

# Goodman Submission to the Parliamentary Inquiry into Capturing the Value of Transport Infrastructure - Southern Employment Lands case study





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## About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist fund managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant fund management platform ensures it creates innovative property solutions that meet the individual requirements of its customers, while seeking to deliver long-term returns for investors.

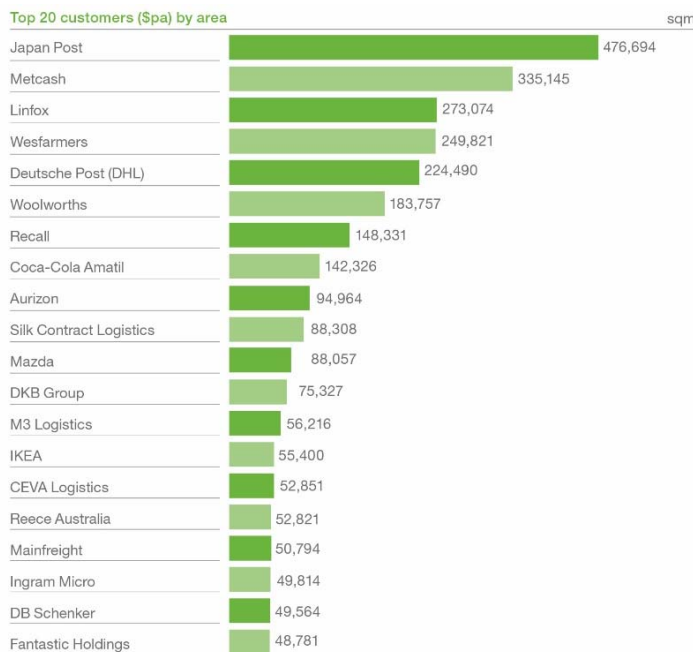
## Customer Service Offering

Superior customer service is the foundation of Goodman's success. Goodman's integrated own+develop+manage customer service offering is at the heart of its business:

- **Own:** Goodman buys property for the long-term, providing ongoing relationships with customers and investment opportunities for its Partnerships.
- **Develop:** Goodman's tailor-made developments across Asia Pacific, Europe and The United Kingdom, North America and Brazil are designed to meet the individual needs of its customers.
- **Manage:** Goodman's in-house property services teams ensure the operational needs of its customers are met and its assets are maintained to an exceptional standard. This generates increased customer satisfaction, higher retention rates and, in turn, secure returns for investors.



Top 20 customers (\$pa) by area



Goodman is focused on building long-term relationships with its 1,730 customers globally to ensure they receive high quality service and the best solutions for their business space requirements.

Its customer service offering of owning, developing and managing its properties for the long-term has built long-lasting relationships with repeat global customers.

## Quality Partnerships – Customers

Goodman's customers include international market leaders across a broad range of industry sectors including logistics, automotive, pharmaceutical, retail and e-retail.

Goodman is committed to building mutually beneficial, long-term relationships with its customers through the delivery of

high quality development, asset and property management services and by providing superior customer service.

Importantly, Goodman has the expertise, infrastructure and capital to service its customers across global borders and the flexibility to adapt to their changing business requirements.

## Quality Partnerships – Capital partners

Goodman has a proven track record in building quality global industrial portfolios for sophisticated institutional investors. Goodman's investment management platform comprises 16 distinct sector and geographic investment vehicles that invest in high quality logistics and industrial property and business space, including business and office parks across Asia Pacific, Europe and North America.

Goodman is a full service investment manager with a 'cradle to grave' approach. It employs the full spectrum of dedicated in house property, development, asset and investment management skills to ensure it can offer a range of risk profiles across its' partnerships, dependent on the appropriate entry point into the respective real estate in a given market.

Goodman takes a partnership approach to relationships with its investor groups, such as sovereign wealth funds, pension funds and large multi manager funds, participating across its' investment platform. Goodman's partnerships maintain best practice corporate governance, with dedicated local teams responsible for all aspects of property, asset and investment management. Its' typical governance model provides significant partner interaction in key facets of the investment process and financial risk assessment.

Goodman's partners can invest alongside Goodman in the development of prime logistics and industrial properties in key markets globally. Goodman holds in excess of \$3 billion in cornerstone investments in the respective partnerships, providing significant alignment of the interests of all parties.

## Property Management

Goodman's integrated customer service model means it takes a long term interest in its' properties, ensuring ongoing management to the highest industry standards. Goodman's property management teams are hands-on, providing exceptional levels of customer service to ensure high occupancy and customer retention rates.

Assets are maintained to exceptional standards to not only maintain value but also ensure customers receive a high level of service and will develop long term relationships with Goodman.

Goodman's property management services are in-house and provide the full spectrum of services from ensuring requirements are clearly met at the start of the lease to dealing with day to day operational issues and maintenance requests.

## Property Development

Goodman has extensive property development experience and adopts a customer led approach to industrial and commercial property development, working closely with customers to provide flexible and functional solutions to suit their needs.

Goodman's development sites are strategically located in highly sought after locations across Australia, close to key infrastructure such as major arterial roads, ports, airports and distribution hubs, providing customers convenient access to distribution networks.

## Sustainability

Goodman's sustainability vision is focused on creating long-term relationships with its key stakeholders around the world and enhancing the communities in which it operates.

Goodman's sustainability framework is based on embedding specific practices in all countries in which it operates, supported by key representatives in each region and specific tools and processes across Goodman.

Goodman's sustainability framework encompasses:

- + An ongoing commitment to support Goodman's long-term business model
- + Engaging with Goodman's supply chain to encourage sustainable outcomes
- + Partnering with Government for policy initiatives that encourage industry wide participation
- + Participation in industry bodies to increase sustainability awareness and shape government policy
- + A commitment to strive for continual improvement within the Goodman business

## Goodman Australia overview

### Australian operations

As at 31 December 2015



206 properties

\$14.0bn  
assets under management

6.6 million sqm business space  
under management

96% occupancy

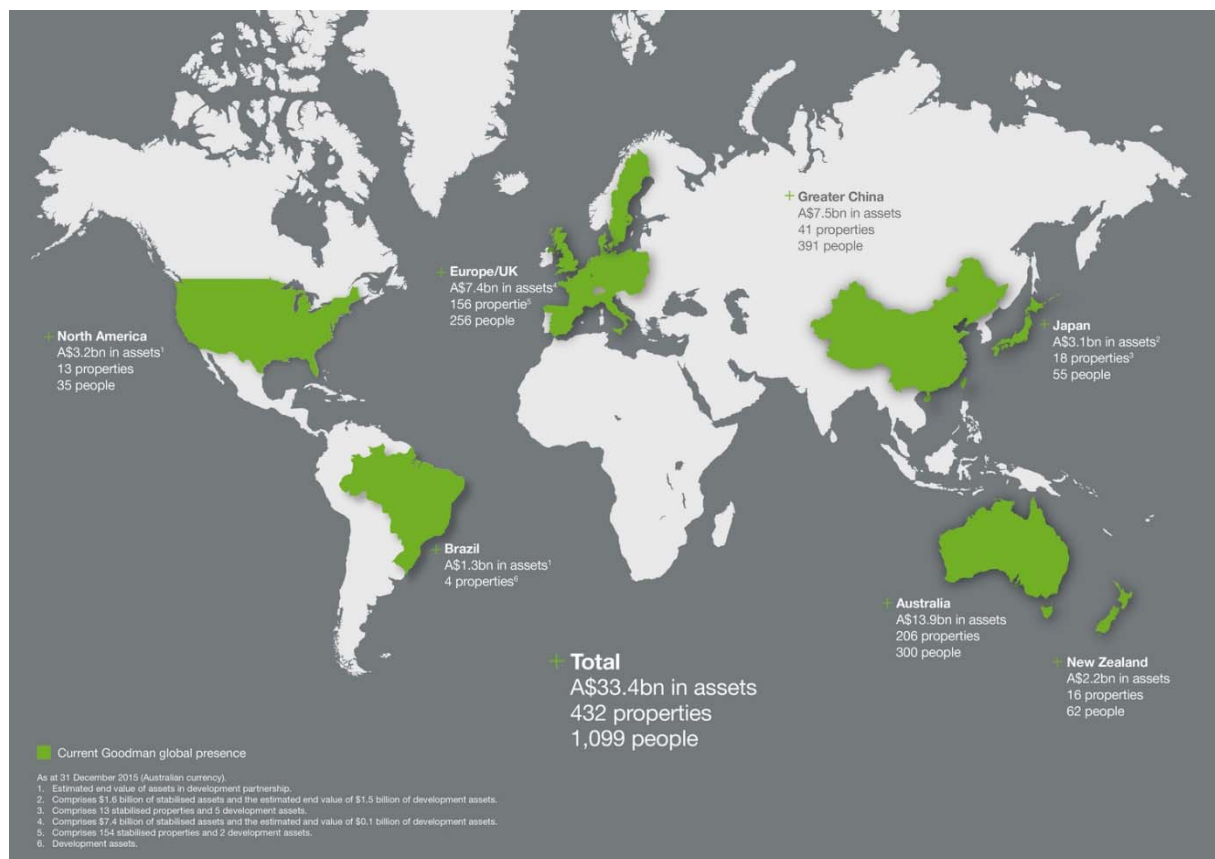
337,224 sqm  
development work in progress

1,109 customers

## Goodman Global overview



## Goodman's global footprint



## Introduction

This submission is made to the Parliament of Australia House of Representatives Standing Committee on Infrastructure, Transport and Cities (Committee) by Goodman Limited in response to the inquiry into the role of transport connectivity in stimulating development and economic activity in major urban and in regional Australia (Goodman Submission). The objective of our submission is to demonstrate that funding of the infrastructure deficit will be more efficiently and effectively provided when the following conditions exist:

- (a) effective stakeholder engagement,
- (b) adoption of innovative funding and financing mechanisms,
- (c) improved governance arrangements between government and relevant planning and transport agencies;
- (d) reform of archaic revenue raising measures;
- (e) policy discipline;
- (f) inter-governmental agreements in relation to infrastructure and land use planning and funding mechanisms.

The existence of a holistic framework for revenue raising and the allocation of funds to well devised projects will give the stakeholders confidence that the property sector can achieve, lasting and sustainable urban and regional growth in Australia.

Our submission draws upon current research and examples of successful transport projects in Australia and abroad. This research is supported by a Sydney case study to illustrate both the opportunities and the obstacles under present funding and land use planning arrangements.

The Southern Employment Lands case study (SEL) comprises 200 hectares (ha) of industrial land in transition between Sydney's Central Business District and Mascot Airport. The SEL is well-positioned to contribute to Sydney's economic prosperity, but is hampered by restrictive planning controls and outdated infrastructure funding methods. Our submission demonstrates how new funding strategies can unlock difficult urban renewal sites with limited public transport connections to create jobs and improve housing supply.

## Objectives

We have structured our submission to address the following Terms of Reference of the Inquiry:

1. To identify the likely impact on property values and property-related tax revenues as a result of (improved) transport connectivity
2. To examine options for the application of value capture mechanisms to sustainably fund transport infrastructure
3. To consider the means, including legislative and administrative actions, by which government and the private sector can best utilise value capture funding mechanisms
4. To consider the appropriate roles for the three levels of government in establishing sustainable value capture funding mechanisms for planning and infrastructure construction

## Organisation of submission

- + Chapter 2 identifies the impact of transport investment on property and revenues, looking at the necessary factors of integrated land use – transport planning.
- + Chapter 3 examines value capture mechanisms that are suited to urban renewal and at the conditions currently surrounding levies upon the property industry.
- + Chapter 4 considers the means by which the government and the private sector can take action to utilise value capture by looking at value capture as a decision making tool and current issues that may be impacting on value capture.



- + Chapter 5 examines the current infrastructure funding situation in Australia and considers the various roles for the three levels of government in implementing value capture.
- + Chapter 6 presents a value capture case study on the Southern Employment Lands (SEL) to demonstrate the role of transport connectivity in stimulating development and economic activity in a major urban renewal area.

## What is Value Capture?

### Definition

Value capture is the raising of revenue from the improved value of an asset. It is known in many forms of taxes, charges, duties and levies that are applied to the improved value of land. Obviously as a revenue raising device, value capture has been in existence for a considerable period of time. However, the creation of value capture models to support the funding of infrastructure projects has become more sophisticated over recent times. As economies become more complex and the funding gaps for infrastructure cause unintended consequences for both the economy broadly and the form and shape of our Cities, investigating better methods of raising funds has come into sharp focus.

### Purpose of value capture

The primary thrust of modern day value capture models is not so much to introduce new taxes per se, but rather to understand:

- (a) whether there are sufficient existing revenue streams that are currently deployed to capture increased land values arising from infrastructure benefits, and
- (b) whether those funds are being allocated to infrastructure projects, or whether they are going to consolidated revenue.

This submission seeks to draw attention to the necessary reforms that would greatly assist in terms of providing sufficient revenue to breach the gaps in infrastructure funding. It is our submission that there are appropriate mechanisms currently in place to capture value which is directly attributable to infrastructure improvements, but they are used in an ad-hoc fashion and often without nexus to any infrastructure and without any transparent or governance measures in place to know if the funds collected are actually used for infrastructure funding.

This submission supports the initiative to adopt a well thought out value capture model that provides a broad base for raising funds for infrastructure needs which contains the essential elements of both certainty and equity.

## Identifying the likely impact on property values and property-related tax revenues as a result of transport connectivity

There is universal recognition across government and industry that well-planned investments in transport infrastructure increase surrounding property values and tax revenues. Research shows that these increases are greatest when transport investment is teamed with integrated land use – transport planning. Integrated land use – transport planning links transport and land development investment decisions, increases accessibility to transit, reduces private vehicle travel, makes better use of infrastructure and urban land, and ultimately improves the quality of life of residents and workers (Transport Infrastructure Council 2003). It involves a number of factors:



- + Long term strategic land use and infrastructure planning linked to adequate and reliable funding sources
- + Appropriate and dependable zoning and development controls on land and infrastructure corridors
- + Consistent, coordinated and supportive public policies, guidelines and processes that enable public and private sector stakeholders to invest with confidence.

Land values and property taxes are influenced by transport mode, connectivity and the degree of integrated land use – transport planning applied in a given location. Higher capacity transport modes, such as heavy rail, are able to serve higher density zones, providing greater value uplift in these areas. For example, recent research demonstrates that the Mandurah Line in Western Australia will generate \$506 million in tax revenues to federal, state and local authorities over 30 years **without** active land planning or value capture methods in place. This represents **30 per cent** of the projects capital expenditure. Yet if the same investment had been paired **with** active integrated land use planning within 400m from the station and appropriate value capture mechanisms, this figure would increase to over \$1.7 billion, or **132 per cent** of the capital cost of the Mandurah Line (McIntosh et al 2015).

The Mandurah example is supported by research which shows that, on average, property values increase by 12 per cent around all forms of public transport, including commuter rail, metro rail, light rail and bus-rapid-transit (BRT) (Baker and Nunns 2015). Importantly, wide variations of between +150 per cent and -21 per cent were found among the 122 case studies summarised in Table 1. These variations are due to a number of factors, such as the degree of integrated land use – transport planning, market conditions and the presence of supportive planning and development policies by government. Active value capture mechanisms which facilitate intensification of land use around transit stations produce a much greater uplift in property values and tax revenues (McIntosh 2015).

Table 1 Property value impacts from public transport

	Overall	Residential	Commercial	Other
<b>Average</b>	12%	7%	17%	71%
<b>Median</b>	5%	5%	2%	71%
<b>Max</b>	150%	64%	91%	150%
<b>Min</b>	-21%	-17%	-21%	-9%

Source: Baker and Nunns 2015

## Key findings

- Evidence shows that property values increase by an average of 12 per cent as a result of proximity to transport investment. The level of increase in the studied areas varied between +150 per cent and -21 per cent, which can be attributed to market conditions, the presence of supportive planning and development policies, and most importantly, the degree of integrated land use – transport planning.
- Integrated land use – transport planning involves long term strategic planning linked to reliable funding sources, appropriate and dependable controls on land and infrastructure corridors, and public policies that support public and private investment.

## Examining options for the application of value capture mechanisms to sustainably fund transport infrastructure

The pairing of infrastructure and value capture programs should combine a mixture of the most appropriate value capture methods to meet the objectives of a given funding program, provided it is underpinned with coherent and supporting land use planning.

We have identified below some alternative methods that we suggest should be seriously considered as part of a thorough investigation for innovative ways to raise revenue for infrastructure.

- + Common value capture mechanisms successfully applied in transport and urban development projects include:
- + Sale of bonus gross floor area (GFA) allows for additional development rights above a reasonable threshold to be sold to developers, with the proceeds used to fund infrastructure. The sale of GFA is a common funding mechanism overseas and is a logical source of additional infrastructure funds where transport and other infrastructure capacities can support the additional demand for services. The appropriate device to incentivise the market is to ensure that the sale of such rights is tiered so that the rate increases at different thresholds of GFA. The tiered bonus payment allows average costs to fall per unit of development, thus incentivising the market to build to the theoretical maximum that planning authorities would allow. In addition, the rates that are set need to take account of the base rate of land value across the metropolitan area, as not all districts will have the same head room in terms of land value to support a standard rate across the metropolitan area.
- + Land tax is presently used in certain situations, yet a broad-based land tax would be much more efficient than stamp duty. Given the inefficiency of stamp duties, replacing stamp duties in all states with a broad-based land tax could add \$9 billion a year to GDP (Daley and Coates 2015). This idea has been floated by the Federal Treasury and other bodies, but would require significant legislative change and an extended transition period before it could be used as a value capture mechanism for investment in transport infrastructure
- + Special rates are applied by local councils in certain circumstances, such as to extend water supply networks and drainage systems. This is allowed through current state government legislation.
- + Sale of air rights is used by government agencies above publicly owned land, such as for development over road reservations and railway corridors. This method is widely used in Hong Kong, Japan, the US, France and the UK to fund metropolitan transport systems.

**SEL - 200ha of underutilised industrial land, capable of supporting 30,000 new homes, 50,000 new jobs, if a new station was built at Alexandria, within the existing Airport Link**

### Beneficiary pays

Contemporary transport economists and public policy advocates agree that funding programs should target the users and beneficiaries of transport investment, whether land owners, developers, or rate payers. The impost should be **broad, modest** and **exist for a long enough period** to be effective (Langley 2015a).

The 'beneficiaries pay' concept is also a key principle of successful value capture programs. These programs capture revenues that would not otherwise exist without the public investment, and as such, it is reasonable to expect that those who benefit from the investment should also contribute an equitable portion of the benefit they receive. Value capture programs can permanently increase the levels of revenue returned to the taxing authorities.

## Precinct based planning

The location and boundaries of value capture improvement precincts should be carefully selected to include existing and potentially new complementary commercial and public activities and investments that can be further levered by the primary infrastructure investments. The nature of the value capture program or project will determine the size of the precinct. Research indicates that the greatest uplift around rail transit connections typically extends between 800 to 1000 metres from the station (Baker and Nunns 2015).

Major infrastructure investments such as a new metro station or light rail line will result in significant changes in surrounding land uses, but these changes may take many years to occur. In addition, the full impact of these investments on land value and public tax revenues takes time to reach their full potential as new residents and business become established and market values reach a fully stabilised point. For example, commercial properties are typically valued on the basis of a 5 to 10 year stabilised net revenue history.

## Property value headroom

The capacity of different suburbs to contribute to the value capture process will require subtlety in the setting of various rates and charges to ensure it is an equitable burden.

While the cost of infrastructure per lineal meter may be the same across all parts of Sydney, the ability for different parts of Sydney to contribute to the cost of the infrastructure will differ. The answer to this problem is not to create density in poorer suburbs to recover a fair share of the funding burden, as that may lead to poor planning outcomes. The answer is to charge **all** infrastructure projects an infrastructure levy based on the ability of the regions to pay that levy without distorting the market price of land. That infrastructure levy exists already in Sydney (called a Special Infrastructure Contribution), it's just not applied across the board on all land release, urban renewal or infrastructure projects. Accordingly there is a huge leakage from the planning and infrastructure systems that could be tapped to increase the amount of available funds.

For example, in Sydney, no infrastructure contributions were collected on urban renewal projects of Epping Town Centre, North Ryde, or Herring Road, even though all those precincts relied upon the existing underutilised Epping to Chatswood Rail line. At the same time, a SIC contribution of \$100 per square meter was imposed on the urban renewal project of Carter Street Homebush even though it does not rely on existing or future proposed infrastructure.

At the same time, if developers are to carry the burden of an across the board SIC levy on all development that is associated with infrastructure and city shaping activities, then the businesses and residents that also obtain improved benefits should, via a rates increase, make some modest contribution to that infrastructure. Essentially if there are too many "free riding" beneficiaries, then the prospect of using a modern value capture model will likely fail.

## Long term funding

Value capture programs should be based upon a minimum time horizon of 20 years to allow for their funding sources to reach a fully stabilised point. The funding sources should be locked in for the life of the program and be resistant to changes that would undermine public and market confidence. For example, the Los Angeles Metro, which provides public transport services to nine million residents of Los Angeles, must "develop the long term transport plan and funding strategy and gain voter approval of both the plan and the funding strategy via a public referendum. The primary funding source is a county wide sales tax that requires a 2/3 majority vote for approval" (Blakely and Langley 2015). The transport plan and funding methods cannot be changed without going back to the voters for approval. This would avoid the sometimes unpredictable changes in infrastructure investments decisions seen recently in Australia.

## The risks of poorly administered development levies

Development levies or infrastructure charges that are poorly administered – particularly where they are complex, non-transparent or set too high – discourage investment, lower supply and increase the cost of housing (Australian Government 2009). The increased reliance by the NSW government on Special Infrastructure Contributions beginning in around 2005 resulted in levies reaching over \$100,000 for a standard residential lot in Sydney and \$200,000 per hectare on industrial land releases. This effectively stalled housing production for a number of years. While the Special Infrastructure Contributions have been scaled back to around \$30,000 per lot, supply constraints remain.

According to recent research commissioned to the Property Council of Australia, Sydney's local government councils have collectively under-produced new housing at an average rate of 5,632 dwellings per year over the past decade. At similar rates of production, the annual shortage will reach 140,073 over the next 10 years as a result of increasing demand and continued chronic undersupply. This means that between 2004 and 2024, Sydney's cumulative housing deficit will reach 197,050 homes without a sustained increase in construction over this period.

## Key findings

- + The paring of infrastructure planning, land use planning and value capture programs should adhere to the principle that all beneficiaries should pay a reasonable, proportional amount towards infrastructure which is consistent with and relevant to the regional planning objectives sought to be achieved.
- + The beneficiaries pay concept provides that the users and beneficiaries of transport investments, including land owners, commercial interests and rate payers should contribute an equitable share of value uplift created by the project.
- + Precinct based planning incorporates existing and potentially new complimentary commercial and public activities that can be levered by the primary infrastructure investments. This is typically contained within an area between 800 to 1000 metres from the station.
- + Long term funding timelines of 20 years or more enable value capture funding sources to reach their full potential and maximise returns.
- + Planning charges must be set transparently, in advance and with sufficient industry consultation to encourage investment, increase the supply of and lower the cost of housing.

## Considering means, including legislative and administrative actions, by which government and the private sector can best utilise value capture funding mechanisms

### Value capture as a decision making tool

Value capture programs contribute to public infrastructure decision making by promoting 'smart growth' principles. "Smart growth means managing urban development patterns and transportation networks to minimise environmental impacts and maximise the social and economic health to the community while making prudent use of capital and operating expenditures" (McIntosh et al 2014). The infrastructure tasks for cities like Sydney and Melbourne is made more difficult due to past planning policies that promoted urban sprawl. As a consequence, the population density in Sydney is approximately 350 people per square kilometre over a 12,000 square kilometre basin. Connecting the parts of Sydney together is a significant challenge unless density around existing infrastructure nodes becomes an accepted normalised planning outcome.

By way of example, London, Paris, and New York all have population densities in excess of 6,000 people per square kilometre. Not unsurprisingly, all those cities have extensive public transport networks and approximately 80% of residents rely on public transport for daily travel. As cities they have adopted planning policies that make reliance on public transport convenient, by creating liveable,



walkable, cycle-able mixed use precincts. Our city planners need to embrace a less homogenous and prescriptive planning framework which create “activity silos” which in turn creates reliance on cars to move between regions for work, play or leisure. By creating well planned, mixed-use precincts and intensifying the use of existing infrastructure and new infrastructure a more effective and ambitious planning outcome can be achieved.

#### **Smart growth principles include:**

- + Stemming the spread of urban areas by **concentrating growth** in existing urban environments. This reduces commuting times and congestion, while promoting the numerous associated environmental benefits of preserving open spaces.
- + Concentrating growth in already urbanised areas **augment and utilise the existing infrastructure** provided in these neighbourhoods, providing a stronger tax base for these communities, increasing the number of jobs and services in the area while catering for a shifting demographic that desires urban living.
- + Making better use of existing infrastructure will reduce the associated infrastructure costs of development and growth, while improving the existing services in urban areas.
- + Encouraging transit facilities through **higher density** land use. Increasing the densities of mixed land use zoning surrounding transit stations provides the ridership capacity to support mass transit systems.
- + **Mixed use planning** precincts, creating affordable, walkable and bike-able neighbourhoods by providing a mix of housing, commercial and retail options and public services. This produces communities that have lower transportation costs, greater social integration, improved personal and environmental health and expanded consumer choice (Smart Growth 2016).

#### **Supply side issues**

Supply side factors affect the responsiveness of new housing construction in the Australian market. Industry consultation has highlighted a number of supply side obstacles in the Australian housing market, including the length and complexity of the planning process and issues related to the provision and funding of infrastructure (Hsieh, Norman, Orsmond 2012).

The RBA advises against an overuse of developer levies as they can limit housing affordability by impacting housing supply. It suggests that the recent the run-up in real housing prices may not be fully explained by demand-side factors and that supply-side ones, especially policies regarding developer levies, may have also played a role in higher housing prices. This is not to argue that all policy intervention in the land market is inappropriate, but rather that the benefits from zoning regulations, growth boundaries and infrastructure charges should be weighed against their costs in terms of higher housing prices (Richards 2008).

While COAG recommends that infrastructure charges should be efficient, transparent, accountable, predictable and equitable, there are calls for COAG to review infrastructure charges to ensure they appropriately price infrastructure provided in housing developments (COAG 2012). In particular, the review should establish practical means to ensure that these charges are appropriately set to reflect the avoidable cost of development, necessary steps to improve the transparency of charging, and any consequential reductions in regulation (Australian Government 2009).

While there is caution against the reliance on betterment taxes they do exist in a variety of forms both in local and State government planning instruments.

To operate effectively, value capture methods that rely on betterment taxes need to isolate the increase in value attributable to a non-hedonistic decision or outcome, such as infrastructure investment as opposed to general land price increases at the local level. Furthermore, the levy needs to be transparent, universal, affordable, and most importantly, pooled for expenditure on stated projects that add economic positive value.

Betterment taxes will fail where they are arbitrary, without nexus, and not re-invested in the infrastructure they claim to support.

Where the charge exceeds the cost of providing infrastructure and invades into the general land price, it acts like a general tax and can discourage development (Australian Government 2009). To foster greater private sector participation in the establishment of equitable and transparent betterment taxes, developers should become an active part of the solution to supply-side issues impacting the housing market.

In addition to supply side issues, the uplift in property values that results from transport infrastructure and density increases can serve to gentrify existing communities. Provisions for affordable housing within these developments is necessary to provide for key workers within these areas and aid in driving economic stimulus.

### Transparency in governance

Transparent infrastructure charges encourage more efficient provision of infrastructure. By making charges and the processes for setting charges clear, they are more likely to be set closer to the right level. If developers understand how related charges are determined, they will respond by minimising the costs they face, which is the desired outcome. Setting charges publicly and in advance provides certainty to the private sector and enables developers to make more strategic plans about where to develop (Queensland Government 2013). Non-transparent and inscrutable infrastructure charging will increase the risk to developers and reduce valuable infrastructure investment in Australia (Australian Government 2009).

### Key findings

- + Governments can achieve better urban development and transport outcomes through the use of value capture as a decision making tool. Value capture promotes smart growth principles to maximise the social and economic benefits, minimise environmental impacts and support economic growth.
- + Care must be taken by local and state governments in setting development levies to avoid adverse impacts on housing supply. This requires consideration of not just the quantum of charges, but their economic efficiency.

## Considering the appropriate roles of each of the three levels of government in establishing sustainable value capture funding mechanisms for planning and infrastructure construction

The current system within Australia of identifying necessary infrastructure and the collection of revenue and allocation of funds for the delivery of infrastructure is dysfunctional, creating an infrastructure deficit in Australia estimated at \$300 billion (Infrastructure Australia 2012). According to the Productivity Commission's 2014 report on public infrastructure, 'institutional and governance arrangements for the provision of much of Australia's public infrastructure are deficient and are a major contributor to unsatisfactory outcomes'.

Fragmented institutional structures and governing arrangements are one of the biggest obstacles to the establishment of value capture funding mechanisms in Australia. Although the federal and state governments are responsible for setting broad strategies and policies, implementation and administration of these policies falls principally to the state and local governments (Suzuki, Cervero and Iuchi 2013). The introduction of value capture funding mechanisms in this country will require specific action at various levels of government.

### Federal government

The principle role for the Federal Government in the implementation of value capture mechanisms is to develop national legislation, standards and guidelines to remove any obstacles to their use by state and local governments. The Federal Government should also include value capture as part of the wider

taxation reform debate to avoid jeopardising the development industry through the creation of a separate tax.

As the role of COAG is to promote policy reforms that are of national significance, or which need co-ordinated action by all Australian governments, the conversation about infrastructure funding should be made part of the COAG debate. This should encompass all the jurisdictional, economic and legislative reforms required to make a clear and concise method for raising revenues across all levels of government and applying it to agreed infrastructure projects.

The challenge of reforming all levels of government to co-ordinate their regional and state infrastructure planning and delivery should probably, logically and practically commence with the Federal government using its current grants system to impose non-commercial contractual and performance outcomes on state governments that seek financial assistance for infrastructure projects. Payment milestones for agreed Federal funds should be married to performance objectives being satisfied that demonstrate state legislative and policy reform is seriously undertaken. Over time, state governments can design and put in place a new infrastructure funding machinery that demonstrates a commitment to sustainable infrastructure funding, tied to town and city planning.

Separately, federal government needs to consider its own role in value capture. Instead of an ad-hoc grants approach that is not transparent and lacks commitment to a stable and sustainable expenditure on infrastructure, the Commonwealth needs to consider hypothecating into a separate infrastructure fund, that proportion of income tax, capital gains tax and GST that is related to value improvement in property values. That might go some way to demystifying the conjecture around value capture.

We set out below what the ultimate infrastructure funding apparatus could look like in an efficient and co-ordinated administrative system.

## State government

State government needs to provide leadership in implementing value capture mechanisms and other state tax reforms. For example, a number of recent studies have recommended that state governments develop a long term strategy to phase out stamp duty and replace it with land tax, as the ACT is doing (Daley and Coates 2015). State governments also need to formulate consistent standards and administer value capture mechanisms by local government and urban renewal authorities.

In addition to better governance, greater transparency is needed in developing and publishing business cases for major infrastructure projects. Local government has become too small in resources, jurisdiction and vision to fulfil its role as a properly functioning planning authority. Increasing the size of local councils to be more regional in their vision is a necessary step towards depoliticising the planning functions of local councils. In support of this, a general transfer in responsibilities and powers from state agencies to larger, stronger and better resourced regional planning and infrastructure bodies will assist in effective planning, decision-making, funding and delivery of urban infrastructure. This should be pursued as a mid to long-term policy objective (Langley 2015a).

Similarly, the State government needs to consider hypothecating that portion of revenue collected from stamp duty, special levies, developer contributions, that are related to the property transactions as seed capital for infrastructure funding.

In Sydney, with the creation of the Greater Sydney Commission, there is the prospect of creating regional planning bodies with powers to implement urban renewal plans tied to infrastructure plans. There are now six newly constituted districts that will sit over the top of local councils. If the State took the next step of integrating its state infrastructure plan with regional and local infrastructure plans, and adopted any one of a number of value capture suggestions, then it would potentially create infrastructure funds for each of the six districts under the Greater Sydney Commission. That regime would go some considerable way to demonstrating to the Federal government that planning rules and policy are tied to infrastructure plans and various national policy initiatives, such as affordable housing and jobs targets. That framework, would likely demonstrate a clear, observable and auditable connection between expenditure and the economic outcomes that are assumed to arise from that expenditure.

## Local government

Local government needs to provide input and support to state and federal governments in policy development and implement and administer value capture mechanisms at the local level. For example, the sale of GFA is currently used on a limited scale by some local governments, yet lacks a consistent and uniform approach. This needs state leadership to implement and administer.

Local government and urban renewal agencies also need stronger urban renewal and funding powers if they are going to make meaningful headway in regenerating industrial precincts, commercial centres and neighbourhoods. This requires expanding funding sources and financing options for local government and urban renewal agencies.

The City Deals program in the UK is a good template for this change. According to the UK's Secretary of State for Communities and Local Government, "the UK's prosperity depends on local factors including land use and transport connections as well as the availability of public goods and services. Devolving and decentralising power and enabling local people to make decisions in these areas will create the conditions for sustainable growth, better public services and a stronger society". The UK's *Local Government Finance Act 2012* enables local authorities to benefit from growth and "to undertake Tax Increment Finance through New Development Deals – borrowing against future business rates revenues to partly or wholly fund the provision of infrastructure" (Langley 2015b).

Essentially, if local councils want the benefits of infrastructure, whether as part of urban renewal, access to job or housing opportunities, or connectivity to the metropolitan area, then they need to reform themselves philosophically. Local council's need to position themselves as players in regional and national frameworks. If they can adopt that attitude and think outside of the boundary of their local government areas, then their willingness to be a part of regional solutions will enable the fashioning of developer contributions to assist in dealing with regional infrastructure issues.

By way of example, Parramatta Road in Sydney passes through some 12 different local councils, each of which are more or less politically aligned at the State and Federal level. However, together those Councils have debated for over 20 years what to do with the road and its revitalisation. It is a problem that seems to only be able to be solved at a regional level where local politics is taken out of the equation.

## Key findings

- + Current funding and governing arrangements in Australia present the biggest obstacles to the establishment of innovative funding and financing mechanisms such as value capture. To remedy this, various actions are needed at all three levels of government.
- + Federal Government should take the lead in introducing national legislation, standards and guidelines to remove barriers to tax reform facing state and local governments.
- + State governments need to provide stronger leadership on value capture and other associated tax reforms. State should also consider devolving some state responsibilities to regional authorities to enable precinct based infrastructure and urban renewal planning
- + Local government needs to be better equipped to support the delivery of urban renewal and transport infrastructure. The UK City Deals program provides an excellent model for consideration in Australia.

## Southern Employment Lands Case Study

In order to understand the opportunities that are available from a concerted effort to reform the current funding methods, we propose that the government consider engaging in a live case study of one or a number of precincts. This would enable a number of variables to be simultaneously tested in order to develop a comprehensive top down policy for value capture.

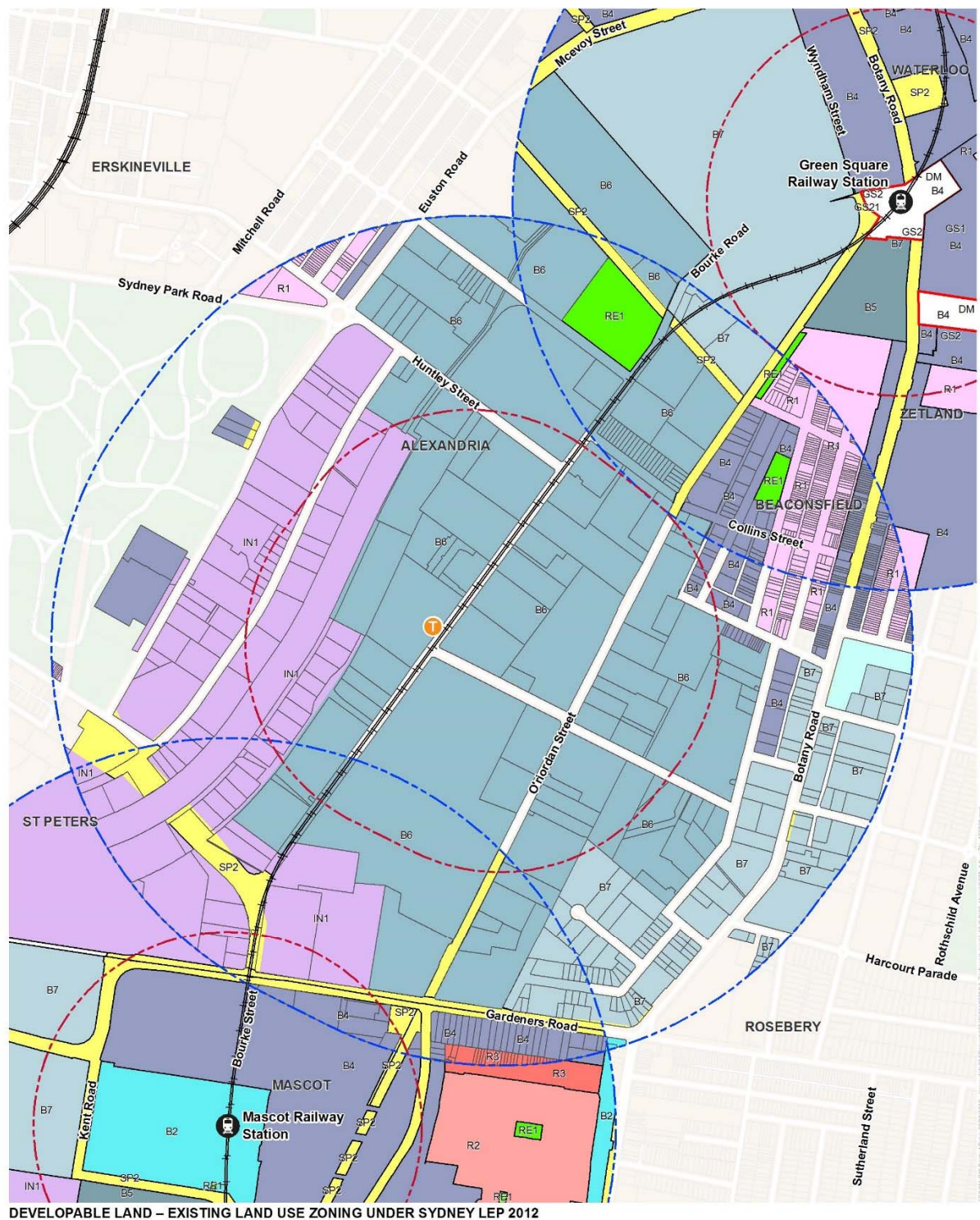
We recommend that an area that is ripe for urban renewal be selected and which has the following attributes.



1. A discrete precinct that is largely homogenous in current land use;
2. A precinct that has limited existing public transport opportunities but which though extension of existing infrastructure would have significantly improved public transport connections.
3. Where there is extensive existing social infrastructure that has excess capacity;
4. Where there is significant property value headroom to support an infrastructure levy overlay without serious risk of property price distortion;
5. Lastly a precinct that is likely to be a logical and desirable urban renewal area.

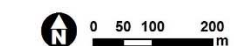
There are numerous areas in the Sydney and Melbourne metropolitan areas that would be worthy case studies. Fisherman's bend in Melbourne, Parramatta to Strathfield Light Rail project, North West Rail project in Sydney are but a few worthy considerations. However, in our view the glaringly obvious candidate is the Southern Employment Lands precinct.

The Southern Employment Lands (SEL) comprises 200 hectares (ha) of industrial land which is undergoing its transition from industrial to higher and better land uses. The precinct is located between Sydney's Central Business District and Mascot Airport in Sydney, NSW. The SEL is well-positioned to contribute to Sydney's economic prosperity, but is hampered by restrictive planning controls, limited public transport connections and outdated infrastructure funding methods.



**KEY**

- 400m buffer
- 800m buffer
- T Proposed train station
- B1 Neighbourhood Centre
- B2 Local Centre
- B4 Mixed Use
- B6 Enterprise Corridor
- B7 Business Park
- IN1 General Industrial
- R1 General Residential
- R3 Medium Density Residential
- SP2 Infrastructure



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This case study is provided to demonstrate how new funding strategies can unlock difficult urban renewal sites to create jobs and improve housing supply.

The SEL case study first provides a description of SEL's attributes and potential for urban regeneration. Recent planning decisions by the City of Sydney are then reviewed to highlight common issues confronting the property industry when dealing with state and local government agencies involved in urban renewal. Examples are drawn from SEL to illustrate Goodman's recommendations to the Committee's Terms of Reference for this inquiry.

An alternative to the City of Sydney's planning strategy for SEL is used to show how integrated land use – transport planning can achieve similar infrastructure funding opportunities as described earlier in this submission. These funding opportunities can be used to make the step change required in public transport to support housing and jobs close to Sydney's key employment centre. Of significance and demonstrated in the below case study, the surplus of infrastructure revenue raising that can be achieved in relation to one precinct can then be reallocated by the state to precincts that require necessary infrastructure projects but, where, because of land values in those precincts, there would be an infrastructure deficit. In this way the various districts of Sydney can be collection centres for redistribution to other precincts where there are worthy projects but which struggle for funding because of the limitations of current value capture models.

## Location and description

SEL is strategically located between the Sydney CBD and Mascot Airport. The SEL is located in the suburb broadly known as Alexandria and enjoys the following advantages:

- + 5km from the CBD
- + 3km from Mascot Airport
- + 10km from beaches
- + 1km to Green Square and Mascot Stations
- + 1km from regional open space at Sydney Park
- + Proximate to a number of Universities, hospitals, schools and shops.

The precinct lies just south of the Green Square Town Centre, providing an ideal transition from the Town Centre to industrial lands further south in Botany Bay. Lands to the east and west are characterised by established and newly emerging residential precincts, such as Mascot, Ashmore and Lachlan.

The SEL is well serviced by heavy rail between the CBD and the Airport and may be connected to the Sydney light rail network in the future. Other core infrastructure includes significant telecommunications infrastructure down Bourke Road and easy access to Sydney's motorway network, soon to be improved through connections to the WestConnex Motorway.

Historically a heavy industry precinct, the SEL currently accommodates a mix of light industrial, warehousing, commercial and retail uses. Recently, increasing property values, traffic congestions, outdated building and infrastructure assets, and increasing competition from modern, large-scale logistics centres in Sydney's West are attracting warehousing and distribution uses out of the SEL. These trends accelerated with the opening of the M7 motorway in late 2005, the opening of the Western Sydney Employment Hub and the establishment of the Western Sydney Employment Area by the NSW government to the west and south of the M7 – M4 interchange.

The three largest industries in the SEL - transport; postal and warehousing, manufacturing; and wholesale trade - are now the three most important industries for Western Sydney relative to the Australian economy. Western Sydney now accounts for over one third of the total NSW work force in these three sectors. Additionally, Western Sydney holds 61 percent of the total zoned employment lands in Sydney, with over 3,000 hectares of this zoned land still undeveloped (Montoya 2012). The shift of logistic-intensive industries from south Sydney to Western Sydney over the past 10 years has created opportunities for new high density residential and employment for the SEL and other parts of south Sydney.

## Current and proposed City of Sydney use

Currently, the SEL exists as an under-utilised pseudo-commercial precinct hosting a mix of creative, high-technology and artisan industries, back offices and bulky goods operations. Vacancy is high with up to 20% of floor space found to be vacant in recent surveys (Urbis 2011). While the SEL is in Sydney's Global Economic Corridor, the hourly productivity of the SEL as an industrial precinct is not as high as neighbouring areas (Kelly and Donegan 2014). In addition, adjacent areas are becoming increasingly populated by young professionals between the ages of 20-44. These residents tend to be well-educated and work in service industries, primarily in and around the CBD (Deloitte 2015). Areas like SEL that produce the highest portion of economic output in Sydney only provide housing for 10% of its population, highlighting growing disparity between employment and housing locations (Kelly and Donegan 2014).

The SEL is no longer functioning as a viable industrial area. There is limited demand for traditional commercial space in the area, with existing demand capable of being satisfied in the Mascot precinct. Despite evidence to the contrary, the City of Sydney (CoS) has proposed to rezone SEL to a business zoning, specifically excluding residential development. The proposed rezoning would effectively sterilise balanced urban renewal from the SEL for the next two decades, and contradicts the key findings of independent specialist studies commissioned by Council to inform the most appropriate strategic direction for the SEL (Goodman 2016).

The combination of the SEL's proximity to the CBD, its current under-utilisation and its continuing transition from traditional industrial uses makes the SEL a prime urban renewal precinct in Sydney (Deloitte 2015).

Rezoning the SEL to higher density, mixed residential and commercial uses would increase the supply of housing in close proximity to Sydney's high intensity economic areas, while allowing for new forms of business and enterprise in an emerging high-tech, creative and retail precinct.

## The Urban Renewal alternative for SEL

The most vexing challenges of major urban renewal projects are in the planning and implementation stages. Common obstacles faced by government and the private sector in unlocking urban renewal sites like SEL, which are frequently close to key employment centres and transport corridors, include:

- + Funding the augmentation or replacement of obsolete transport and civic infrastructure, and connecting it to existing infrastructure networks.
- + Remediation of former industrial lands, frequently heavily contaminated by past uses.
- + Fragmented land ownership, which makes the assembly of large sites suitable for modern development expensive and time consuming, if it can be achieved at all.
- + Balancing the often competing interests of a variety of stakeholders.

These obstacles will also be present in SEL, but to a lesser degree. For example:

- + Alternative funding solutions are being actively considered and in some cases employed by federal, state and local government delivery authorities, as evidenced by the Committee's inquiry. Examples include the sale of GFA by Burwood Council in Sydney and the investigation of value capture funding by Victoria's Level Crossing Removal Authority (LXRA). This submission explores some of those funding options.
- + The presence of large, under-utilised sites by private sector owners such as Goodman, who are willing to support major urban renewal initiatives and new funding arrangements for major infrastructure upgrades.
- + The proximity of existing and proposed public transport systems capable of supporting much higher residential and employment growth, including the existing Mascot and Green Square train stations, the opportunity to construct a new underground station on Bourke Street, and the potential for extending the Sydney CBD and Southeast light rail network into the precinct.

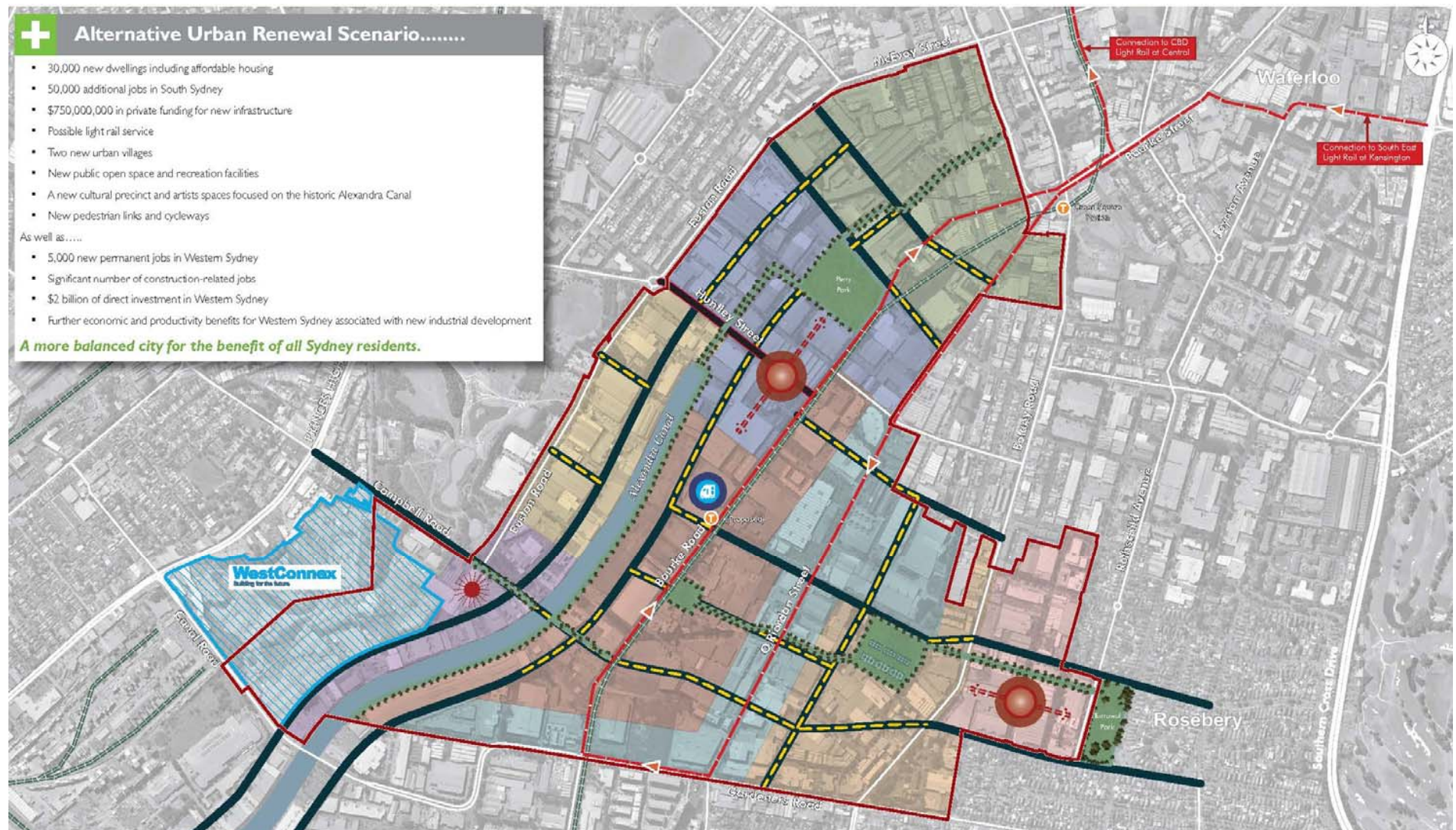


By taking advantage of these opportunities, SEL's stakeholders will support the renewal of one of the most significant urban renewal sites in Sydney, and by so doing:

- + Contribute to the rebalancing of housing and employment concentrations in the city with benefits for traffic congestion, efficiency, productivity and quality of life
- + Assist in making Sydney more competitive in the local and international markets across Australia and the Asia-Pacific
- + Capitalise on the unique characteristics of the precinct to create a vibrant mixed use area as well as transfer significant economic benefits to Western Sydney
- + To secure one of the last remaining inner city urban renewal precincts in Sydney to ensure that the city can meet the changing demands of its residents in terms of trends in demographics, economics and housing and employment choices.

### Alternative proposal benefits

Goodman's alternative proposal for the SEL is described in detail Appendix A – *Southern Employment Lands: Sydney's Key Urban Renewal Opportunity*. In summary, the transformation of SEL into a mixed commercial and residential development would provide benefits for the whole Sydney region. Key features of the alternative proposal include:



## Transport

Either the extension of light rail from Green Square to Mascot or, the creation of a new underground railway station in the centre of the SEL would provide a long-term economic catalyst for the precinct, stimulating land use change and providing the capacity for new housing and jobs.

If the new station midway between Green Square and Mascot line was delivered, the SEL station would:

- + Provide the opportunity to connect the metropolitan heavy rail with the extension of the Sydney CBD light rail network
- + Boost the feasibility of a high-frequency public transport system for the area, linking the precinct to the Port, Airport, the CBD and the entire metropolitan region
- + Remove a significant amount of heavy vehicle traffic from South Sydney where road infrastructure is no longer adequate
- + Allow for road local improvements by reducing local traffic on Botany, O'Riordan and Bourke Roads
- + Encourage active transport links to and through the precinct including pedestrian and cycleway

## Employment

- + The provision of an additional 50,000 jobs in South Sydney to boost the productivity of the Sydney Region
- + Provision of 5,000 new jobs for Western Sydney through the active transfer of freight and logistics operations to Western Sydney where appropriate infrastructure and custom-built facilities are available
- + Attract over \$1 billion in private funding for infrastructure improvements both in South Sydney and in areas of need elsewhere in the Sydney Region
- + Opportunity to create an agglomeration of new and emerging industries with economic incentives to boost productivity similar to the Hong Kong and Singapore 'Cyber Ports'
- + Improve the attractiveness of Sydney as a key business location, enhancing its ability to compete with both domestic and international markets.

## Housing

- + The provision of at least 30,000 dwellings within 5km of the Sydney CBD – matching employment and housing concentrations
- + Increased supply and diversity of housing in the inner city with subsequent benefits for housing affordability
- + Securing of a significant inner city urban renewal site to provide for the likely increase in demand for housing in and around the CBD as a result of demographic inversion
- + Greater opportunity to realise local and state government aspirations for social and key worker housing in proximity to the CBD.

## Value capture funding model

Value capture program internalize the positive 'externalities' of public investments, allowing state and local agencies to tax the direct beneficiaries of their investments. In order to estimate the potential increase in future revenue sources available to support SEL's urban transformation, Goodman has undertaken a high-level study of this new approach to transport infrastructure and urban renewal. The



proposed SEL value capture funding model estimates future changes in revenue over and above the revenues that would be generated by City of Sydney planning proposal:

The Goodman funding model distinguishes between two funding sources: Base Case Revenues and Incremental Revenues.

- + **Base Case Revenues** are revenues generated by the City of Sydney planning proposal from existing funding sources.
- + **Incremental Revenues** would be created by new residential and commercial development, as proposed under Goodman's alternative proposal. Incremental revenues would introduce innovative funding measures that are not currently applied or are applied in different ways to Base Case Revenues. In some case, Incremental Revenues would require legislative and administrative changes to be implemented, so are for illustrative purposes only.

The key characteristics of the Goodman value capture funding model are:

- + "Smart growth" principles would be used to consciously lift property values and increase tax revenues through land use planning changes and transport investments.
- + Revenues would be collected over a 25 year period and paired with financing instruments, such as infrastructure bonds, to provide a source on long-term financing, thereby reducing the present reliance on regressive, up-front levies.
- + Property owners and developers would pay for higher densities above current zoning based upon an equitable sharing of the increases in property value created by public investments in transport and urban domain enhancements.
- + Residential and commercial densities would be lifted from the present maximum floor space ratio (FSR) of 1.5:1 to a range of between 2.5:1 (at the greatest distance from the new infrastructure (800m) and up to 6:1 at the new station head. This would be consistent with other transit oriented developments such as Green Square.

## Value capture modelling assumptions

Table 2 provides a summary of the SEL value capture funding model results. The revenue estimates in Table 2 are based on the following assumptions:

- + Incremental Revenues are in addition to Base Case revenues which would continue to flow to state and local taxing authorities.
- + Base Case Revenues would flow to the local council in the ordinary way, until a co-ordinated regional funding model was created where part of the local council contributions would be passed up to the regional fund.
- + The State government would collect the Incremental Revenues via the District Commissions/Regional Councils and allocate them to infrastructure projects within that district with any surplus to be allocated to other infrastructure projects.
- + Revenue estimates should be considered individually and not in combination. This is because some sources would result in double-counting if combined.
- + Future estimates of revenue assume conservative rates of increase over the planning and operating period of the model, such as changes in CPI (2.25%), discount rate (8%), residential and commercial turnover (8 – 10 years) and land redevelopment (1% pa).
- + The modelling period for the alternative proposal assumes a 10 year planning and construction period (2016 – 2025) for the train station and a 25 year value capture operating period (2026 – 2050).
- + At the end of the 25 year operating period, it is assumed that the full revenue stream (Base Case + Incremental Revenue) is returned to state and local taxing authorities.



## Key findings

- + Value capture internalizes the positive 'public investments, allowing state and local agencies to tax the direct beneficiaries of their investments.
- + A more innovative and equitable funding model based upon the beneficiary pays principal could capture significant sources of revenue that are currently released as a result of public investment in infrastructure.
- + SEL would Goodman's alternative proposal for SEL would generate an additional 30,000 dwellings and support 50,000 jobs within the precinct over the next 35 years.
- + Stamp duty revenue to the NSW government under Goodman's alternative proposal for SEL would increase by \$294 million (2016 NPV).
- + The introduction of broader yet more efficient land tax and a property tax could be used to create a regional infrastructure fund. This fund could provide matching funds reaching \$80 million (2016 NPV) over a 25 year operating period for local government infrastructure on a merit basis.
- + The introduction of a FSR-based Special Infrastructure Contribution would generate a further \$429 million (2016 NPV) over a 25 year operating period. This revenue could be used to in whole or in part to:
  - Fund the construction of a SEL train station
  - Contribute to the cost of an extension of the Sydney light rail network into the precinct.

Table 2 Incremental funding sources

Revenue source	Description	Net Present Value (2016 A\$ million)	Undiscounted cash flow (2016 – 2050)	Possible applications
<b>Stamp duty</b>	Charged in accordance with current NSW practice and paid at property transfer.	\$294	\$1,967	<ul style="list-style-type: none"> <li>+ This shows the increase in stamp duty above Base Case collected from property sales within the SEL precinct by NSW Treasury.</li> <li>+ This revenue is over and above that the amount that would be generated under the City of Sydney planning proposal for SEL.</li> <li>+ Achieving this revenue would require the increased transport capacity and density proposed under Goodman's alternative planning proposal.</li> <li>+ Consideration should be given to hypothecating a portion of this revenue into a dedicated fund for major transport investments within the SEL precinct.</li> </ul>
<b>Land tax</b>	2% rate applied to unimproved land value and paid on an annual basis.	\$9	\$77	<ul style="list-style-type: none"> <li>+ In NSW, land tax is currently paid on commercial and investment properties, but not on the family home. In this example, land tax would be applied equally to all properties within the SEL precinct.</li> <li>+ Consideration should be given to hypothecating this revenue into a dedicated regional infrastructure fund.</li> <li>+ The regional infrastructure fund would provide 1:1 matching funds to local councils on a merit basis for project's meeting regional infrastructure priorities, such as those endorsed by regional planning bodies such as the Greater Sydney Commission.</li> </ul>
<b>Property tax</b>	.025% rate applied to land and improvements	\$39	\$250	<ul style="list-style-type: none"> <li>+ Property tax is the primary source of local government funding in other countries. It is based on the combined market value of land and improvements, and would be</li> </ul>

Revenue source	Description	Net Present Value (2016 A\$ million)	Undiscounted cash flow (2016 – 2050)	Possible applications
				<p>applied to all residential and commercial properties within the SEL precinct.</p> <ul style="list-style-type: none"> <li>+ Consideration should be given to hypothecating this revenue into a dedicated regional infrastructure fund.</li> <li>+ The regional infrastructure fund would provide 1:1 matching funds to local councils on a merit basis for project's meeting regional infrastructure priorities, such as those endorsed by regional planning bodies such as the Greater Sydney Commission.</li> </ul>
<b>Air rights sold to developers above government-owned land</b>	Sale or longer term lease of air rights above new train station (\$500 / sqm of GFA)	\$41	\$69	<ul style="list-style-type: none"> <li>+ Air rights on government-owned land above transport infrastructure can be sold to developers. In this example, a developer(s) would pay \$500 / sqm of GFA.</li> <li>+ This revenue should be hypothecated into a dedicated fund for transport infrastructure within the SEL precinct.</li> </ul>
<b>FSR Special Infrastructure Contribution (FSR SIC)</b>	<p>Sale of additional FSR on a tiered basis as follows:</p> <ul style="list-style-type: none"> <li>• Development within current FSR allowances – no additional charge.</li> <li>• FSR up to an additional 2:1 but not exceeding 4:1 can be purchased at a rate of \$250 / sqm.</li> <li>• FSR above 4:1 but not exceeding 6:1 can be purchase at a rate of \$500 / sqm.</li> </ul>	\$429	\$2,368	<ul style="list-style-type: none"> <li>+ Variations of an FSR SIC are currently in place and being negotiated in NSW.</li> <li>+ Property owner / developer would continue to pay standard Section 94 contribution for development within current FSR allowances.</li> </ul>

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