996 (+33%)

Source: Forecast.id

TABLE 5: POTENTIAL POPULATION SERVING EMPLOYMENT AND FLOORSPACE DEMAND IN LEICHHARDT

	By 2016	By 2026	By 2036
Additional population serving employment (number of employees)			
Leichhardt	0	+46	+185
Broader area (Annandale, Lilyfield, Lewisham and Petersham)	0	+139	+219
Additional population serving employment-generating floorspace (sqm)			
Leichhardt	0	+ 1,014 sqm	+ 4,062 sqm
Broader catchment (Annandale, Lilyfield, Lewisham and Petersham)	0	+ 3,062 sqm	+ 4,824 sqm

Source: SGS 2020

It would be expected that Norton Street could attract most of the population-serving employment from the Leichhardt suburb and some of the employment from the broader catchment (some of the employment from the broader catchment would be expected to be accommodated in other centres).

As shown in the following table, if Norton Street captures 80% of Leichhardt's population-serving employment and 50% of that from the broader catchment it would need around **5,650 sqm of additional employment generating floorspace by 2036** (rounding the figure in Table 4 to the nearest 50sqm). This does not include a large increase in retail floorspace, which would exceed this estimate. These percentages are intended to provide a high-level estimate of future demand, and are not derived from another calculation.

TABLE 6: FORECAST POPULATION GROWTH IN LEICHHARDT AND SURROUNDS

Population growth location	Additional population serving employment-generating floorspace (sqm) (A)	Potential proportion captured by Leichhardt Precinct (B)	Potential population-serving employment floorspace demand in Leichhardt Precinct (A x B)
Leichhardt	+ 4,062 sqm	80%	+ 3,250 sqm
Broader catchment (Annandale, Lilyfield, Lewisham and Petersham)	+ 4,824 sqm	50%	+ 2,412 sqm
Total	+ 8,886 sqm		+ 5,662 sqm

Source: Forecast.id

Demand discussion

This analysis has considered four different forecasts for additional floorspace demand for Norton Street by 2036:

- EaRLS: 31,576sqm (11,511sqm retail and 20,065 sqm office)
- PRCUTS: 34,000 sqm in the short term
- Current small area employment forecasts: 13,450 sqm
- Population serving employment floorspace: 5,650 sqm (not including likely increase in retail)

Recent trends in employment show no growth in employment along Norton Street. On this basis, the forecasts in EaRLS and PRCUTS are highly unlikely to be reached without a significant change in the function and prospects of the centre.

Lower forecasts of between around 5,650 sqm – 13,500 sqm are more likely prospects, but even these will depend on a shift in the fortunes of the centre which contrast with its recent lack of employment growth and relatively high vacancy rate.

There is a risk that mandating a large amount of non-residential floorspace as part of any mixed use development in excess of demand could dampen development and compromise the reinvigoration of the centre, or lead to increased levels of vacancy if developers view employment floorspace as a requirement for development approval but not a likely generator of revenue.

Potential public transport improvements

As discussed above, there has been little employment growth in Leichhardt recently, and it primarily has a population focused role. There is unlikely to be a substantial increase in non-retail floorspace demand in the future unless there is a change in centre function or competitiveness. If there was mass transit along Parramatta Road, this would make Leichhardt more competitive as an office/business location as it is more accessible.

At the moment, Ashfield, Burwood and Strathfield are the larger Inner West office/commercial locations. They each have a greater concentration of retail and services than Leichhardt, and so may remain more competitive than Leichhardt as a business location even if mass transit is provided.

However, with mass transit, Leichhardt would have a clear advantage as a location for population serving businesses over other nearby areas, which would be expected to increase business demand. Business premises above the baseline ground floor provision may be appropriate for some of these uses. The transit mode would need to be significant enough to increase competitiveness against other nearby centres with heavy rail, so limited bus treatment would likely not be sufficient.

Particularly if amenity improvements also occur and the concentration of economic activity increases further, Leichhardt may become more competitive as a business location for small firms which do not immediately serve the local population, but which do not want/need to locate in a city location. In these cases, the provision of additional commercial floorspace including on upper floors of buildings would be appropriate. However, Leichhardt would need to compete with areas like Chippendale or Redfern for larger scale influxes of creative uses and agencies. Leichhardt is likely to have less economic connectivity than these other locations even if mass transit is delivered, limiting its competitiveness against these locations. As such, without a further economic stimulus, Leichhardt is unlikely to rival these other locations for this kind of business.

2.5 Conclusion

Savills analysis found that non-residential FSRs of 0.6-0.7:1 are generally feasible out of a total proposed FSR of 1.9:1 or 3:1 in Leichhardt. However, there appears to be limited market demand for large first floor commercial spaces, and economic data shows that the forecasts in EaRLS and PRCUTS are highly unlikely to be reached without a significant change in the function and prospects of the centre.

Planning options for securing non-residential floorspace in Leichhardt include:

- Require delivery of 0.6:1 non-residential FSR where the FSR is 1.9:1, and 0.7:1 where the FSR is 3:1
  This may not make development unfeasible, but could dampen development and encourage floorspace delivery above likely market demand if redevelopment occurs across the Leichhardt core.
- Require no net loss of non-residential floorspace
  This option would limit the potential loss of employment generating space where redevelopment occurs on larger sites, but could be argued to create inequitable impacts across different land parcels.
- Require flexible floorspace to be delivered above the ground floor on which non-residential use may be possible in the future following conversion
  This approach would leave scope for employment use in the future even if non-residential

floorspace is not required above the ground floor. It is noted that Council is already planning to take this approach in draft design guidelines.

SGS recommends that active uses on the ground floor be required along the length of Norton Street to increase street activation. In SGS's experience, a non-residential FSR range of 0.3:1 – 0.5:1 depending on the site size, can be secured on the ground floor. However, SGS recommend that the mechanism for securing active uses (a minimum FSR or design controls) should follow from design considerations which show how much floorspace can be secured on sites of different sizes and designs relevant to the Leichhardt context.

The legal operation of strata subdivision of mixed-use developments is also important to facilitate a diversity of employment uses where employment generating space is provided. Commercial tenants and owners often do not want to heavily involved in strata committees overseeing the residential portion of buildings, and it is possible for disputes to arise between residential and commercial owners regarding the use of employment generating spaces and the responsibility for maintenance and works. These factors could discourage some businesses from locating in a building, and could restrict the range of likely uses.

Stratum subdivision is one mechanism to limit the potential for disagreements between residential and commercial owners and tenants. Under a stratum subdivision scheme, separate strata committees are established for the residential and non-residential portions of a building, with each having responsibility for setting by-laws and maintaining their portion of the common space. An overall committee is then responsible for decisions affecting the whole building. Stratum subdivision is likely to be most appropriate where there are multiple employment generating premises within the same complex.

Facilitating economic growth

Economic growth would need to be facilitated if employment in Leichhardt is to grow and it is to fill the role envisaged in EaRLS. Planning directions which could support employment growth, both retail and commercial, include:

- Facilitate mixed use development so that more people live in the centre (Council is already doing this)
- Facilitate diverse and creative employment uses along Norton Street that might not usually be accommodated in a local centre, for example wholesale/retail bakeries and micro-breweries, by reviewing permissible uses and design controls for ground floor non-residential floorspace. These things are also already proposed, with artisan food and drink premises proposed to be permitted in the B2 zone under the Draft Inner West LEP 2020, and light industrial uses currently permitted in the B2 zone. Stratum subdivision could limit the potential for disagreement between residential and non-residential owners and tenants over diverse and creative employment uses, which it is possible could otherwise be blocked by residential owners.

3. Leichhardt statutory planning options

This section considers potential approaches to encourage site amalgamation and secure through-site links along Norton Street in light of feasibility results in Chapter 2.

3.1 Broad typology of issues and planning control responses

Many of the properties within the Norton Street precinct have narrow frontages and many have small areas. As a result, development would be difficult without amalgamating multiple properties, but doing so is likely to increase the difficulty and cost of development. This results in two key challenges that Council will need to consider when writing planning standards and controls:

- Getting good design outcomes: Narrow sites pose design challenges, and if these are not carefully considered by developers and architects these challenges can lead to poor apartment building design. In this way, encouraging lot amalgamation may encourage better building design. A key design issue with narrow frontage lots is car access to basement car parking, which if not provided from the rear could lead to building frontages along Norton Street being dominated by basement entrances.
- New through-site links: PRCUTS and Council's draft design vision propose new east-west through-site links connecting Norton Street with Renwick Street and Balmain Road, cutting up the very long north-south oriented block between Parramatta Road and Marion Street. It is difficult to facilitate delivery of through-site links on small sites which develop independently of each other, and developers may need to amalgamate sites for it to be possible for through-site links to be delivered.

There are multiple statutory options for Council to address poor design outcomes and ensure that new through-site links are delivered, including potentially through site amalgamation. These fall into the following broad categories ranging from less to more prescriptive requirements:

- Bonuses which encourage developers to provide good design or public benefits because doing so will allow them to build at higher densities or more profitably
- Design guidelines (typically in a DCP) expressing desired design outcomes which are expected to be met, but which are not a prescriptive statutory requirement for development consent to be granted
- Statutory compulsion (typically in an LEP) requiring design outcomes to be met or public benefits to be provided in a prescriptive way before development consent can be granted

There are also other related changes that Council could consider to facilitate outcomes within this range of interventions through planning controls.

Together, these two challenges for Council and three broad potential approaches to solutions provide a matrix for organising the options available to Council when creating planning controls for the Leichhardt Precinct. This matrix is provided below, with more detail on each planning control approach provided in the following subsections. This matrix illustrates the potential interdependencies between actions targeting good design outcomes and through-site links.

TABLE 7: STATUTORY OPTIONS FOR MEETING THE CHALLENGES OF SMALL AND NARROW SITES

	Category of statutory approach	Getting good design outcomes	New through-site links
Less prescriptive ↓ More prescriptive	**Bonuses**	1. Sliding scale site-area FSR bonuses	5. Provide additional height to facilitate through site links 6. Provide FSR bonuses contingent on through-site links
	Design guidelines	2. Design controls targeted to specific poor design outcomes	7. Including through-site links in design guidelines
	Statutory compulsion	3. Minimum site areas for development	8. Requiring specific site amalgamation and through-site link provision
	Other related changes	4. Uncoupling car parking from development	

3.2 Potential approaches to facilitate good design outcomes

1. Sliding scale site area FSR bonuses

In this approach, different FSRs are provided depending on site area, with larger FSRs available for larger sites, reflecting the potential for better design outcomes on larger sites and incentivising site amalgamation to produce larger sites.

This approach would recognise that larger sites are more likely to have good design outcomes, including more street frontage to facilitate basement entrances and more flexibility in building design which achieves outcomes from the apartment design guide.

Development on larger rather than smaller sites would be facilitated in this approach by introducing a variable FSR control in the LEP (a variable height control may also be needed), whereby developers will have access to greater densities if they assemble a larger development site. This would create a financial incentive for developers to assemble multiple properties.

Feasibility implications

In this case it would be recommended that the FSRs used be subject to further design work on potential outcomes of development on small sites. Savills feasibility work shows currently proposed FSRs are likely to be feasible if a through-site link does not need to be provided, so these could either be used as the maximum allowable FSR, or slightly less than the maximum allowable FSR, with a lower FSR allowed on smaller sites.

Savills modelling showed internal rates of return substantially higher than the target rate (for example, development of a site on the Western side of Norton Street was assessed as having an IRR of 25.8% with a residential FSR of 1.53:1 and a commercial/retail FSR of 0.34:1). On this basis, a slight reduction in the FSR is unlikely to compromise feasibility providing that development is still possible given design

considerations, and commercial development and through-site link requirements do not further impact on feasibility.

Example implementation:

LEPs sometimes use this mechanism to facilitate larger sites for development, including in residential and commercial zones. For example, the Liverpool LEP 2008 includes the following clause:

> **Clause 4.4: Floor site ratio**
> (2B) Despite subclause (2), the maximum floor space ratio of a building in the Liverpool city centre that is—
> (a) on a site area greater than 1,000 square metres, and
> (b) on land in a zone specified in the Table to this clause, and
> (c) on land for which the maximum building height shown on the Height of Buildings Map is as specified in Column 1 of the Table under the heading for that zone,
> is the amount specified opposite that height in—
> (d) Column 2 of the Table, if the site area for the building is greater than 1,000 square metres but less than 2,500 square metres, or
> (e) Column 3 of the Table, if the site area for the development is equal to, or greater than 2,500 square metres.
>
> (2C) For the purposes of Column 2 of the Table to this clause, X is to be calculated in accordance with the following formula—
>
> $X = (\text{the number of square metres of the site area} - 1000) / 1500$

Column 1	Column 2	Column 3
Zone B3 Commercial Core		
35m	(4 + X):1	5:1
100m	(5 + 3X):1	8:1
Zone B1 Neighbourhood Centre, B4 Mixed Use, SP1 Special Activities or SP2 Infrastructure		
18m	(1.5 + 0.5X):1	2:1
35m	(2.5 + X):1	3.5:1
45m	(2.5 + 1.5X):1	4:1
80m	(2.5 + 3.5X):1	6:1
Zone R4 High Density Residential		
18m	(1 + X):1	2:1
24m	(1.5 + X):1	2.5:1
35m	(2 + X):1	3:1
45m	(2 + 1.5X):1	3.5:1

Pros:

- Not highly prescriptive and so would not be seen to discourage development
- Would be likely to facilitate increased site size if the sliding scale were set up correctly

Cons:

- Would not *guarantee* good design outcomes

- May also require densities greater than those that would be dictated by masterplanning, undermining the logic of using a comprehensive masterplan to guide planning controls and potentially compromising precinct-scale urban design outcome

2. Design controls targeted to address specific poor design outcomes

In this approach Council would identify the poor design outcomes that may result from development of small or narrow sites, and create design controls in the associated DCP seeking to prevent these outcomes.

These controls could be either outcome based (for example saying that basement entrances should not dominate the street-front) or specify quantified standards (for example providing a maximum proportion of the street frontage that can be occupied by a basement entrance). In general specific standards are easier to enforce, and as DCPs must be enforced flexibly are not likely to prevent development occurring if it cannot comply.

Example implementation**:** Design controls targeting specific design issues in DCPs are routinely used throughout NSW, including in the Leichhardt DCP.

Pros:

- Good nexus between problem and policy response, with controls specifically targeted to poor design outcomes
- DCP controls are subject to interpretation and negotiation at the DA assessment stage and so there is flexibility to permit innovative design solutions even on small sites
- Is not likely to discourage development on small sites provided that design solutions can be found

Cons:

- DCP controls must be applied flexibly and are subject to interpretation and negotiation at the DA assessment stage, and so may not be effective if they are not strongly implemented and defended by Council officers
- Provides less statutory weight than LEP-based approaches
- There may be gaps in design controls, leading to poor design outcomes related to the small size or narrowness of the development site but which were not anticipated in strategic planning

3. Minimum site areas for development

This approach would require a minimum site area for development of residential flat buildings or shop top housing to be specified, either in the LEP or DCP, and potentially only applying to a specific precinct. Implementation in a DCP would be more flexible, but would have less statutory weight.

Alternatively, or in addition, a control could specify the minimum site frontage for residential flat building or shop top housing development.

Similarly to option 1, this would reflect the understanding that better design outcomes in line with the apartment design guide (and particularly basement entrances not dominating the streetscape) are

easier to achieve on larger development sites. The standards used should be informed by design work and mapping of lot sizes and frontages rather than development feasibility analysis.

Example implementation: Minimum lot sizes for residential development are commonly specified in DCPs and LEPs. For example, the Woollahra LEP 2014 includes the following clause:

> 4.1A Minimum lot sizes for dual occupancies, manor houses, multi dwelling housing and residential flat buildings
>
> (1) The objective of this clause is to achieve planned residential density in certain zones consistent with the desired future character of the neighbourhood.
>
> (2) Development consent may be granted to development on a lot in a zone shown in Column 2 of the table to this clause for a purpose shown in Column 1 of the table opposite that zone, if the area of the lot is equal to or greater than the area specified for that purpose and shown in Column 3 of the table.

Column 1	Column 2	Column 3
Dual occupancy (attached)	Zone R2 Low Density Residential	460 square metres
Dual occupancy (detached)	Zone R2 Low Density Residential	930 square metres
Dual occupancy (attached)	Zone R3 Medium Density Residential	460 square metres
Dual occupancy (detached)	Zone R3 Medium Density Residential	460 square metres
Manor house	Zone R3 Medium Density Residential	700 square metres
Multi dwelling housing	Zone R3 Medium Density Residential	700 square metres
Multi dwelling housing (terraces)	Zone R3 Medium Density Residential	700 square metres
Residential flat building	Zone R3 Medium Density Residential	700 square metres

Pros:

- Would be more certain to ensure that development sites are sufficiently large than option 1
- Would reduce poor design outcomes related to small development sites

Cons:

- Could discourage development on small sites, which could have a marked impact on the amount of development occurring given that potential development sites in Leichhardt are generally small and narrow
- Inflexible to innovative design solutions on small sites, particularly if implemented in the LEP

4. Uncoupling car parking from development

Car parking is a key design challenge on small or narrow development sites. It is difficult on these sites to create access to a basement car park without substantial adverse impacts on the street-scape. In addition, basements of sufficient size are difficult to build on small sites given the large amount of space taken up by vertical circulation ramps. For these reasons, facilitating development which does not require a basement car-park is essential if multi-storey residential apartment development is to occur on very small or narrow sites like those found along Norton Street and Parramatta Road. This is likely to mean providing no parking on-site, as above ground parking is generally discouraged on account of its adverse design impact on the public domain, particularly within centres.

To facilitate development without car-parking, the controls in the DCP would need to be changed. The Leichhardt DCP 2013 currently requires one car parking space per three one-bedroom units, per two two-bedroom units and per three or more bedroom unit. DCP changes to allow apartment developments without parking can be accompanied by parking permit policies which make it difficult for

apartment dwellings to park on-street nearby, minimising impacts on the amenity of existing residents, traders and centre visitors from parking spaces not being available.

Given the distance of parts of Norton Street from heavy rail or other mass transit, some households are still likely to want to own a car. Allowing them to own or rent a parking space nearby would facilitate this car ownership, while better monetising the cost of providing car parking and providing the choice to other households to save money by not having a car space. This concept is generally referred to as uncoupling car parking from development, but does not commonly occur in Sydney. A key challenge is finding and paying for sites to develop for centralised off-site parking.

3.3 Potential approaches to create new through-site links

5. Provide additional height to facilitate through site links

Savills modelling showed that development to provide a through site link is only feasible if the entire site area is used to calculate permissible floorspace using a floorspace ratio. Development is generally not feasible if the portion of the site which will be used to provide a through-site link is not included.

As a result of this, a developer providing a through site link will need to accommodate additional density on the rest of the site above what would ordinarily be contemplated. The site's overall FSR does not need to be increased for development to be feasible, but additional height may be needed on the remainder of the site not being used for the through site link.

To facilitate this change, Council could increase the height control in the LEP on particular properties where through site links must be provided, however this runs the risk that a developer will take advantage of the additional height under the LEP without providing the through site link, which would likely only be enforced with a DCP control. To counteract this risk Council could link the additional height to the provision of a through site link in the LEP.

Pros:

- Does not require the provision of bonus floorspace

Cons:

- Would not create a direct incentive to deliver a through-site link, and so may need to be coupled with other actions presented in this section
- Could require higher heights than would otherwise be viewed as acceptable as part of the urban design framework

6. Provide FSR bonuses for through-site links

This option would create an incentive for a developer to provide a through-site link (or other public benefits) by amending the LEP to allowing them to access additional floorspace if they do so. That is, the LEP would specify a FSR control as usual, but an additional clause would be added allowing a higher FSR if a public benefit is provided in line with council policy and which council is satisfied is necessary.

This option is a form of value capture, with a developer receiving additional development rights and sharing the value with Council by dedicating a through-site link or other public benefit. Council would need to determine how much additional floorspace should be allowed, and could determine this based on Council receiving a proportion of the increase in the RLV of a development site (for example 50%) in line with other Council policy approaches on value sharing.

This approach can also be considered as a small density incentive for a developer to shift building massing on their site off a new through-site link, which must then be publicly accessible. This is likely to create little additional financial burden on a developer. However, for such an approach to be logically consistent with a masterplan identifying an appropriate density on urban design grounds, which is then set as the maximum FSR in a precinct, the argument must be made that the new through-site links are required to permit a greater level of density. Design considerations would be appropriate to inform how much additional density could be reasonably accommodated on a site.

Feasibility modelling indicates that development including through site links is feasible, providing that heights are sufficient to ensure that total floorspace permitted is not reduced when through site links are provided (addressed in the previous action option). As such, additional FSR bonuses are not necessary to make development feasible. Nonetheless, if not enough development is proceeding or Council is of the view that option 5 does not provide sufficient compulsion, additional incentives could be provided through this option.

Example implementation:

The Randwick LEP 2012 implements a community infrastructure charge in the Kensington and Kingsford Town Centre which is analogous to considering this approach as value sharing. A base FSR and height of building control is specified for relevant sites in Kensington and Kingsford using the usual clauses in the LEP (4.3 and 4.4), and a separate alternative and higher FSR and building height control are set which only apply through Clause 6.17 which only apply if community infrastructure is provided through the development.

The Ryde LEP 2014 contains a clause which is more targeted than the approach in the Randwick LEP and is consistent with considering this option as securing public benefits which are needed for increased density. Clause 6.9 of the Ryde LEP allows for additional height and density in Macquarie Park only if there are appropriate recreation and road networks:

> 6.9 Development in Macquarie Park Corridor
>
> (1) The objective of this clause is to encourage additional commercial development in Macquarie Park Corridor co-ordinated with an adequate access network and recreation areas.
>
> (2) This clause applies to land in Macquarie Park Corridor, identified as "Precinct 01—Macquarie Park" on the Macquarie Park Corridor Precinct Map.
>
> (3) The consent authority may approve development with a height and floor space ratio that does not exceed the increased building height and floor space ratio identified on the Macquarie Park Corridor Precinct Incentive Height of Buildings Map and the Macquarie Park Corridor Precinct Incentive Floor Space Ratio Map, but only if the consent authority is satisfied that—
>
> (a) there will be adequate provision for recreation areas and an access network, and
>
> (b) the configuration and location of the recreation areas will be appropriate for the recreational purposes of the precinct, and
>
> (c) the configuration and location of the access network will allow a suitable level of connectivity within the precinct.

The Ryde DCP 2014 provides maps of a new street network within Macquarie Park which would improve permeability and complement existing streets, as well as new and embellished open space.

Pros:

- Provides a positive incentive for developers to provide through-site links, making their delivery more likely

Cons:

- Could be seen as unreasonably restricting densities on sites on which through-site links are not to be provided if increased densities are permissible elsewhere nearby
- A developer may still decide it is easier not to provide a through-site link, especially if the incentive is not large enough or the through-site link would be difficult to accommodate

7. Including through-site links in design guidelines

In this option, a masterplan would be provided in a DCP which requires development to have a particular layout included new through-site links and public domain dedications to Council (to be included as a condition of development consent). This would leave flexibility for proponents to deliver different kinds of access ways through their sites, for example through provision of an activated arcade instead of a laneway.

Example implementation:

This approach is commonly applied in greenfield and large scale brownfield development precincts where there is no existing road network. DCPs applying to town centres also sometimes include new laneways to be provided (similar to the approach that could be applied in Leichhardt).

Pros:

- Internalises costs to development of amalgamated sites with no need for additional density bonuses
- Well established system which requires little innovation to implement

Cons:

- Requires negotiation through the development assessment process which may be subject to challenge, particularly if public domain requirements impact on amount of development yield
- Small and narrow sites in Leichhardt may make through-site links difficult to provide on many sites, exacerbating potential difficulty in securing sites through the development assessment process
- Regulations require DCPs to be applied flexibly, which could result in through-site links not being provided if there are not strong policies and processes regarding assessment of development applications
- There are no incentives for a developer to provide a through-site link, which may make them reluctant to do so

8. Requiring specific site amalgamation

This option directly addresses the difficulty in enabling the timely delivery of through-site links where they may cross property boundaries and a developer would not otherwise be compelled to amalgamate all of the required properties to deliver a through-site link.

Under this option, mapping in the LEP would identify specific properties which must be amalgamated in order for developers to access a proposed increase in FSR above current controls. Access to increased FSRs would also depend on the delivery of the required through-site links.

Example implementation:

The Strathfield LEP contains two different clauses that provide a precedent for this approach and illustrate how it could function.

Strathfield LEP 2012 Clause 6.9 – 'Key Sites' identifies key sites along the Parramatta Road corridor in the LGA's north. These designated sites demonstrate preferred patterns of land aggregation within the precinct. An extract from the LEP map is shown below. According to the LEP, development consent will not be granted to proponents of development in these areas unless Council is satisfied that development will contribute to the intensification and integration of land uses within the area.

FIGURE 5: PRESCRIPTIVE SITE AMALGAMATION CONTROLS APPLYING IN HOMEBUSH

Source: Strathfield LEP 2012

Strathfield LEP 2012 Part 7 – Intensive Urban Development Areas ensures that specified public infrastructure is provided to satisfy the needs of intensive residential development. It states that within designated 'intensive urban development areas', development consent can be granted for residential or mixed-use development which increases the number of dwellings on the site only if arrangements are made for provision of state infrastructure in relation to the site. The types of state infrastructure included are clearly prescribed by the LEP as including:

- State and regional roads
- Bus interchanges and bus lanes
- Land required for regional open space
- Social infrastructure and facilities (such as schools, hospitals, emergency services and justice purposes)

Pros:

- Does not require any increase in density above current recommendations to make development feasible
- Resolves design difficulties which could arise from irregular development staging and existing subdivision patterns

- Provides certainty that through-site links will be delivered if development is proposed on sites intended to contain through-site links

Cons:

- Could impede development if one or more landowners in each amalgamated parcel holds out from sale or has unreasonable price expectations
- Increasing the number of parcels a developer needs to acquire could increase costs and difficulty of development
- While there are precedents, this approach is somewhat more prescriptive than most LEPs and so could be controversial

3.4 Conclusion

Site amalgamation and through-site links

Out of the potential planning approaches discussed above, with respect to good design outcomes SGS recommends:

- That specific design controls targeting poor design outcomes (option 2) is the most direct way to address design concerns regarding development on small sites. These controls would need to be strongly enforced at the pre-lodgement and development assessment stages, and would need to include preventing basement carpark entrances from dominating Norton Street.
- That Council seek to decouple parking and development to facilitate development on small sites (option 4), including through reviewing the DCP to allow development on small sites without car parking if off-site amenity impacts can be managed. High land values may make it difficult for Council to acquire a site for car-parking, but it may be possible to partner with a developer if a large site like the Norton Plaza were developed to facilitate decoupled parking.
- If design controls are not sufficient to create good design outcomes, a sliding scale FSR could be appropriate to encourage amalgamation, creating a small penalty to development on smaller sites rather than providing a bonus which could overlap with other bonuses being considered or with value capture. However, there would need to be a strong design rationale linking the maximum FSR and to a larger site, and as to why the lower FSR is in place.

Out of the potential planning approaches discussed, with respect to facilitating through-site links, SGS recommends both of the following approaches:

- Allowing additional height when through site links are provided, allowing development to proceed on a smaller portion of the site (not including the through site link) without causing any reduction in total floorspace allowed (option 5). A specific LEP amendment appears to be the best way for this to occur. This change would ensure that development including through-site links is feasible, without requiring substantial bonuses or changes to intended principal planning controls.
- Placing design controls requiring the provision of through-site links in the DCP (option 7), creating a requirement for them to be delivered while leaving flexibility on how, and potentially where, this occurs.

Provision of additional density bonuses could facilitate design outcomes which are contrary to master planning, and so are not recommended unless they are necessary. Nonetheless, if Council is of the view that option 8 does not provide sufficient compulsion or incentive for developers to provide through-site links, a small additional density bonus (option 6) may be appropriate, with the size of the bonus to be determined through design considerations. More prescriptive controls on which properties are to be amalgamated (option 8) are not recommended in this instance as they may unduly reduce the likelihood of development occurring.

4. B6 and IN2 Feasibility

4.1 Proposed changes

Council has created draft structure plans for the Taverners Hill and Kings Bay precincts from PRCUTS. These plans propose retention of the existing employment land (zoned B6 Enterprise Corridor and IN2 Light Industrial) in the PRCUTS precincts, except for land lost to the WestConnex Motorway which is proposed to be rezoned to SP2 Infrastructure. This is in line with the Inner West EaRLS, which aims to retain employment land in the LGA.

While few changes to existing B6 zone boundaries are proposed, some increases to height and FSR control are proposed to facilitate increased intensity of employment use. The feasibility of development in these zones has been tested to inform the appropriateness of proposed FSR and height controls.

Council are not currently proposing to change the planning provisions in the IN2 zone. Modelling of feasibility in this zone has been undertaken to inform future planning by Council.

4.2 Property market demand

Savills profiled the existing property market and likely demand for several different permissible uses within the B6 or IN2 zone. Demand profiles and likely rents (and so feasibility) vary strongly between different uses, so the likely use profile impacts on development feasibility and the appropriateness of different FSR controls.

Warehouse and distribution uses

These uses are currently permissible in B6 and IN2 Zones.

Savills expects relatively limited demand for warehouse and distribution space along Parramatta Road within the Inner West LGA. Large scale warehouse and distribution occupiers will be able to find cheaper space more fit for purpose with less travel time to the M4 and M7 in Homebush / Silverwater or further west. Additionally, occupiers will be able to find space with better access to the port and airport in South Sydney and Marrickville.

Demand projections by Hill PDA show demand for around 400 m2 – 500 m2 of 'industrial space' per year in each precinct in the Inner West, which is expected to primarily be demand in the Light Industry category or other urban services (see below).

Multi-storey warehouse and distribution buildings are not expected to occur for least a few years in Australia, and therefore increasing FSRs will not make multi-storey warehouse and distribution space feasible. To date the availability of relatively cheap and developable land in Western Sydney has reduced the need to develop multi-storey industrial buildings. To be feasible at a land value of $1000 psqm, the net rent for three level industrial building needs to be around $220 psqm and the net rent for a two level industrial building needs to be around $260 m2. This is close to the rents in South Sydney (Mascot, Botany, Banksmeadow, St Peters etc.) but is higher than the rents achieved for 'warehouse and distribution' style industrial buildings on Parramatta Road (i.e. $130 m2 - $150 m2).

There is likely to be some demand for 'last mile' delivery / dark warehouses along Parramatta Road, particularly sites which a close to other major roads (such as the M4, A4 - Wattle Street and A3 – Centenary Drive/Roberts Road).

Light industry

These uses are currently permissible in B6 and IN2 zones.

Under the Standard Instrument, light industry means a building or place used to carry out an industrial activity that does not interfere with the amenity of the neighbourhood by reason of noise, vibration, smell, fumes, smoke, vapour, steam, soot, ash, dust, waste water, waste products, grit or oil, or otherwise, and includes any of the following: (a) high technology industry, (b) home industry, (c) artisan food and drink industry. Industrial activity means the manufacturing, production, assembling, altering, formulating, repairing, renovating, ornamenting, finishing, cleaning, washing, dismantling, transforming, processing, recycling, adapting or servicing of, or the research and development of, any goods, substances, food, products or articles for commercial purposes, and includes any storage or transportation associated with any such activity.

Demand projections by Hill PDA show demand for around 400 m2 – 500 m2 of 'industrial space' per year in each precinct.

This category is similar to 'Urban Services' and demand is expected to increase in line with population growth. These users pay for high exposure and proximity to customers and can typically operate on 500 m – 1500 m2 of land. The rents paid by these businesses is around $250 m2 - $300 m2 net and higher for new space. The redevelopment of vacant and older stock can be feasible, subject to initial price expectations. Feasibility is assessed in more detail in the following sections of this chapter.

'High technology' light industry falls into this category, and typically requires more office space than a traditional 'light industrial' user i.e. high tech industrial is likely to be at 70%+ office or 90% - 100% if doing R&D – while traditional light industry requires 10% - 20% of office space. We expect the demand from high tech industry to be limited as occupiers would have opportunities to secure space in more established tech precincts such Surry Hills, Pyrmont and Macquarie Park.

Offices and business premises

These uses are currently permissible in the B6 zone and IN2 zone (business and office for creative purposes are permitted in IN2 zone under Cl. 6.15 of the draft IWLEP 2020).

Introducing business and office premises introduces businesses that have the capacity to pay higher rents ($300 - $350 m2+) than urban services or light industrial uses. However, in general businesses seeking office space would be more likely to lease space in a centre (Burwood, Ashfield, Strathfield, Rhodes, Sydney Olympic Park) or business parks (Newington, Homebush, Sydney Olympic Park etc.). There is likely to be only modest demand from occupiers wanting this type of space as public transport and easy access for workers is better in nearby centres.

There is likely to be demand from businesses that need a combination of office and industrial space – however the larger high technology firms currently prefer Macquarie Park, Norwest and North Ryde where there are large floorplate campus style offices, ample parking and relatively modest rents compared with the major centres. There is also a substantial amount of space to lease in Rhodes (50,000 m2) and Sydney Olympic Park (20,000 m2+)

Demand projections by Hill PDA show demand in 2036 for additional occupied employment space above current levels to be:

- 1,233sqm in the Kings Bay Core Precinct
- 1,108sqm in the Kings Bay Frame Area
- 4,139sqm in the Taverners Hill Core Precinct
- 6,741sqm in the Taverners Hill Frame Area
- 596sqm in the Leichhardt Precinct Frame Area

This amounts to around 14,000sqm of additional employment floorspace above current supply in precincts along Parramatta Road by 2036.

There are a couple of larger head offices on Parramatta Road (Norman House and Best and Less Head Office), however it is difficult to use extra FSR as the catalyst for more office development as demand is limited for large pure office space. The Parramatta Road Corridor is expected to continue to be popular for business (signs, hardware , gyms, home renovation etc.) that want high exposure.

There is likely to be demand from business requiring a higher proportion of office space near frequent public transport – such as the Taverners Hill Light Rail, or at other sites that can accommodate on-site car parking.

Hotel or motel accommodation

Permissible in B6 zones, however Inner West Council plans to prohibit serviced apartments.

A hotel demand and supply assessment has not been prepared, and would require more detailed study, but there have been several recent DAs for serviced apartments. There may be some continued demand for uses in this category.

Service stations and neighbourhood shops

Permissible in B6 and IN2 zones.

Service stations and convenience retail are popular investment asset class, particularly when on long lease terms and preferably in high visibility locations. There is likely to be continued demand for service stations including convenience retail and/or fast food premises.

Specialised retail including car yards

The motor vehicle dealership model is changing, with integrated multi-storey sales, service and concept stores becoming more common (eg. Audi Five Dock, Tesla and Mini in Alexandria). Increasingly brands (particularly high end) are selling their own cars rather than relying on a dealership model where dealers can sell multiple different types of cars.

There is likely to be some demand from large format occupiers if they can find large sites (at least 5,000 m2), noting there is already a concentration of large format occupiers in Auburn reflecting accessibility along the Great Western Highway and at the gateway to the M4 Motorway. There are few available sites of this size along Parramatta Road. Increases in height and FSR would be unlikely to increase demand from most large format occupiers, as they are typically require large floor-plates facilitating

large retail areas on the same floor, rather than large total floor areas across multiple floors. As such, demand is likely to be limited to smaller large-format retailers.

Large format occupiers also benefit from being located in clusters of 20,000 m2 or greater, and ideally support existing centres. The best sites have access from both directions and parking at the rear. A lack of opportunity for this kind of grouping along Parramatta Road could dampen demand somewhat.

Other uses

There is likely to be some potential demand for other uses including places of public worship, childcare and health services facilities particularly on larger sites (5,000 m2 plus). This will also include some population serving uses such as gyms / cross fit centres etc. Each use would require its own demand and supply assessment for more detailed comment, however of these uses have been modelled in one of the feasibility assessments.

4.3 Market transaction evidence

Regional sales and leasing data

Land values for industrial sites under 5,000 m2 in the Inner West industrial sub-market are typically around $900 per sqm of *land area*. This sub-market area stretches from the Inner West LGA west to Parramatta.

Net rents for warehouse space are typically between $120 - $150 per sqm for prime industrial space, with yields are between 4.5% - 6% on average. This means capital values are around $3,000 - $3,500 per sqm GFA of *building area* in the Inner West Industrial sub-market.

Rents on Parramatta Road are generally below rents in nearby centres with the exception of a number of business that benefit from the high volumes of passing traffic.

Recent sales and leases

There are a limited number of sales and leases of properties in IN2 and IN1 zones on Parramatta Road. The sales rates per sqm building area are highly variable with the associated lease in place for the property being the main driver of value. Sales over $5,000 per sqm in industrial zones contain similar businesses / buildings to those found in a B6 zone.

There is more consistency in the average rents for industrial uses in the Inner West Industrial sub-market (around $150 m2 for warehouse / traditional industrial space and $250 m2 - $300 m2 for buildings in industrial zones but that are used as business premises).

The sales rates (per $m2 of building area) in B6 zones are also highly variable with much higher prices paid for sites that are purchased with expectations of rezoning to residential. The values $ m2 look slightly higher than industrial zoned land (say $5,000 m2 versus $3,500 m2) however quality buildings with strong leases in place can sell for much more.

4.4 Savills feasibility results

Feasibility

Savills tested the feasibility of development on sites along Parramatta Road for several different permissible uses. The redevelopment FSR was varied to test the impact on development feasibility. Results are summarised in the following table.

TABLE 8: FEASIBILITY RESULTS FOR PARRAMATTA ROAD

Location	FSRs tested	Development mixes tested	Feasibility results
Parramatta Road Petersham – B6 zone Bathroom showroom on south side of Parramatta Road with large surface level carpark, and rooftop carpark	0.95:1 (current) 1.5:1 2.4:1 3.5:1	100% Business premises	Development is feasible at an FSR of 2.4:1 or higher, even allowing for a 12-36 month letting up period
542 – 554 Parramatta Road Ashfield – B6 zone KFC retail outlet with associated parking and drive-through on south side of Parramatta Road	2:1 (current) 3:1	100% Business premises, 100% Hotel/motel	Development is feasible under all options tested, this site is large enough to accommodate a larger floorplate occupier like a gym or hotel.
4A Parramatta Road Summer Hill – B6 zone Car wash on 734sqm on south side of Parramatta Road near Taverners Hill	2:1 (current) 3:1	100% Showroom, 65% Showroom & 35% Offices, 100% Offices	Development is generally not viable due to the small site size and high land value relative to showroom rents. Development was feasible only at 3:1 FSR with 100% offices.
709 – 711 Parramatta Road Leichhardt – IN2 zone Small site (683 sqm) with aged warehouse in Taverners Hill on north side of Parramatta Road	1:1 1.5:1 2.4:1	80% Industrial & 20% Office, 30% Industrial & 70% Office	Redevelopment for a predominately industrial use is unfeasible, with a negative rate of return. Redevelopment is closer to feasibility (although still not assessed as being feasible) at FSR 2.4:1 and with 70% office use.

Source: SGS 2020, TfNSW 2020 *TZP19 Forecasts*

Broadly, development in the B6 zone on larger sites appeared to be feasible for the purposes of business premises, hotel/motels and premium showrooms, although the FSR required for feasibility under current market conditions varies between 2.4:1-3:1.

Industrial to industrial redevelopment in the IN2 zone appears to be unfeasible, and it is unclear how a multi-storey purely industrial development could occur on a small site with limited accessibility and what kinds of tenants it would attract. Rather, redevelopment in the IN2 zone with an increased FSR and predominately commercial floorspace (although maintaining similar levels of industrial use to existing warehouses) appears to be feasible.

Redevelopment and amalgamation of residential sites

Savills also assessed if Council rezoned land to expand the B6 Enterprise Corridor zone to the rear of several properties in the Kings Bay Precinct on Parramatta Road and increased the FSR whether it would be feasible for a developer to amalgamate and redevelop properties.

Purchasing a residential property in Croydon within the Kings Bay Precinct is likely to add around $1.5 million - $2.0 million to the acquisition cost of the redevelopment – assuming the lot is around 450 m2 – 650 m2.

A developer would be expected to want to secure a site between 1,500 and 2,000 m2 to be able to secure a large format occupier. This would require acquisition of four properties to assemble 1,500sqm, costing around $6,000,000 - $7,000,000, or five properties to assemble 2,000sqm at a cost of around $7,500,000 - $8,500,000.

For the redevelopment to be financially feasible the FSR would need to be at least 2.5:1, assuming that there is sufficient demand showroom / business premises space in this location.

4.5 Conclusion

B6 zone

From these results, it appears that development in the B6 zone at the proposed FSRs would be generally feasible, depending upon the uses in question. The property market shifts over time, and a development which is marginally unfeasible now may become feasible in the future. In addition, some sites may be cheaper to acquire or developers may be able to develop more cheaply than has been assumed, making some developments feasible.

Given that development was found to be either feasible or close to it, and the support of Council's design and strategy work for the FSRs proposed, they appear to be reasonable from a feasibility point of view.

Analysis by Savills shows several uses which could demand space along Parramatta Road:

- Light industry, which may be able to be accommodated at the ground floor of buildings housing other business uses
- High technology industry in buildings which are mostly office space
- Offices and business premises, particularly near public transport links, although larger centres and office precincts may be more competitive
- Service stations (which would likely be incompatible with redevelopment) and neighbourhood shops
- Hotel and motel accommodation, noting that there is an action in EaRLS to realign objectives in the B6 zone to focus on employment uses rather than accommodation
- Other population-serving uses like community uses, places of worship and gyms

In the EaRLS, there is estimated to be increasing demand for business, industrial and urban services uses in the Inner West LGA. On this basis it is appropriate to facilitate redevelopment particularly if some scope for necessary urban services use can be retained. However, the relatively low floorspace

projections for precincts like Kings Bay in EaRLS (400-500sqm of commercial space per annum and a similar amount of industrial space) show that redevelopment may be slow.

As noted in EaRLS, most sites along Parramatta Road are currently developed with much less floorspace than the FSR control, creating significant theoretical capacity even if no rezoning occurs. A significant change in the pattern of use would be required to meet the PRCUTS vision of high density employment use along Parramatta Road, which would be facilitated by increasing the allowable FSR. Fragmented land ownership and use is likely to impede redevelopment, and an increase in FSR may assist developers to amalgamate sites. However, facilitating development in line with the PRCUTS vision is still likely to be a long term prospect. Further analysis of ownership patterns, the scope for incentives or concessions and potential uses on key sites could be required to unlock development.

Likely development in the IN2 zone

From these feasibility results, it appears unlikely that industrial to industrial redevelopment will occur, and so an increase in purely industrial floorspace is not likely to be achieved. Rather, redevelopment which preserves industrial capacity and space on the ground floor combined with flexible employment uses above the ground floor, including office, would be a way to preserve some industrial and urban services land uses, while increasing the overall quantum of employment floorspace. Savills modelling shows this approach is close to being feasible.

Development of flexible office and employment floorspace above the ground floor level would also facilitate more flexible and innovative use of industrial and urban services spaces. For example, IDE group is located in Taverners Hill in a multi-storey building in the industrial zone, and perform medical product development, R&D and manufacturing. Flexibility of use, and co-location of boutique industrial and other employment uses is critical for businesses like this.

Facilitating this kind of development is consistent with past advice SGS has provided to Inner West and Leichhardt councils for Taverners Hill. For example, previous advice has specified that:

> "Flexible commercial floorspace should be part of the mixed-use development. Should traditional industrial uses be lost, commercial development should retain large, flexible floorspace to support businesses aligned with creative industries and similar industries that require non-traditional commercial floorspace."

A rezoning which facilitates an increased proportion of office use in an industrial zone should be accompanied by design controls in the DCP setting out an intended vision for development outcomes, including high ground floors that can accommodate light industrial uses.

Appendix A: Savills feasibility assumptions

FEASIBILITY COST ASSUMPTIONS FOR LEICHHARDT

Construction costs	
Apartment	$3,500/sqm
Parking	$50,750 per space
Balcony	$1,000/sqm
Construction contingency	3% of construction cost
Sustainability and design	Around $10,500 per unit
Statutory fees	
Authority fees (s7.11)	$20,000 per dwelling
Strata title fee	$1,000 per dwelling
Construction certificate fees	0.05%
Development application fees	$15,000
Other assumptions	
Initial land value	$3,500 per residential gross floor area (GFA)
Due diligence & Legal fees	$35,000 allowance and $1,500 per unit
Interest rate	6% per annum, 100% of debt funded
Professional fees	8.5% of construction costs
Sales commission	2.5% residential, 2% non-residential
Marketing fee	0.7% of gross realisable value (GRV)
Holding costs	Varies with development
Project contingency	2% of construction costs & professional fees & authority fees
Cost and revenue escalation	0% per year
Capitalisation rate	6% for retail and office space
Number of car parks (based on advice from Council)	0 spaces per studio apartment 0.3 spaces per 1-bedroom and 0.7 spaces per 2-bedroom apartment

DEVELOPMENT TIMEFRAME FOR FEASBILITY MODELLING FOR LEICHHARDT

Item	Timeframe
Site mobilisation	2 weeks
Demolition	2-3 months
Excavation	2-3 weeks
Slab on ground	5 weeks
Basement structure (where required)	8 weeks
Construction of each level	2 weeks per level (per pour)
Fit-out	6 months
Contingency	10% - 20%

Source: Savills 2020

REVENUE ASSUMPTIONS FOR FEASIBILITY MODELLING FOR LEICHHARDT

Item	Amount
Residential gross realisable value	$14,000 - $14,500 /sqm
Retail rent	$550 - $650 /sqm depending on size
Office rent	$400 - $450 /sqm depending on size
Outgoings	10% of rent
Letting up	6 – 15 months depending on size of office space
Hurdle internal rate of return (IRR)	18%
Hurdle development margin	18%
Sales rate	All units sold by 12 months after project start

Source: Savills 2020

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Kings Bay Opportunity Sites

Inner West Council

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Contents

1. Introduction

SGS Economics and Planning has been appointed by Inner West Council to analyse the need for employment use and the feasibility of development on three key opportunity sites on Parramatta Road in Kings Bay. Inner West Council is considering additional residential additional permitted use on the these sites given their proximity to the proposed Metro Station at Five Dock.

This project intends to determine:

- If there is a need to retain a minimum amount of non-residential floor space to meet the future employment demand in Kings Bay.
- If appropriate, a minimum non-residential FSR and any supporting design controls to facilitate the use of this employment space.
- An estimate of the non-residential floorspace and number of residential dwellings that can be accommodated on site. This should have consideration for design controls.
- The feasibility of development, and whether there would be scope for sharing of value given uplift proposed.

The three sites in question are:

- Opportunity Site 1: 612-624 Parramatta Road and 210 Croydon Road, Croydon
- Opportunity Site 2: Amalgam 596-610 Parramatta Road and 235-237 Croydon Road, Croydon
- Opportunity Site 3: 582 – 584 Parramatta Road, Croydon.

1.1 Document structure

This report contains the following sections:

- 'Chapter 2: Strategic context' reviews existing strategies and studies which provide directions for employment in the Kings Bay Precinct, as well as the proposed Sydney Metro West station.
- 'Chapter 3: Demand and capacity' provides an overview of the likely demand for employment generating floorspace in Kings Bay and the capacity to deliver it under current and proposed planning controls.
- 'Chapter 4: Development feasibility' provides the results of development feasibility modelling.
- 'Chapter 5: Discussion' discusses the implications of the findings for the subject sites.

2. Strategic context

2.1 Review of strategic context

Eastern City District Plan

The Eastern City District Plan (ECDP) translates the metro-wide strategic planning intent of the Greater Sydney Region Plan into a set of objectives and actions for the Eastern City District. It informs the development of local planning strategy by local governments in this District.

Planning Priority E12 deals with retaining and managing industrial and urban services land. This include land which hosts activities 'such as motor vehicle services, printing, waste management, courier services and concrete batching plants.' It states that all remaining industrial and urban services land should be retained and managed to ensure that it is not overcome by competing development pressures, 'especially residential and mixed use zones'.

Areas which PRCUTS applies to are excluded from the retain and manage approach set out in the ECDP. However, the Inner West Employment Lands Study (discussed below) has since considered the need for industrial land in the Inner West in more detail, and has found that there is a need to retain industrial and urban services lands through the Inner West Council, including in Kings Bay.*Planning Priority E20* is concerned with 'adapting to the impacts of urban and natural hazards and climate change'. Urban hazards are broadly categorised as urban development and activities which cause noise, air pollution and soil contamination. Transport movements along major roads are identified as an example.

From this, *Action 75* states that 'new urban development in areas exposed to natural and urban hazards' should be avoided, and that consideration should be given to means of limiting the exposure of new development to these hazards.

Summary

The Plan states that where possible, remaining urban services land in the District should be retained and protected from competing development. Where additional development intensity is to occur, its exposure to natural and urban hazards should be avoided or mitigated.

Inner West Employment and Retail Lands Study

The Inner West Employment Lands Study provides an understanding of the current and predicted needs of retail, commercial, urban services and industrial land uses in the LGA as of mid-2020.

According to *2.0 Strategic Context,* NSW Government strategies can be used to derive a framework for decision making on employment lands. This includes the following:

- A requirement to protect employment land in the Inner West LGA.
- A requirement to ensure that residential development does not interfere with the operation of employment land.

Section 4.0 LGA Economic Snapshot identifies a strong local specialisation in population-serving urban service uses in the LGA, suggesting that this specialisation be further encouraged via planning. Section *9.1 Employment precincts* notes that this specialisation is especially strong in Kings Bay. Section 4.0 also notes that Inner West LGA is in a strong position to attract professional service uses which do not require CBD premises and may benefit from lower rents. Sydney Metro West may provide an opportunity to strengthen this position.

Section 6.2 Employment lands trends notes the opportunity to leverage the LGA's relative proximity to Kingsford Smith Airport, Sydney CBD and major roadways to deliver industrial spaces suitable for warehousing and distribution. This is a permitted use within the B6 Zone currently applied to the relevant sites.

Section 8.1 Current Issues states that B5 and B6 Zones are largely incompatible with sensitive uses such as tourist accommodation or residential dwellings. Multiple and large vehicle movements and proximity to arterial roads are cited as reasons for this determination. The Study subsequently recommends that all forms of residential use should be prohibited within these zones.

Section 9.3.1.2 Kings Bay Frame Area details present and anticipated floorspace requirements for employment uses within the Kings Bay Frame Area precinct, which includes all sites relevant to this project. The precinct currently has a total of 13,111 square metres of employment floorspace, with a vacancy rate of 8 per cent. Retail trade occupies 6,916 square metres and is the largest specialisation. The Study states that existing uses are broadly in line with the objectives of their respective zones, and recommends that B6 Enterprise Corridor land is retained, with an increased FSR of 2.4:1. This would provide capacity for an additional 14,174 square meters of employment floorspace.

The Study notes that take-up of additional development capacity would likely only occur over the medium to long term, given that premises with quite a low utilisation of existing controls (which provide significant spare capacity) dominate the precinct. A recommendation is provided to undertake detailed planning to resolve constraints which may limit the potential for development to occur in line with the FSR control.

Summary

Project sites are currently functioning broadly in-line with their zone objectives, although they remain highly under-utilised. The Study recommends that their employment role be retained, especially given their proximity to a major arterial road route and associated incompatibility with sensitive uses.

Inner West Employment and Retail Lands Strategy

The Inner West Employment Lands Strategy formulates an approach to the management of employment land in the LGA, drawing on the findings of the Employment Lands Study.

The Strategy outlines four principles to underpin planning for employment lands in the LGA:

- Centres are distinctive and productive.
- Industrial and urban services lands are protected.
- Spaces for business are suitable and available.
- The planning framework is clear.

The *Influences – industrial, urban services and creative industries* section notes that a loss of industrial and urban service land at a subregional level is contributing to worsening affordability and availability of space. An associated opportunity is identified for flexible, affordable spaces to be taken up by creative enterprises, with increasing competition for remaining creative spaces in the City of Sydney generating demand in surrounding LGAs. The Strategy's vision support this conclusion, stating the importance of specialisation in creative industries for the LGA's future growth prospects, alongside industrial/urban service uses.

The following strategic directions from the Inner West Employment Lands Strategy are relevant to the subject sites:

- *Strategy 1.6* aims to support a range of employment uses within centres and employment precincts throughout the LGA. Actions support permissibility of flexible 'light industry' and 'local distribution' uses in areas zoned for business or enterprise.
- *Strategy 2.2* states that key industrial and urban services land has been lost across the LGA and inner city more broadly, and that planning should aim to protect remaining supply of these sites. Preventing conversion of surrounding sites to incompatible uses is also seen as a necessary objective. *Strategy 2.3* provides similar directives to retain a diverse supply of employment land where possible.
- *Strategy 3.1* seeks to support the function and existing specialisations present in the LGA's employment corridors. *Action 3.1.6* states that precinct planning should be undertaken for Kings Bay to support its redevelopment for employment uses.
- *Strategy 3.2* emphasises the role of employment uses in mixed use developments throughout the LGA. Its actions are concerned with ensuring the flexibility of suitability of non-residential spaces in these developments.

Summary

The Strategy directs that sites offering key urban service uses should be retained for their present use and protected from encroachment by incompatible uses, including residential development.

Parramatta Road Corridor Urban Transformation Strategy (PRCUTS)

PRCUTS forms NSW Government's 30-year plan for the redevelopment of the Parramatta Road Corridor, spanning 20km from Granville to Camperdown. It includes all land adjoining Parramatta Road (including the relevant sites), as well as specifically identified precincts adjacent.

The Strategy includes 'seven principles for transformation', several of which include statements relevant to the project sites:

- *Principle 1 – diversifying land uses* emphasises the need to consider opportunities for co-location of residential and employment uses where appropriate.
- *Principle 2 – planning for jobs* notes that urban renewal should not be concerned solely with housing delivery, but also that a diverse range of business activities are realised through

redevelopment of the Corridor. This is supported by actions to develop flexible controls able to accommodate established and emerging business and industrial uses.

- *Principle 4 – urban amenity improvement plan* acknowledges that population increases must be accompanied by improvements to urban amenity. These improvements include necessary changes to subdivision patterns and additional/improved open space.
- *Principle 5 – green spaces and links* reinforces this position, stating the importance of coordinating development, connective infrastructure and open space to generate a liveability dividend for growing communities.

The Strategy also includes a place-specific vision for Kings Bay, with recommended zoning for the project sites. This is shown in Figure 1 overleaf.

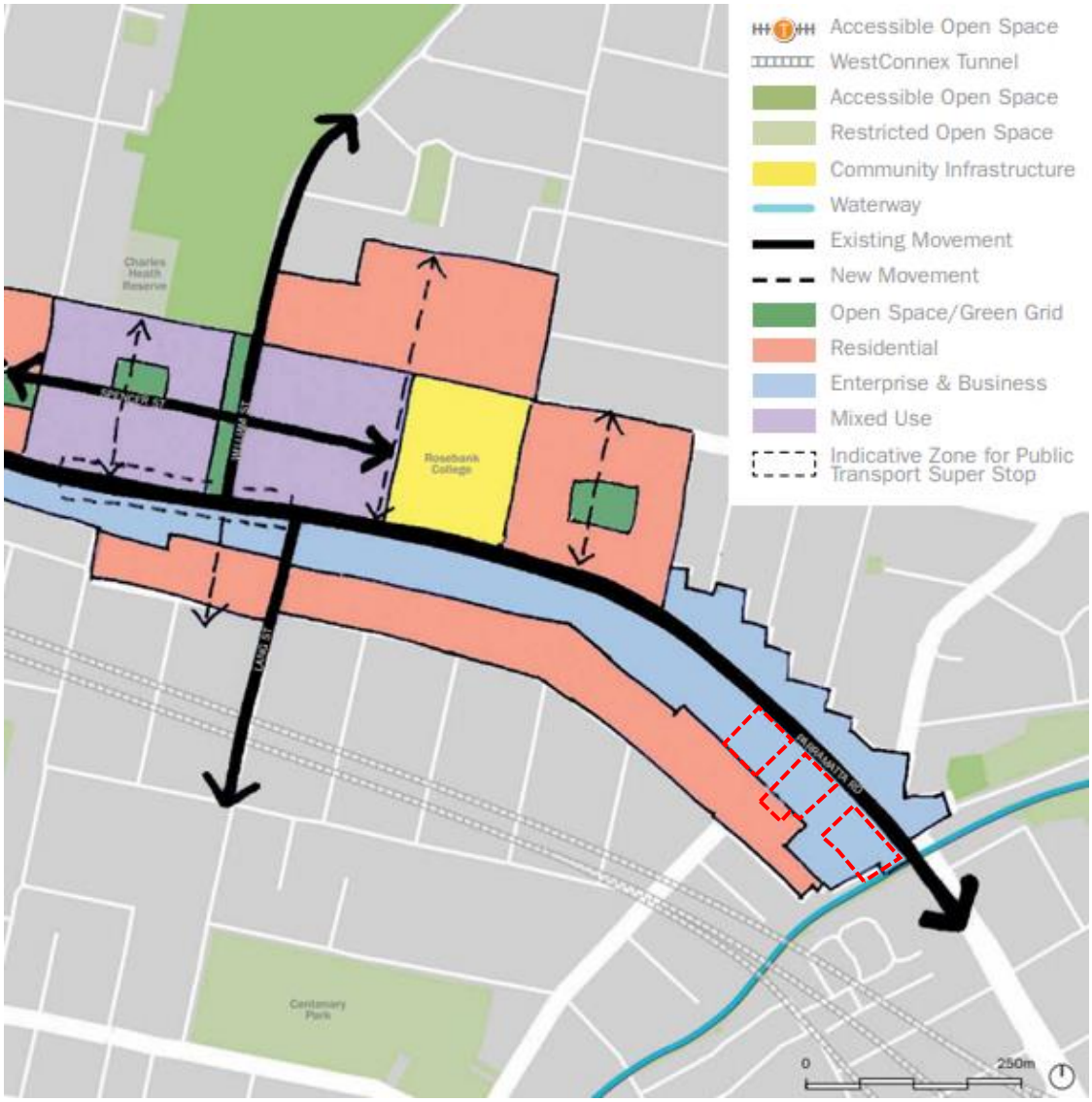
The envisioned renewal of Kings Bay is centred on a new mixed-use centre at Spencer Street, with additional opportunities for urban renewal on land fronting Parramatta Road. Sites relevant to this study are recommended for 'enterprise and business', with some residential located to the rear.

This acknowledges that Parramatta Road will continue to have a highly significant function as a movement corridor with high traffic volumes. Several statements within the precinct vision also comment on the inadequacy of current active transport links in the precinct to service a significant population increase.

Summary

Redevelopment which provides increased residential density should be accompanied by additional active transport linkages and open space where possible. PRCUTS recognizes the need to plan for both employment and residential use, including co-location of these uses, although it shows the subject sites as retaining enterprise and business use.

FIGURE 1: RECOMMENDED ZONING FOR KINGS BAY PRECINCT
(APPROXIMATE LOCATION OF SUBJECT SITES SHOWN IN RED DASHED OUTLINES)

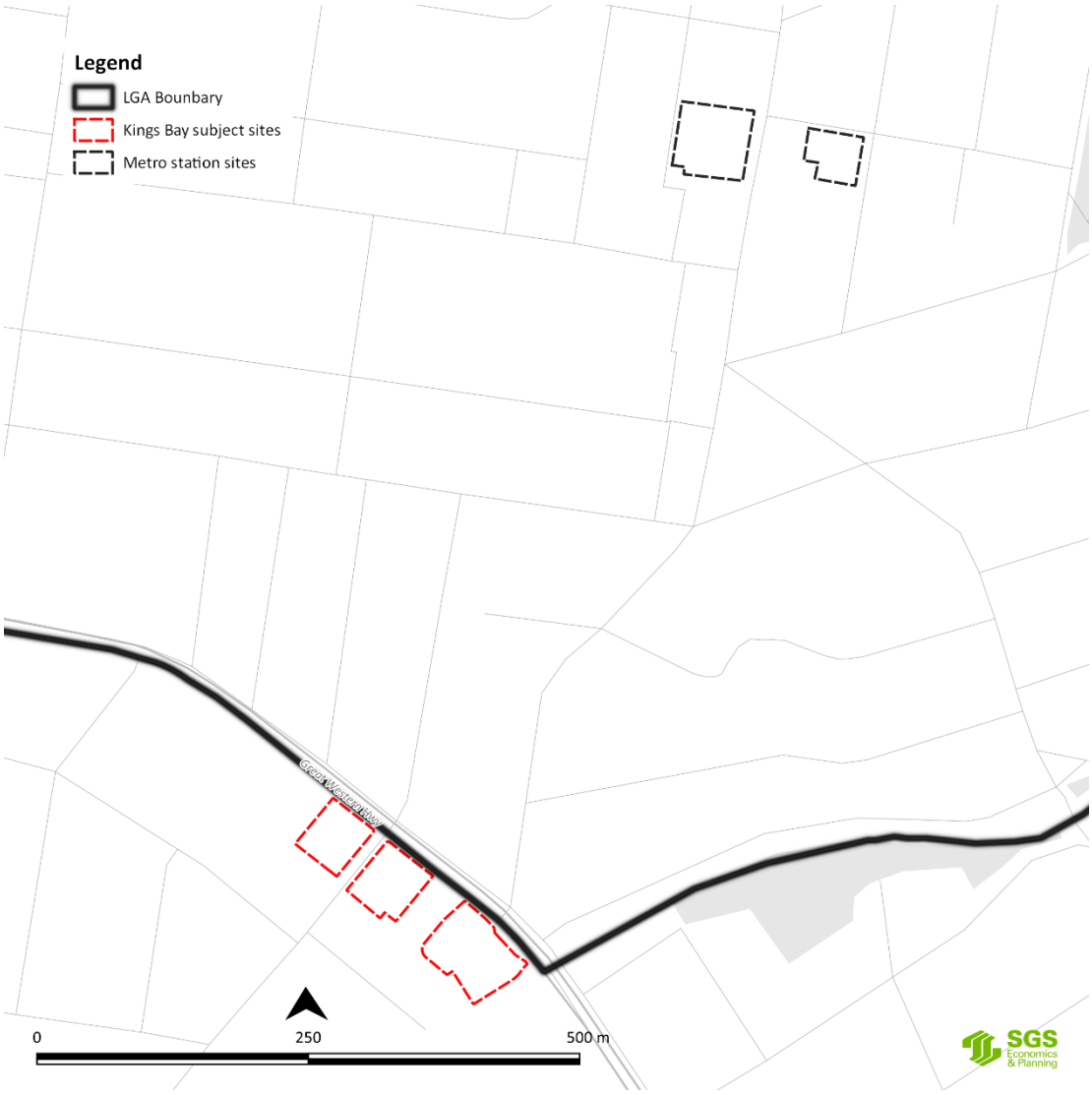


Source: NSW Government & UrbanGrowth NSW

Proposed Sydney Metro West Station[1]

Formally announced in 2019, the Sydney Metro West project will connect the Sydney CBD to Westmead. Five Dock town centre will form one of the new station locations along the route, with the station entrance at Fred Kelly Place, adjacent to Great North Road (see Figure 2 below).

FIGURE 2: PROPOSED CONSTRUCTION SITE FOR FIVE DOCK METRO STATION



Source: NSW Government & Sydney Metro

This entrance is located approximately 800-900m from the Kings Bay Frame precinct. Active transport connections between the relevant sites and the proposed station location are currently limited to Great

[1] NSW Government & Sydney Metro 2019, Sydney Metro West Project Overview, https://www.sydneymetro.info/sites/default/files/document-library/Sydney_ Metro_West_Project_ Overview_Booklet_October_2019.pdf

North Road or Arlington Street, Queens Road and Great North Road. These routes offer relatively poor amenity, with Parramatta Road also obstructing the route.

Improvements in pedestrian infrastructure and amenity would be beneficial to the strategic rationale for residential development on the subject sites. Its distance from the proposed Five Dock Station is at the edge of what is often considered a typical train station walking catchment (800m-1km), although some people would be willing to walk further than this.

3. Demand and capacity

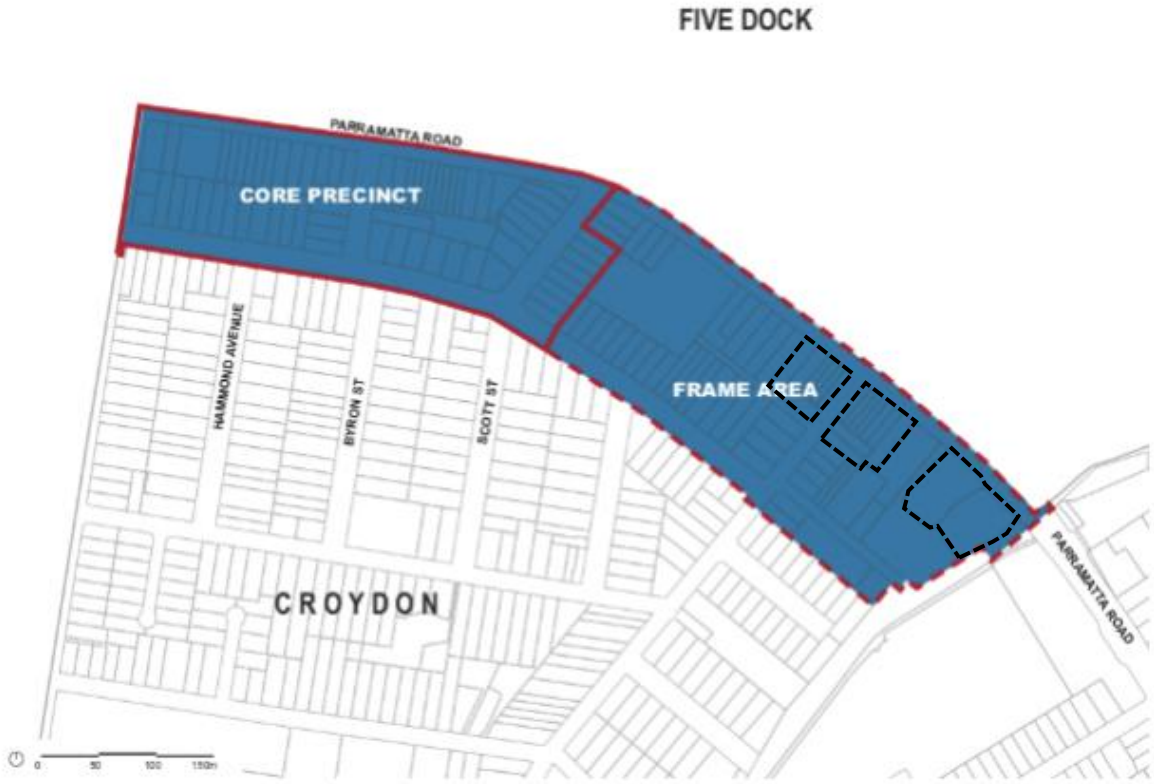
3.1 Review of employment projections

This section provides an overview of the employment floorspace projections applied to the Kings Bay Precinct in the Inner West Employment and Retail Lands Study (EaRLS). The reliability of these demand projections has then been tested through comparison with Transport for NSW employment projections (TZP19 projections).

EaRLS Projections

The EaRLS provides an estimate of the current and predicted future employment floorspace in the Kings Bay Precinct for 2019 and 2036 respectively. The precinct extent is shown in Figure 3 below, and includes all subject sites.

FIGURE 3: KINGS BAY PRECINCTS
(SUBJECT SITES SHOWN WITH BLACK DASHED OUTLINE)



Source: Inner West Council

The entire Inner West part of the Kings Bay Precinct has been included in this analysis rather than the Kings Bay Frame Area only. This provides better alignment with the travel zone boundaries used by the TPA data. In addition, it is more appropriate to consider likely demand at a precinct rather than site-specific level.

Floorspace demand is provided for occupied employment floorspace and total employment floorspace accounting for a likely level of vacancy. The former of these implies that all floorspace would be occupied, while the latter assumes a target vacancy rate of 2.5 per cent. This data is summarised for the precinct in Table 1 below.

TABLE 1: FLOORSPACE PROJECTIONS (EARLS)

Scenario	Geography	Current floorspace (2019) (sqm)	Demand (2036) (sqm)	Net change (sqm)	Average annual growth rate
Occupied	Kings Bay Precinct	29,956	32,297	2,341	0.5%
Vacancy included	Kings Bay Precinct	29,956	33,189	3,234	0.6%

Source: Inner West Council

Travel Zone Projections

The Travel Zone Projections (TZP) are small area projections used across the NSW Government transport modelling and a range of other purposes. They include projections of employment by industry in each travel zone.

The travel zone containing the relevant sites is illustrated in Figure 4 below. This travel zone encompasses the entire Kings Bay Precinct, as well as surrounding residential areas with little employment. As such, employment in this zone is likely to be located in the employment generating land along Parramatta Road.

These projections provide a status quo view of likely employment demand. As they are mostly based on trend-based growth rates for different industries, they show what would happen if this precinct performed similarly to other parts of Metropolitan Sydney given its industry composition. They do not account for what would be expected if a step change in use or industry profile occurred and the precinct was redeveloped with higher intensity employment use (as seems to be envisioned under PRCUTS).

Two conversions of employment projections to floorspace requirements have been created:

- A conversion based on the current intensity of space use, in which floorspace required grows at the same average annual rate as is projected for employment. This is a high scenario in which current low employment density densities are maintained.
- A higher scenario in which floorspace to job ratios for each industry are used which are more typical for centres and mixed business areas. This scenario shows floorspace requirements if employment density becomes slightly higher. As these ratios do not match the floorspace baseline in 2019, the change in floorspace requirements has been used rather than the absolute modelled value.

The resulting floorspace projections for the relevant travel zone are shown overleaf.

FIGURE 4: STUDY AREA TRAVEL ZONE

Source: SGS Economics and Planning

TABLE 2: EMPLOYMENT AND FLOORSPACE PROJECTIONS (TZP19)

Scenario	Current (2019)	Projected (2036)	Net change	AAGR
Employment (both scenarios)	371	444	73	1.2%
Lower floorspace			2,402	
Higher floorspace	29,956	40,907	10,950	1.2

Source: SGS 2019 based on EARLS 2020, Transport for NSW TZP19 projections

Comparison

A comparison of the EaRLS and TZP employment floorspace data for the precinct is provided below.

TABLE 3: COMPARISON OF EMPLOYMENT FLOORSPACE PROJECTIONS

Dataset	Scenario	Geography	Current floorspace (2019) (sqm)	Demand (2036) (sqm)	Net change (sqm)	AAGR
EaRLS	Occupied	Kings Bay Precinct	29,956	32,297	2,341	0.5%
	Vacancy Included	Kings Bay Precinct	29,956	33,189	3,234	0.6%
TZP19	Low	Travel Zone			2,402	
	High	Travel zone	29,956	40,907	10,950	1.2%

These results show a large range within which floorspace demand would be likely to lie without a significant change in overall land use in the precinct. The TZP19 low scenario and EaRLS projections are very close, with less than 100 square metres of floorspace separating the EaRLS 'Occupied' scenario and the TZP19 scenario (given that TZP19 data does not account for a target vacancy rate, this is the most appropriate comparison).

The TZP19 high scenario is much larger and shows what would be required to grow employment at 1.2% while maintaining low density floorspace use patterns. Given many of the businesses in the precinct could not be scaled up in place without requiring more land as well as floorspace (for example used car sales), this is likely to be an overestimate of floorspace requirements.

Section 3.2 provides more detail on the likely character of this floorspace demand, while Section 3.3 examines the adequacy of existing controls to accommodate this projected growth.

Potential broader change in employment profile

A material change in the circumstances and attractiveness of the precinct would be required to facilitate such a change. The completion of the Sydney Metro West Station at Five Dock would provide somewhat of a change, but this part of the Kings Bay Precinct would still be competing with traditional centres next to a train station (for example Ashfield and Burwood) and with other centres and precincts for commercial floorspace. The subject sites will be a similar distance from Five Dock Station as parts of the Leichhardt Precinct along Parramatta Road are from Petersham Station. The relatively low demand for employment floorspace in the Leichhardt Precinct illustrate that high levels commercial floorspace demand in Kings Bay on the subject sites would not be guaranteed.

3.2 Historical employment growth

Table 4 provides historical employment figures by industry for the travel zone in 2011 and 2016. This gives an insight into the trends affecting demand for different types of employment floorspace.

TABLE 4: HISTORICAL EMPLOYMENT FIGURES (TZP19)

Industry	Employment (2011)	Employment (2016)	Employment growth
Industrial	35	69	97%
Population Serving	265	263	-1%
Knowledge Intensive	40	34	-15%
Health and Education	15	14	-7%
Total	355	380	7%

Overall, employment in the precinct grew by around 7% between 2011-2016. This is a similarly yearly rate of growth to that predicted by employment projections. As employment is growing, and in line with the findings of EARLS, there appears to be continuing demand for urban services uses and other uses which locate in B6 corridors. This historical data, along with the status-quo employment scenario explored in the previous section offers some justification for retaining permissibility of industrial uses. However, as noted above it does not account for the possibility of attracting floorspace demand from higher order uses via a change to planning controls.

The breakdown of employment by category provides an illustration of the current function of the precinct. Population serving employment is much more prevalent than other kinds of employment. These population serving uses are predominately retail or service based, for example car dealerships (of which there are several in this corridor) and small scale showrooms. These uses are relatively low intensity from a floorspace point of view, but benefit from high levels of exposure along the Great Western Highway.

The Industrial sector was the strongest performing within the travel zone over this period, with growth of 97 per cent (note that the size of this fluctuation is partly due to small sample size). All other sectors reduced their level of employment in the travel zone throughout this period.

This indicates that future demand for additional floorspace in the precinct would likely be for industrial uses under a business-as-usual (BAU) scenario.

3.3 Floorspace capacity

This section provides analysis of the existing and proposed development capacity on each amalgamated site and in the precinct, identifying the amount of additional floorspace provided through the proposed changes. Site-specific attributes were also reviewed to give a more realistic understanding of redevelopment potential.

Existing development capacity

Assessment of existing development capacity has been conducted to identify the quantum of floorspace that could theoretically be realised under existing LEP controls applied to the project sites.

The maximum permissible floorspace was first calculated using floor space ratio (FSR) controls. From this maximum, floorspace estimates were used to determine a rate of 'current realisation' under the existing controls (the ratio of current floorspace to maximum permissible floorspace). This data is presented in Table 5 below.

TABLE 5: THEORETICAL DEVELOPMENT CAPACITY

Site No.	Address	Existing zoning	Existing FSR	Approximate site area (sqm)	Theoretical floorspace capacity (sqm)	Existing GFA approx (sqm)	Current realisation
1	Amalgam 612 – 624 Parramatta Road, Croydon; 210 Croydon Road, Croydon	B6	1.5:1	2,673	4,009	1,078	27%
2	Amalgam 596 – 610 Parramatta Road, Croydon; 235-237 Croydon Road, Croydon	B6 for lots fronting Parramatta Rd; R2 for lots fronting Croydon Road	2:1 for lots fronting Parramatta Rd; 0.7:1 for lots fronting Croydon Road	3,108	5,163	2,001	39%
3	582-584 Parramatta Road, Croydon	B6	2:1	4,711	9,426	1,184	13%
-	Kings Bay Precinct	B6 / B4 / IN2	1.5:1 – 2:1	40,019	66,626	13,934	21%

These results show a large amount of spare theoretical capacity on the amalgamated sites, with less than half the permissible floorspace currently developed in all cases.

Similarly low rates of realisation are present across the entire Kings Bay Precinct. This includes all sites within the Precinct where employment uses are currently permitted. This implies that there is not yet a sufficient impetus for sites in the Precinct to deviate from their current use. This is also noted in EARLS.

Developability

It is important to note that theoretical floorspace capacity does not necessarily equate to what is practical or likely to be delivered on a given site. Alongside market factors, existing subdivision patterns and levels of development intensity can be used to determine the likelihood of redevelopment occurring.

Table 6 includes an overview of these attributes for each of the amalgamated sites.

TABLE 6: AMALGAMATED SITE CHARACTERISTICS

Site No.	Address	Site characteristics
1	Amalgam 612 – 624 Parramatta Road, Croydon; 210 Croydon Road, Croydon	– Small, narrow lots from 612-618 Parramatta Road occupied by two storey shopfronts. – Car dealership occupying lots at the southern and western edges of the site, with relatively low site utilisation.
2	Amalgam 596 – 610 Parramatta Road, Croydon; 235-237 Croydon Road, Croydon	– Small, narrow lots at 604-610 Parramatta Road occupied by two storey shopfronts. – Larger lots from 596-602 Parramatta Road occupied by single storey shopfronts. – Two blocks facing Croydon Road occupied by single storey detached dwellings.
3	582-584 Parramatta Road, Croydon	– Two large lots separated by a vehicle access. Currently occupied by hospitality and urban service uses, with low site utilisation.
	Other sites in Kings Bay	– Mixture of smaller and larger properties – Smaller properties may be difficult to amalgamate and redevelop – Larger properties (for example Phil Gilbert Hyundai and Toyota and some larger used car dealerships) would likely be able to be amalgamated and developed if planning controls permitted this.

Practicality of development varies across the precinct according to lot size, fragmentation and existing level of utilisation.

While Site 3 offers large adjoining sites and a significant amount of spare development capacity, its two lots are currently occupied by a service station and a fast food restaurant. These uses are well suited to

the site's position on a major arterial road. A need for remediation of the service station site would also complicate the redevelopment process.

Small, narrow lots similar to those on the corner of Croydon Road and Parramatta Road are usually more difficult to redevelopment as a result of the site amalgamation required and higher site utilisation compared to other properties. This constraint would not apply if properties were in consolidated ownership.

The remainder of the Kings Bay Precinct offers a similar character to the amalgamated sites, with a mixture of attached shopfronts, car saleyards and other uses broadly in-line with the objectives of the B6 zone. There are also some remnant residential uses inside the B6 zone at 656-660 Parramatta Road and 35 Scott Street.

Parts of the Precinct would be relatively easy to redevelop (including for higher density employment use), owing to relatively large lot size and small existing floorplates, such as:

- 620-632 Parramatta Road
- 700-724 Parramatta Road.

These sites are currently dominated by car dealerships with low floorspace requirements and low development intensity.

Proposed development capacity

Proposed floorspace capacity has been calculated for the amalgamated sites using the same method as for existing capacity. This provides only a theoretical scenario and does not preclude the site characteristics identified above.

The amount of proposed uplift across all sites in the Kings Bay Precinct zoned for employment uses has also been calculated, as per the Inner West Employment and Retail Lands Study (p.352 & p.357). Under this recommendation, areas currently zoned as B6 and B4 would have an increased Floorspace Ratio (FSR) of 2.4:1.

The amount of additional capacity which would result from the proposed uplift to an FSR of 2.4:1 without residential use is shown in Table 7 below. The site zoned B4 within the precinct is not included in this analysis.

TABLE 7: PROPOSED TOTAL THEORETICAL DEVELOPMENT CAPACITY

Site No.	Address	Proposed zoning	Proposed FSR	Approximate site area (sqm)	Proposed total floorspace capacity (sqm)	Increase in total floorspace capacity from current FSR (sqm)
1	Amalgam 612 – 624 Parramatta Road, Croydon; 210 Croydon Road, Croydon	B6 + residential uses	2.4:1	2,673	6,415	2,406
2	Amalgam 596 – 610 Parramatta Road, Croydon; 235-237 Croydon Road, Croydon	B6 + residential uses	2.4:1	3,108	7,459	2,296
3	582-584 Parramatta Road, Croydon	B6 + residential uses	2.4:1	4,711	11,307	1,885
-	Inner West part of Kings Bay Precinct	B6 / IN2		40,019	95,931	29,305

Significant amounts of additional floorspace capacity would be created across all sites via the proposed rezoning to FSR 2.4:1, with 2,406, 2,296 and 1,885 square metres on sites 1, 2 and 3 respectively. The total of this would be significantly greater than the 2,402-10,950 square metres of projected demand across the precinct identified in section 3.1.

However, this does not account for feasibility of the redevelopment or the potential for a large residential component to be permitted via the changes to LEP controls. These factors are considered in the following section.

Net capacity

If residential uses are introduced on the opportunity sites, the capacity will be lower than what is shown in the table above. To account for this, as well as for the existing employment generating floorspace in the precinct, the following table shows the net capacity on the opportunity sites and across the precinct under different non-residential FSR requirements on the subject sites.

The net capacity is the total theoretical capacity minus the approximate existing floorspace, and represents the increase or decrease from the current state which would theoretically be possible if development occurred. Net capacity is smaller than the total capacity in the table on the previous page because existing floorspace is subtracted from the total capacity.

It has been assumed that there will be one residential dwelling per 79sqm of residential GFA.

TABLE 8: NET CAPACITY UNDER PROPOSED CONTROLS (TOTAL FSR 2.4:1)

Non-residential FSR on opportunity sites	Opportunity sites			Overall Kings Bay Precinct in Inner West LGA		
	Non-residential	Residential floorspace	Dwellings	Non-residential	Residential Floorspace	Dwellings
0.5:1	983	19,935	252	66,907	19,935	252
1:1	6,229	14,689	186	72,153	14,689	186
1.5:1	11,475	9,443	120	77,399	9,443	120
2.4:1 (no residential)	20,918	0	0	86,841	0	0

Under a FSR on the opportunity sites of 0.5:1, there would be a small increase on the current quantum of employment generating floorspace on these sites. However, there would still be a large net employment capacity across the Kings Bay Precinct on other sites. Larger non-residential FSRs would generate a larger increase in employment generating floorspace.

4. Development feasibility

This section aims to supplement existing feasibility analysis conducted by Council as part of affordable housing contribution feasibility modelling, and by Savills as part of a separate engagement of SGS and Savills to model feasibility along Parramatta Road. This section provides an assessment of whether value capture is likely to be possible on the development sites, and if so at what rate.

4.1 Feasibility testing methodology

The feasibility of development has been tested with a residual land value (RLV) model. The RLV is calculated by deducting all the costs of a development from the sales revenues in the current market. The development costs include construction costs and contingencies, external works and other site works, professional fees, a developer's profit margin, infrastructure levies or contributions and other council fees. This calculation is illustrated in Figure 5. As development costs include a profit and risk margin for the developer, the RLV is the maximum amount that a rational developer could pay for a site for redevelopment while making a profit.

If the RLV is much greater than a site's current value including existing improvements (such as dwellings), a developer could afford to pay more than the current market value for a site. In this case development is likely to be feasible. If the RLV is much less than a site's value, a developer would not be able to make a sufficient profit from a development to cover the cost of site acquisition, and development would be unfeasible.

FIGURE 5: RESIDUAL LAND VALUE CALCULATION

Source: SGS Economics and Planning

Feasibility under a RLV model is usually reported with a ratio of RLV to current land value. If this ratio is around 1.25 or greater, a developer could afford to pay a 25 per cent premium on the existing land value to acquire a site for development. This means that a developer could afford to pay a premium to entice a landowner to sell a site for development. In this case development would be likely to be feasible even if land values increased as a result of rezoning. This price premium would also facilitate the amalgamation of sites for development.

A feasibility ratio of between 1 - 1.25 indicates that development may be feasible. At this feasibility ratio a developer would be able to make enough profit from a development to cover the cost of acquisition

of the land if a landowner is willing to sell their land for a smaller price margin than 25 per cent. However, as there is less room for a price premium if the land value increased development may become unfeasible and developers may be unable to acquire multiple sites for amalgamation. If a developer already owns the land, a RLV ratio of 1 or more would indicate feasible development.

A feasibility ratio of less than 1 indicates that a developer would not make enough profit to make development viable.

SGS tested the feasibility of development on the project sites, with varying degrees of non-residential floorspace included. An FSR of 2.4:1 was assumed as the total FSR for the sites, as per the recommendations of the Inner West Employment and Retail Lands Strategy. Inputs and assumptions previously used by Council or Savills have largely been adopted. Assumptions are detailed in Appendix A.

Use split

Two different splits of residential and non-residential use have been tested:

- 1:1 non-residential FSR and 1.4:1 residential FSR. This would likely require several floors of employment generating use.
- 0.5:1 non-residential FSR and 1.9:1 residential FSR. On sites of the sizes proposed, this non-residential use may be able to be accommodated only on the ground floor, although some first floor uses may be required.

Development revenues

Expected development revenues and existing use values have been provided in Council's SEPP70 feasibility modelling for this area. These values have been used in scenario one in the feasibility results below. In this case residential units would sell for $9,783 per sqm.

A scenario with an increase in revenues of 10% has also been modelled, giving residential sales prices of $10,762 per sqm. This appears to be similar to prices achieved in several recent sales in Five Dock and Ashfield, and so is considered to be a reasonable estimate of likely revenues on the subject sites. It is beyond the scope of SGS's engagement to conduct a more detailed review of recent sale prices. Nonetheless, this scenario is considered to be a better reflection of likely revenue than the baseline assumptions.

The housing market shifts over time, which will shift development feasibility. An increase in unit prices in the future would increase feasibility, while a decrease would decrease feasibility (assuming less than commensurate changes in development costs). It is noted that unit prices have been static or decreased slightly recently as a result of the COVID-19 pandemic. If international travel and migration resumes in the future, unit prices may rebound.

4.2 Feasibility results

The results of feasibility testing are laid out in Table 9 below.

TABLE 9: RESULTS FROM FEASIBILITY TESTING

Existing use	Scenario 1 – Council revenue assumptions, 1:1 non-residential	Scenario 2 – Increased revenues, 1:1 non-residential	Scenario 3 – Increased revenues, 0.5:1 non-residential
Residential revenue per sqm (ex GST)	$9,783 (value provided by Council)	$10,762 (+10% sensitivity)	$10,762 (+10%)
Non-residential revenue per sqm (ex GST)	$6,444 (provided by Council)	$7,088 (+10% sensitivity)	$7,088 (+10%)
EUV psqm land	$3,774	$3,774	$3,774
Residential FSR component	1.4:1	1.4:1	1.9:1
Non-residential FSR component	1:1	1:1	0.5:1
Feasibility ratio	0.88	1.17	1.34
Total FSR tipping point (at which feasibility ratio is 1.25)	3.12	2.49	2.22
Feasibility status	Unfeasible	Marginally feasible	Feasible
Value capturable above tipping point (per sqm residential GFA)	$919	$1,187	$1,187

Development was found to be unfeasible in the current development market. For this reason, a value sharing contribution could not be required under the current development market and if a non-residential floorspace component of 1:1 was required.

With an improvement in the development market (the +10% increase in revenue), development was found to be marginally feasible for non-residential FSRs of 1:1 and feasible with a non-residential FSR of 0.5:1. Development would be feasible in both cases if developers already owned sites, were able to sell units for more than has been assumed or were able to develop more cheaply.

Providing that the development market improved in line with the increased revenue sensitivity test, 50% of the increase of RLV above the feasibility tipping point would be considered to be able to be contributed to public benefits without compromising feasibility. In this case, a contribution of around $1,150 per sqm could be made under the increased revenue scenario. This contribution could only be applied to floorspace above the FSR tipping point.

5. Discussion

5.1 Strategic rationale

Employment demand and capacity

For an employment floorspace quantum point of view, the modelling summarised in this report suggests that retention of the subject sites for exclusively employment use is not necessary to meet likely floorspace demand in the Kings Bay Precinct. However, the broader strategic rationale for the residential uses, and for the retention of employment uses along Parramatta Road, should also be considered.

Retention of employment lands

Inner West Employment and Retail Lands Study and Strategy both state that urban service uses should be retained wherever possible, particularly in close proximity to major arterial road routes. The Strategy also warns specifically against encroachment by residential development.

In line with these strategic documents, it is important to retain land for employment and urban services purposes, including the B6 corridor along Parramatta Road. To the extent that residential uses are deemed to be appropriate on the subject sites given other opportunities, they should encourage an overall increase in employment floorspace (or site area useable for employment), and should not undermine the retention of employment land elsewhere in the B6 corridor from a strategic point of view. This will require clear establishment of how these sites are different to others.

Strategic rationale on subject sites

Although under-utilised compared to planning controls, the project sites are considered to be functioning in-line with the relevant Council and State Government strategy, and to be providing valuable urban services uses which are well aligned with their B6 zoning and location on a major road corridor.

The new Sydney Metro station to be constructed at Five Dock will be located 800m – 1km from the amalgamated sites, and sited north of Parramatta Road. It does offer some rationale for increased development intensity but would benefit from improved active transport connections from the Parramatta Road corridor north to the station site to support this. It is considered that this strategic rationale does not apply to other sites in the corridor.

Different employment use types

PRCUTS recommends 'business and enterprise' zoning be applied to the subject sites, and where residential development is to occur, it notes the importance of providing additional active transport links and open space to accommodate uplifts in density. PRCUTS also proposes an increased employment density along Parramatta Road. If properties were fully developed in line with the current FSR control of 1.5:1 or 2:1, or the proposed 2.4:1 in line with PRCUTS, this would require a qualitatively different employment land use profile than what currently existing in the area. Larger business and

commercial buildings, or mixed business premises, would be required. There are some examples of this in the part of Kings Bay in the Canada Bay LGA (for example on the corner of Harris Road and Queens Road).

There is currently a significant amount of spare development capacity across the amalgamated sites and Kings Bay Precinct more broadly. Much of this theoretical capacity is on relatively large lots with low site utilisation, suggesting that redevelopment could occur. This implies that demand for additional floorspace of a similar character to that already provided is not sufficient to prompt redevelopment in line with current planning controls.

If some residential development were allowed on the subject sites, it could facilitate development and a transition of employment use towards what is envisaged in PRCUTS. It is noted that a lower non-residential FSR would be required than the full 2.4:1 (with residential development making up the difference), and so lower demand would be needed to facilitate development with some residential use rather than without it. However, this argument would be premised on securing suitably versatile and functional employment generating space in a mixed use development.

5.2 Design considerations

Urban hazards

It is noted that the environment of the subject sites on Parramatta Road has low amenity, including from noise and pollution. This constitutes an urban hazard as defined in the Eastern City District Plan. Separation of any residential use from Parramatta Road is considered the most appropriate way to mitigate this problem.

Some of these urban hazards may decline in the future. For example, a transition to electric cars would decrease noise and pollution associated with being next to a major road. Nonetheless, visual amenity would still be low, and Parramatta Road would still pose a major constraint to pedestrian movements, a safety hazard for vulnerable road users. It would also be unlikely to have a large number of trees or other public domain features which make urban environments more liveable or sustainable unless more substantial change occurred, which is a strategic aspiration for the corridor.

Design outcomes

Given that a non-residential component of FSR of 0.5:1 would generate only a marginal increase in employment generating floorspace, it is considered that a non-residential FSR of at least 1:1 be required, which would deliver a notable increase in employment capacity. Development at 1:1 with the remaining floorspace (1.4:1) residential is likely to be feasible or close to it, as is development with 0.5:1 non-residential floorspace.

There are several design outcomes which could facilitate employment and residential use on the subject sites:

The first option would be Horizontal separation, with residential uses set back from Parramatta Road to minimise urban hazards for living environments. This could leave space between a residential building and Parramatta Road to contain employment generating uses. There are examples of LEP clauses which facilitate this outcome elsewhere, with the Liverpool LEP requiring 50m separation between a major road and a dwelling in the B6 zone. Given the arrangement of properties on the subject sites, imposing

such a control would have the effect of requiring amalgamation to occur to provide enough space for a residential development.

The separation required would be subject to more detailed design consideration. It is noted that a building setback would be needed at the rear of development rights to provide equitable development rights to properties to the rear, which could limit the potential for horizontal separation. This issue would be less restrictive on Opportunity Site 1, which has a lane at the rear.

The second option would be for vertical separation between residential and employment generating uses. In this case, high floor to ceiling heights (of at least 4m) on the ground floor should be high enough to facilitate a diversity of uses. Double height ground floor spaces could be appropriate. The residential portion of any development should ideally still be setback from Parramatta Road in a staggered or split-level arrangement.

In both cases suitable vehicle access would be required to facilitate showroom or light urban services uses. Small loading docks would likely be required, with vehicle access best provided from a lane or side street off Parramatta Road.

5.3 Opportunities for public benefits

Results from feasibility indicate that there is limited opportunity for value capture on the sites in the short term as the RLV ratio at FSR 2.4:1 and with a sufficient non-residential FSR is lower than 1.2 times the existing use value. This does not preclude the possibility of value capture becoming more likely or viable in the medium term, given that development revenues are likely to increase in accordance with market trends.

It is noted that if developers already own sites, a ratio of RLV to existing use value of 1.0 would be considered feasible.. With a small improvement in the development market, development would pass this benchmark, and so development may be feasible in the future. It may then be possible to secure public benefits through development which are commensurate with infrastructure and contribution requirements needed to make the urban environment more appropriate and sustainable for this kind of development. This could be considered to be in compliance with recent updates to the VPA Practice Note by the NSW Government.

An alternative means of generating public benefit through the redevelopment of the sites could be through requirements for delivery of some combination of open space, rear lane access to service residential development on the sites, and provision of through site links as specified in the DCP. Providing that the quantum of floorspace able to be delivered is not compromised by such a requirement, the implications on development feasibility would be minimal.

This could also be achieved via requirements for site amalgamation and land dedications via the LEP. For this, required amalgamations would be mapped in the LEP, with required land dedications provided in a separate council policy referred to by the LEP. An attempt to satisfy these patterns of amalgamation would need to be made prior to a development approval. Appropriate height controls to ensure that the allowable FSR can be achieved on a portion of the subject site would be crucial to achieve this without compromising development feasibility.

Satisfactory arrangements or community infrastructure

A satisfactory arrangements clause or potentially community infrastructure contribution (CIC) clause could be used to secure public benefits if the development market improved (although noting that a value sharing contribution was assessed to be unfeasible under the current development market). In this case, the need for a contribution would be premised on the need for infrastructure to make higher density housing development appropriate in this instance. The following example clause from the Strathfield LEP is a precedent for securing state infrastructure, although a similar approach may be possible for securing local infrastructure.

Strathfield LEP 2012 Part 7 – Intensive Urban Development Areas [2]

This clause ensures that specified public infrastructure is provided to satisfy the needs of intensive residential development.

It states that within designated 'intensive urban development areas', development consent can be granted for residential or mixed-use development which increases the number of dwellings on the site only if arrangements are made for provision of state infrastructure in relation to the site.

The types of state infrastructure included are clearly prescribed by the LEP as including:

- State and regional roads,
- Bus interchanges and bus lanes,
- Land required for regional open space,
- Social infrastructure and facilities (such as schools, hospitals, emergency services and justice purposes).

The locations of intensive urban development areas within the LGA are shown in Figure 6.

FIGURE 6: INTENSIVE URBAN DEVELOPMENT AREAS, STRATHFIELD LGA

Source: Strathfield Local Environmental Plan 2012

[2] Strathfield Council 2012

Additional precedents for CICs are provided in the Kensington to Kingsford Corridor in Randwick's LEP, the Burwood Town Centre, the Penrith Town Centre and Green Square.

5.4 Conclusion

SGS recommends the following key principles if residential development is to be permitted on the subject sites:

- Expansion of employment generating floorspace capacity (a non-residential FSR of 0.5:1 - 1:1 would provide this), with residential development catalysing provision of additional employment generating floorspace.
- Design of employment floorspace to ensure it is versatile and usable, either through horizontal separation or height or double ceiling heights, provision of large floorplates and appropriate vehicle access.
- Ensuring that impacts of urban hazards from Parramatta Road on residential development are minimised.
- Provision of appropriate public benefit through development in order to make the surrounding public domain compatible with the scale of development involved and deliver other necessary public benefits. Under current market conditions a CIC does not appear to be feasible, but design requirements for through site links, for example, should not reduce development feasibility significantly providing that the amount of floorspace able to be delivered is not reduced. Public benefits could be secured through design requirements and development consent conditions.

Appendix A: Feasibility inputs

FEASIBILITY COST ASSUMPTIONS FOR LEICHHARDT

Construction costs	
Apartment	$2,500/sqm Consistent with Council modelling
Parking	$50,750 per space In line with Savills modelling
Balcony	$800/sqm Consistent with Council modelling
Non-residential floorspace	$1,540/sqm for bulky goods showroom or similar From Rawlinsons
Construction contingency	3% of construction cost
Revenues	
Revenue per sqm for apartments	$9,783 in line with Council modelling $10,763 with +10% increase sensitivity
Revenue per sqm for non-residential space	$6,444 in line with Council modelling $7,088 with +10% increase sensitivity
Statutory fees	
Authority fees (s7.11)	$20,000 per dwelling
Special infrastructure contribution	$12,000 per dwelling
Strata title fee	$1,000 per dwelling
Development application fees	$15,000
Other assumptions	
Existing development value of land	$3,774 per sqm
Interest rate	6% per annum
Professional fees	8.5% of construction costs
Sales commission	2.5% residential, 2% non-residential
Marketing fee	0.7% of gross realisable value (GRV)

Project contingency	2% of construction costs & professional fees & authority fees
Number of car parks (based on advice from Council)	1 space per apartment (in line with minimum requirement in Ashfield DCP)

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