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ANGEL PLACE
LEVEL 8, 123 PITT STREET
SYDNEY NSW 2000

URBIS.COM.AU
Urbis Pty Ltd
ABN 50 105 256 228

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Department of Planning, Industry and Environment
Locked Bag 5022
Parramatta NSW 2124

To whom it may concern,

SUBMISSION TO DRAFT AEROTROPOLIS SPECIAL INFRASTRUCTURE CONTRIBUTION

This submission has been prepared by Urbis Pty Ltd (**Urbis**) on behalf of BHL Group Services Pty Ltd (**BHL**) in response to the release of the draft Western Sydney Aerotropolis Special Infrastructure Contribution (**SIC**). BHL welcomes the opportunity to comment on the draft SIC for the Western Sydney Aerotropolis (**Aerotropolis**) and recognises the significance of establishing the key framework for the delivery of infrastructure within and surrounding the precinct.

BHL commends the Department of Planning, Industry and Environment (**DPIE**) on the release of the draft SIC for the Aerotropolis and recognises the importance of establishing a contribution rate which ensures and facilitates the delivery of the infrastructure required for the growth of the Aerotropolis. However, to ensure timely delivery of this essential infrastructure it is imperative that the draft SIC is considered in the context of the numerous draft contributions framework such that the overall level of contributions imposed on development does not disincentive development and early activation of the Aerotropolis.

This submission has been divided into the following key sections:

- About BHL: Overview and history of the client;
- Comments & Recommendations on the Draft SIC Levy; and
- Conclusions and Next Steps: Discussion on the appropriate next steps to resolve the draft SIC Levy.

ABOUT BHL

Established in 2015, BHL is a leading Australian property company delivering market-leading, quality residential and commercial communities with a strong presence in Western Sydney. BHL's previous projects include large scale residential subdivisions in both the north and south-west Sydney Regional Growth Centres. BHL is looking to continue growth of its portfolio of landholdings.

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COMMENTS & RECOMMENDATIONS ON THE DRAFT SIC LEVY

BHL welcomes the opportunity to comment on the draft Aerotropolis SIC and makes the following recommendations which must be addressed prior to finalisation of the draft Aerotropolis SIC levy rate.

1. The DPIE must review all proposed draft contribution plans (State and local) for the precinct in a holistic manner such that one particular draft plan does not result in rates that would discourage development or make it unfeasible. It is the responsibility of the State government to investigate alternative and supplementary funding mechanisms to support the provision of local infrastructure from the State and Federal Governments given the significance of the precinct at a Commonwealth level.
2. The DPIE must work with the WSPP and Penrith and Liverpool Councils to understand the cumulative impacts of infrastructure contributions more accurately. If implemented as proposed, developers may relocate their interests markets that offer less financial imposition. This is a significant risk to achieving the Western Parkland City vision and ensuring the long-term success of the Aerotropolis.
3. The WSPP must consult with industry and landowners to understand the key tenants wishing to locate in the Aerotropolis, and their critical considerations on deciding to invest in a geographical location.
4. The DPIE must undertake a rigorous review of both the draft SIC and draft Section 7.12 Contributions Plan for the Aerotropolis to ensure not only no duplication of cost recovery, but ensure that all strategic documents relating to the delivery of the Aerotropolis are consistent.
5. The DPIE, in consultation with the WSPP must consider reducing the area that has been designated to landscape and open space within the draft Precinct Plan. The inconsistencies between zoning and draft Precinct Plan will inevitably lead to land sterilisation as there does not appear to be a tangible link to the funding for acquisition or management of these areas, especially where in parts they are otherwise zoned for urban purposes. This will not only improve development outcomes for the market, but also allow for a reduction in the overall contribution rate which would be offset by the greater NDA for developers.
6. The WSPP must defer finalisation of the draft SIC and draft section 7.12 plan for the Aerotropolis until such time the DPIE has finalised the second tranche of local infrastructure planning reforms in the context of the NSW Governments response to the Productivity Commission findings.
7. The DPIE must ensure that future Aerotropolis SIC framework includes provisions for a review of the chargeable rate over time to ensure the rate is balanced with viable cost recovery from development and is able to respond to an ever maturing market and land use types.
8. The draft SIC rate should be apportioned so there is a nexus to the demand being generated by the overall land use, BHL questions the imposition of a rate for industrial development which apportions the contribution to certain types of infrastructure that would benefit higher order land uses.

BHL appreciates the importance of establishing the SIC Levy for the Aerotropolis as it is the key mechanism to ensuring the delivery of the $1.1 billion worth of infrastructure that is required to unlock the precinct and realise the vision for the Western Parkland City. Given the significance of the framework it is imperative that it is endorsed as a model that is as effective and sympathetic to industry as possible to ensure the Aerotropolis vision can be realised. As such, BHL requests that the DPIE consider the above recommendations, informed by the more detailed comments as follows.

Draft Aerotropolis SIC Levy Rate

BHL acknowledges the need for the Aerotropolis precincts to be serviced by both local and State infrastructure and supports in principle that new development providers should contribute to this. However, the proposed rate by the NSW DPIE in the current context of multiple competing contribution plans is not supported.

The draft Aerotropolis SIC outlines a proposed rate of $500,000 per net developable area / ha (**NDA**) of Mixed-Use developable area and $200,000 NDA per hectare of Industrial/ Enterprise zoned land. These contributions would go towards relevant regional infrastructure identified within the plan and a biodiversity offset related to the draft Cumberland Plain Conservation Plan. In addition to the above we note the proposed rate of 6.5% of total cost of development within the recently exhibited draft Aerotropolis Contributions Plan (**7.12 plan**).

We consider that the combined cost of proposed draft State and local contribution plans may potentially render many developments unfeasible. There is genuine concern that development will be priced out of the industrial market and look to capitalise on the significantly cheaper industrial land costs in other capital cities.

To highlight the concern regarding the proposed SIC Levy rate, below is a comparative table of the existing SIC Levy rates that have been implemented in NSW for industrial land:

Table 1 SIC Levy Contribution Rates

SIC Levy Plan	Contribution Rate
Industrial Development	
Western Sydney Growth Area	$96,106/ ha of NDA
Wyong Employment Zone	$91,000/ ha of NDA
Western Sydney Aerotropolis	$200,000/ ha of NDA

Source: NSW DPIE

The proposed rate for industrial land of $200,000 NDA / hectare is more than double any of the existing rates in an active SIC scheme in NSW. Whilst the quantum of infrastructure required to service the Aerotropolis is significant, a holistic approach to the Aerotropolis contributions framework is required by the DPIE.

The cumulative impacts to future development of both State and local contribution plans being considered for the Aerotropolis must be further interrogated. By doing so they are able to ensure an appropriate balance between levy figure to ensure the required infrastructure for the region can be funded, and at the same time ensure development is able to drive the wider vision for the Aerotropolis. This matter is discussed in more detail within the following section.

Recommendation:

1. DPIE must review all proposed draft contribution plans (State and local) for the precinct in a holistic manner such that one particular draft plan does not result in rates that would discourage development or make it unfeasible. It is the responsibility of the State government to investigate alternative and supplementary funding mechanisms to support the provision of local infrastructure from the State and Federal Governments given the significance of the precinct at a Commonwealth level.

Cumulative Effects of Multiple Contributions

BHL understands the scale of required infrastructure across the wider Aerotropolis precinct and the demand it places on State and local government agencies to be able to facilitate the timely delivery of land for urban development.

The use of a contributions plan to levy funds for infrastructure delivery is understood, however, both State and local governments need to holistically look at the cumulative effects of multiple contribution plans and how they affect feasible development outcomes.

At the time of the draft Aerotropolis SIC plan being placed on exhibition, both State and local governments proposed to overhaul the infrastructure contributions by proposing the following:

- Section 7.12 Plan for the Western Sydney Aerotropolis: 6.5% levy on capital investment value;
- Western Sydney Aerotropolis SIC Levy: $200,000/ ha of net developable area; and
- Western Sydney Growth Areas SIC Levy: contribution is required under the SIC but is reduced by 74% if in Industrial area. This is estimated to be $24,987.56/ ha of net developable area.

The NSW DPIE and the WSPP must work together to ensure there is a balance between infrastructure contributions and delivery of development such that development is able to thrive and does not gravitate to other industrial markets.

The analysis below compares the proposed infrastructure contributions to the current industrial market in other states. The analysis indicates a significant competitive risk on Sydney's ability to attract industrial tenants compared to Melbourne and Brisbane.

Economic Analysis of the Industrial Market

Despite its attractiveness, Sydney is Australia's most expensive industrial market with rents averaging $153 per sqm. In comparison, Sydney's two main competing industrial markets of Melbourne and Brisbane attract industrial rents of circa $113 and $111 sqm, respectively. While Melbourne and Brisbane's industrial rents per sqm are rather similar, Sydney's industrial rent per sqm are $40-42 per sqm higher, which reflects a 35-38% premium.

Furthermore, Sydney's strong industrial rent growth over the last 2.5 years of 3.6% per annum has far exceeded the rental growth observed in Melbourne and Brisbane of 2.2% per annum and 1.9% per annum, respectively. This indicates that the Melbourne and Brisbane industrial markets are substantially more affordable than Sydney, as shown in **Table 2** below. With this growth outcome and the opportunity presented by the Aerotropolis, Sydney is in a unique position to further improve its performance in relation to overall trade per capita.

Table 2 Comparison of Average Industrial Rents per sqm ($ per sqm)

	Q3 2017	Q1 2018	Q3 2018	Q1 2019	Q3 2019	Q1 2020	*Average Annual Growth (%)*
Sydney	$140	$142	$144	$151	$150	$153	*3.6% p.a.*
Melbourne	$107	$108	$108	$111	$111	$113	*2.2% p.a.*
Brisbane	$106	$106	$100	$110	$111	$111	*1.9% p.a.*

Note: Rents are prime average
Source: Colliers International; Urbis

Despite Sydney's large population and the economies of scale and agglomeration benefits it can offer, Sydney underperforms relative to its size, population, and location in terms of trade processed. As shown in **Table 3**, Sydney only processes an average of 5 tonnes of goods through it ports and airports per head of population. In comparison, Melbourne processes a much higher 7.3 tonnes per capita while Brisbane processes an even higher 13.5 tonnes per capita.

Table 3 Comparison of Trade per Capita, 2018-2019

	Total Trade (tonnes)	GCCSA Population (persons)	Trade per Capita
Sydney	26,676,517	5,312,163	5.0
Melbourne	37,248,076	5,078,193	7.3
Brisbane	33,850,676	2,514,184	13.5

Note: Trade includes goods processed through ports and airports within the Greater Capital Cities (GCCSA)
Source: Port Australia; Australian Department of Infrastructure, Transport, Regional Development and Communications; Urbis

The Aerotropolis presents a unique opportunity to drive up this figure and improve the overall efficiency of Sydney's available industrial land uses. The overall benefit of an international airport in proximity to the largest industrial landholdings in Sydney will not only increase overall trade per capita efficiency but relieve freight infrastructure and decrease road congestion. Appropriate contribution rates need to be utilised to capitalise on this opportunity and invite a take up of available industrial land by development that is ultimately feasible for developers and businesses.

When combined with the recently exhibited draft 7.12 plan, the draft SIC could result in Sydney's industrial land becoming a less attractive option to both investors and tenants and reduce Sydney's competitiveness against the markets in Melbourne and Brisbane. This will potentially have flow-on implications as Sydney loses jobs in the industrial and supply chain sectors to Melbourne and Brisbane and significantly threatens the delivery of the Aerotropolis and the required infrastructure to support it.

Higher infrastructure contributions will likely further push up industrial rents in Sydney as developers seeks to maintain their development margins and projects feasibilities. If these higher rents per sqm

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are achieved, then the affordability of industrial land in Sydney will worsen and continue to reduce Sydney's ability to compete for investment against Melbourne and Brisbane industrial markets.

As a result, there is a risk prospective and existing tenants may increasingly choose to locate to alternative industrial markets in Brisbane and Melbourne, potentially putting at risk the development of the Aerotropolis as in line with the NSW Government's vision. This will, in turn, negatively impact Sydney's ability to create jobs and economic opportunities.

Recommendations:

2. The DPIE must work with the WSPP and Penrith and Liverpool Councils to understand the cumulative impacts of infrastructure contributions more accurately. If implemented as proposed, development may relocate their interests markets that offer less financial impositions. This is a significant risk to achieving the Western Parkland City vision and ensuring the success of the Aerotropolis.
3. The WSPP must consult with industry and landowners to understand the key tenants wishing to locate in the Aerotropolis, and their critical considerations on deciding to invest in a geographical location.

Potential Duplication of Cost Recovery

BHL has concerns that there is potential for duplication of cost recovery in both the draft local and state contribution levies.

The draft section 7.12 plan and draft SIC state within their respective strategic documents that they are both set to recover the costs of providing considerable additional open space. The draft 7.12 plan recommends a 6.5% local infrastructure contribution to pay for all the physical and social infrastructure, including land for open and green space.

Similarly, Table 7 within Chapter 3 of the *Draft Aerotropolis Precinct Plan* (draft Precinct Plan) highlights the social infrastructure requirements for each Aerotropolis Precinct to be provided by 2036 as well as any further infrastructure required by 2056. The document notes this data is informed by the Aerotropolis SIC. Within the table listing for required social infrastructure it is to be noted that open space is highlighted as one of the forms of infrastructure to be delivered under the draft Precinct Plan as part of contribution from the SIC.

BHL appreciates that the extent of strategic planning documents currently on exhibition in relation to the delivery of the Aerotropolis is unparalleled as the DPIE, WSPP and additional government agencies attempt to outline the delivery of the most significant infrastructure and land release project in Australia. However, there is increasing concern that the obvious gap between what is to be funded within the draft section 7.12 plan and the draft SIC.

The Precinct Plan, which has been granted statutory weight as per the direction of clause 41 of the *State Environmental Planning Policy (Western Sydney Aerotropolis) 2020* (**Aerotropolis SEPP**) puts at risk the overall ability to maximise contribution rates by reducing a significant amount of the net developable area (**NDA**) for developers. The overall level of detail that has been placed within the Precinct Plans diminishes the effectiveness of urban development zones as the plan has identified specific land uses, particularly a substantial amount of open space.

This overall reduction in NDA rapidly reduces the quantum of available SIC that the government can levy. The DPIE, in consultation with the WSPP should be considering a reduction in the amount of area that has been designated to landscape and open space within the Precinct Plans.

This will not only improve development outcomes for the market, but also allow for a reduction in the overall contribution rate which would be offset by the greater NDA for developers.

There are currently inconsistencies between the zoning under the Aerotropolis SEPP and the draft Precinct Plan which will inevitably lead to land sterilisation as there does not appear to a tangible link to the funding for acquisition or management of these areas, especially where in parts they are otherwise zoned for urban purposes.

The issue of cost recovery duplication is not however unique to the Aerotropolis. This issue was investigated as part of the NSW Productivity Commission's *Review of Infrastructure Contributions in NSW* whose report was released in November 2020 and is to be actioned by the DPIE in their review of the current model of infrastructure funding in NSW.

Noting this matter of 'double dipping' or cost duplication is not unique to this situation, it is the recommendation of BHL that finalisation of the draft SIC and the draft 7.12 plan for the Aerotropolis be deferred until such time as the DPIE has finalised the second tranche of local infrastructure planning reforms in the context of the NSW Governments response to the Productivity Commission findings.

Recommendations:

4. The DPIE must undertake a rigorous review of both the draft SIC and draft Section 7.12 Contributions Plan for the Aerotropolis to ensure not only no duplication of cost recovery, but ensure that all strategic documents relating to the delivery of the Aerotropolis are consistent.
5. The DPIE, in consultation with the WSPP must consider reducing the area that has been designated to landscape and open space within the draft Precinct Plan. The inconsistencies between zoning and draft Precinct Plan will inevitably lead to land sterilisation as there does not appear to be a tangible link to the funding for acquisition or management of these areas, especially where in parts they are otherwise zoned for urban purposes. This will not only improve development outcomes for the market, but also allow for a reduction in the overall contribution rate which would be offset by the greater NDA for developers.
6. The WSPP must defer finalisation of the draft SIC and draft section 7.12 plan for the Aerotropolis until such time the DPIE has finalised the second tranche of local infrastructure planning reforms in the context of the NSW Governments response to the Productivity Commission findings.

Future Typologies & Land Uses

The coordinated infrastructure investment and commitment by all three levels of government to the Aerotropolis and the wider Western Parkland City is imperative as it reinforces industry and market confidence in its potential as a growth area.

As confidence in the regions grows and the Aerotropolis and other release areas within the Western Parkland City begin to be developed post land-rezoning, the role and implementation of contributions plans, specifically the draft SIC Levy needs to be a continuously strategic and well considered framework.

Land uses permitted under the Aerotropolis SEPP are designed to be relatively broad to encourage strong development, with commercial development typologies permissible in both the Mixed Use and Enterprise zones. Despite this, commercial developments are generally land uses that require proximity to public transport infrastructure and thus seek out locations within walking catchment of a train station. Such as the new ‘Station Precincts’ within the draft Precinct Plan and draft SIC where a higher percentage is charged to the cost of carrying out development on the surrounding Mixed Use and Enterprise zones.

Industrial land uses however do not value these same requirements and generally favour locations within proximity to road and freight infrastructure. Thereby release precincts not within proximity to Metro Stations will be preferred sites for future industrial land uses.

Site requirements and an ability to respond to density differs between development types. Similarly, the capacity for different development types to contribute to a contribution levy will also invariably differ. The basis of charges for the draft Aerotropolis SIC should also appropriately recognise and have regard to these nuances between land uses and development types.

In further consideration of this, noting that the requirements for industrial land and supporting social infrastructure differ greatly to that of a competing commercial land use, the proposed rate of contribution should be further examined to ensure that developers and future tenants are paying a rate that is reasonable and relatable to the demands for infrastructure placed by specific development typologies. The draft SIC rate should be apportioned so there is a nexus to the demand being generated by the overall land use, rather than appropriating a payment to an industrial use which more so benefits a higher order land use.

As the Aerotropolis matures and begins to establish itself as an in-demand market for real-estate, higher density, higher order land uses, and more intensive forms of development will begin to emerge. Noting this, it is imperative that the draft Aerotropolis SIC charge rate is reviewed over time to ensure infrastructure demand and delivery is balanced with viable cost recovery from development.

The draft Precinct Plan outlines a detailed development plan for future land use and density within the initial release precincts, particularly focusing more density around the future Metro Station Precincts. It is important that the draft SIC framework supports the distribution of land uses, thereby ensuring that development opportunity can be preserved for more intensive and higher order land uses overtime.

Recommendation:

7. The DPIE must ensure that future Aerotropolis SIC framework includes provisions for a review of the chargeable rate over time to ensure the rate is balanced with viable cost recovery from development and is able to respond to an ever maturing market and land use types.
8. The proposed SIC rate should be apportioned so there is a nexus to the demand being generated by the overall land use, BHL questions the imposition of a rate for industrial development which apportions the contribution to certain types of infrastructure that would benefit higher order land uses.

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CONCLUSION

BHL acknowledges the overall intent of the draft Aerotropolis SIC plan and the need to fund up to $1.1 billion of infrastructure to bring the future city online and support the wider vision of the Western Parkland City. As such, we request the consideration of comments and recommendations contained within this submission with the finalisation of the SIC plan.

BHL looks forward to the implementation of the future framework which will be responsible for the delivery of the Western Sydney Aerotropolis.

If you have any questions, please do not hesitate to contact either Christophe Charkos on (02) 8233 7660 or myself at the undersigned.

Kind regards,

[redacted]

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