INNER WEST COUNCIL

Affordable Housing Policy
Background Paper

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November 2016

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Appendix A: Socio-Economic Changes Over Time

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1 Overview of Background Report

This Background Report provides the context and rationale for Inner West Council's Affordable Housing Policy, which sets out Council's strategic priorities and approach to the maintenance and provision of affordable housing in the LGA.

The Report first sets out data and analysis on key issues facing Inner West LGA relevant to the need to create affordable housing.

The analysis of key indicators of socio-economic change in **Appendix A** provides clear evidence of significant demographic change, rapid gentrification and displacement of more disadvantaged and vulnerable people from Inner West LGA over at least the past decade, and inability to accommodate low and moderate income key workers in an increasingly expensive housing market. The more recent gentrification of areas like Sydenham-Tempe-St Peters in recent years, and longer-term displacement of more disadvantaged people from areas like Newtown, are particularly evident. It provides a compelling rationale for intervening in the market to create affordable housing.

The Report then sets out an analysis of historical changes in housing cost, and of current and likely future affordability of purchase and rental housing in different areas of the LGA.

In particular, the findings suggest that virtually no new-build strata products would be affordable for **purchase** through the market for very low, low and moderate income households, or may be affordable to the very top of the moderate income band at best. All family households with children would be excluded from affordable purchase.

The vast majority of households needing **affordable rental housing** in Inner West LGA are also excluded from affordable rental through the market, and will be in the future without strong planning intervention.

The findings indicate that the vast majority of those needing affordable purchase housing in Inner West LGA unlikely to have their needs met through the market without planning intervention.

The Report then sets out an analysis of how likely it is that the market could provide affordable housing in the future, and what planning interventions through the market would most likely be effective in this regard. Again, the findings suggest that there is limited opportunity for the market to provide affordable housing, with very low and low income households excluded, as are larger moderate income households.

Finally, an economic analysis of the likely value uplift associated with redevelopment in various areas, and with rezoning in key urban renewal precincts, is provided as a further rationale for Council's policy position. The findings provide evidence for significant profit associated with redevelopment for higher density development throughout the LGA, as well as considerable value uplift associated with up-zoning of the three relevant precincts within the Sydenham to Bankstown Urban Renewal Corridor and precincts within the Parramatta Road Urban Transformation Area. These findings provide a strong justification for value capture associated with incentive-based or voluntary planning agreement approaches in association with

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redevelopment, as well as mandatory contributions or inclusionary zoning within the Urban Renewal Corridor.

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2 Gentrification and Displacement within Inner West Council Area

2.1 Indicators of Socio-Economic Change

The analysis of key indicators of socio-economic change in **Appendix A** provides clear evidence of significant demographic change, rapid gentrification and displacement of more disadvantaged and vulnerable people from the Inner West LGA over at least the past decade. The more rapid gentrification of many areas of the former Marrickville LGA in recent years contrasts with the longer-term displacement of more disadvantaged people from areas within the former Leichhardt LGA, which has the most advantaged profile overall.

- Although the Inner West LGA saw a similar increase in weekly households income similar to Greater Sydney, the former LGAs of Marrickville and Leichhardt that constitute a significant proportion of the Inner West LGA saw dramatic increases in median weekly household income in real terms (25% and 32%, respectively compared with 10% for Greater Sydney);

- The loss of very low income households in the Inner West was four times the average rate (2.7 p.p. decrease compared with 0.7 p.p. decrease for Greater Sydney), with a particularly high rate of loss in the former Leichhardt LGA;

- There was a decline in the proportion of low income households (-1.0 p.p.) compared with an increase in Greater Sydney (+0.6 p.p.), particularly in the former Marrickville (1.9 p.p. decline) and Leichhardt (1.3 p.p. decline) LGAs;

- Although the percentage increase for median rental for the Inner West LGA is in line with Greater Sydney (27% each), the former Marrickville LGA experienced a substantially greater proportional increase to median rent compared to Greater Sydney (32% compared with 27%). Comparatively high increases in median rent were also seen in the SA2s of Dulwich Hill Lewisham (35%) and Petersham-Stanmore (32%), although starting from a lower base rent;

- There was a higher percentage point change in the proportion of persons aged 15 years and over with a tertiary qualification (+10.4 p.p. compared with +8.1 p.p. in Greater Sydney). Particularly large increases were seen in the SA2s of Sydenham-Tempe-St Peters (+13.3 p.p.) and Dulwich Hill-Lewisham (+13.1 p.p.), as well as the former Marrickville LGA overall (+12.1 p.p.);

- There was also a significantly higher increase in residents aged 15 years and over with a Bachelor Degree or higher qualification in the Inner West compared with Greater Sydney;

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- In terms of occupational profile, the Inner West experienced almost twice the rate of increase of Managers and Professionals compared with Greater Sydney (+7.2 p.p. compared with 4.0 p.p., respectively);

- The decline in unemployed people was around 3 times the average rate of decline, noting that this is more likely to be due to the exit of unemployed people in a gentrifying housing market rather than a real decrease in unemployment *per se*;

- Finally, there was a much greater than average improvement in the SEIFA Index of Relative Socio-economic Disadvantage and SEIFA Index of Education and Occupation as aggregate measures of area vulnerability, with particularly strong improvement Lewisham, St Peters and Enmore in the case of the former, and in Sydenham, Tempe, Marrickville and St Peters in the case of the latter Index;

- It is also noted that, despite a slight proportional increase in social housing in the past 10 years, the Inner West LGA has a much lower than average proportion of such accommodation (3.5% compared with 5% for Greater Sydney).

The high and growing degree of gentrification and increasing exclusion of diverse income and occupational groups evident from the analysis provides a compelling rationale for intervening in the market to create affordable housing for groups currently being displaced from the Inner West LGA, and for diverse groups who can no longer afford to live there. (See Appendix A for more detail).

2.2 Housing Stress

A very high proportion of households in the key target groups are in housing stress (paying more than their gross household weekly income on housing costs), and thus at risk of having insufficient income to pay for other necessities such as healthy food, education, transport and health care.

In 2011, 81% of very low income, 69% of low income and 26% of moderate income households were in housing stress in the Inner West LGA, with rates trending upwards for low and moderate income renting and purchasing households.

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3 Affordable Housing

3.1 What is Affordable Housing?

Housing is generally considered to be 'affordable' when households that are renting or purchasing are able to meet their housing costs and still have sufficient income to pay for other basic needs such as food, clothing, transport, medical care and education.

'Affordable housing' also has a statutory definition under the *NSW Environmental Planning and Assessment Act 1979 (NSW)*, being housing for very low, low or moderate income households. *SEPP 70* defines 'very low-income' households as those on less than 50% of median household income; 'low-income' households' as those on 50-80% of median household income, and 'moderate-income' households as those on 80-120% of median household income for Sydney SD.

As a commonly used rule of thumb, affordable housing is taken to be housing where households pay less than 30% of their gross household income on housing costs. This is often regarded as the point at which such households are at risk of having insufficient income to meet other living costs, and deemed to be in 'housing stress'. Those paying more than 50% of gross income are regarded as being in 'severe housing stress'.

'Low cost' housing is often, though not always, 'affordable'. For example, in a premium (high amenity) location, even a small, lower amenity strata dwelling may be 'unaffordable' to a very low-, low- or moderate-income household.

The following table provides benchmarks that are used in this study when referring to 'affordable housing', in 2015 dollars, and are consistent with relevant NSW legislation.

Table 3-1: Relevant Affordable Housing Income and Cost Benchmarks

	Very low-income household	Low-income household	Moderate-income household
Income Benchmark	<50% of Gross Median H/H Income for Greater Sydney	50-80% of Gross Median H/H Income for Greater Sydney	80%-120% of Gross Median H/H Income for Greater Sydney
Income Range (2)	<$783 per week	$784-$1,253 per week	$1,253-$1,879 per week
Affordable Rental Benchmarks (3)	<$235 per week	$236-$376 per week	$377-$564 per week
Affordable Purchase Benchmarks (4)	<$228,000	$228,001-$364,000	$364,001-$545,000

Source: JSA 2016, based on data from ABS (2011) Census indexed to March Quarter 2016 dollars

(1) All values reported are in March Quarter 2016 dollars

(2) Total weekly household income

(3) Calculated as 30% of total household income

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(4) Calculated using ANZ Loan Repayment Calculator, using 4 January 2016 interest rate (5.37%) and assuming a 20% deposit for a 30 year ANZ Standard Variable Home Loan and 30% of total household income as repayments.

3.2 Change in Housing Cost Over Time

3.2.1 Overview

Rental and purchase prices have increased significantly within the Inner West LGA in real terms over the two decades or so, with some temporal variation. Overall, a steep increase in purchase prices (particularly in the former Marrickville LGA), and to a lesser extent rental costs, is contributing to an affordability crisis for very low, low and many moderate income households in recent years, as described later.

In real terms (adjusted for inflation) for the Inner West LGA, comprising of the former Ashfield, Leichhardt and Marrickville LGAs:

- the median price of separate houses increased 4.5 times in Ashfield, 4.0 time in Leichhardt and 6.4 times in Marrickville since 1991;
- the median price of strata dwellings increased 3.0 times in Ashfield, 3.2 times in Leichhardt and 3.4 times in Marrickville since 1991;
- the median rent for separate houses increased 1.8 times in Ashfield, 1.8 times in Leichhardt and 2.0 times in Marrickville since 1991; and
- the median rent for flats and units increased 1.5 times in Ashfield, 2.0 times in Leichhardt and 1.8 times in Marrickville since 1991.

3.2.2 Median Purchase Price Growth

Separate houses

Median purchase prices for separate houses in Marrickville LGA tracked those in Greater Sydney up until around 1996, after which they diverged. The divergence became greater from 2007 to 2008, and in 2014 median purchase prices for Marrickville increased rapidly to around $1.3 million, leaving Greater Sydney purchase prices behind at around $800,000.

In real terms, Marrickville house prices doubled between 1997 and 2003, and have almost doubled again since 2003.

Former Ashfield and Leichhardt LGAs began with higher median purchase prices, at just under $400,000 in 1991, and generally maintained similar growth patterns up until 2014. However, between 2007 and 2012 median purchase prices for separate houses in Leichhardt LGA tended peaked slightly higher than the Ashfield LGA, but merged again in 2013 with both peaking at approximately $1.5 million in 2015.

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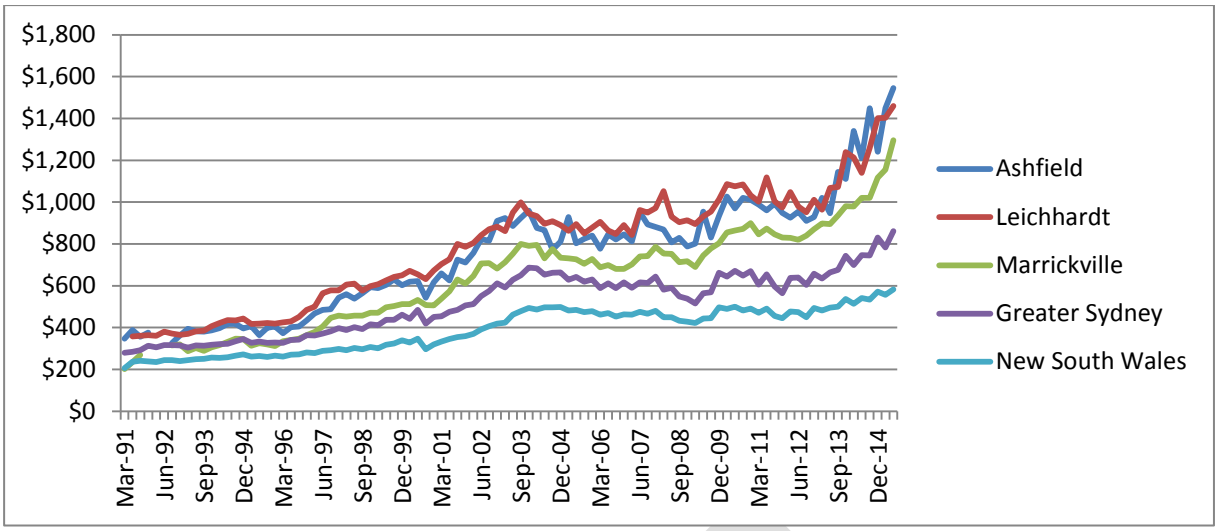


Figure 3-1: Median Purchase Price, Separate Houses, March Quarter 1991 to June Quarter 2015, Adjusted for Inflation (March Quarter 2016 Dollars)

Strata dwellings

Median purchase prices for strata dwellings in Marrickville and Ashfield LGAs have tracked prices for Greater Sydney since around 2010 after having previously been slightly lower than both Greater Sydney and New South Wales. Strata Dwelling Purchase prices peaked at around $675,000-$700,000 in 2015 for these former LGAs and Greater Sydney. Purchase prices from strata dwellings in Leichhardt LGA, while starting at a similar point to Greater Sydney at approximately $250, 000 saw steeper increases from 1996 to 2001 and a high amount of variability between 2001 and 2005, spiking between around $800,000 and $600,000. From 2006 purchase prices for strata dwellings in Leichhardt followed similar growth patterns to Greater Sydney, peaking at approximately $850,000 in 2015.

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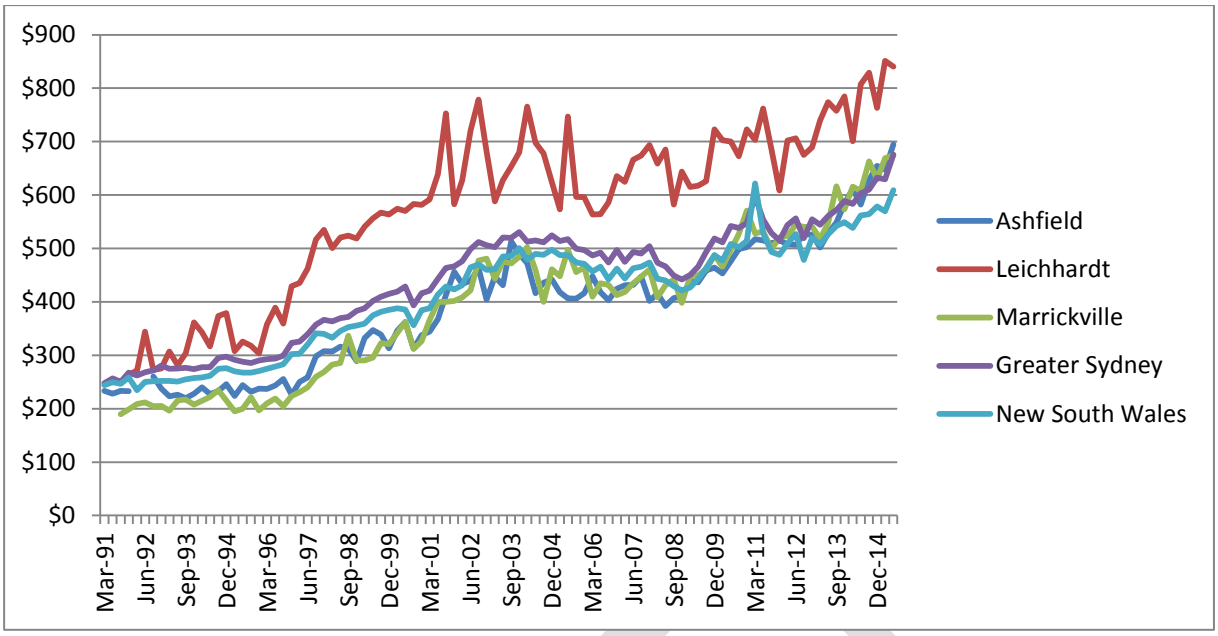


Figure 3-2: Median Purchase Price, Strata Dwellings, March Quarter 1991 to June Quarter 2015, Adjusted for Inflation (March Quarter 2016 Dollars)

3.2.3 Median Rental Price Growth

Separate houses

Median rental costs for separate houses in the former Marrickville, Leichhardt and Ashfield LGAs have remained higher than those for Greater Sydney and New South Wales for the duration of the time series. While each of the LGAs follows a similar trend over the time period, the rental costs for separate houses in Leichhardt remain higher than those in Ashfield and Marrickville LGAs, staring at around $450 in 1990 and peaking at around $800 in 2015. The Marrickville and Ashfield LGAs track closely over the time period, both beginning at just over $400 in 1990 and peaking at approximately $750 in 2015. Generally these LGAs experienced increases between 1996 and 2001 before prices stagnated from 2001 to 2007, sitting between $450-$500 for Marrickville and Ashfield and $550 and $600 for Leichhardt. Prices began increasing again from 2001 to 20015

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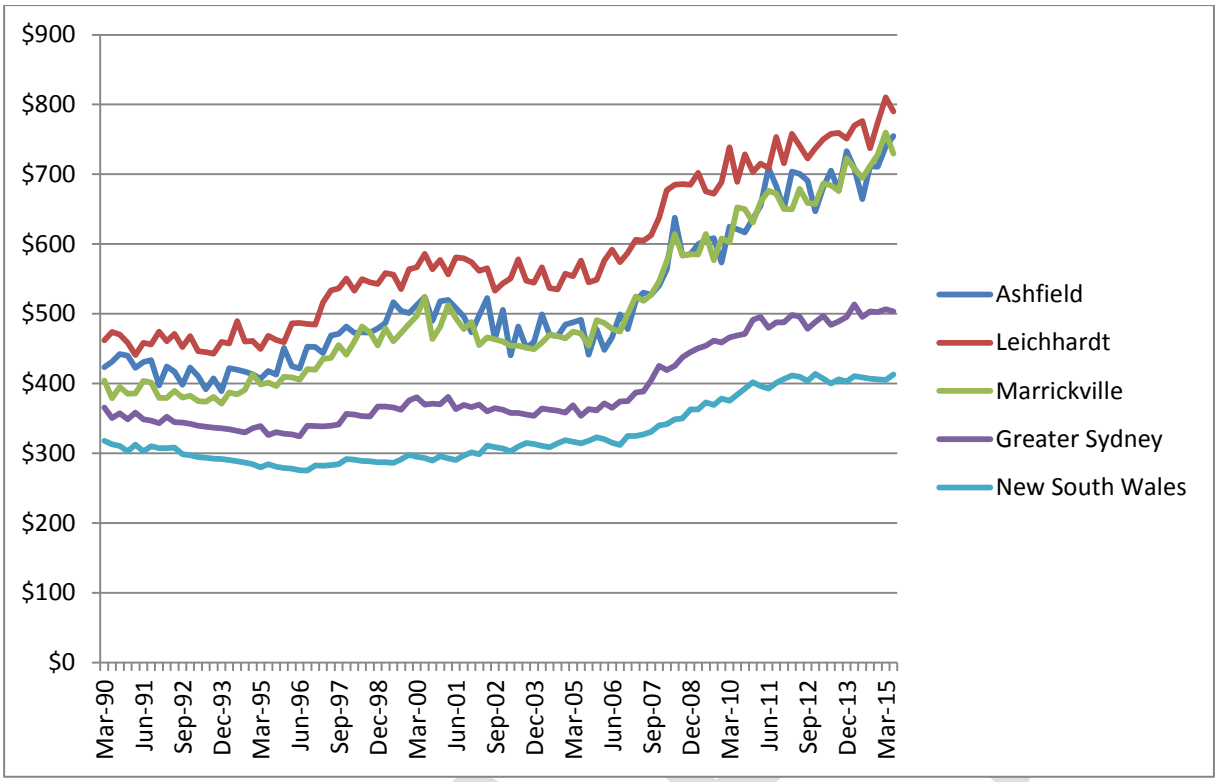


Figure 3-3: Median Rental Price, Separate Houses, March Quarter 1990 to June Quarter 2015, Adjusted for Inflation (March Quarter 2016 Dollars)

Strata dwellings

Median rents for strata dwellings in Marrickville and Ashfield LGAs have been consistently lower than those in Greater Sydney for the duration of the time series. The difference has been around $25-$50 per week lower for most of the time series, but expanding out to a maximum of $100 per week lower for a brief period in 2001 for Marrickville. While rents for strata dwellings in the Leichhardt LGA began lower than Greater Sydney, they increased, converging with Greater Sydney in 1998 at around $350. From 1998 to 2015, median strata rents for Leichhardt were generally higher than Greater Sydney; however they converged for brief periods in 2010 at around $450 and 2012 at around $480 per week.

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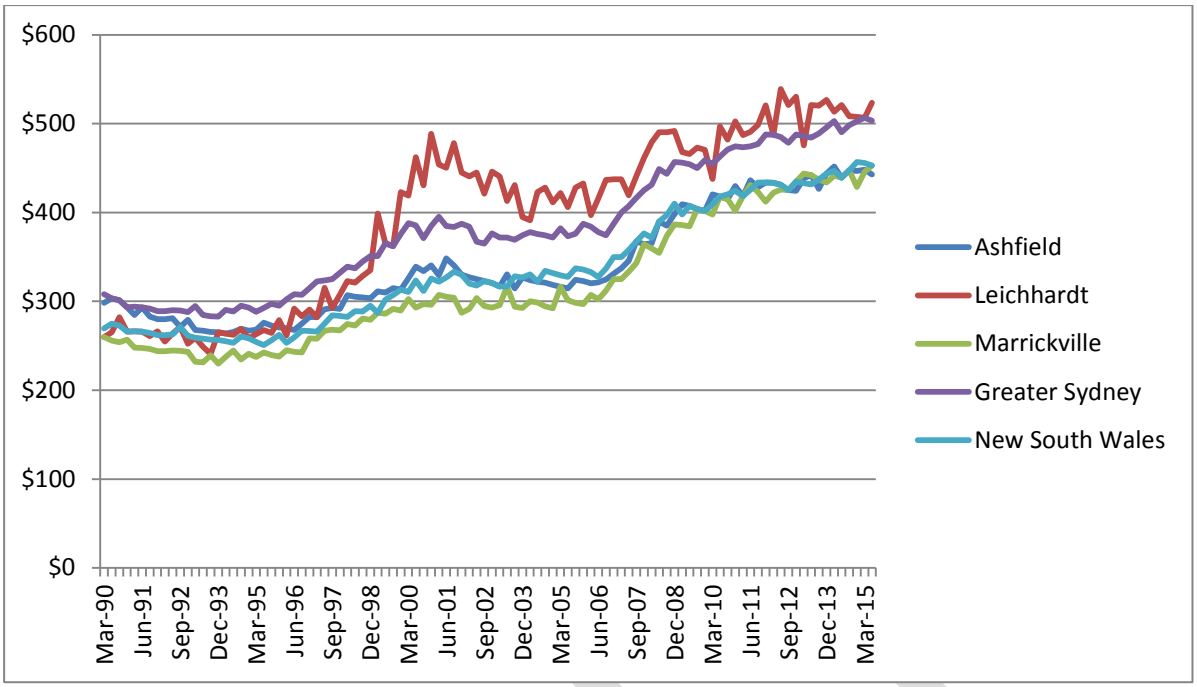


Figure 3-4: Median Rental Price, Strata Dwellings, March Quarter 1990 to June Quarter 2015, Adjusted for Inflation (March Quarter 2016 Dollars)

3.3 Market Delivery of Affordable Housing

3.3.1 Overview

Affordable Purchase

Affordable purchase in the former Marrickville LGA is limited to households in the upper half of the moderate income band and to first quartile strata properties in the suburbs of Enmore, Newtown and Tempe. Such properties comprise only 4% of dwellings sold during the period. Analysis by bedroom shows that these dwellings are likely to be studio and one bedroom apartments, which means that affordable purchase is not available for larger and family households in any income band.

There was no affordable purchase in the former Ashfield and Leichhardt LGAs.

It is therefore unlikely that *any* new build strata products would be affordable through the market as these would equate to at least the median (and more likely the third quartile) sale price, or would be available to only the top of the moderate income band at best. All family households with children would be excluded from affordable purchase.

The findings also indicate that the vast majority of those needing affordable purchase housing in the study area are unlikely to have their needs met through the market without planning intervention.

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Affordable Rental

Affordability is somewhat better for rental, however, availability is restricted with affordable rental not available for larger and family very low and low income households and very limited stock affordable to very low income households.

Very low income households at the upper end of the band can affordably rent a boarding house room in Enmore/Newtown, Lewisham/Petersham, Marrickville, Ashfield and Summer Hill noting that such rooms are about 2% of stock advertised.

Low income households can affordably rent a boarding house room within Inner West LGA, and can affordably rent a median studio/one bedroom apartment in Dulwich Hill and Croydon, noting that these products comprise around 4% of stock advertised.

Moderate income households can generally affordably rent boarding house rooms and median studio/one bedroom apartments and two bedroom apartments in some suburbs. These products comprise around 62% of stock advertised, with two bedroom dwellings comprising around 26% of stock.

As such, the vast majority of households needing affordable rental housing in Marrickville LGA are excluded from affordable rental through the market, and will continue to be excluded in the future without strong planning intervention.

3.3.2 Affordable Purchase in Study Areas

Overview

There are few opportunities for affordable purchase within the former Marrickville LGA. Affordable purchase is limited to those in the upper half of the moderate income household band and to the purchase of first quartile strata properties in the suburbs of Enmore, Newtown and Tempe. A number of suburbs have no affordable first quartile products including Marrickville, Petersham, St Peters, Stanmore and Sydenham while Lewisham and Dulwich Hill are only affordable to those in the very top of the band.

When data is analysed by bedroom, affordable purchase is limited to studio and one bedroom apartments and for moderate income households in the upper half of the income band for the suburbs of Enmore, Lewisham and Newtown and for those in the upper quarter of the income band in Petersham and St Peters.

There is no affordable purchase in the former Ashfield and Leichhardt LGAs apart from a median one bedroom in Haberfield, however only one such apartment was sold and so the finding is not reliable.

Affordability analysis

Affordability by quartiles

The table below indicates that there were no housing products in the first, second or third quartiles that would have been affordable for purchase by very low or low income purchasers in suburbs within the Inner West LGA in the year ending April 2016.

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No separate houses at the first quartile were affordable to any of the target groups in any of the suburbs studied.

First quartile strata dwellings were affordable to the top 50% of moderate income households in Enmore and Newtown, the top 25% of moderate income households in Tempe, and only the very top few percent of moderate income households in Dulwich Hill and Lewisham.

No first quartile affordable purchase is available to any group in Camperdown, Marrickville, Petersham, St Peters, Stanmore, Sydenham, Annandale, Ashfield, Balmain, Balmain East, Birchgrove, Croydon, Haberfield, Leichhardt, Lilyfield, Rozelle or Summer Hill.

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Table 3-2: Sales prices for separate houses and strata dwellings by quartile for selected areas

	Separate house				Strata			
Suburb	**N**	**Q1**	**Q2**	**Q3**	**N**	**Q1**	**Q2**	**Q3**
Camperdown	38	$1,207,000	$1,387,500	$1,737,500	18	$665,000	$740,000	$958,125
Dulwich Hill	62	$1,212,500	$1,400,000	$1,668,500	227	$545,000	$640,000	$750,000
Enmore	53	$1,150,000	$1,290,000	$1,435,000	15	$472,500	$640,000	$726,250
Lewisham	43	$1,136,000	$1,402,500	$1,787,500	96	$540,000	$600,000	$735,000
Marrickville	174	$1,050,000	$1,240,000	$1,405,750	212	$562,750	$640,000	$770,000
Newtown	121	$1,040,000	$1,210,000	$1,375,000	40	$447,875	$655,500	$846,250
Petersham	64	$1,132,500	$1,346,000	$1,546,250	68	$546,500	$686,980	$826,250
St Peters	68	$961,500	$1,156,430	$1,417,911	36	$612,500	$742,500	$1,069,000
Stanmore	89	$1,260,000	$1,440,000	$1,675,000	63	$579,750	$720,000	$984,000
Sydenham	15	$850,000	$975,000	$1,147,500	0			
Tempe	54	$912,500	$1,030,000	$1,152,250	9	$505,000	$1,090,000	$1,100,000

Affordability	
Very Low Income	
Low Income	
Moderate Income	

Source: JSA 2016 using sales data from EAC RedSquare for the year ending April 2016

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Table 3-3: Sales prices for separate houses and strata dwellings by quartile for selected areas

	Separate house				Strata			
Suburb	**N**	**Q1**	**Q2**	**Q3**	**N**	**Q1**	**Q2**	**Q3**
Annandale	139	$1,250,000	$1,425,000	$1,888,500	72	$598,125	$732,500	$941,250
Ashfield	145	$1,388,000	$1,570,000	$1,996,321	340	$596,500	$680,000	$752,000
Balmain	184	$1,410,125	$1,851,000	$2,281,250	80	$694,750	$966,750	$1,364,000
Balmain East	35	$1,694,500	$2,300,000	$3,220,000	12	$769,250	$1,081,750	$1,273,750
Birchgrove	44	$1,445,000	$1,725,000	$2,800,000	19	$822,500	$1,320,000	$1,810,000
Croydon	34	$1,007,500	$1,355,000	$1,576,250	16	$581,250	$597,500	$706,250
Haberfield	117	$1,580,000	$1,983,650	$2,402,560	40	$758,565	$792,290	$844,483
Leichhardt	214	$1,128,500	$1,267,500	$1,558,750	124	$662,425	$900,000	$1,061,250
Lilyfield	98	$1,251,250	$1,417,000	$1,820,000	41	$640,000	$805,000	$981,000
Rozelle	142	$1,250,000	$1,413,750	$1,668,750	113	$820,000	$1,115,000	$1,500,000
Summer Hill	50	$1,143,750	$1,511,000	$2,002,500	80	$631,250	$715,000	$785,000

Affordability	
Very Low Income	
Low Income	
Moderate Income	

Source: JSA 2016 using sales data from EAC Red Square for the year ending April 2016

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Affordability of median dwellings by bedrooms

Similarly, as above, there were no median dwellings of any size that were affordable for purchase by very low or low income households in 2016.

Median studio/one bedroom strata dwellings were affordable to the top 50% of moderate income households in Enmore, Lewisham and Newtown, the top 25% in Petersham, and the top 15% in St Peters. There were insufficient dwellings of this type sold in Tempe in the year to April 2016 to analyse with any certainty, although it appears that there is a potential that such dwellings were reasonably priced for moderate income households.

Median separate houses and median two or three bedroom strata dwellings were not affordable to any of the target groups in 2016 for any of the suburbs studied.

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Table 3-4: Median sales prices for separate houses and strata dwellings by number of bedrooms for selected areas

Suburb	Separate House				Strata					
	1-2 BR		3+ BR		0-1 BR		2 BR		3+ BR	
	N	Median	N	Median	N	Median	N	Median	N	Median
Camperdown	15	$1,200,000	22	$1,675,000	9	$660,000	4	$951,250	0	
Dulwich Hill	16	$1,085,000	39	$1,463,000	24	$564,500	97	$685,000	3	$817,000
Enmore	20	$1,152,500	24	$1,290,000	7	$450,000	7	$692,000	0	
Lewisham	13	$1,100,000	19	$1,402,500	7	$450,000	7	$692,000	0	
Marrickville	64	$1,072,500	105	$1,325,000	47	$520,000	99	$651,000	19	$935,000
Newtown	65	$1,040,000	54	$1,366,000	20	$445,750	11	$750,000	6	$1,043,750
Petersham	11	$1,030,000	46	$1,365,000	16	$505,000	35	$818,000	1	$1,045,000
St Peters	32	$978,800	25	$1,255,585	5	$520,000	9	$668,000	4	$1,017,500
Stanmore	20	$1,232,500	65	$1,570,000	15	$550,000	21	$720,000	3	$1,227,000
Sydenham	8	$860,000	6	$1,147,500	0		0		0	
Tempe	14	$867,500	34	$1,070,000	2	$425,000	2	$805,000	3	$1,100,000

Affordability	
Very Low Income	
Low Income	
Moderate Income	

Source: JSA 2016 using sales data from Red Square for the year ending April 2016

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Table 3-5: Median sales prices for separate houses and strata dwellings by number of bedrooms for selected areas

Suburb	Separate House				Strata					
	1-2 BR		3+ BR		0-1 BR		2 BR		3+ BR	
	N	Median	N	Median	N	Median	N	Median	N	Median
Annandale	52	$1,223,000	80	$1,800,000	24	$582,500	31	$826,500	5	$1,150,000
Ashfield	18	$1,375,000	93	$1,550,000	44	$486,500	187	$680,000	28	$825,000
Balmain	41	$1,357,000	110	$2,045,000	7	$600,000	25	$973,500	8	$1,902,500
Balmain East	7	$1,730,000	26	$2,535,500	2	$713,500	7	$1,112,500	2	$1,352,500
Birchgrove	12	$1,310,000	31	$2,180,000	2	$637,250	4	$985,500	4	$1,110,000
Croydon	10	$1,072,500	17	$1,500,000	0		7	$640,000	1	$835,000
Haberfield	10	$1,292,500	80	$2,068,393	1	$450,000	22	$790,970	3	$1,118,000
Leichhardt	82	$1,124,000	102	$1,413,500	13	$605,000	33	$921,000	12	$1,175,000
Lilyfield	21	$1,250,000	64	$1,495,000	8	$630,000	13	$825,000	6	$1,430,000
Rozelle	50	$1,223,350	79	$1,561,500	21	$680,000	20	$1,052,500	20	$1,835,000
Summer Hill	11	$1,325,000	28	$1,562,500	13	$580,000	41	$731,000	3	$910,000

Affordability	
Very Low Income	
Low Income	
Moderate Income	

Source: JSA 2016 using sales data from Red Square for the year ending April 2016

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3.3.3 Affordable Rental in Study Areas

A snapshot of all rental properties advertised in the suburbs in the former Marrickville LGA was carried out from 11 to 16 May 2016 and in the former Ashfield and Leichhardt LGAs on 14 October 2016 using realestate.com.au.

The table below shows median rentals across suburbs for various different type of rental accommodation, and highlights groups to whom the median rental is likely to be affordable.

Boarding house accommodation provides the only opportunity for affordable rental to very low income households, with only a limited supply of such stock located within Inner West LGA. These are typically affordable to those in the upper 10% of low income households.

Low income households at the upper end of the band can affordably rent a median studio/one-bedroom apartment in Dulwich Hill and Croydon and can generally affordably rent a median boarding house room in Camperdown, Enmore/Newtown, Lewisham/Petersham, Marrickville, Ashfield and Summer Hill.

Moderate income households have greater choice, being able to rent a median studio/one-bedroom apartment in All areas with the exception of Camperdown. They can also rent a median two-bedroom apartment in Lewisham/Petersham, Dulwich Hill, Marrickville, Ashfield, Croydon, Haberfield, Rozelle and Summer Hill.

Moderate income households at the upper end of the band may also be able to affordably rent a median one-to-two-bedroom house in Dulwich Hill, Ashfield and Croydon although the small number of such dwellings limits the certainty of the analysis.

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Table 3-6: Affordability of rental accommodation for selected Post Codes

	Separate house				Strata						Boarding house	
	1-2BR		3+BR		0-1BR		2BR		3+BR		Room	
Post Codes	**N**	**Median**	**N**	**Median**	**N**	**Median**	**N**	**Median**	**N**	**Median**	**N**	**Median**
2042 (Enmore/Newtown)	24	$695	22	$998	50	$438	17	$580	3	$980	2	$208
2044 (St Peters/Sydenham/Tempe)	5	$595	10	$750	5	$525	5	$640	3	$925	0	
2048 (Stanmore)	4	$670	12	$975	15	$400	5	$590	3	$700	0	
2049 (Lewisham/Petersham)	2	$875	10	$825	32	$400	19	$560	2	$655	2	$215
2050 (Camperdown)	2	$710	3	$950	37	$570	19	$700	2	$1,025	3	$250
2203 (Dulwich Hill)	4	$560	7	$800	23	$365	35	$530	2	$863	0	
2204 (Marrickville)	9	$650	11	$755	31	$395	41	$500	5	$830	6	$200
2038 (Annandale)	12	$705	11	$965	15	$430	9	$695	2	$875	0	
2131 (Ashfield)	6	$540	8	$825	26	$380	64	$498	11	$700	5	$200
2041 (Balmain, Balmain East, Birchgrove)	6	$710	10	$975	11	$510	20	$708	5	$950	0	
2132 (Croydon)	2	$525	3	$750	5	$350	8	$470	0		0	
2045 (Haberfield)	0		4	$1,100	1	$440	1	$500	0		0	
2040 (Leichhardt, Lilyfield)	8	$685	20	$895	21	$400	17	$570	4	$725	0	
2039 (Rozelle)	3	$870	4	$1,050	6	$510	2	$473	0		0	
2130 (Summer Hill)	2	$650	5	$715	5	$420	11	$490	0		4	$230

Affordability
Very Low Income
Low Income
Moderate Income

Source: Rental snapshot 11-16 May 2016 and 13 October 2016, realestate.com.au and JSA analysis

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3.4 Linear Regression Analysis

3.4.1 Results

A linear regression of sales data has been carried out to better understand the factors contributing to housing affordability in the previous Marrickville, Ashfield and Leichhardt LGAs for separate houses and strata properties. Results are shown in the tables below.

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Table 3-7: Regression analysis - Former Marrickville LGA– Separate Houses by price, date, number of bedrooms, number of bathrooms, number of parking spaces, land area and postcode for the year to April 2016

Parameter	Coefficient	Comment
R^2	0.58	The variables used in the analysis predict 58% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Number of Bedrooms	$65,373	Each bedroom adds $65,000 to the sale price
Number of Bathrooms	$136,760	Each bathroom adds $137,000 to the sale price
Parking	$49,056	Each parking space adds $49,000 to the sale price
Area	$1,540.80	Each square metre of land area adds $1,540 to the sale price
Post Code 2204 (Marrickville)	-$254,190	Compared to dwellings in Post Codes 2048 (Stanmore) and 2042 (Newtown/Enmore), dwellings in Post Code 2204 sell for $254,000 less
Post Code 2203 (Dulwich Hill)	-$180,580	Compared to dwellings in Post Codes 2048 (Stanmore) and 2042 (Newtown/Enmore), dwellings in Post Code 2203 sell for $181,000 less
Post Code 2050 (Camperdown)	$170,850	Compared to dwellings in Post Codes 2048 (Stanmore) and 2042 (Newtown/Enmore), dwellings in Post Code 2050 sell for $171,000 more
Post Code 2049 (Lewisham/Petersham)	-$174,880	Compared to dwellings in Post Codes 2048 (Stanmore) and 2042 (Newtown/Enmore), dwellings in Post Code 2049 sell for $175,000 less
Post Code 2044 (Sydenham/Tempe/St Peters)	-$338,360	Compared to dwellings in Post Codes 2048 (Stanmore) and 2042 (Newtown/Enmore), dwellings in Post Code 2044 sell for $338,000 less
Constant	$668,460	

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

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Table 3-8: Regression analysis – Former Ashfield and Leichhardt LGAs – Separate Houses by price, date, number of bedrooms, number of bathrooms, number of parking spaces, land area and postcode for the year to April 2016

Parameter	Coefficient	Comment
R^2	0.58	The variables used in the analysis predict 58% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Number of Bedrooms	$61,941	Each bedroom adds $62,000 to the sale price
Number of Bathrooms	$231,090	Each bathroom adds $231,000 to the sale price
Parking	$30,210	Each parking space adds $30,000 to the sale price
Area	$2,267.80	Each square metre of land area adds $2,300 to the sale price
Post Code 2038 (Annandale)	$598,680	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2038 sell for $600,000 more
Post Code 2039 (Rozelle)	$485,020	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2039 sell for $485,000 more
Post Code 2040 (Leichhardt)	$318,770	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2040 sell for $320,000 more
Post Code 2041 (Balmain, Balmain East and Birchgrove)	$1,007,600	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2041 sell for $1,000,000 more
Post Code 2130 (Summer Hill)	$194,840	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2130 sell for $195,000 more
Post Code 2132 (Croydon)	-$218,790	Compared to dwellings in Post Codes 2131 (Ashfield) and 2045 (Haberfield), dwellings in Post Code 2132 sell for $220,000 less
Constant	Not statistically significantly different from zero	

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

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Table 3-9: Regression analysis – Former Marrickville LGA – Strata by price, date, number of bedrooms, number of bathrooms, number of parking spaces, and postcode for the year to April 2016

Parameter	Coefficient	Comment
R^2	0.60	The variables used in the analysis predict 60% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Number of Bedrooms	$168,720	Each bedroom adds $169,000 to the sales price
Number of Bathrooms	$157,050	Each bathroom adds $157,000 to the sales price
Parking	$29,372	Each parking space adds $29,000 to the sales price
Post Code 2204 (Marrickville)	-$57,286	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham), 2048 (Stanmore), 2044(Sydenham/Tempe/St Peters) and 2042 (Newtown/ Enmore), dwellings in Post Code 2204 sell for $57,000 less
Post Code 2203 (Dulwich Hill)	-$48,039	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham), 2048 (Stanmore), 2044(Sydenham/Tempe/St Peters) and 2042 (Newtown/ Enmore), dwellings in Post Code 2203 sell for $48,000 less
Post Code 2050 (Camperdown)	$90,544	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham), 2048 (Stanmore), 2044(Sydenham/Tempe/St Peters) and 2042 (Newtown/ Enmore), dwellings in Post Code 2050 sell for $91,000 more
Constant	$188,850	

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

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Table 3-10: Regression analysis – Former Leichhardt and Ashfield LGAs – Strata by price, date, number of bedrooms, number of bathrooms, number of parking spaces and postcode for the year to April 2016

Parameter	Coefficient	Comment
R^2	0.47	The variables used in the analysis predict 47% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Number of Bedrooms	$221,750	Each bedroom adds $220,000 to the sales price
Number of Bathrooms	$167,020	Each bathroom adds $170,000 to the sales price
Parking	$175,040	Each parking space adds $175,000 to the sales price
Post Code 2039 (Rozelle)	$301,860	Compared to dwellings in Post Codes 2038 (Annandale), 2132 (and 2045 (Croydon), 2045 (Haberfield) and 2040 (Leichhardt, dwellings in Post Code 2039 sell for $300,000 more
Post Code 2041 (Balmain, Balmain East and Birchgrove)	$224,040	Compared to dwellings in Post Codes 2038 (Annandale), 2132 (Croydon), 2045 (Haberfield) and 2040 (Leichhardt, dwellings in Post Code 2039 sell for $225,000 more
Post Code 2130 (Summer Hill)	$106,830	Compared to dwellings in Post Codes 2038 (Annandale), 2132 (Croydon), 2045 (Haberfield) and 2040 (Leichhardt, dwellings in Post Code 2039 sell for $105,000 more
Post Code 2131 (Ashfield)	-$132,180	Compared to dwellings in Post Codes 2038 (Annandale), 2132 (Croydon), 2045 (Haberfield) and 2040 (Leichhardt, dwellings in Post Code 2031 sell for $130,000 less

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

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Table 3-11: Regression analysis – Former Marrickville LGA – Strata by price, date, strata area and postcode for the year to April 2016

Parameter	Coefficient	Comment
R^2	0.84	The variables used in the analysis predict 84% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Strata area	$4,191.80	Each square metre of strata area adds $4,192 to the sales price
Post Code 2204 (Marrickville)	-$117,380	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham) 2048 (Stanmore), and 2042 (Newtown/ Enmore), dwellings in Post Code 2204 sell for $117,000 less
Post Code 2203 (Dulwich Hill)	-$86,538	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham) 2048 (Stanmore), and 2042 (Newtown/ Enmore), dwellings in Post Code 2203 sell for $87,000 less
Post Code 2050 (Camperdown)	$102,090	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham) 2048 (Stanmore), and 2042 (Newtown/ Enmore), dwellings in Post Code 2050 sell for $102,000 more
Post Code 2044 (Sydenham/Tempe/ St Peters)	-$120,230	Compared to dwellings in Post Codes 2049 (Lewisham/ Petersham) 2048 (Stanmore), and 2042 (Newtown/ Enmore), dwellings in Post Code 2050 sell for $120,000 less
Constant	$310,720	

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

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Table 3-12: Regression analysis – Former Leichhardt and Ashfield LGAs– Strata by price, date, strata area and postcode for the year to April 2016 (sample size too small to differentiate between postcodes).

Parameter	Coefficient	Comment
R^2	0.55	The variables used in the analysis predict 55% of the variation in prices
Days	Not significantly different from zero	There has been no price growth in the period
Strata area	$5,199.00	Each square metre of strata area adds $5,200 to the sales price
Constant	$218,490	

Source: JSA 2016, using data from EAC Redsquare and JSA analysis

3.4.2 Assessment of affordability based on LRA

It is unlikely that any separate house will be affordable in Inner West LGA, and in any case, there are limited development opportunities for such products. As an example, a two bedroom, one bathroom house on a 200 m^2 lot without parking in the cheapest Post Code area (2044) would be expected to sell for $905,000; and hence would not be affordable to any very low, low or moderate income household.

The best predictor of the price of strata dwellings is the strata area. The table below sets out the likely sales price and affordability for minimum sized studio, one bedroom and two bedroom apartments, with and without parking, for postcodes 2044, 2049/2048/2042 and 2038/2131/2132/2040/2039/2130.

The analysis shows the limited ability of the market to deliver affordable housing. All very low income households are excluded, and the only product affordable to some low income households is a 35 m^2 studio apartment with no parking in Post Code 2044. Moderate income households have more choice, with studio and one bedroom apartments with and without parking affordable to much of the income band; however affordability of two bedroom apartments is limited, with a two bedroom apartment without parking in Post Code 2044 affordable to the upper 34% of the income band.

Strategies to support market delivery of affordable housing should therefore focus on development opportunities for smaller dwellings in Post Code 2044.

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Table 3-13: Strata Dwelling affordability

Dwelling	Post Code	Estimated Sales Price	Affordable to
Studio Apartment (35 m^2)	2044	$337,000	All moderate income households and the upper 20% of low income households
	2049/2048/2042	$457,000	The upper 49% of moderate income households
	2038/2131/2132/2040/2039/2130	$400,000	The upper 80% of moderate income households
Studio Apartment (35 m^2) with parking (allow 18 m^2)	2044	$412,000	The upper 73% of moderate income households
	2049/2048/2042	$532,000	The upper 7% of moderate income households
	2038/2131/2132/2040/2039/2130	$494,000	The upper 30% of moderate income households
One Bedroom Apartment (50 m^2)	2044	$400,000	The upper 80% of moderate income households
	2049/2048/2042	$520,000	The upper 14% of moderate income households
	2038/2131/2132/2040/2039/2130	$478,000	The upper 40% of moderate income households
One Bedroom Apartment (50 m^2) with parking (allow 18 m^2)	2044	$475,000	The upper 39% of moderate income households
	2049/2048/2042	$595,000	Not affordable

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Dwelling	Post Code	Estimated Sales Price	Affordable to
	2038/2131/2132/2040/2039/2130	$572,000	Not affordable
Two Bedroom Apartment (70 m^2)	2044	$484,000	The upper 34% of moderate income households
	2049/2048/2042	$604,000	Not affordable
	2038/2131/2132/2040/2039/2130	$582,000	Not affordable
Two Bedroom Apartment (70 m^2) with parking (allow 18 m^2)	2044	$559,000	Not affordable
	2049/2048/2042	$679,000	Not affordable
	2038/2131/2132/2040/2039/2130	$676,000	Not affordable

Source: JSA 2016 using results of Linear Regression Analysis

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4 Assessment of Value Uplift and Land Value Capture

4.1 Overview

Much of the land in the former Marrickville LGA is zoned R2, IN1 and IN2. Residential land in the LGA typically has FSR 0.60 and height of 9.5 metres with some areas of greater height in and around town centres. Industrial land typically has FSR 0.95 with no height restriction. Most of this industrial land is in Marrickville and St Peters.[1]

Land in the former Ashfield LGA is mostly zoned R2, R3 and B4. Residential land typically has FSR 0.50-0.70 and height of 8.5-12.0 metres with some areas of greater height in and around town centres and along Parramatta Road.

Land in the former Leichhardt LGA is mostly zoned R1 and B2. Residential land typically has FSR 0.50-0.60. Heights are generally not controlled, but are likely to be limited by FSR.

Preliminary modelling has been carried out to understand the economics of redevelopment in Inner West LGA using current sales data and construction cost data, so as to understand the likely land value uplift associated with changes to planning controls and to assess a reasonable land value capture for council to use for a public purpose. Land value uplift has been calculated as the value of developed land less the cost of existing land, construction costs and a normal level of profit and we have assumed council would capture 50% of the land value uplift for a public purpose. The land value capture has been calculated as a proportion of gross floor area to facilitate universal application, however should council wish to negotiate to receive some of the land value capture in cash or in kind other than apartments, the proportion can be converted into cash through using the estimated sale price of apartments in the development. It would be a matter for council to decide the proportion of the land value capture to use for affordable housing, compared to other public purposes council may wish to progress.

Detailed results of modelling are shown in Table 4-1 below.

The most favourable economics, and hence opportunities for land value capture, relate to the rezoning of industrial land to allow construction of residential flat buildings, to redevelopment of separate housing for residential flat buildings in the former Ashfield and Leichhardt LGAs and to redevelopment of existing three storey walk-ups in Postcodes 2041 (Balmain, Balmain East, Birchgrove), 2040 (Leichhardt, Lilyfield) and 2039 (Rozelle).

Modelled profitability for industrial land ranges from 15-50% for three storey redevelopment to 80-90% for 14 storey development, suggesting that there will be a significant uplift in land value as a result of such zoning changes. Many of the lots are quite large and in single ownership, facilitating redevelopment. Estimated land value capture ranges from 2% for three storey redevelopment in Post Code 2038, to 21% for 14 storey redevelopment in Post Code 2044.

[1] Marrickville Local Environment Plan 2011, inspection of maps.

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Levels of profitability are generally lower for redevelopment of existing separate houses for residential flat buildings and vary across suburbs. Three storey construction is likely to be profitable and with opportunities for value capture in Post Codes 2131 (Ashfield), 2045 (Haberfield), 2040 (Leichhardt, Lilyfield), 2039 (Rozelle) and 2130 (Summer Hill). Six storey construction is likely to be profitable and with opportunities for value capture in Post Codes 2044 (St Peters/Sydenham/Tempe), 2049 (Lewisham/Petersham), 2203 (Dulwich Hill), 2204 Marrickville, 2038 (Annandale), 2041 (Balmain, Balmain East, Birchgrove) and 2132 (Croydon). Eight storey construction is likely to be profitable and with opportunities for value capture in Post Codes 2048 (Stanmore) and 2050 (Camperdown); while Post Code 2042 will require 14 stories to be profitable. Lot sizes are generally quite small (averaging 250 m^2 but 470 m^2 in Ashfield and 650 m^2 in Haberfield) and so redevelopment will require consolidation of land which is likely to reduce opportunities. Estimated land value capture ranges from 1% for six storey redevelopment in Post Code 2050, to 28% for 14 storey redevelopment in Post Code 2039.

The economics of redevelopment of existing three storey residential flat buildings are generally less favourable although some areas show good profitability. Modelled profitability ranges from 4-31% for six storey construction up to 37-100% for 14 storey construction. Existing residential flat buildings are likely to be on larger lots, again facilitating redevelopment however purchase will be required from individual strata owners, making consolidation difficult. Estimated land value capture ranges from 1% for six storey redevelopment in Post Code 2045, to 23% for 14 storey redevelopment in Post Code 2039.

There are three proposed redevelopment areas under the *Sydenham to Bankstown – draft Urban Renewal Corridor Strategy*. These are discussed below.

Proposed changes in **Sydenham** include shop top housing and medium to high rise housing in areas currently zoned B5, B7, IN2 and IN1. Existing FSRs and height are 0.95 in the industrial zoning with no height restriction and 1.75 in the business zoning with height of 14.0 metres (four stories). Existing development is 2-3 storey factories and showrooms.[2] The economics of redevelopment appear quite favourable and there is likely to be considerable opportunity for value capture in this precinct, in line with modelling related to the rezoning of industrial land.

Proposed changes in **Marrickville** include medium to high rise housing (including the Carrington Road Precinct) in areas currently zoned R1, R2, IN2 and IN1. Existing FSRs and height are 0.95 in the industrial zoning with no height restriction and 0.60 in the residential zoning with height of 9.5 metres (two stories) with some pockets of greater height and density.

Existing development is 2-3 storey factories in the industrial areas and generally single storey separate housing in the residential areas. Existing residential flat buildings are typically three storey walk-ups.[3] The economics of redevelopment of the industrial land are likely to be quite favourable, with considerable opportunity for value capture. The economics of redevelopment of existing separate housing is less favourable, and is likely to require quite liberal controls allowing six storey construction or higher for redevelopment to occur. Opportunities for value capture range from 7% for six stories to 15% for 14 stories. The economics of redevelopment of existing

[2] Using Google Street View.
[3] Using Google Street View.

flat buildings will also require quite liberal controls, with redevelopment likely to require a minimum of eight stories to be viable, and opportunities for value capture ranging from 1% for eight stories to 10% for 14 stories.

Proposed changes in **Dulwich Hill** include medium to high rise housing and shop top housing in areas currently zoned R1, R2, R3, R4, B2 and B4. Existing FSRs and height are 2.2 and 14-17 metres (4-5 stories) in the business zoning and 0.60 in the residential zoning with height of 9.5 metres (two stories) with some pockets of greater height and density.

Existing development is two storey shopfronts in the business zoned areas and generally single storey separate housing in the residential areas with some residential flat buildings. Existing residential flat buildings are typically three storey walk-ups.[4]

There is insufficient data available to assess the redevelopment of existing commercial areas, but values are likely to reflect those for existing separate housing. The economics of redevelopment of existing separate housing is relatively favourable, but is likely to require quite liberal controls allowing six storey construction or higher for redevelopment to occur. Opportunities for value capture range from 10% for six stories to 17% for 14 stories. The economics of redevelopment of existing flat buildings will also require quite liberal controls, with redevelopment likely to require a minimum of eight stories to be viable, and opportunities for value capture ranging from 3% for eight stories to 11% for 14 stories.

There are three proposed redevelopment areas under the *Parramatta Road Urban Transformation Strategy*. These are the **Camperdown Precinct**, currently zoned IN2, **Taverners Hill Precinct** currently zoned R1 and **Leichhardt Precinct**, currently zoned B2. Details of proposed changes are no longer available from Urban Growth NSW, pending consideration of feedback to draft proposals. Based on our modelling, and depending on the final details of planning controls, Construction of residential flat buildings of three storeys and over are likely to be profitable in Camperdown, as are construction of six storeys in Leichhardt in B2 zoning and construction of three stories in Leichhardt in areas of separate housing. Consequently, opportunities for value capture would be expected, ranging from 2% to 20% for Camperdown, 3% to 18% in areas of Leichhardt currently zoned B2 (Leichhardt Precinct) and 3% to 23% in areas of Leichhardt currently zoned R1 (Taverners Hill Precinct).

4.2 Modelling (Redevelopment)

Overview

The modelling assumes the development of a block of land of 1,000 m^2, assumed to be 25 metres wide by 40 metres deep. Based on the setbacks of 6.0 metres in the apartment design guide, the developable area is 28 metres by 13 metres, or 364 m^2.

[4] Using Google Street View.

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Three scenarios have been considered for the land purchase, that is the value of the land prior to the uplift in land values as a result of changes to planning controls.

In the first, it is assumed that separate housing consisting of a median priced house on a median sized block of land is amalgamated to achieve the developable block, and that a median price is paid, that is existing housing is purchased and demolished to enable high density residential flat development. The purchase price is calculated as:

Median house price X 1,000 / median lot size

In the second scenario, it is assumed that existing three storey residential flat buildings are demolished to enable high density residential flat development and that the purchase price is the median for two bedroom strata for the area. A footprint of 0.33 of the lot is assumed, giving around 4.5 70 m^2 two bedroom apartments per floor, or 14 apartments in total. The purchase price is calculated as:

Median two bedroom strata price X 14

In the third scenario, the land cost is taken as an average price for an industrial zoned lot of 1,000 m^2 in Marrickville LGA as estimated using recent sales data;[5] and an average price per square metre for recent sales of industrial land in Camperdown.[6]

The cost of construction has been estimated using rates from *Rawlinsons Australian Construction Handbook 2012*, multiplied by 1.5 to allow for GST, professional costs, inflation and financing costs. The estimate assumes five 70m^2 apartments per floor, based on the developable area of 364 m^2, and 1.2 underground car spaces per unit. The rates used were for underground parking and for lifted multi storey medium standard apartments.

Profit has been estimated as Sales price less land purchase and construction cost, and has been estimated as a percentage of land purchase and construction cost.

Profit in excess of a normal profit percentage of 10% has been treated as a windfall profit and hence the likely land value uplift, and a land value capture contribution has been calculated based on a 50:50 split of the land value uplift between the developer and/or landowner and a contribution for a public purpose. The land value capture contribution has been shown as a proportion of gross floor area and is shown as LVC% in the table. While this has been shown as a proportion of GFA (or its equivalent in dwellings), all or some proportion of this could be taken in cash rather than as apartments, if council wished to redirect a proportion of the value capture to another public purpose.

Modelling has been carried out for three stories (FSR 1.1, height 12.0 metres), six stories (FSR 2.2, height 21.0 metres), eight stories (FSR 2.9, height 27.0 metres) and fourteen stories (FSR 5.1, height 45.0 metres).

The results of the modelling are shown in the table below.

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[5] Linear Regression Analysis for industrial zoned land for Marrickville LGA for the last year, R^2 = 0.64, Price = \$1,087,800 + \$870 x area (m^2)

[6] 102/1179398 23/9/14 \$3,293/m^2; 1/53921 1/12/15 \$4,764/m^2; 1/169441, 1/655185, 43/792615, 4/9/14 \$4,975/m^2.

Table 4-1: Potential Redevelopment Scenarios for Selected Post Codes

Scenario 1 ($ ' 000,000)

Suburb	Land purchase Scenario 1	Construction cost three stories	sale price	profit	profit %	LVC %	Construction cost six stories	sale price	profit	profit %	LVC %
2042 (Enmore/Newtown)	$8.75m	$5.01m	$9.53m	-$4.23m	-31%	Nil	$10.02m	$19.05m	$0.28m	2%	Nil
2044 (St Peters/ Sydenham/ Tempe)	$4.55m	$5.01m	$10.45m	$0.88m	9%	Nil	$10.02m	$20.90m	$6.32m	43%	12%
2048 (Stanmore)	$6.48m	$5.01m	$9.44m	-$2.06m	-18%	Nil	$10.02m	$18.87m	$2.36m	14%	2%
2049 (Lewisham/Petersham)	$5.73m	$5.01m	$10.58m	-$0.17m	-2%	Nil	$10.02m	$21.15m	$5.39m	34%	9%
2050 (Camperdown)	$9.22m	$5.01m	$10.78m	-$3.46m	-24%	Nil	$10.02m	$21.56m	$2.31m	12%	1%
2203 (Dulwich Hill)	$4.23m	$5.01m	$9.90m	$0.66m	7%	Nil	$10.02m	$19.80m	$5.55m	39%	10%
2204 (Marrickville)	$5.02m	$5.01m	$9.60m	-$0.43m	-4%	Nil	$10.02m	$19.20m	$4.16m	28%	7%

Suburb	Land purchase Scenario 1	Construction cost eight stories	sale price	profit	profit %	LVC %	Construction cost 14 stories	sale price	profit	profit %	LVC %
2042 (Enmore/Newtown)	$8.75m	$13.37m	$25.40m	$3.29m	15%	2%	$23.39m	$44.45m	$12.31m	38%	10%
2044 (St Peters/ Sydenham/ Tempe)	$4.55m	$13.37m	$27.86m	$9.94m	56%	15%	$23.39m	$48.76m	$20.81m	75%	18%
2048 (Stanmore)	$6.48m	$13.37m	$25.16m	$5.31m	27%	7%	$23.39m	$44.03m	$14.15m	47%	13%
2049 (Lewisham/Petersham)	$5.73m	$13.37m	$28.20m	$9.10m	48%	13%	$23.39m	$49.35m	$20.23m	70%	18%
2050 (Camperdown)	$9.22m	$13.37m	$28.74m	$6.15m	27%	7%	$23.39m	$50.30m	$17.68m	54%	14%
2203 (Dulwich Hill)	$4.23m	$13.37m	$26.40m	$8.81m	50%	13%	$23.39m	$46.20m	$18.58m	67%	17%
2204 (Marrickville)	$5.02m	$13.37m	$25.60m	$7.21m	39%	10%	$23.39m	$44.80m	$16.39m	58%	15%

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Suburb	Land purchase Scenario 1	Construction cost three stories	sale price	profit	profit %	LVC %	Construction cost six stories	sale price	profit	profit %	LVC %
2038 (Annandale)	$7.66m	$5.01m	$10.99m	-$1.69m	-13%	Nil	$10.02m	$21.98m	$4.29m	24%	6%
2131 (Ashfield)	$3.31m	$5.01m	$10.20m	$1.87m	23%	5%	$10.02m	$20.40m	$7.06m	53%	14%
2041 (Balmain, Balmain East, Birchgrove)	$10.46m	$5.01m	$14.81m	-$0.66m	-4%	Nil	$10.02m	$29.63m	$9.14m	45%	12%
2132 (Croydon)	$3.57m	$5.01m	$8.97m	$0.39m	5%	Nil	$10.02m	$17.94m	$4.34m	32%	8%
2045 (Haberfield)	$3.05m	$5.01m	$11.88m	$3.82m	47%	13%	$10.02m	$23.76m	$10.69m	82%	20%
2040 (Leichhardt, Lilyfield)	$5.94m	$5.01m	$12.87m	$1.91m	18%	3%	$10.02m	$25.74m	$9.77m	61%	16%
2039 (Rozelle)	$7.97m	$5.01m	$16.73m	$3.74m	29%	7%	$10.02m	$33.45m	$15.45m	86%	20%
2130 (Summer Hill)	$4.29m	$5.01m	$10.73m	$1.42m	15%	2%	$10.02m	$21.45m	$7.14m	50%	13%

Suburb	Land purchase Scenario 1	Construction cost eight stories	sale price	profit	profit %	LVC %	Construction cost 14 stories	sale price	profit	profit %	LVC %
2038 (Annandale)	$7.66m	$13.37m	$29.30m	$8.27m	39%	11%	$23.39m	$51.28m	$20.22m	65%	17%
2131 (Ashfield)	$3.31m	$13.37m	$27.20m	$10.52m	63%	16%	$23.39m	$47.60m	$20.90m	78%	19%
2041 (Balmain, Balmain East, Birchgrove)	$10.46m	$13.37m	$39.50m	$15.67m	66%	17%	$23.39m	$69.13m	$35.27m	104%	23%
2132 (Croydon)	$3.57m	$13.37m	$23.92m	$6.98m	41%	11%	$23.39m	$41.86m	$14.90m	55%	15%
2045 (Haberfield)	$3.05m	$13.37m	$31.68m	$15.27m	93%	22%	$23.39m	$55.44m	$29.00m	110%	24%
2040 (Leichhardt, Lilyfield)	$5.94m	$13.37m	$34.32m	$15.01m	78%	19%	$23.39m	$60.06m	$30.73m	105%	23%
2039 (Rozelle)	$7.97m	$13.37m	$44.60m	$23.27m	109%	24%	$23.39m	$78.05m	$46.69m	149%	28%
2130 (Summer Hill)	$4.29m	$13.37m	$28.60m	$10.94m	62%	16%	$23.39m	$50.05m	$22.37m	81%	20%

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Scenario 2 ($ ’ 000,000)

Suburb	Land purchase Scenario 2	Construction cost three stories	sale price	profit	profit %	LVC %	Construction cost six stories	sale price	profit	profit %	LVC %
2042 (Enmore/Newtown)	$8.89m	$5.01m	$9.53m	-$4.38m	-32%	Nil	$10.02m	$19.05m	$0.14m	1%	Nil
2044 (St Peters/ Sydenham/ Tempe)	$9.75m	$5.01m	$10.45m	-$4.32m	-29%	Nil	$10.02m	$20.90m	$1.12m	6%	Nil
2048 (Stanmore)	$8.81m	$5.01m	$9.44m	-$4.38m	-32%	Nil	$10.02m	$18.87m	$0.04m	0%	Nil
2049 (Lewisham/Petersham)	$9.87m	$5.01m	$10.58m	-$4.31m	-29%	Nil	$10.02m	$21.15m	$1.26m	6%	Nil
2050 (Camperdown)	$10.06m	$5.01m	$10.78m	-$4.29m	-29%	Nil	$10.02m	$21.56m	$1.47m	7%	Nil
2203 (Dulwich Hill)	$9.24m	$5.01m	$9.90m	-$4.35m	-31%	Nil	$10.02m	$19.80m	$0.54m	3%	Nil
2204 (Marrickville)	$8.96m	$5.01m	$9.60m	-$4.37m	-31%	Nil	$10.02m	$19.20m	$0.22m	1%	Nil

Suburb	Land purchase Scenario 2	Construction cost eight stories	sale price	profit	profit %	LVC %	Construction cost 14 stories	sale price	profit	profit %	LVC %
2042 (Enmore/Newtown)	$8.89m	$13.37m	$25.40m	$3.14m	14%	2%	$23.39m	$44.45m	$12.17m	38%	10%
2044 (St Peters/ Sydenham/ Tempe)	$9.75m	$13.37m	$27.86m	$4.74m	21%	4%	$23.39m	$48.76m	$15.61m	47%	13%
2048 (Stanmore)	$8.81m	$13.37m	$25.16m	$2.99m	14%	2%	$23.39m	$44.03m	$11.83m	37%	10%
2049 (Lewisham/Petersham)	$9.87m	$13.37m	$28.20m	$4.96m	21%	5%	$23.39m	$49.35m	$16.09m	48%	13%
2050 (Camperdown)	$10.06m	$13.37m	$28.74m	$5.31m	23%	5%	$23.39m	$50.30m	$16.84m	50%	13%
2203 (Dulwich Hill)	$9.24m	$13.37m	$26.40m	$3.79m	17%	3%	$23.39m	$46.20m	$13.57m	42%	11%
2204 (Marrickville)	$8.96m	$13.37m	$25.60m	$3.27m	15%	2%	$23.39m	$44.80m	$12.45m	39%	10%

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Suburb	Land purchase Scenario 2	Construction cost three stories	sale price	profit	profit %	LVC %	Construction cost six stories	sale price	profit	profit %	LVC %
2038 (Annandale)	$10.26m	$5.01m	$10.99m	-$4.28m	-28%	Nil	$10.02m	$21.98m	$16.95m	8%	Nil
2131 (Ashfield)	$9.52m	$5.01m	$10.20m	-$4.33m	-30%	Nil	$10.02m	$20.40m	$8.55m	4%	Nil
2041 (Balmain, Balmain East, Birchgrove)	$13.83m	$5.01m	$14.81m	-$4.02m	-21%	Nil	$10.02m	$29.63m	$5.78m	24%	6%
2132 (Croydon)	$8.37m	$5.01m	$8.97m	-$4.41m	-33%	Nil	$10.02m	$17.94m	-$0.46m	-3%	Nil
2045 (Haberfield)	$11.09m	$5.01m	$11.88m	-$4.22m	-26%	Nil	$10.02m	$23.76m	$2.65m	13%	1%
2040 (Leichhardt, Lilyfield)	$12.01m	$5.01m	$12.87m	-$4.15m	-24%	Nil	$10.02m	$25.74m	$3.70m	17%	3%
2039 (Rozelle)	$15.61m	$5.01m	$16.73m	-$3.90m	-19%	Nil	$10.02m	$33.45m	$7.82m	31%	8%
2130 (Summer Hill)	$10.01m	$5.01m	$10.73m	-$4.30m	-29%	Nil	$10.02m	$21.45m	$1.42m	7%	Nil

Suburb	Land purchase Scenario 2	Construction cost eight stories	sale price	profit	profit %	LVC %	Construction cost 14 stories	sale price	profit	profit %	LVC %
2038 (Annandale)	$10.26m	$13.37m	$29.30m	$5.68m	24%	6%	$23.39m	$51.28m	$17.63m	52%	14%
2131 (Ashfield)	$9.52m	$13.37m	$27.20m	$4.31m	19%	4%	$23.39m	$47.60m	$14.69m	45%	12%
2041 (Balmain, Balmain East, Birchgrove)	$13.83m	$13.37m	$39.50m	$12.31m	45%	12%	$23.39m	$69.13m	$31.91m	86%	20%
2132 (Croydon)	$8.37m	$13.37m	$23.92m	$2.18m	10%	Nil	$23.39m	$41.86m	$10.10m	32%	8%
2045 (Haberfield)	$11.09m	$13.37m	$31.68m	$7.23m	30%	8%	$23.39m	$55.44m	$20.96m	61%	16%
2040 (Leichhardt, Lilyfield)	$12.01m	$13.37m	$34.32m	$8.94m	35%	9%	$23.39m	$60.06m	$24.66m	70%	18%
2039 (Rozelle)	$15.61m	$13.37m	$44.60m	$15.62m	54%	14%	$23.39m	$78.05m	$39.05m	100%	23%
2130 (Summer Hill)	$10.01m	$13.37m	$28.60m	$5.22m	22%	5%	$23.39m	$50.05m	$16.65m	50%	13%

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Scenario 3 ($ ’ 000,000)

Suburb	Land purchase Scenario 2	Construction cost three stories	sale price	profit	profit %	LVC %	Construction cost six stories	sale price	profit	profit %	LVC %
2044 (St Peters/ Sydenham/ Tempe)	$1.96m	$5.01m	$10.45m	$3.48m	50%	13%	$10.02m	$20.90m	$8.91m	74%	18%
2204 (Marrickville)	$1.96m	$5.01m	$9.60m	$2.63m	38%	10%	$10.02m	$19.20m	$7.22m	60%	16%
2038 (Camperdown)	$4.50m	$5.01m	$10.99m	$1.48m	16%	2%	$10.02m	$21.98m	$7.45m	51%	14%

Suburb	Land purchase Scenario 2	Construction cost eight stories	sale price	profit	profit %	LVC %	Construction cost 14 stories	sale price	profit	profit %	LVC %
2044 (St Peters/ Sydenham/ Tempe)	$1.96m	$13.37m	$27.86m	$12.54m	82%	20%	$23.39m	$48.76m	$23.41m	92%	21%
2204 (Marrickville)	$1.96m	$13.37m	$25.60m	$10.28m	67%	17%	$23.39m	$44.80m	$19.45m	77%	19%
2038 (Camperdown)	$4.50m	$13.37m	$29.30m	$11.43m	64%	16%	$23.39m	$51.28m	$23.38m	84%	20%

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Limitations of modelling

The modelling is necessarily general in nature using median prices and broad estimates, and outcomes for a particular site will depend on the details of the site and the details of the proposed development. The modelling assumes that the economics of redevelopment of low rise commercial sites will be similar to redevelopment of existing residential flat buildings, as there is little data available for commercial sites and commercial sites vary widely in size.

Assumptions have been made with regard to development controls and dwelling yield, and preliminary architectural design would be required to confirm these assumptions. Similarly, cost estimates on preliminary architectural design would be required to confirm estimates of construction cost.

The economics are likely to be much better for redevelopment of brownfield sites, and likely worse for relatively new two storey commercial premises, although as noted, consideration would need to be given to any remediation required for industrial sites.

Nonetheless, the modelling gives insight into likely sensitivities of development and broad insight into likely profit associated with uplift, and where such strategies are most likely to be effective in the context of housing markets within Inner West LGA.

4.3 Marginal uplift from increased height and/or density

4.3.1 Overview

In many cases, developers will offer to enter into a voluntary planning agreement that allows for additional saleable Gross Floor Area through LEP clause 4.6 variations related to height or FSR. Where such variations are found to have merit in their own right, and so warrant approval, Council may wish to capture some of the associated value uplift. Assessment may be made on a case by case with value uplift estimated by land valuers and quantity surveyors or can be assessed on a proportional basis using averages. An assessment on a proportional basis using averages is set out below.

The analysis is conducted on a marginal basis, that is only the additional costs and additional value are considered. As such the purchase cost of the land, site costs and the like are ignored.

Where a Voluntary Planning Agreement results in an increase in saleable floor area, land value capture of 21% to 34% of the ***additional*** saleable floor area obtained as a result of the Voluntary Planning Agreement is warranted.

4.3.2 Modelling (Additional Saleable Floor Area)

The modelling below assesses the marginal value uplift and hence value capture from additional saleable floor area as a proportion of floor area, represented as apartments where value uplift in excess of a normal profit of 10% is shared 50:50 with the developer and a public purpose. The land value capture is shown as a proportion of saleable floor area to allow for universal application.

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The modelling uses assumptions as set out above in section 7.2.2.

Table 4-2: Potential Marginal uplift for Selected Post Codes

Marginal uplift ($ ’ 000,000)

Suburb	Construction cost per floor	sale price	Uplift	Uplift %	LVC %
2042 (Enmore/Newtown)	$1.67m	$3.18m	$1.50m	90%	21%
2044 (St Peters/ Sydenham/ Tempe)	$1.67m	$3.48m	$1.81m	108%	24%
2048 (Stanmore)	$1.67m	$3.15m	$1.47m	88%	21%
2049 (Lewisham/Petersham)	$1.67m	$3.53m	$1.85m	111%	24%
2050 (Camperdown)	$1.67m	$3.59m	$1.92m	115%	24%
2203 (Dulwich Hill)	$1.67m	$3.30m	$1.63m	98%	22%
2204 (Marrickville)	$1.67m	$3.20m	$1.53m	92%	21%
2038 (Annandale)	$1.67m	$3.20m	$1.53m	92%	21%
2131 (Ashfield)	$1.67m	$3.66m	$1.99m	119%	25%
2041 (Balmain, Balmain East, Birchgrove)	$1.67m	$3.40m	$1.73m	104%	23%
2132 (Croydon)	$1.67m	$2.99m	$1.32m	79%	19%
2045 (Haberfield)	$1.67m	$3.96m	$2.29m	137%	27%
2040 (Leichhardt, Lilyfield)	$1.67m	$4.29m	$2.62m	157%	29%
2039 (Rozelle)	$1.67m	$5.58m	$3.90m	234%	34%
2130 (Summer Hill)	$1.67m	$3.58m	$1.90m	114%	24%

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5 Testing the Feasibility of Contribution Rates

5.1 Rationale and considerations in setting a contribution rate

The purpose of this discussion paper is to provide a rationale for a contribution rate that will deliver appropriate levels of affordable housing but will not be so high as to stifle development. With regard to the latter, it should be noted that there are likely to be other brakes on development. These are most likely to be the need for lot consolidation and the quality of existing development (e.g. demolition of older timber housing is likely to be more favoured than demolition of good quality offices).

It should be noted that the modelling is general and based on medians and averages. Larger lots and lots with greater heights and density would be expected to support higher levies.

There is no clear pattern for differentiating the proposed levy using broader geographical areas. If a differentiated levy was proposed a calculator approach would be best, with the inputs to the calculator being the post code, the previous zoning and the likely height.

5.2 Effect of levy on viability

5.2.1 Overview of Findings

The tables below show the impact of Affordable Housing levies of 15% and 5% on development viability in terms of existing zoning, post code and height.

The impact of a 15% levy compared to a 5% levy is most marked in the case of existing units and better value commercial property. There is some impact on the redevelopment of separate housing at lower densities, but with reduced impact at higher densities. There is little predicted impact for industrial land and poorer value commercial property, except at densities likely to be much lower than expected planning controls.

While separate housing could be rezoned to allow higher densities, viability will be affected by the need to consolidate property, and this may be difficult given the generally small lots sizes across the LGA. The most likely areas where this type of redevelopment could take place are Haberfield, Rozelle and Ashfield, all with typically larger lots.

Due to lot size and the need for consolidation, redevelopment in areas of separate housing is likely to be smaller developments, and this could be exempted from the levy through having a threshold such as 10 or 20 dwellings.

A similar argument can be put forward for redevelopment of existing low rise residential flat buildings, and in any case quite high densities would be required to support redevelopment.

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The highest profits are associated with rezoning of industrial land, and a 15% levy is generally supportable across these areas.

Considering recent development in inner Sydney, most redevelopment is taking place on rezoned industrial land, due to its lower value as industrial land and the larger lot sizes available.

The other major area of development is mixed use developments in commercial zonings. We have not modelled commercial zoning due to the wide range in prices depending on the nature of existing development, however in similar work done previously in the Arncliffe area there were two broad prices for commercial land, a higher price similar to Scenario 2 (redevelopment of existing low rise residential flat buildings) for better value properties such as 2-3 storey offices; and a lower price similar to our Scenario 3 (redevelopment of industrial land) for lower value properties such as car yards and older smaller single storey premises with areas of undeveloped land such as car parks and hard stand.

5.2.2 Likely impact on development of 15% target

Table 5-1: Redevelopment of separate housing:

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3	2042, 2048, 2049, 2050, 2204, 2038, 2041	2044, 2203, 2131, 2132, 2045, 2040, 2039, 2130	
6		2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2130	2045, 2040, 2039
8		2042, 2048, 2049, 2050, 2203, 2204, 2038, 2132	2044, 2131, 2041, 2045, 2040, 2039, 2130
14		2042, 2048, 2050	2044, 2049, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130

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Table 5-2: Redevelopment of existing units (also likely to be similar for better value commercial property such as office buildings)

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3	2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130		
6	2132	2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2045, 2040, 2039, 2130	
8		2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130	
14		2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2132, 2130	2041, 2045, 2040, 2039

Table 5-3: Redevelopment of industrial land (also likely to be similar for poorer value commercial property such as car yards)

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3		2044, 2204, 2038	
6		2038 (viable at 14%)	2044, 2204
8			2044, 2204, 2038
14			2044, 2204, 2038

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5.2.3 Likely impact on development of 5% target

Table 5-4: Redevelopment of separate housing:

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3	2042, 2048, 2049, 2050, 2204, 2038, 2041	2040, 2130	2044, 2203, 2131, 2045, 2039
6		2042, 2048, 2050	2044, 2049, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130
8		2042	2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130
14			2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130

Table 5-5: Redevelopment of existing units (also likely to be similar for better value commercial property such as office buildings)

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3	2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130		
6	2132	2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2045, 2040, 2130	2041, 2039
8		2042, 2044, 2048, 2203, 2204, 2038, 2131, 2132	2049, 2050, 2038, 2041, 2045, 2040, 2039, 2130
14			2042, 2044, 2048, 2049, 2050, 2203, 2204, 2038, 2131, 2041, 2132, 2045, 2040, 2039, 2130

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Table 5-6: Redevelopment of industrial land (also likely to be similar for poorer value commercial property such as car yards)

Stories	Post Codes not viable	Post Codes not viable with levy	Post Codes viable with levy
3		2038	2044, 2204
6			2044, 2204, 2038
8			2044, 2204, 2038
14			2044, 2204, 2038

5.3 Conclusion

Redevelopment is most likely to take place in older industrial areas and areas of low quality commercial development. Our modelling suggests that a levy of 15% is likely to be sustainable for developments of six stories and above in such areas, particularly given the order of accuracy of the modelling and the relatively conservative assumptions used.

Development in areas of separate housing is likely to be limited due to small lot sizes and the need to assemble land. High densities are likely to be necessary to support such redevelopment and a 15% levy is generally sustainable for 8-14 storey development, again within the accuracy of the modelling. Three storey development, avoiding the separation requirements of the Apartment Design Guide, is generally not likely to be viable, and where it is viable would probably result in smaller developments due to smaller lot sizes. For example a three storey development on a double block in Ashfield would be expected to yield ten dwellings. The viability of smaller developments is most likely to be affected by a levy, and setting a minimum sized development to attract the levy is one way of addressing this. This can be done either as a minimum number of dwellings or as a minimum GFA. The latter is preferred, as a criterion based on number of dwellings could lead to construction of larger dwellings within the development envelope in order to avoid the levy. Appropriate thresholds could be 20 dwellings or GFA of 1,700 m^2.[7]

Similarly, redevelopment of existing low rise residential flat buildings and better quality commercial is unlikely to occur due to the quite high densities required to ensure viability, and where it does occur will probably be on larger lots with development economics more favourable than those modelled, and hence able to support the levy.

[7] 20*70 m^2 (two bedroom apartment minimum size)*1.2 (allowance for corridors etc) = 1,680 m^2.