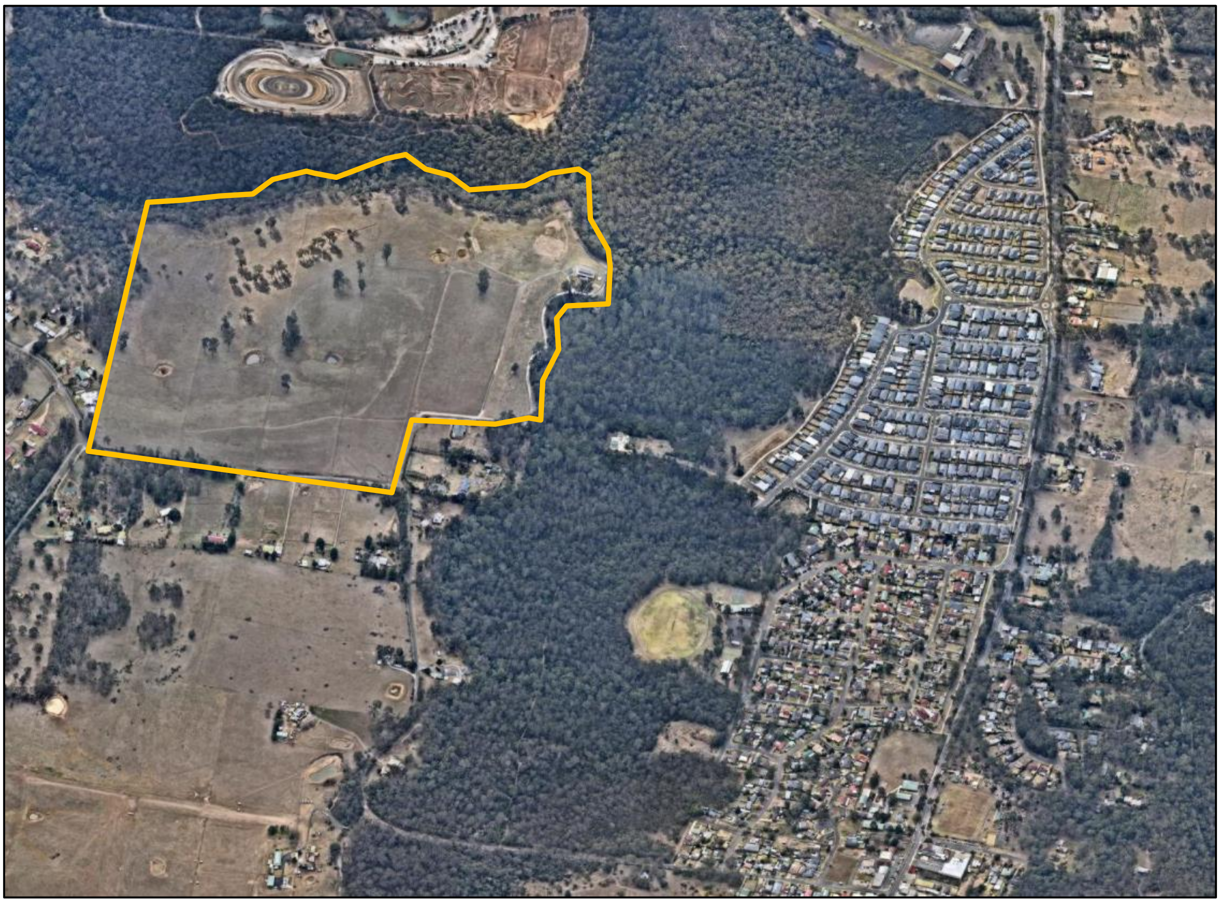
8th February 2019

Mr. Brett Whitworth
Executive Director – Growth Areas
Department of Planning & Environment
GPO Box 39
Sydney NSW 2001
E: brett.whitworth@planning.nsw.gov.au

Dear Brett,

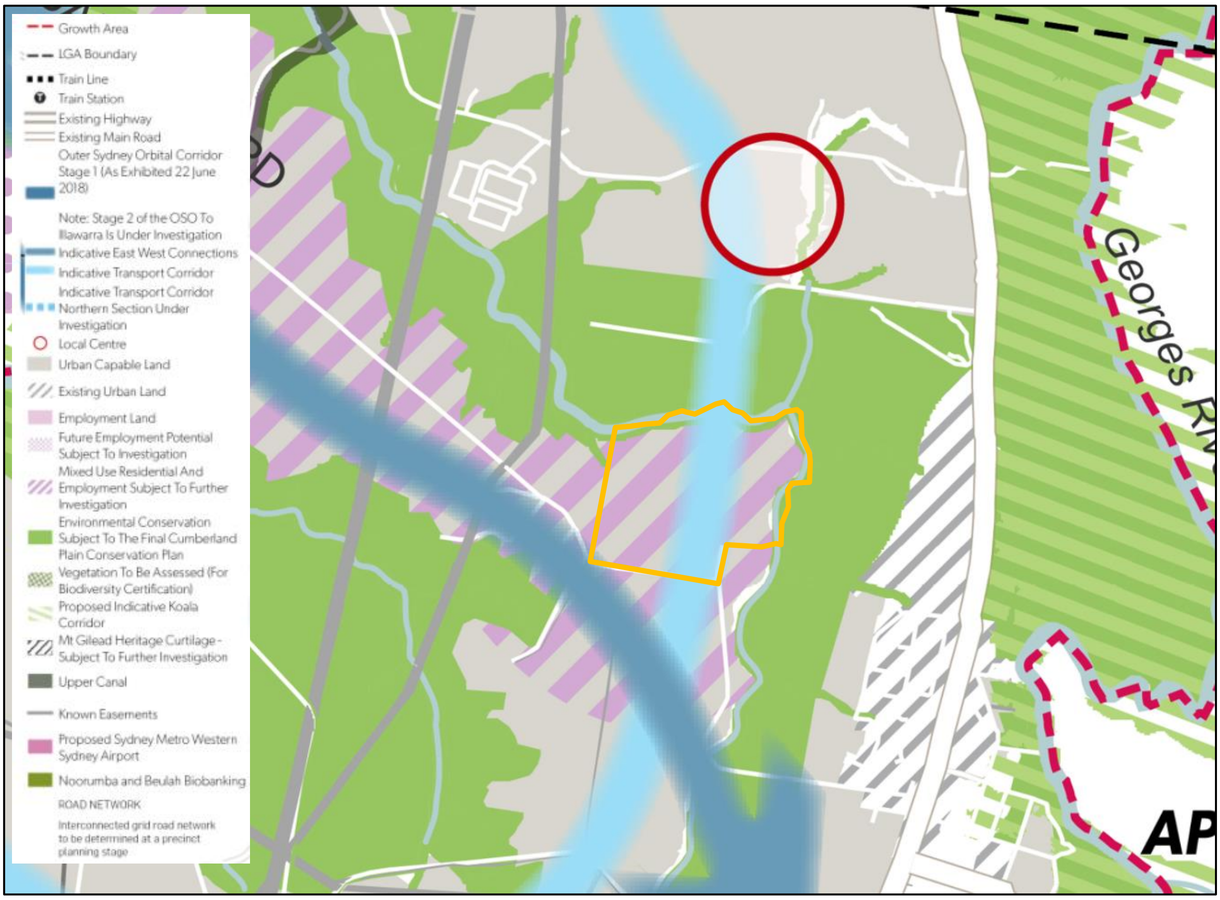
RE: Submission to Greater Macarthur 2040: An Interim Plan for the Greater Macarthur Growth Area – Macquariedale Road, West Appin.

MacroPlan has been engaged by the Brticevic and Franovic families, owners of land at Macquariedale Road, West Appin to investigate the development potential of their land (below) amidst the finalisation of plans for the Greater Macarthur Growth Area.



Of recent years, MacroPlan has made submissions to the draft South West District Plan and revised draft Western City District Plan to express the urban capabilities of the subject site and its ability to contribute significantly to short term housing targets given its connectivity with the existing township of Appin. The Interim Plan acknowledges the role of West Appin in the delivery of up to 15,000 homes in the longer term given its future transport network. We believe that much of this target could more suitably be achieved in the short-medium term.

The site is dissected by the proposed north-south corridor and is located immediately north of the future M9 (shown below). Given its accessibility to these major road links, the Plan identifies the site as being appropriate for employment uses (subject to further investigation). However, the site is an elevated relatively level plateau surrounded by an outstanding deeply incised sandstone gorge which our client has maintained in pristine condition over many years. The views from the site in conjunction with this feature which forms two of the boundaries, creates an opportunity for an area of high amenity that would be best utilised by a residential/mixed use development and potentially a boutique tourist/residential opportunity. This mix of uses would be totally appropriate to its scenic value and key transport links.



Further accuracy in the alignment of these major transport links will be necessary in the determination of suitable uses for the subject site. It is important to note the connectivity of this site with major employment hubs planned in the Western Sydney Aerotropolis, Western Sydney Employment Area and the Health and Education Precinct of the Campbelltown-Macarthur Strategic Centre. The real opportunity on this site is for a high amenity residential community that complements the creation of higher-order jobs in Sydney's south west, which is still in many ways consistent with the objectives of the Interim Plan, which provides:

> *The land release areas in the south require a landscape approach that respects and builds off environmental corridors and recognises and preserves the existing heritage in the landscape.*

And;

Anticipated change will create demand for more compact housing that is better connected to transport and amenities. New housing will be required to respond to an ageing population and smaller household sizes and continued pressure on affordability.

As such, the key considerations that result from the release of Greater Macarthur 2040 Interim Plan relevant to future planning of the subject site are:

- Fragmentation of the site due to the alignment of the north-south spine, an established need for activation along this corridor and smart allocation of density throughout the medium density areas co-located along the Greater Macarthur's spine.

- Creating better planning outcomes that promote economic development opportunities, delivering high quality jobs will require providing a variety of housing types that attract a strong cross-section of workers that stimulate the economy.

- Maximising the opportunity for design-led neighbourhoods that integrate residential communities within the natural landscape without impacting 'critical' Koala habitat.

The Plan targets an additional 20,000 jobs within or accessible to the release areas, however, providing jobs on the subject site is not the most effective realisation of this target. The site presents an opportunity for high amenity housing product for workers in the Western Sydney Employment Area, Aerotropolis or Campbelltown-Macarthur Strategic Centre contributing to the 30-minute city.

Amongst other things, the Macquariedale Road site presents the opportunity for:

- A natural western extension of Appin and contribution to short-medium term housing targets.

- Establishing the future north-south link parallel to Appin Road and opportunity to provide a diverse mix of housing options.

- A highly accessible, high amenity future residential/mixed use/tourist neighbourhood that respects its natural surroundings without impacting important habitat or conservation areas.

I have attached a copy of our draft submission to the proposed SIC for the area which will be further refined following landowner workshops.

We look forward to working with the Department of Planning & Environment and Campbelltown City Council as the Greater Macarthur Growth Area Plans are finalised.

Regards,

Gary N Prattley

RPIA Life Fellow

Chief Planner – MacroPlan

Attachment A:

8 February 2019

Mr Adrian Miller
Director, Planned Precinct Infrastructure Delivery
Department of Planning and Environment
GPO Box 39
Sydney NSW 2001

Dear Mr Miller,

RE: Submission to proposed Greater Macarthur Special Infrastructure Contribution 2019 - Economic Evaluation

MacroPlan commends Government for releasing the *Greater Macarthur 2040: An Interim Plan for the Greater Macarthur Growth Area* and the proposed *Greater Macarthur Special Infrastructure Contribution* for public comment.

MacroPlan has been engaged by key landholders to make representations on their behalf with respect to the proposed SIC for the Greater Macarthur Growth Area (GMGA). The sites are located in the Special Contribution Area of the GMGA.

This submission finds that:

- There are fundamental flaws in the EPS feasibility analysis.
- SIC rates of this magnitude will have (unintended) consequences on the market price of land in fringe metropolitan suburbs as well as Wilton.
- The cost of the SIC will largely be passed on to house-buyers and will not be completely absorbed by developers.
- There is no principle that an infrastructure 'wish list' should be imposed as a cost on a new development considering infrastructure will benefit residents outside of the GMGA.

According to the proposed Special Infrastructure Contribution Plan by the Department of Planning and Environment (DP&E) (*published in November 2018*), the Plan proposed three (3) Special Infrastructure Contribution (SIC) rates per additional dwelling/lot in the corridor - $39,710 for GM North, $43,985 for GM Central and $43,432 for GM South.

To substantiate the allocated SIC rates, EPS has been engaged by DP&E to undertake high-level feasibility assessment in order to quantify the impact of an additional SIC funding mechanism on development feasibly within the Greater Macarthur SCA. The EPS study (*published in January 2019*) proposes that the SCA could support a contribution up to $75,000 per additional residential lot through increased permissible development density as a result of re-zoning.

This EPS figure compares with a SIC of $15,000 proposed by an AEC Study for the North West Priority Growth Area (NW PGA), and it implies a significant premium on development in the GMGA.

The economic principle underlying infrastructure charges is (see Henry Tax Review) that cost of infrastructure in new developments in a particular area is higher than the cost of building infrastructure in other areas, e.g. due to steep terrain. There is no principle that a list of infrastructure that might be desirable should be imposed as a cost on a new development.

There has been an understanding by major landowners that development of Greater Macarthur would entail more infrastructure (i.e. higher infrastructure costs relative to other areas). However, this understanding has been extended to an ambit claim for infrastructure projects both within and in the vicinity of the Growth Area.

A significant proportion of the infrastructure is not related to the development at Greater Macarthur – it will provide a significant benefit to residents outside the GMGA. It asks the future residents of the Greater Macarthur to subsidise this infrastructure. The Spring Farm and M9 Link through to Appin along Macquariedale Road are strategic transport links that have been discussed for years and would be required regardless of whether the area was developed for urban purposes. The M9 link in particular presents a strategic connection for NSW freight network. In addition, the actual costings appear to be significantly inflated.

The DPE report also references the AEC report (November 2018) which appears to rely on the SIC as a value capture tax. Their calculation is not related to the cost of infrastructure but is based on the premise that it is the amount that can be passed down to the landowner (by the developer), with no impact on the cost of land to house-buyers. The DPE report states (page 10) that "the cost of the SIC should not be passed to buyers."

This assertion is not correct. Theory and empirical evidence (Breuckner 2001, Been 2005, Henry Tax Review) make it clear that a SIC is akin to a tax on land and that its cost will be largely passed on to new house-buyers. It does not work as a value capture tax – a capital gain tax on landowners would be a value capture tax.

The DPE report (page 14) argues that it has been "working closely with other Government agencies, Campbelltown and Wollondilly Councils, external consultants and industry representatives to ensure that the proposed SIC for Greater Macarthur will not impact housing supply in the area." In what way does working closely with these bodies negate the simple economic principle that an increase in costs will reduce supply? A developer locked in may state that it will go ahead regardless but that is only the short term. Beyond these short-term 'promises', it will impact adversely on supply.

Interestingly, having adopted a higher SIC (about $60,000) for Wilton, which will push up the cost of land and housing in Wilton which will then lead to the market price of land in closer-in areas (e.g. GM, NW), leading to higher market prices paid by homebuyers in GM. Thus, ironically and perversely, landowners in GM will be net beneficiaries from the Wilton SIC being higher. Surely, this is an unintended, or simply misunderstood, consequence of badly designed policy?

In boom times, developers might have been happy to acquiesce to this ambit claim, simply to 'enable development to happen'. Indeed, the capacity to enable development has been a major appeal of infrastructure contributions. However, the boom has ended.

Looking beyond cycles of boom or bust, policymakers need to fully understand the long-term ramification of adopting a SIC of this magnitude.

MacroPlan has tested the EPS feasibility assessment under the Scenario 2 (Rural land, with anticipated residential rezoning potential), which generated the SIC rates of $75,000 (rounded from $76,270) and a 20% IRR. There appears to be a serious discrepancy in the numbers and assumptions, with the IRR more like 10.2% at best (MacroPlan), i.e. land development will not be feasible.

The reconciliation of these two disparate results appears to be in the timing of the SIC and s94 contributions. Here, the EPS study was not explicit on its assumption, but MacroPlan's assumption is that the statutory fees and the SIC are paid at the commencement of the project – i.e. a developer must make an upfront payment for these contributions, upon development approval (i.e. the first 3 years/36 months). This is normal practice to enable delivery of infrastructure to commence and be delivered prior to, or in tandem with, the delivery of new housing.

By contrast, the EPS numbers seem assume that contributions be paid by the developer after completion of the development.

In addition, MacroPlan make the point that, if more normal (non-boom) market conditions are assumed, feasibility will be further substantially eroded. Forecasting prices is always problematic. But taking market prices at a market peak – which the indicative revenue of $420,000 per lot figure is looking increasingly to be the case - and making no allowance for the risk of a fall in prices, would appear to be highly problematic. After the previous boom ended in 2004, prices dropped about 30% in real terms. We also note that this revenue figure is about 10% higher than what is implemented in their Wilton SIC feasibility assessment (2018).

In the short term, the current cyclical weakness in market conditions may see some developers absorb a portion of this (including making losses), but the medium to long-term impacts are what should be governing policy. The high SIC will create winners and losers.

The winners will be:

- For landowners/developers in closer-in precincts, e.g. NW PGA, the value of their lots will rise by the value of the premium (~$25,000), and potentially more.
- For established landowners in the Greater Sydney metro area, the value of housing will also rise by the value of the premium.

The losers will be:

- New entrants to the housing market, either paying high prices for land or higher prices for established housing. (These are the biggest losers).
- Some landowners in Greater Macarthur but only in the short-term. Longer term, with development deferred and Greater Sydney growing, prices will incorporate the SIC.
- Renters will face higher rents. Longer-term, the higher cost of land will feed into higher rents. This will particularly hurt low/middle income households not able to contemplate home-ownership. This will in turn add to the cost to Government of public/social housing programs.

This economic evaluation is a working draft as we develop a deeper understanding of the SIC rates proposed for the Greater Macarthur and the implication of infrastructure delivery in the corridor. We wish to further refine our analysis following workshops with key stakeholders and the Department.

We look forward to working with the Department of Planning and Environment in the finalisation of SIC rates for the Greater Macarthur and hope that this evaluation assists the Department in its initial review of SIC rates for the Greater Macarthur. Should you wish to discuss any of the information contained in this submission, please don't hesitate to contact Nigel Stapledon on 9221 5211.

Yours sincerely,

Gary Prattley
Chief Planner

Dr Nigel Stapledon
Chief Economist
nigel.stapledon@macroplan.com.au