Holistic Infrastructure Delivery

PIA Planet - Infrastructure Funding and Delivery with Esther Cheong - Director, Atlas Economics

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ANALYSIS. INSIGHTS. OUTCOMES.

Commercial and Feasibility Considerations

Do contributions affect Development Feasibility?

How can Incentive clauses work?

What about Affordable Housing?

Do Contributions affect Development Feasibility?

Any form of planning obligation adds to the cost of development

Whether it is tolerated (i.e. development remains feasible) depends on:

- Are the Contributions known upfront?
- Are they factored into the Investment decision?
- Can the market bear the Contributions?

➢ **Investment thrives on Certainty, does not like Surprises**

Planning Obligations

DA/ CC fees	s7.11 s7.12	Housing and Productivity contributions
DSP charges	Affordable Housing	On-site infrastructure
Design excellence cost	Design requirements	Sustainability requirements

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Case Study

Existing planning controls:

- Low density residential (FSR 0.5:1)
- 6 single dwellings ($1.7m to $2.2m)

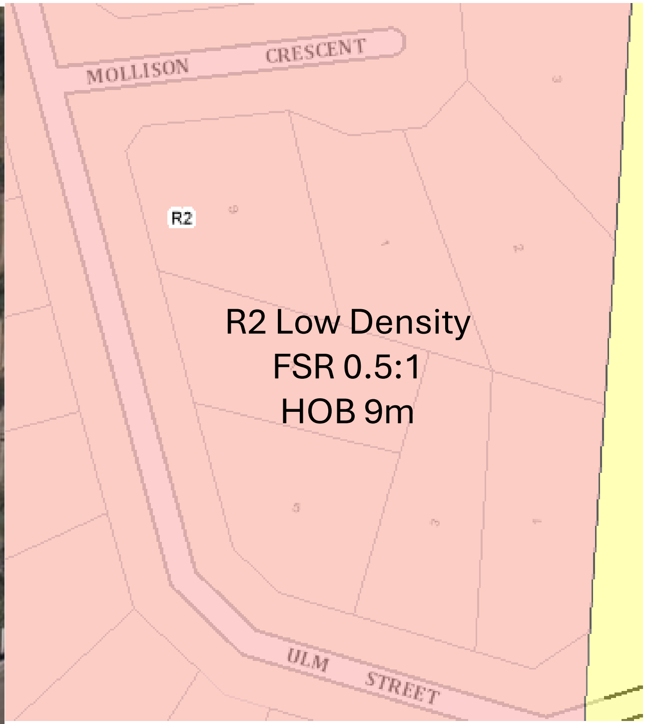
Developer consolidates 6 blocks, lodges planning proposal for:

- Residential flat building (FSR 1.7:1)
- 60 apartment units

What can development afford to contribute and remain feasible? Depends:

- Price paid for land
- Cost of development
- Achievable sale prices

Planning Proposal



Construction cost - $550,000 per unit

Achievable sale price - $1.2 million per unit

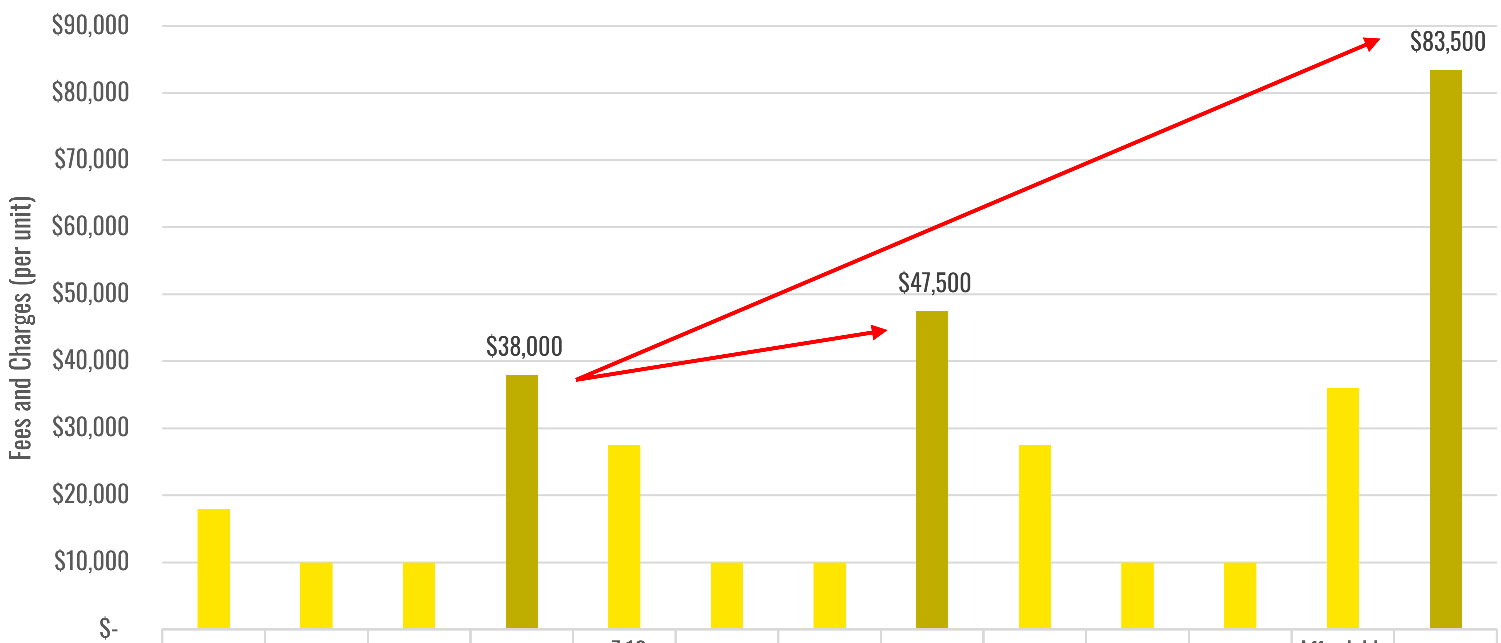
What are the required contributions?

1. **Current Fees and Charges**

- s7.11 (capped) - $18,000 (average)
- Housing and Productivity - $10,000
- Other - $10,000

2. **New Fees and Charges**

- s7.12 - $27,500 (5% x $550,000)
- Housing and Productivity - $10,000
- Other - $10,000
- Affordable Housing (3%) - $36,000 (3% x $1.2 million)



	s7.11 Plan (capped)				New s7.12 Plan (5%)				New s7.12 Plan (5%) + Affordable Housing (3%)				
	s7.11	HPC	Others	Total	s7.12 (5%)	HPC	Others	Total	s7.12	HPC	Others	Affordable Housing	Total
per unit	$18,000	$10,000	$10,000	$38,000	$27,500	$10,000	$10,000	$47,500	$27,500	$10,000	$10,000	$36,000	$83,500

Total fees and charges

- $38,000 per unit
- Increasing to $47,500 per unit or $83,500 per unit

Impact on Development Feasibility

Are the Contributions known upfront?

Are they factored into the Investment decision?

Can the market bear the Contributions?

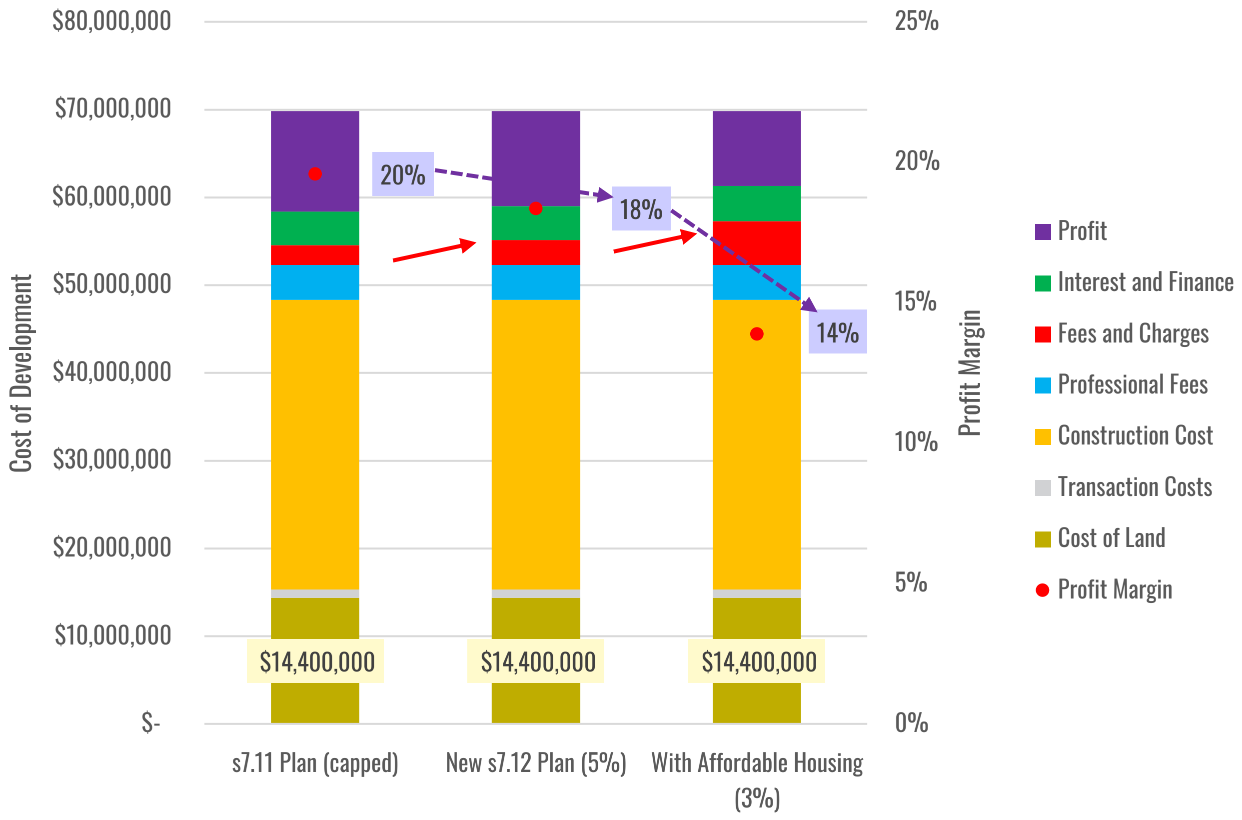
NO (not known and not factored-in)

1. Current Fees and Charges

- s7.11 plan (capped) - total $38,000 per unit

2. New Fees and Charges

- s7.12 plan (5%) - total $47,500 per unit
- s7.12 plan (5%) + Affordable Housing contributions (3%) - total $83,500 per unit



- **Profit margin falls from 20% to 14%**
- **Project not feasible**

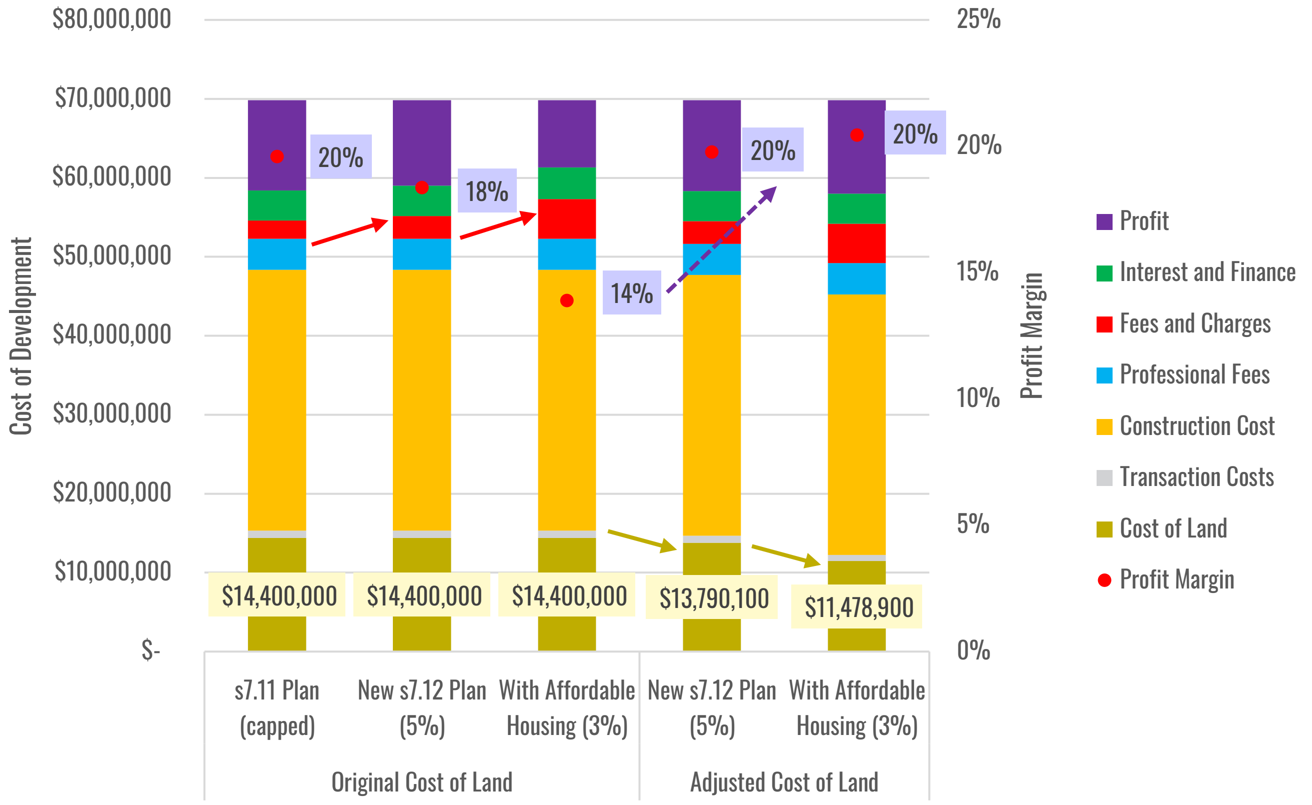
YES (known and factored-in)

The market can then make decisions on:

- Price paid for land
- The development:
    - Cost of development
    - Achievable sale prices

If the price paid for land reflects planning obligations, any adverse impact can be mitigated/ avoided

- Price paid for land - $14.4 million
- Adjusted price for land - $13.8 million
- Adjusted price for land - $11.5 million



- ➢ **Profit margin recovers to target 20%**
- ➢ **Adverse impact to development feasibility is avoided**

Impact on Development Feasibility

Are the Contributions known upfront?

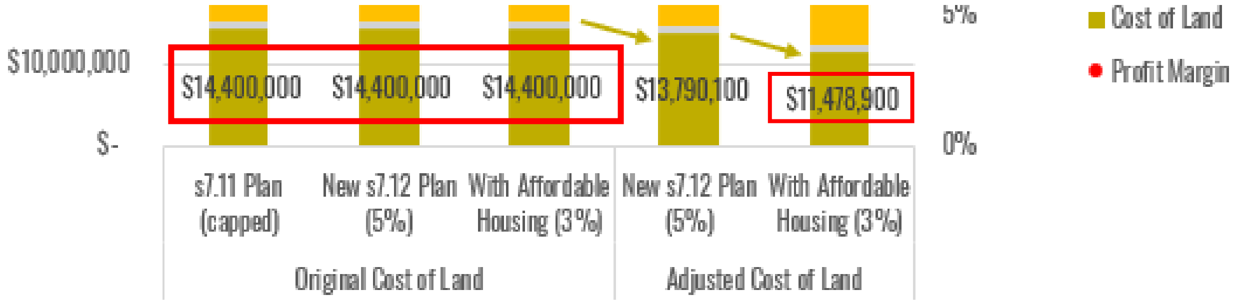
Are they factored into the Investment decision?

Can the market bear the Contributions?

Is it that simple?

- Low density residential (FSR 0.5:1)
- 6 single dwellings ($1.7m to $2.2m)

	Site Area (s	Market Value	Stamp Duty	20%	Total Incentive	Total Price Paid
Property 1	582	$ 1,800,000	$ 81,409	$ 360,000	$ 441,409	$ 2,241,409
Property 2	544	$ 1,700,000	$ 75,909	$ 340,000	$ 415,909	$ 2,115,909
Property 3	493	$ 2,000,000	$ 92,409	$ 400,000	$ 492,409	$ 2,492,409
Property 4	664	$ 2,100,000	$ 97,909	$ 420,000	$ 517,909	$ 2,617,909
Property 5	594	$ 2,150,000	$ 100,659	$ 430,000	$ 530,659	$ 2,680,659
Property 6	715	$ 1,810,000	$ 81,959	$ 362,000	$ 443,959	$ 2,253,959
Total	3,592	**$ 11,560,000**	$ 530,254	$ 2,312,000	$ 2,842,254	**$ 14,402,254**
					Average	$ 2,400,376



- ➢ There is a limit to how much the cost of land can adjust
- ➢ If a development cannot afford to pay a price that will 'displace' the existing use, the existing use will remain
- ➢ A large planning uplift (FSR 0.5:1 to 1.7:1) does not necessarily have a large capacity to contribute

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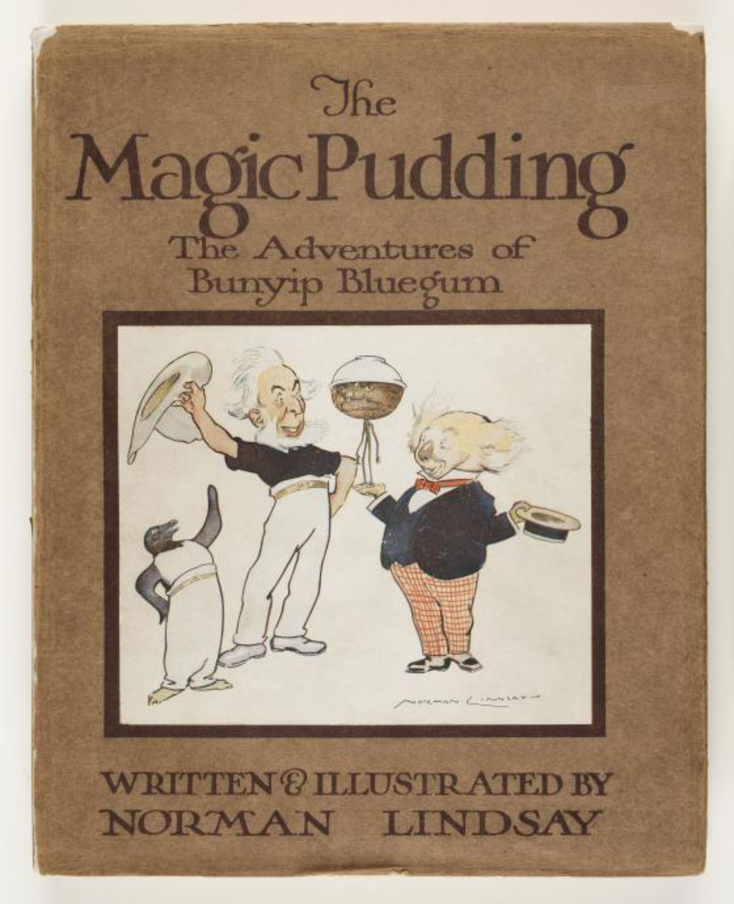
Moral of the Story

Albert the Magic Pudding

- Advanced notice/ phasing-in helps the market make informed investment decisions (and not overpay for a site)
- Land values (cost of land) are limited in their ability to adjust
- They cannot adjust below the value of their existing use
- There is only ONE bucket from which contributions can be made

➢ **Critical for Contributions to be considered/ tested holistically**



Incentive Clauses

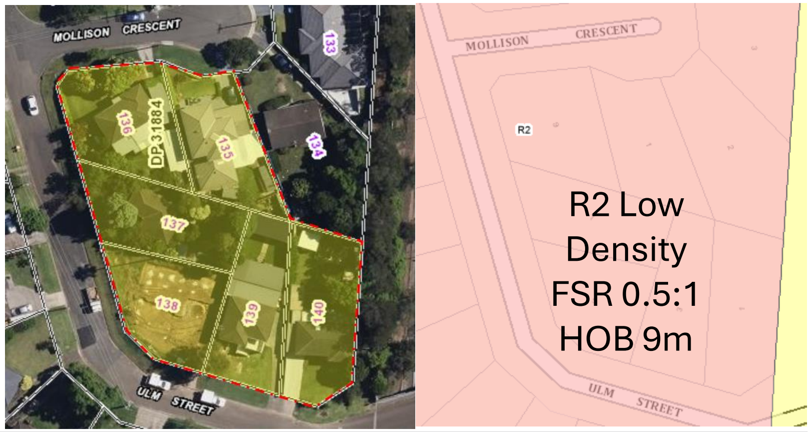
Powerful mechanism if well designed

What are the critical factors for success?

What about Affordable Housing?

Case Study

➢ Increase to FSR 1.7:1 insufficient incentive for meaningful contribution



	Existing Controls	Planning Proposal	
Land use zone	R2 Low Density	R4 High Density	
FSR	0.5:1	1.7:1	
Development	Existing 6 single dwellings	RFB - 60 apartments	
Cost of Land	Landowner expectations ($2.4m per dwelling)	Development affordability depends on planning obligations	
Capacity for Contributions		**s7.11 (capped)**	**$2.4m per dwelling**
		s7.12 (5%)	**$2.3m per dwelling**
		s7.12 (5%) + AH (3%)	**$1.9m per dwelling**
		+onsite infrastructure	**<$1.9m per dwelling**
Required Incentive FSR		Depends on the infrastructure required (cost)	

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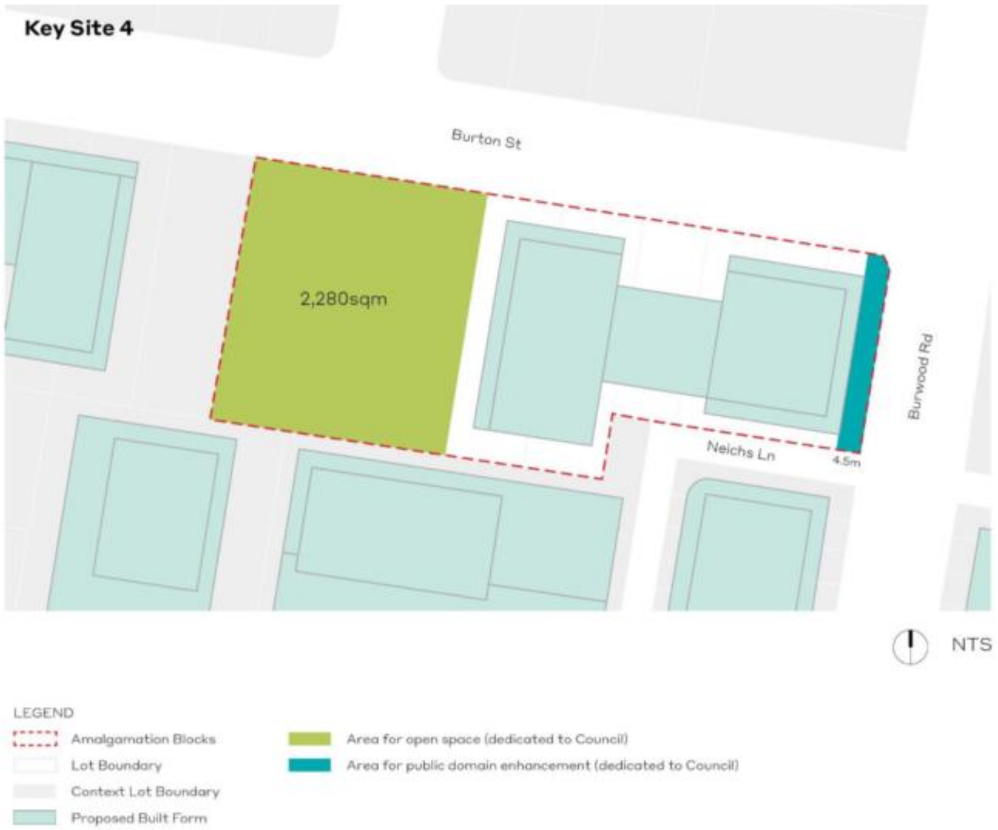
What are the success factors?

Incentivising public open space & public domain

- Must genuinely represent an incentive (theoretical planning uplift ≠ incentive)
- Site amalgamation patterns make sense
  - Don't be too ambitious
  - Stick to cadastre boundaries
- Only part of the site is required for on-site infrastructure
- Remainder of the site is capable of receiving transfer of GFA
- Development on the remainder of the site will not be more expensive
- Incentive must cover the cost of the infrastructure and any additional risk
- Planning obligations must be considered holistically - only ONE bucket



Land for community infrastructure for Key Site 4 apply to the following lots, sections, deposited plans and strata plans descriptions:

Lot 1 DP 986651 *Lot 21 DP 1133637* *Lot 1 DP 1088710.* *Lot 4 DP 10928*

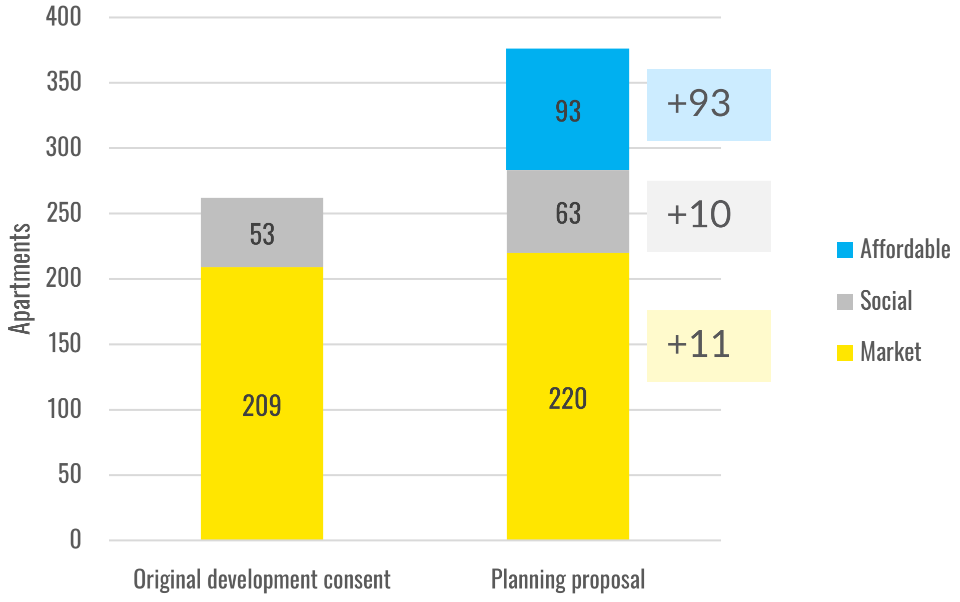
Figure 9 Key Site 4 – Lands required for embellishment and dedication to Council

What about Affordable Housing?

- Affordable Housing is a subsidised product - the market is not motivated to deliver without an incentive
- Planning incentives can also be used to deliver Affordable Housing
- Council, developer, LAHC and CHP

Lidcombe Rise

- LAHC site - R4 zone, FSR 1.3:1 to 2.6:1
- Original development consent - 262 apartments (including 53 social housing units)
- Planning Proposal FSR 3.2:1 - 376 apartments



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Key Takeaways

Do Contributions affect Development Feasibility?

- Short answer - yes
- Planning obligations must be considered holistically
- Advanced notice can help some of the time
- Land values will only adjust to the level of existing uses

Incentive Clauses

- Very powerful mechanism - subject to clever design and robust testing
- If there is environmental capacity for GFA transfer, incentive clauses can be very effective:
  - for Infrastructure and Affordable Housing
  - Avoids land acquisition
- Key to success is:
  - Design of mechanism
  - Robust testing
  - Site amalgamation patterns that make sense

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