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7 March 2018

Ms Carolyn McNally
Secretary
Department of Planning and Environment
GPO Box 39
Sydney NSW 2001

Dear Secretary,

RE: Rhodes East – Draft SIC

Thank you for the opportunity to comment on the proposed Rhodes East SIC.

We understand, as an industry, that there is a requirement to assist in the funding of infrastructure for the development of our city. We are committed to contributing in a meaningful way however as outlined below, we are concerned with the unintended consequences of the current uncertainty.

In providing our feedback, we believe it is important for DPE to understand the broader picture of the cumulative effect another charge will have on the development industry.

We believe that it is important the Government understands the need to look at, and truly comprehend the totality of charges affecting the development industry. The development industry plays a key part in employment and driving growth in our State.

From the outset we would like to point out there are high levels of un-ease in the property industry at present, primarily in relation to;

1. Existing levels of Government charges.
2. High levels of uncertainty in relation to new charges, new initiatives and increases to existing charges,
3. The extent of time the Planned Precincts process is taking.
4. Finalisation of GSC plans and the flow on effect of how long it will take Councils to update their strategic planning. Additionally, the protection approach taken to employment lands in the most recent draft of the district plans which effectively precludes mixed use in employment zones.
5. The extent of time taken determining rezoning proposals and development applications.
6. The approach taken during assessment processes using guidelines such as the ADG as compliance tools not guidelines as they were intended.

Groups such as ours are finding it extremely difficult to quantify a development proposition, and large parts of the industry are essentially on hold pending clarity on final outcomes. Alternatively, groups are taking very conservative views on development propositions to account for the high levels of uncertainty and risk which ultimately means offers do not meet vendor expectations or required rates of return are not achieved, resulting in proposals not proceeding.

Some further information in relation to items 1. and 2. above, which is intrinsically linked to being able to comment on the Rhodes East - Draft SIC is as follows;

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1. Existing levels of Government Charges

For a considerable period, the development industry has been subject to a high amount of taxes and charges such as GST, land tax, council rates, application fees, Long Service Levies, services authorities fees & charges, etc.

In determining on whether a new levy is to be imposed and what that amount should be, the Government must have regard for, and truly understand the already existing high level of charges, and how a new charge will place a further burden on development propositions.

2. High levels of uncertainty in relation to new and increases to existing charges

We believe there are 6 main categories of issues that have been present for a considerable period, which is creating high levels of uncertainty resulting in unquantifiable risk for the industry.

These items are all considerations prudent developers are attempting to factor into development proposals at the moment.

Coupled with item 1. above, it is important the Government understands the totality of taxes and charges before deciding on introducing a new charge, and what the amount of that new charge should be.

- **SIC's** – Proposed to be introduced in a number of areas. Quantum in each area likely to vary and presently unknown. Have been mooted for a considerable period. Likely to take a further considerable period to finalise.
- **S94's** – Removal of cap. Council's likely to apply to Ipart for significant increases to S94 levies.
- **Value capture** – Ongoing item of risk and uncertainty. No clear parameters set around this item. Council's treating as they see fit.
- **Planning Agreements** – No framework or structure to be able to determine reasonable outcomes for developers. Developers having to accept Council propositions to be able to secure rezoning proposals.
- **Affordable housing** – General uncertainty on the State Government's position. Uncertainty on whether or not the provision of affordable housing will be subject to receiving a planning incentive bonus. If no incentive bonus is provided, having to simply provide a quantum of affordable housing will materially impact development proposals. Additionally, Councils are going off and seeking to set their own affordable housing targets. This is concerning as a clear, transparent, unified approach is required. One which is feasible for the development industry.
- **Other services authorities** – Open other costs such as new intersections, roundabouts, services authority's augmentation etc.

Over the past 5 years, Sydney particularly has gone through unprecedented price growth. This growth has generally favourably been able to deal with many of the issues that have played out as a result of the above.

The market has now normalised and price growth has eased. We will not see the high levels of price growth that we have recently seen. Vendors land value expectations also remain high.

Accordingly moving forward, taking a cumulative view on all charges and high levels of risk, it will not be a simple equation of project feasibilities being able to easily absorb another charge. All costs are attempted to be factored into end purchaser pricing, and where not possible to be accommodated, developers will not proceed with projects. This is contrary to the growth the State needs to plan for and goes against attempting to fix the critical housing affordability issue in the State.

We recognise and support the importance of locating homes close to infrastructure and importance of essential infrastructure such as that proposed to be provided by the Draft SIC. Mirvac also recognises the high demand for more housing and more affordable housing in Sydney and the role subsidised affordable housing is likely to play in meeting this need.

We are of the view that the introduction of State infrastructure charges to infill development is a significant initiative and the principles and methodology warrants more detailed industry consultation before proceeding to implement them.

Mirvac would welcome the opportunity to participate in this discussion prior to the finalisation of any proposed infill SIC.

With this in mind, we offer the following feedback.

We do not agree with the current proposed approach to infill SICs where special levies such as the SIC are charged on an arbitrary basis in Planned Precincts while other rezoning proposals in close proximity, but outside the nominated area, are not levied. State infrastructure by its nature serves a wide catchment of people and we are concerned that the ad hoc levying of new residents (but not all new residents) is inequitable. It was for a similar reason that section 94A levies were introduced.

Housing has been and is at record levels of unaffordability.

The imposition of a very high State charge in addition to the items aforementioned and a new proposed affordable housing levy will exacerbate this issue. While we recognise the need for new development to contribute to supporting infrastructure, an entire tax system exists for the funding of State infrastructure and the levying of precincts on an arbitrary basis is inequitable.

One potential alternative option would be to explore the levying of all new infill floor space created by rezoning's on a regional or metro basis at smaller flat percentage levy amount. This would ensure an equitable, certain and transparent approach to offsetting the cost of State infrastructure provision and we believe would generate significantly greater revenue with less impact on individual projects and housing affordability. It would be important for such a measure to mitigate potential for further value uplift charges through planning agreements, which often penalise larger sites also on an adhoc basis, and fail to appreciate high site acquisition costs and levels of associated risk that are paid in areas proposed to be rezoned.

A smaller flat percentage levy amount across all new infill floor space in Sydney we believe would generate significantly more funds (with much less administrative cost). with a much smaller impact on project feasibility. It would also affect the market equally rather than penalising those areas that already have better than average access to State infrastructure such as the Urban Renewal Planned Precincts.

These areas represent the least cost to government as their transit orientated nature and reliance on existing service infrastructure is likely to reduce vehicle trips and not generate large infrastructure headworks cost compared to greenfield development areas.

The Draft Rhodes East SIC if made as exhibited a rate of $21,943 would represent the highest state infrastructure charge in the Sydney metropolitan area.

The imposition of such a high charge in an area with already good access to infrastructure will effectively provide an economic disincentive to sustainable transit orientated development.

The Rhodes East SIC is exhibited with a HillPDA feasibility study, originally exhibited dated May 2016 and at some time during the exhibition, updated with a July 2017 version. The study has a number of issues not least of which it states that the site on Leeds St as tested is not feasible.

The Hill PDA report states that feasibility will change in the next market up turn in 8-10 years, the grounds for this assumption are not explained.

The Leeds St Precinct is planned to deliver the key public assets namely the foreshore walk, ferry terminal access, retail area and major foreshore open space area. It must be a failure of the plan if the planning controls cannot deliver this outcome with any certainty. On top of the high levels of contributions. the foreshore sites are also proposed to deliver the public access areas and major open space at no cost to government and have been given no floor space allocation for these proposed public areas.

The recently released *Greater Sydney Metropolitan Plan* contains the following criteria for implementing affordable housing schemes, these parameters provide a useful frame of reference for consideration of the Rhodes East SIC;

- *the uplift in land value created as a result of a rezoning decision should be measured using a consistent viability test and core assumptions*
- *the inclusion of other government development charges for essential local and state infrastructure (known as Section 94 Development Contribution and Special Infrastructure Contribution charges) and scope of any Voluntary Planning Agreement is essential to accurately reflect the viability so that communities do not forgo local amenity and services*
- *the necessary allowance for an increase in value for land vendors so that land is willingly sold into development projects that create housing supply*
- *the necessary allowance for development companies to achieve a normal profit margin on the capital invested and risk taken on projects*
- *the requirement to have a separate approach for land release areas and urban infill areas given the differing circumstances in relation to development costs, development processes and land acquisition processes.*

Currently the Draft Rhodes SIC fails to deliver on several of these key points;

- In addition to the existing levels of Government charges outlined in point 1. In this letter above, the cumulative impact of the State infrastructure charges, local contributions, Planning Agreements, other authority levies and works in kind, and affordable housing levy render the development of the majority of sites within the precinct unviable. Combined contributions per dwelling are nearing equivalent to $100k. The Hill PDA study confirms this to be the case for the Leeds St Precinct.
- Mirvac has modelled sites in the Leeds St Precinct and formed the view that with the current floor space allocation on only two thirds of the site and the combined impacts of the S94, SIC, VPA, other authority charges and affordable housing, the sites residual land value is equivalent or lower than a corresponding industrial value, this does not provide an incentive for landowners to sell and will not provide development sites for the delivery of the plan.
- Furthermore, the high costs and relatively low yields do not provide the necessary hurdle rate of return that would allow a tier one development company to make an investment decision. A failure to achieve viability of this plan will result in a failure to attract a quality outcome or achieve the plans objectives.

Suggested Solutions

As mentioned above, we believe an alternative approach that does not penalise individual precincts nor render sustainable development locations less attractive should be investigated. This could be a smaller percentage levy on all new infill floor space created by rezoning's on a regional or metro basis at a smaller flat levy percentage rate.

We believe further consultation is needed to deliver a planning system which provides clarity, transparency and certainty, and a contributions regime that still delivers Sydney housing needs and has minimal impact on affordability.

As a minimum, we believe the following measures will go towards ensuring the planning outcomes sought in Rhodes East could possibly be achieved.

1. The existing FSR allocation for the foreshore sites should be expanded to cover the entire lot, this will provide incentive for dedication or provision of public access to the foreshore public open space area at no cost to Council. Note the dedication of the foreshore land and open space is a significant contribution not adequately accounted for in the local or state schemes.
2. Section 94 rates in the precinct should be capped at the $20,000 maximum to reduce uncertainty for future development given the already high statutory costs.
3. The affordable housing contribution should be expressed in the form of a GFA bonus for onsite provision, this will offset the cost of provision and incentivise the provision of affordable housing within the precinct. There are numerous precedents for GFA bonus provision for public benefits and design excellence.

Thank you again for the opportunity of providing our feedback on the draft proposed East Rhodes SIC.

Mirvac is one of Australia's largest property investment and development companies and has significant expertise in site acquisition and development feasibility. We would be happy to work with you to ensure an equitable and transparent system for contributing to the state infrastructure is achieved while not compromising the State's housing supply or creating further housing affordability issues.

Please do not hesitate to contact me if you would like to discuss our feedback further on 0412 877 052. We would gladly meet DPE staff to talk through these matters further.

Your Sincerely,

Adrian Checchin 7/3/18
Development Director