



WEST MELBOURNE STRUCTURE PLAN – STAGE 2 REPORT

FINAL
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Prepared for
City of Melbourne

Independent
insight.



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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au
Offices in Canberra, Hobart, Melbourne, Sydney

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EXECUTIVE SUMMARY

This report has been prepared to assist the City of Melbourne in the development of the West Melbourne Structure Plan. It provides advice on three distinct matters: the broader economic context including the role of inner city employment lands; the feasibility of development based on particular density and land use mix assumptions; and explores implementation options that might be pursued to ensure the retention of the precincts employment role.

Context

The Stage 1 report prepared by SGS suggested three specific opportunities for the development of employment activity in West Melbourne:

- Supporting the significant metropolitan tourism, arts and culture activities that are located in proximity to West Melbourne
- Building capacity to support and leverage the health and research functions in Parkville
- Developing a business oriented precinct to accommodate administrative support and back of house functions for the CBD, as well as supporting the growth of small and new businesses.

For each opportunity the types of activities, their floor space requirements and preferred locations within the precincts were considered. The main implication arising from the assessment is the potential need to identify a core area (or areas) for retail and hospitality in West Melbourne. In light of proposals to extend the Spencer Street tram services, the Spencer Street spine might provide this function. Alternatively, in the short term, east-west oriented streets might also be suitable for this role.

Inner city employment precincts, outside of the CBD but within the 'frame' of the central city region deserve particular attention in light of the importance of well-located yet affordable employment floor space to supporting economic activities characterised as engaging in innovative, creative, and design-based activities, ranging from IT start-ups, to bespoke manufacturing, to shared office spaces.

Demand for housing in accessible locations has resulted in significant pressure to convert employment land to housing.

In response, there are several examples of recent planning scheme amendments and studies which have sought to retain employment in the face of pressure for residential conversion: the introduction of 'vertical zoning' through the implementation of the Chapel Street Structure Plan; the inclusion of non-residential floor space as a community benefit in the central Melbourne; and the intention to retain a large area of C2 zoned land in the City of Yarra to ensure they retain their diverse and evolving economic role.

The extent to which the conversion of inner city employment land is displacing employment activities is not well understood. It is therefore prudent to consider the risks of residential conversion of these employment lands –in particular those that provide unconventional and/or lower rent floor space – to the metropolitan economy. These include:

- The mix of employment and residential activity contributes to the innate environmental quality of West Melbourne
- As a business incubator area, West Melbourne fulfils a niche function which is not readily substitutable

- As a precaution, the diversity of uses should be protected
- To support future resilience, diversity of activity should be protected
- The mixed use environment also supports a more diverse housing environment

Feasibility analysis

The feasibility testing was undertaken based on the four DDO areas initially and then the five character areas. The feasibility analysis found:

- Based on average land values, residential development is likely to be feasible in all character areas based on the nominated FARs, with the exception of the North character area.
- New stand-alone commercial developments are unlikely to be feasible.
- A mixed use development (with retail, commercial and residential floor space) is feasible in three character areas (South, Central and Station) but marginal in the West character area.
- The mixed use development with a higher proportion of commercial floor space provides a lower RLV but the ratio of RLV to existing land value is still in the feasible range.
- The residential and both mixed-used development scenarios are feasibility in the South, Central and Station character areas, at the nominated densities.
- The modest changes to the findings as a result of the various sensitivity tests suggest the findings of the base feasibility analysis are relatively robust.

The following table provide a summary of the feasibility analysis undertake for each area. The key concepts in the table are as follows.

- Floor area ratio represents intensity of development on a site, it is the ratio of overall floorspace allowed on a site to the size of the site
- The average site value is a for potential development sites
- Threshold value is an additional 25% on top of the site value and represents the assumed value a landowner would require to sell the site for development. This is based on the principle that landowners will generally seek a higher price than the existing site value.
- Residual land value (RLV) is the land value once all development costs (including profit) are deducted from all revenues. The RLV is the maximum price that a developer will pay for land.
- The RLV has been calculated for three different types of uses: residential only, commercial only, and a mix of uses that include retail, commercial and residential.
- The ratio of RLV to existing value provides an indication of development feasibility. Where the ratio is greater than 1.25, redevelopment is likely to be feasible, based on current property sale prices and development costs, and the maximum FAR in question.
- If the ratio is less than 1 suggests the RLV is lower than the existing land value and the development as proposed would not be feasible.
- If the ratio is between 1 and 1.25 the feasibility in marginal and there is some uncertainty regarding whether the site would be developed.

Further information on this is provided Section 2.

FEASIBILITY ANALYSIS BY CHARACTER AREA (HIGHER DENSITY) – BASE ANALYSIS

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	4.0	3.0	5.0	3.0
Site value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Threshold value (per sqm)	\$10,600	\$6,200	\$6,200	\$6,200	\$8,700
Residual land value (RLV) (per sqm)					
1. Residential only	\$14,200	\$9,500	\$7,100	\$11,900	\$7,100
2. Commercial only	\$7,500	\$5,000	-\$800	-\$1,300	-\$800
3. Mixed use	\$14,600	\$9,500	\$6,000	\$10,700	\$6,000
Ratio of RLV to existing value					
1. Residential only	1.68	1.90	1.42	2.37	1.02
2. Commercial only	0.88	1.00	-0.15	-0.25	-0.11
3. Mixed use (ret/com/res)*	1.72	1.90	1.20	1.89	0.67
4. Mixed use (com/res)**	1.54	1.67	0.90	1.85	0.64

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

** 1.0:1 commercial FAR and balance of floor space residential.

Implementation options

There are a range of implementation options that Council could entertain as part of the West Melbourne Structure Plan. These Planning Scheme implementation options cover a range of tools (zoning, overlays, local policies, additional mechanisms), and have varying degrees of effectiveness. Each tool has been assessed against a set of criteria, to help understand the relative benefits and implications and to help inform Council decision making regarding implementation. The tools are not necessary mutually exclusive and some could be used in combination.

- Increased use of Commercial 2 zoning in selected areas where employment uses are to be retained.
- ‘Fine grain’ zoning: application of alternative zonings (C1, C2, etc.) on a fine grain basis in response to detailed consideration of the preferred land use outcomes through the precinct.
- The use of a ‘business’ oriented Mixed Use zone, Special Use zone or Comprehensive Development Zone to support mixed use outcomes
- Implementation of vertical zoning through the Activity Centre Zone
- Implementing a Floor Area Uplift scheme and requiring commercial floor space as community benefit
- Revised DDOs: strengthen guidance on preferred built form outcomes; mandatory as opposed to discretion controls in key locations
- Local policy (LPPF): advocate for a mix of uses through local policy
- Heritage listing: retain current uses through heritage protection of relevant buildings

1. STRATEGIC CONTEXT

This chapter considers the strategic land use context for West Melbourne with an emphasis on its role as an important employment precinct in the central city.

1.1 Background

In November 2016 SGS Economics and Planning prepared the West Melbourne Employment and Economic Study (the 'Stage 1 report') which provided analysis of economic trends and the broader context for the development of the West Melbourne precinct.

The key findings and messages from this report were:

- West Melbourne is an interface of diverse inner city precincts that include the Central Business District (Hoddle Grid), a gentrifying North Melbourne, major urban renewal areas in Docklands and City North, a growing health and education precinct centred around Parkville, planned urban renewal and major transport investment in the Arden Macaulay precinct, and the Port of Melbourne and supporting industrial areas.
- West Melbourne has evolved into a distinctive economic place influenced by its strategic location, its transport and logistics legacy, and broader forces shaping the overall economy.
- While many city fringe locations have seen a significant loss of industrial activity, West Melbourne has retained much of its industrial heritage. The transport network that has supported this historic role has been improved through major freeway improvements (e.g. CityLink). As a result, West Melbourne continues to be an attractive location for industrial activities particularly those servicing the central city such as food and beverage manufacturing, and construction and maintenance.
- The broader economic transition from manufacturing-based economy to one that is based on knowledge industries and services has seen central, accessible locations become the focus for significant growth in employment and in particular higher order, professional services jobs. These central locations are also major tourism and retail destination. In this context West Melbourne is well placed to accommodate 'spillover' employment activities related to these trends including, but not limited to, back office functions and short term accommodation.
- However, by virtue of its accessible location and proximity to metropolitan-scale assets (i.e. major hospitals, universities, public transport, retail and hospitality) West Melbourne is experiencing increasing pressure for conversion of employment land to residential uses which provides the highest financial return in the current market.

Stakeholder consultation undertaken during the preparation of the report identified further issues:

- Limited direct public transport option within the precinct compared to other inner city areas (although trams operate on the boundaries of the precinct and a number of heavy rail stations are within walking distance).
- A limited local service offer and the absence of a main street environment is thought to detract from the overall amenity and attractiveness of the precinct.

The report identifies three future opportunities for West Melbourne with respect to employment:

- Supporting the significant metropolitan tourism, arts and culture activities that are located in proximity to West Melbourne
- Building capacity to support and leverage the health and research functions in Parkville
- Developing a business oriented precinct to accommodate administrative support and back of house functions for the CBD, as well as supporting the growth of small and new businesses.

In response to the analysis, consultation and opportunities, the report concludes by highlighting future planning and policy considerations:

- The identification of appropriate zones to support intended use. Noting this is a particular challenge when the current coverage of the Mixed Use Zone has tended to see new residential development displacing employment uses.
- The need to provide appropriate design and other built form controls.
- The potential need for a Development Contribution Plans to fund local infrastructure, including investment in streetscape improvements.

1.2 This report

This report has been prepared to further assist the City of Melbourne in the development of the West Melbourne structure plan. It provides advice on three distinct matters:

- The broader economic context including the role of inner city employment lands (this chapter), with a view to strengthening the narrative regarding the importance of the economic and employment role of the precincts
- The feasibility of development based on particular density and land use mix assumptions (Chapter 2), and
- Implementation options that might be pursued to ensure the retention of the precincts employment role (Chapter 3).

The remainder of this first chapter explores the three opportunities identified in the Stage 1 report and then explores potential justifications for planning interventions to help retain a range of employment activities in the precinct.

1.3 Opportunities for employment growth in West Melbourne

Table 1 below considers the three opportunities for employment growth identified in the Stage 1 report in more detail.

For each opportunity the types of activities, their floor space requirements and preferred locations within the precincts are considered.

The main implication arising from the assessment is the potential need to identify a core area (or areas) for retail and hospitality in West Melbourne. In light of proposals to extend the Spencer Street tram services to the Arden and/or North Melbourne station/s, the Spencer Street spine might provide this function. Alternatively, in the short term, east-west oriented streets (e.g. Rosslyn or Stanley) with existing commercial functions might be more suitable given their lower exposure to high traffic volumes and wide road reserves reconfigured to provide a more pedestrian-oriented arrangement of the public realm.

TABLE 1: OPPORTUNITIES: USES, BUILT FORM AND PREFERRED LOCATIONS

Opportunities	Land uses and activities	Built form/floor space requirements	Preferred locations in West Melbourne
“Supporting the significant metropolitan tourism, arts and culture activities that are located in proximity to West Melbourne”	Short term accommodation	Hotel/serviced apartments – requires larger sites	Key nodes, activity centres and on main roads
	Retail/hospitality	Retail/café/restaurant – can be accommodated across a range of site sizes	Key nodes or activity areas
	Entertainment venues	Bars/larger entertainment venues	Key nodes or activity areas; away from sensitive residential areas
“Building capacity to support and leverage the health and research functions in Parkville”	Consulting rooms	Office format	Perhaps towards Parkville, although no locations that are not suitable
	Labs (e.g. pathology)	Office format and/or specialised facilities	
	Research facilities	Office format and/or specialised facilities	
“Developing a business oriented precinct to accommodate administrative support and back of house functions for the CBD, as well as supporting the growth of small and new businesses.”	Offices; shared offices	Office format	Key nodes and activity centres
	Retail and hospitality	Ground floor retail; first floor suitable for some hospitality uses	Key nodes or activity areas
	By implications, office accommodation that offer lower rents than in other central city locations.		Throughout the precinct

1.4 Metropolitan & inner city planning context

There has been a significant shift in recent years in Melbourne’s metropolitan scale planning for employment. Plan Melbourne have provided much greater direction on employment than previous metropolitan planning strategies, acknowledging the central role of the location of employment and economic activity to land use and transport planning. Plan Melbourne includes policies focussed on the employment role of the Central City (Policy 1.1.1), major urban renewal precinct around the Central City (1.1.2) and for the national employment and innovation clusters (1.1.3). Despite the focus on central city employment, there is still limited guidance for *existing* inner city employment precincts in the central city region including the Cremorne and Gipps Street (Collingwood) precincts in the City of Yarra, and West Melbourne.

Demand for housing in accessible locations has resulted in significant pressure to convert employment land to housing. While the nature of inner city employment is changing, the extent to which conversion is displacing inner city employment activities – particular those that benefit from unconventional and/or lower rent floor space – is not well understood.

Metropolitan planning is yet to fully embrace the diversity of employment precincts and in particular those economic activities that are neither conventional office-based employment, health and education precincts, or, at the other ‘end’ of the spectrum, major industrial land uses. The designation of National Employment and Innovation Clusters suggests an emphasis on fostering innovation, however the value of inner city employment areas, and in particular those under threat from residential conversion, warrant further consideration.

The responses developed to address this challenge in other areas provides important context for West Melbourne.

1.5 Recent examples of planning to retain inner city employment

Despite a lack of policy guidance on inner city employment land there are several examples of recent planning tools and studies which have sought to retain employment in the face of pressure for residential conversion.

Chapel Street

In the Chapel Street Activity Centre precinct, 'vertical zoning' provisions were introduced in response to the displacement of small and medium scale businesses by new apartment developments. The City of Stonnington used the Activity Centre Zone (ACZ) to tailor zoning controls to address the importance of a mix of both residential and commercial floorspace. The key initiative was an amendment to the planning scheme which introduced a trigger for a planning permit when dwellings are proposed in the podium level of a building. The objectives in the policy are used to determine the extent, location and provision of commercial floor space within the proposed development. Additionally, an initiative to increase floor to floor heights within the podium level was included to create a resilient floor plates for adaptability in the future once strata subdivided.

Central City Built Form review

The recently adopted Amendment C270 to the City of Melbourne Planning Scheme adopted a floor area uplift and community benefits scheme that has the effect of using value capture to provide a range of community facilities. In addition to options of providing affordable housing, public realm works and open space, the policy included the provision of commercial floor space as a means of satisfying any community benefit obligations. This inclusion was a response to the perceived dominance of residential development in the central city at the expense of non-residential uses.

City of Yarra employment lands planning

Finally, in work undertaken for the City of Yarra, two large 'mixed employment' precincts at Cremorne and Gipps Street, Collingwood were identified as performing a distinct and evolving economic role. These areas host a wide range of employment uses and feature a C2 zoning which prohibits residential development. Despite this prohibition there is anecdotal evidence of speculation around residential conversion, likely fuelled in part by the identification of the precincts in the draft Plan Melbourne as a 'strategic renewal area' yet with limited guidance provided on the specific meaning of this designation.

SGS has recommended the precincts be retain for employment on the basis that they are well located in relation to deep labour markets, provide a mix of floor space types and have the potential to evolve and accommodate alternative employment uses in the future. The advice noted that demand for housing in the short to medium term might be accommodated in alternative locations in Yarra including land already zoned Mixed Use and in Activity Centres, and that there was therefore no need to provide additional land for residential development.

The applicability of these for West Melbourne is addressed further in Section 4.

1.6 Justifications for retaining employment in West Melbourne

In order to develop an implementation approach for West Melbourne, it is important to clarify the rationale and justifications for retaining employment role of the precinct. While somewhat challenging to quantify, and at times inter-related, the benefits are considered to include the following.

The mix of employment and residential activity contributes to the innate environmental quality of West Melbourne

The qualities of West Melbourne as a neighbourhood flow from the mix of uses that exist there. The protection of these qualities is a legitimate consideration for planning decision making; the Planning and Environment Act requires us to consider the social, environmental

and natural environment, and so mechanisms to protect and maintain the character should be considered.

In the same way that heritage is often seen as an important characteristic that should be protected, the mixed use character of an area is also, in the case of West Melbourne, seen as worthy of maintaining. This has been established via the community engagement process, which identified the value placed on the mix of uses and its industrial legacy. It could be argued that the loss of this diversity and character would be a cost to the community, not dissimilar to other externalities resulting from new development such as the loss of heritage fabric, ecological assets, or social diversity.

This is also reflected in the initial application of the Mixed Use zoning to West Melbourne. The purposes of this were to support a genuine mix of uses. At the time, it was not anticipated that a change in market conditions would significantly favour residential uses over all others.

As a business incubator area, West Melbourne fulfils a niche function which is not readily substitutable

The availability of affordable and flexible floorspace, in proximity to universities, cultural infrastructure and the CBD, supports the productivity and creativity of businesses in West Melbourne.

The existing building stock in West Melbourne provides a diversity of floor space in terms of form, size and price point that might be argued is somewhat unique in the inner city. The size of contribution of these activities is difficult to trace through official employment data yet they make a significant contribution to the brand of Melbourne as a creative and design-oriented city, and are likely to also make a major contribution to its vibrancy and productivity.

The light industrial, manufacturing and logistics activities that exist in West Melbourne also make a contribution in terms of supporting CBD activities; many of the bakeries, logistics firms and Red Cross, for example, rely on proximity to the CBD to function.

There are likely to be precedents in other cities for variety in employment precincts in the central city provided important accommodation for service industrial, support services, incubators for new and emerging business, and unique business to business interactions. Surry Hills and Pyrmont in Sydney are relevant comparators in the Australian context.

If West Melbourne continues on current trajectory, and 'free market' outcomes are allowed to occur, it is likely that many of these activities would be squeezed out. The uniqueness of the location means that the current mix of floor space and character provide unique conditions for employment uses that might not otherwise locate in the central city region. The loss activities to alternative locations (or their loss entirely) could damage Melbourne's competitiveness and productivity.

As a precaution, the diversity of uses should be protected

The principle of enabling future generations to have choices regarding land use and activity mix in a particular location is relevant to consider in this context. In effect, it is a risk management approach to protect future choices, given the future is uncertain.

The conversion of large floorplate commercial activity to residential development, and in particular the subdivision of lots on strata title, results in a fragmentation of ownership which is very difficult to reverse. This means that once a site has transitioned to residential it is very unlikely to revert to other uses, and in effect the opportunity for future changes of use has been lost.

This future opportunity to make choices is a real and important value for future communities.

To support future resilience, diversity of activity should be protected

Related to the above, resilience is an important characteristics of an area and one which will prevent the development of a 'monocultural' area.

It is important that areas maintain infrastructure, building forms, street networks and urban fabric which can support future trends and innovations, without knowing precisely what these might be. Given the scale and pace of change that can occur (for example, gentrification areas transformed inner city areas within a generation) it is important that there remains a diversity of floorspace types (retail, commercial and residential) to accommodate the range of economic agents and activities that may be required in future.

Given the considerable capacity for residential development in other locations including the CBD and identified central city renewal precincts, any reductions in the capacity for residential growth in West Melbourne would be relatively modest compared to total the capacity.

The mixed use environment also supports a more diverse housing environment

The current demand for residential activity in West Melbourne reflects its attractiveness as a location. Its mixed use nature is a part of this attractiveness, and this also contributes to a diversity in housing choices; by providing some dwelling development in West Melbourne a different type of residential environment is available, resulting in a net welfare gain.

2. DEMAND ASSESSMENT

The evolution of the precinct from industrial, logistics and warehousing, to an emerging residential precinct with a range of commercial activities, has meant that the provision of services and infrastructure has not always occurred. In particular, the (under) provision of retail and community infrastructure have been identified as an issue in the precinct.

2.1 Retail analysis

The Stage 1 report identified that the retail offer in West Melbourne is somewhat fragmented; with major, metropolitan scale retail uses accessible from the precinct but limited access to local convenience retail and services within the precinct.

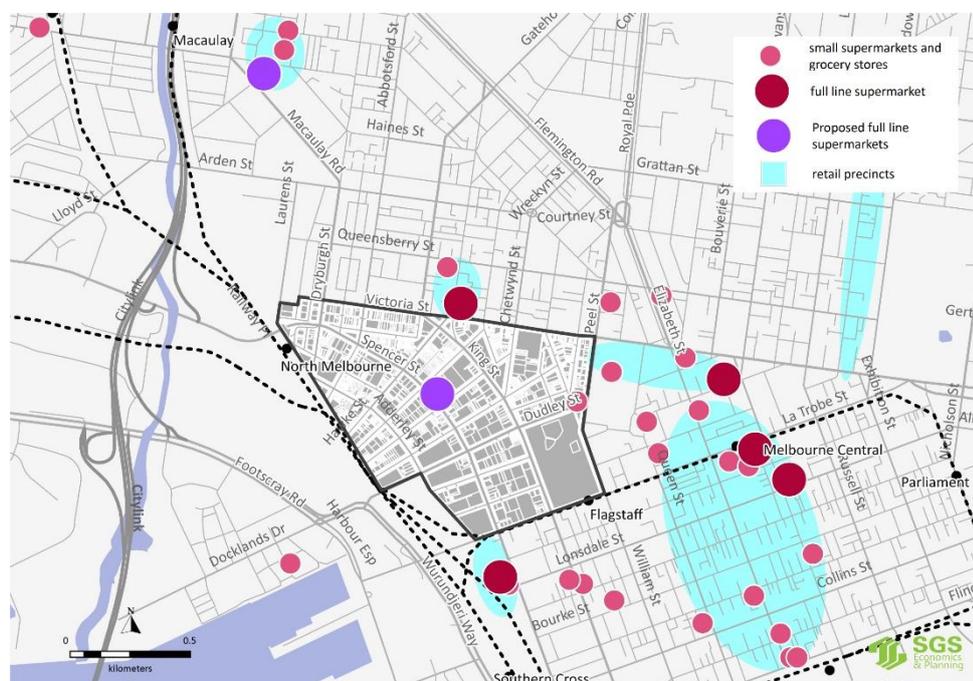
Building on this, Council's Discussion Paper identified that '*Spencer Street... could become the 'high street' of West Melbourne, with more local retail and dining and improved public transport, walking and cycling infrastructure*'.

A high level retail demand assessment has been undertaken to inform the development of the Structure Plan. This has included a gap analysis, focussing on supermarkets and grocery stores.

Gap analysis

The current distribution of small supermarkets, grocery stores and full line supermarkets, as well as key retail precincts in and around the study area is illustrated in Figure 1.

FIGURE 1: CURRENT DISTRIBUTION OF SUPERMARKETS



This shows:

- Currently, there are no full line supermarkets *within* the precinct
- There are two full line supermarkets, and several smaller grocery stores, on the immediate edge of the precinct, and a range of other small and full line supermarkets which are accessible from the precinct

- There is currently a proposal for a full line supermarket in the precinct, as well as in North Melbourne
- There are a significant and well established range of retail and hospitality precincts accessible from the precinct, although none in the precinct.

Overall, this indicates that there is limited access to supermarkets, in particular, and retail more generally for those living, working and visiting the precinct. This will partially be addressed by the proposed supermarket on Spencer Street.

Future demand

A high level analysis of demand generated by the future residents, workers, students and visitors has also been undertaken to understand the broad scale of additional demand.

The Stage 1 report included an assessment of dwelling projections, based on recent trends and information from CLUE and DAM. In addition, it used a more realistic household size which was consistent with the latest 2016 Victoria in Future population forecasts.

Employment projections have been drawn from: existing small area projections, and City of Melbourne supplied 'carrying capacity' analysis (3rd May, 2017).

These projections are shown in Figure 2.

TABLE 2: POPULATION AND EMPLOYMENT GROWTH FORECASTS

	Current	Total 2036		Change to 2036	
		Lower range	Upper range	Lower	Upper
Population	5,013	14,000 ¹	21,000 ¹	8,987	15,987
Workers	5,886	9,965 ²	12,671 ³	4,079	6,785

Source:

1: SGS Stage 1 report. Note City of Melbourne supplied analysis indicates 13,395 residents for 2036

2: Current forecasts

3: City of Melbourne supplied analysis

Average population and worker retail expenditure was drawn from the Retail and Hospitality Expenditure Study 2016 Update, and applied to the population and worker projections.

For students and visitor expenditure, a proxy (the proportion City of Melbourne education and tourism (accommodation) floorspace which is located in West Melbourne) was used to estimate the share of overall spend which occurs in West Melbourne.

TABLE 3: PROPORTION OF CITY OF MELBOURNE FLOORSPACE IN WEST MELBOURNE

	Current	Future - High
Accommodation	1.51	2
Education	0.41	1

These figures were used to quantify overall *additional* retail expenditure for West Melbourne. Also doesn't include escape or inbound expenditure.

TABLE 4: ESTIMATED ADDITIONAL RETAIL EXPENDITURE IN WEST MELBOURNE (2015-2036, \$M)

	Supermarket	Hospitality and Services	Other retail	Total retail
Low	42.7	27.7	79.7	150.2
High	76.0	44.5	137.7	258.1

Total	118.7	72.1	217.4	408.3
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Expenditure was then translated to floorspace, which has also been converted in to approximate number of shops.

TABLE 5: FUTURE ADDITIONAL FLOORSPACE DEMAND GENERATED BY POPULATION (M²)

	Supermarket	Hospitality and services	Other retail	Total
Low	3,560	4,770	11,900	20,240
High	6,330	7,670	20,550	34,550

*other includes Department store expenditure, other food, clothing, household goods and other retail

TABLE 6: FUTURE ADDITIONAL STORES

	Supermarket	Hospitality and services	Other retail
Low	1	19	48
High	2	31	82

This analysis indicates that the *future* population, workforce, students and visitors *alone* will generate demand for at least one additional supermarket, a number of cafes and restaurants, and specialty stores.

This analysis is also broadly consistent with that prepared in Stage 1 which identified overall additional commercial floorspace (including retail). It identified an additional 93,000m² of commercial floorspace required between now and 2036.

Given the current 'gap' in supply and limited access, additional supermarket supported. This can be supported in addition to the current retail floorspace in the precinct, which largely has a subregional focus rather than serving local needs.

2.2 Community infrastructure

The demand for community infrastructure is generally driven by changes to the local resident population. Average benchmarks have been established for a range of community infrastructure.

TABLE 7: INFRASTRUCTURE PROVISION BENCHMARKS (PER POPULATION)

Facility	Coffey's Report	Social Infrastructure Guidelines	WA Department of Education	Parks and Leisure Australia	City of Rockingham	Benchmarks	
						Maximum (1 per X population)	Minimum (1 per X population)
Neighbourhood Community Centre	4,000	6,000-10,000		5,000	10,000-15,000	4,000	15,000
Local Library				6,000-15,000		6,000	15,000
Childcare Centre	4,000-8,000	4,000-8,000		4,000-8,000	4,000	4,000	8,000
Outside School Hours Care				4,000-6,000	6,000	4,000	6000
Playgroup	4,000-6,000			4,000-6,000		4,000	6000
Primary School	7,500	7,500	1500-1800/ dw				

Source: Various previous SGS projects

These provision rates have been applied to the high and low projections of additional population for West Melbourne.

TABLE 8: INFRASTRUCTURE PROVISION USING AVERAGE BENCHMARKS (NUMBER OF FACILITIES)

Facility	Low	High
Neighbourhood Community Centre	0.6	4.0
Local Library	0.6	2.7
Childcare Centre	1.1	4.0
Outside School Hours Care	1.5	4.0
Playgroup	1.5	4.0
Primary School	1.2	2.1

This assessment of average provision rates, does not, however reflect the demographic profile of the projected population (which has a significant influence on demand for various services).

The robustness of the analysis is also limited by the inner city environment, where land values are higher and hence the capacity to deliver infrastructure in traditional formats is limited.

Overall, a more nuanced approach, reflecting local demographics as well as existing and planned supply both within and around the precinct is required. The services and facilities planned for the major urban renewal project planned for Arden Station, for example, would have a significant impact on the appropriate supply of services in West Melbourne.

Innovative delivery approaches, including shared facilities, are required particularly for inner city environments. The City of Melbourne have undertaken a 'Social Infrastructure Overview for West Melbourne' and while a rigorous review of this has not been undertaken, it appears that this analysis considers the future demographic profile of West Melbourne to identify some high level floorspace requirements.

The next stage would be to consider how demand might be influenced by the existing supply of community infrastructure, the most appropriate ways to service this additional demand (e.g. through new facilities, improvements to existing facilities, or a combination). Demand generated by those working in the precinct, or within the CBD, should also be considered when finalising community infrastructure priorities for the precinct. How the demand generated within West Melbourne sits with the overall demand across the City of Melbourne should also be established as inputs to prioritisation for investment.

2.3 Summary and implications

Residents, workers, students and visitors to West Melbourne are currently underserved for retail, in particular supermarket and grocery stores.

Analysis of projected additional residents, workers, students and visitors to West Melbourne indicates additional supermarkets, hospitality and other services (including cafes, bars and restaurants) as well as other retail development could be supported within the precinct.

The future population will also generate demand for additional community infrastructure, however further work is required to identify the specific requirements and format for this.

3. FEASIBILITY TESTING

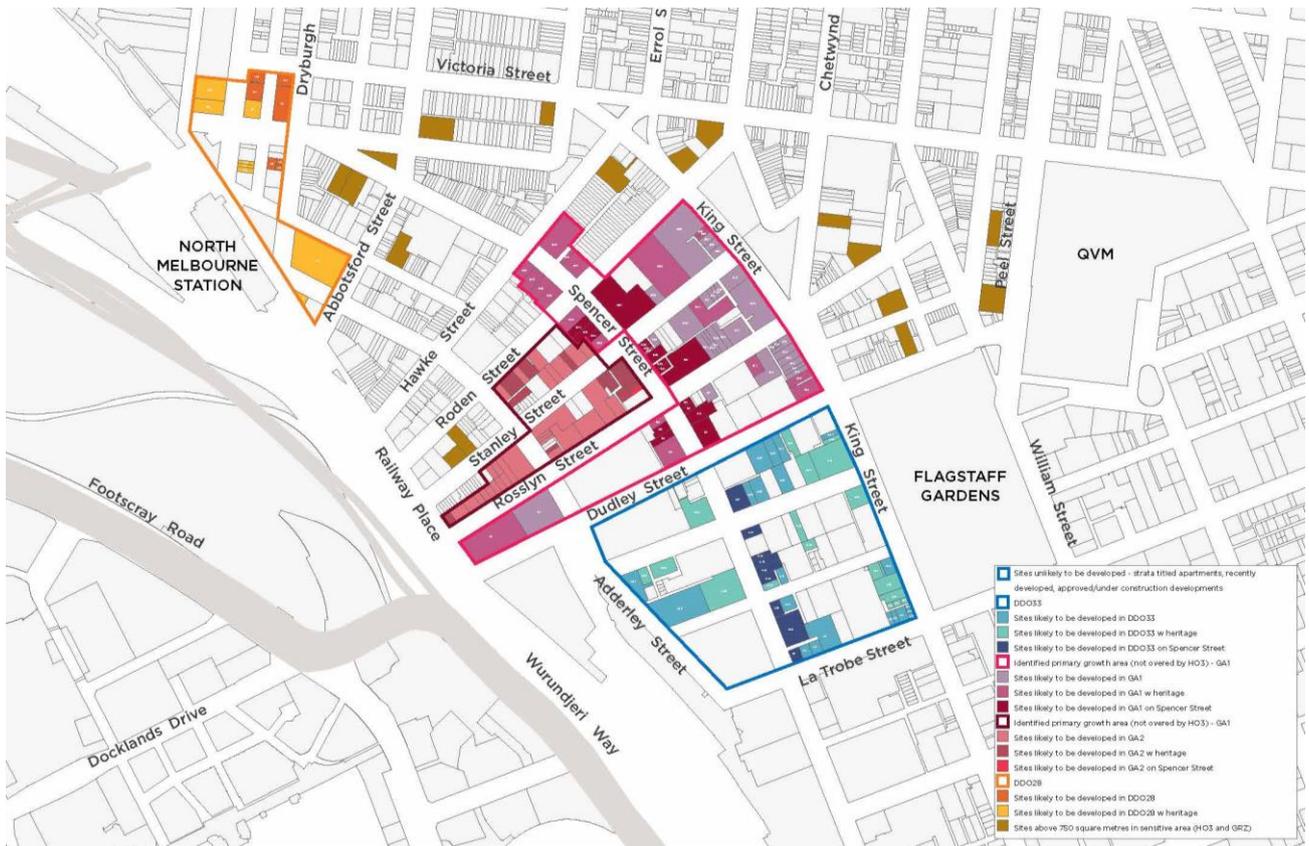
This chapter provides a summary of the findings of feasibility testing undertaken to inform the development of the West Melbourne structure plan. It considers existing land values, floor space values and test the feasibility of a range of development scenario in different locations at different densities and with different land use mixes.

3.1 Land values

Land values for potential development sites (City of Melbourne data)

The City of Melbourne provided valuation data for the nominated potential development sites in West Melbourne as shown in Figure 2 below.

FIGURE 2. POTENTIAL DEVELOPMENT SITES IN WEST MELBOURNE



Source: City of Melbourne

The map on the follow page shows this valuation data mapped on a per square metre of land area basis. These values were derived by taking the higher of the capital improved value or site value and dividing by the site area.

The maps also shows the boundaries of the four existing DDO area and five character areas developed during the structure planning process.

FIGURE 3. LAND VALUES PER SQUARE METRE OF POTENTIAL DEVELOPMENT SITES



Source: SGS based on data provided by the City of Melbourne, 2017.

The mapping suggest land values are higher in the DDO33 (south of Dudley Street) and lowest in the DDO29 area. The majority of sites with the DDO33 area are valued at \$8000 per square metre or higher. Sites in the DDO29 area mostly in the \$2000 to \$6000 per square metre range. Notably, the larger sites in the DDO area are generally in the \$2000 to \$4000 range. In general, smaller sites have higher land values per square metre than larger sites in the same location.

These values are based on Council’s valuation data which are prepared for the purpose of calculating Council rates and, as a result, may not reflect land owner expectations from the sale of land. Recent development activity has bid up the price of development sites (see below) and as a result the purchase of a site for redevelopment might require developers to pay higher per square metres rates than those indicated on the map above.

Average land values by current land use, DDO and character area

The tables below show the minimum, maximum and average land value per square metre for potential development sites in West Melbourne, by land use, DDO and character area.

Land values by land use

Average land values by land use (residential, retail, commercial and industrial) are in the order of \$5000 to \$7500 per square metre, with the lowest average value being for sites with industrial uses and highest for site with residential uses.

TABLE 9: INDICATIVE LAND VALUES BY EXISTING LAND USE

Use	Minimum land value per sqm	Average land value per sqm	Maximum land value sqm	Count of records
Residential	\$3,500	\$7,500	\$17,300	39
Retail	\$2,300	\$8,800	\$19,500	22
Commercial	\$3,000	\$6,300	\$11,300	58
Industrial	\$2,600	\$4,900	\$9,300	46

Source: SGS analysis of data provided by City of Melbourne, 2017.

Land values by Design and Development Overlay

Analysis of the data by Design and Development Overlay areas confirms that sites in the DDO33 area have the higher average land values than sites in the DDO28, DDO29 and DDO32 areas.

Average values of the potential development sites in the DDO28, DDO29 and DDO32 areas are in the order of \$5000 a square metre, but average \$8500 in the DDO33 area. Sites with residential and retail uses were excluded from this particular analysis as they are less likely to represent sites for redevelopment.

TABLE 10: INDICATIVE LAND VALUES BY DDO*

DDO area	Minimum land value per sqm	Average land value per sqm	Maximum land value sqm	Count of records
DDO28	\$2,900	\$4,800	\$6,100	5
DDO29	\$2,600	\$5,200	\$9,300	74
DDO32	\$3,500	\$5,700	\$7,900	7
DDO33	\$5,300	\$8,500	\$11,300	16

* Commercial and Industrial uses only

Source: SGS analysis of data provided by City of Melbourne, 2017.

Land values by character area

In developing the structure plan five character areas have been identified. These have been numbered 2 to 6 by Council and their extent is shown in Figure 3. Average land values for commercial and industrial properties are around \$5,000 in the Central, West and Station character areas, \$7,000 in the northern area, and \$8,500 in the southern area (which is consistent with the extent of DDO33).

TABLE 11: INDICATIVE LAND VALUES BY CHARACTER AREA*

DDO area	Minimum land value per sqm	Average land value per sqm	Maximum land value sqm	Count of records
South (2)	\$5,300	\$8,500	\$11,300	16
Central (3)	\$2,600	\$5,300	\$9,300	49
West (4)	\$3,100	\$5,000	\$7,300	27
Station (5)	\$2,900	\$4,700	\$6,100	8
North (6)	\$5,600	\$6,950	\$7,900	4

* Commercial and Industrial uses only

Source: SGS analysis of data provided by City of Melbourne, 2017.

Land values from recent development site sales

Development site sales values are generally higher than the average land values derived from Council data (see Table 12). This reflects the fact that developers typically pay a premium to land owners. Developers pay this premium on the basis that it corresponds with their assessment of the residual land value of the site if redeveloped to a higher density and/or alternative land use.

Recent sales in the DDO33 area have attracted prices as high as \$10,000 per square metre of site area. Sites in the rest of the West Melbourne precinct have achieved rates of between \$4,000 and \$7,000, further confirming the differentiation in land values by DDO area.

TABLE 12: RECENT DEVELOPMENT SITE SALES

Address	DDO	Area (sqm)	Price	Land value sqm
185 Rosslyn Street	29	9,200	\$40,000,000	\$4,348
79 Ireland Street	28	4,795	\$24,000,000	\$5,005
Corner Stanley & Rosslyn St	29	2,820	\$17,000,000*	\$6,028
88 Millers Street	na	362	\$2,400,000	\$6,630
33-43 Dudley Street	33	1,273	\$12,100,000	\$9,505
50-56 Batman Street	33	864	\$8,780,000	\$10,162
405-409 Spencer Street	33	1,202	\$12,750,000	\$10,607

Source: Various internet source. *Estimate only

Where sites attract significantly higher land values when compared to the 85% percentile value from Council valuations data, land buyers are speculating on development outcomes that will significantly increase the underlying value of the land. Recent approvals of developments that significantly exceed the current discretionary height controls are likely to have fuelled this speculation.

The introduction of planning controls that provide greater clarity around the anticipated scale and form of development in West Melbourne should moderate this speculation. With greater certainty land buyers and sellers will be in a position to value land based on an accurate assessment of its likely development potential.

3.2 Floor space values per square metre

Floor space values per square metre provide an indication of the revenues that might be anticipated from the redevelopment of a site and sale of the new floor space in the current market.

Sales values for residential development

Analysis of recent apartment and dwelling sales in West Melbourne suggests that residential developments achieve sales rates of around \$8000 to \$9000 per square metre. A mid-point value of \$8,500 per square metre will be used for residential development in the feasibility testing.

TABLE 13: RECENT RESIDENTIAL SALES (2015 – 2017)

Type	Use	Average price	Average area (estimate)	Price/sqm	Sales
Apartments	1 bed	\$400,000	50 sqm	\$8,000	25
	2 bed	\$600,000	75 sqm	\$8,000	41
	3 bed	\$920,000	100 sqm	\$9,200	12
	4/5 bed	\$1,090,000	125 sqm	\$8,700	2
Weighted av.				\$8,200	80
Houses	2 bed	\$810,000	100 sqm	\$8,100	11
	3 bed	\$1,340,000	150 sqm	\$8,900	10
	4 bed	\$1,880,000	200 sqm	\$9,400	2
Weighted av.				\$8,600	23

Source: Recent dwelling sales data sourced from realestate.com.au

Floor space values for non-residential uses (City of Melbourne data)

The average, maximum and 85th percentile values for floor space per square metre, by use, are shown in the tables below. The 85th percentile has been chosen as an indicator of the potential sales value of *new* floor space for each use category and will be used in the feasibility testing.

The first table is based on the existing DDO areas. The second table is based on the character area. Where there are relatively few records to estimate revenues (e.g. Retail in DDO32 or in the West character area) professional judgement has been used to determine an appropriate value of new floor space.

TABLE 14: INDICATIVE FLOOR SPACE VALUES PER SQM BY TYPE AND DDO

Use	DDO	Average value per sqm	85 th percentile land value per sqm	Maximum value sqm	Count of records
Retail	DDO28	-	-	-	-
	DDO29	\$6,300	\$8,600	\$20,700	8
	DDO32	\$4,300	\$4,300	\$4,300	1
	DDO33	\$8,500	\$11,000	\$13,200	13
Commercial	DDO28	\$4,400	\$5,500	\$5,900	2
	DDO29	\$4,700	\$7,600	\$9,800	40
	DDO32	\$3,300	\$4,200	\$4,500	5
	DDO33	\$5,500	\$6,600	\$7,100	11
Industrial	DDO28	\$3,600	\$4,000	\$4,100	3
	DDO29	\$4,800	\$6,100	\$10,200	34
	DDO32	\$5,900	\$7,800	\$8,600	2
	DDO33	\$7,100	\$8,900	\$9,200	5

Source: SGS analysis of data provided by the City of Melbourne, 2017.

TABLE 15: INDICATIVE FLOOR SPACE VALUES PER SQM BY TYPE AND CHARACTER AREA

Use	Character area	Average value per sqm	85 th percentile land value per sqm	Maximum value sqm	Count of records
Retail	South (2)	\$8,500	\$11,000	\$13,200	13
	Central (3)	\$6,600	\$10,000	\$20,700	7
	West (4)	\$3,900	\$3,900	\$3,900	1
	Station (5)	\$-	\$-	\$-	-
	North (6)	\$4,300	\$4,300	\$4,300	1
	Commercial	South (2)	\$5,500	\$6,600	\$7,100
Central (3)		\$4,800	\$7,600	\$9,800	32
West (4)		\$4,100	\$4,800	\$8,700	9
Station (5)		\$3,800	\$5,000	\$5,900	3
North (6)		\$3,300	\$4,100	\$4,500	3
Industrial		South (2)	\$7,100	\$8,900	\$9,200
	Central (3)	\$4,400	\$5,700	\$10,200	17
	West (4)	\$5,000	\$6,000	\$8,700	18
	Station (5)	\$3,300	\$3,900	\$4,100	5
	North (6)	\$8,600	\$8,600	\$8,600	1

Source: SGS analysis of data provided by the City of Melbourne, 2017.

3.3 Feasibility testing

Feasibility testing was undertaken for a series of a hypothetical developments in different parts of West Melbourne. The land value and revenue assumptions used are set out in the table below, drawn from analysis presented in Sections 2.1 and 2.2 above.

TABLE 16: KEY ASSUMPTIONS USED IN FEASIBILITY TESTING

DDO or Character area	Average land value for development site per sqm	Gross realisation value (GRV) per sqm residential floor space	Gross realisation value (GRV) per sqm retail floor space	Gross realisation value (GRV) per sqm commercial floor space
DDO28/29	\$5,000	\$8,500	\$8,600	\$7,600
DDO33	\$8,500	\$8,500	\$11,000	\$6,600
South (2)	\$8,500	\$8,500	\$11,000	\$7,000
Central (3)	\$5,000	\$8,500	\$10,000	\$7,000
West (4)	\$5,000	\$8,500	\$9,000	\$5,000
Station (5)	\$5,000	\$8,500	\$9,000	\$5,000
North (6)	\$7,000	\$8,500	\$9,000	\$5,000

Source: SGS analysis of data provided by the City of Melbourne, 2017.

Feasibility testing by DDO area

The preliminary feasibility testing considered the feasibility of development at three densities applied to each of the DDO33, DDO28 and DDO29 areas. Given the similar in land values and floor space revenues for the DD028 and DDO29 areas were grouped for this analysis.

Development in the DDO28/29 area was tested with FARs of 2.0, 2.5 and 3.0:1. Development in the DDO33 area was tested with higher FARs of 3.0, 4.0 and 5.0:1.

Three different land use mixes are considered: all residential; all commercial; a mixed-use scenario that assumed 0.5 FAR was retail, 0.5 FAR was commercial and the balance of available floor space was residential.

The results of the feasibility analysis are provided in the tables below.

Interpretation

The assumptions section of the table shows the floor area ratio used in each test, progressively increases from left to right. The 'site value' is the average land values square metre for potential development sites for each DDO area (identified in Table 16 above). The 'threshold value' is this site value plus 25%. This has been chosen as the margin on top of the existing land value that a land owner might expect seek when selling a site for redevelopment. 25% is considered a realistic but not excessive expectation. In practice individual land owners may seek higher margins or accept a lower price that is closer to the existing site value.

The middle section of the table contains the result of the feasibility tests, expressed as the residual land value (RLV) per square metre of land area.

The final section of the table compares the resulting RLVs to the existing site value. A green coloured cell indicates that the redevelopment is likely to be feasible as the RLV exceeds the existing site value by a margin of 25% or more. Orange coloured cells indicates the feasibility of redevelopment is marginal as the RLV is between 100% and 125% of the existing site value. Motivated land sellers may be enticed to sell in this range. The red coloured cells indicate that redevelopment is unlikely to be feasible as the RLV of the site at the density and land use mix tested is lower than the existing land value.

TABLE 17: PRELIMINARY FEASIBILITY FINDINGS BY DDO AREA – BASE ANALYSIS

	DDO28/ DDO29	DDO28/ DDO29	DDO28/ DDO29	DDO33	DDO33	DDO33
Assumptions						
Floor area ratio	2.0	2.5	3.0	3.0	4.0	5.0
Site value (per sqm)	\$5,000	\$5,000	\$5,000	\$8,500	\$8,500	\$8,500
Threshold value (per sqm)	\$6,250	\$6,250	\$6,250	\$10,625	\$10,625	\$10,625
Residual land value (RLV) (per sqm)						
1. Residential only	\$4,700	\$5,900	\$7,100	\$7,100	\$9,500	\$11,900
2. Commercial only	\$3,400	\$4,200	\$5,100	\$2,800	\$3,800	\$4,700
3. Mixed use	\$4,400	\$5,600	\$6,800	\$7,300	\$9,700	\$12,100
Ratio of RLV to existing value						
1. Residential only	0.95	1.19	1.42	0.84	1.12	1.40
2. Commercial only	0.68	0.85	1.02	0.34	0.45	0.56
3. Mixed use (ret/com/res)*	0.89	1.13	1.36	0.86	1.14	1.42

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

TABLE 18: PRELIMINARY FEASIBILITY FINDINGS BY DDO AREA – 20% DECREASE IN LAND VALUES

	DDO28/ DDO29	DDO28/ DDO29	DDO28/ DDO29	DDO33	DDO33	DDO33
Assumptions						
Floor area ratio	2.0	2.5	3.0	3.0	4.0	5.0
Existing site value (sqm)	\$4,000	\$4,000	\$4,000	\$6,800	\$6,800	\$6,800
Threshold sales value (sqm)	\$5,000	\$5,000	\$5,000	\$8,500	\$8,500	\$8,500
Ratio of RLV to existing value						
1. Residential only	1.19	1.48	1.78	1.05	1.40	1.75
2. Commercial only	0.85	1.06	1.27	0.42	0.56	0.70
3. Mixed use (ret/com/res)*	1.11	1.41	1.71	1.08	1.43	1.78

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

TABLE 19: PRELIMINARY FEASIBILITY FINDINGS BY DDO AREA – 10% INCREASE IN REVENUES

	DDO28/ DDO29	DDO28/ DDO29	DDO28/ DDO29	DDO33	DDO33	DDO33
Assumptions						
Floor area ratio	2.0	2.5	3.0	3.0	4.0	5.0
Existing site value (sqm)	\$5,000	\$5,000	\$5,000	\$8,500	\$8,500	\$8,500
Threshold sales value (sqm)	\$6,225	\$6,225	\$6,225	\$10,583	\$10,583	\$10,583
Ratio of RLV to existing value						
Residential only	1.20	1.51	1.81	1.06	1.42	1.77
Commercial only	0.91	1.13	1.36	0.51	0.68	0.85
Mixed use (ret/com/res)*	1.14	1.44	1.74	1.09	1.45	1.80

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

Base results

The results of the base analysis suggest that residential and mixed use development are likely to be feasible in the DDO28/29 and DDO33 areas at FARs of 3.0 and 5.0 respectively. The feasibility of these development types becomes marginal at FARs of 2.5 and 4.0 respectively.

Purely commercial development does not appear to be feasible in any DDO area at the densities tested.

Sensitivity test

Two sensitivity tests were considered:

- A 20% decrease in land values from the average. This test considers the feasibility where land values are lower than the current averages. This pattern was evident in analysis of Council valuation data for some larger sites in the DDO29 area.
- A 10% increase in revenues. This test considers the impact of higher revenues that might arise if demand in the West Melbourne precinct were to increase. This could occur as a result of future transport investments, the Queen Victoria market redevelopment, or a general increase in the desirability of West Melbourne as progressive renewal impacts the character and amenity of the area.

Discussion

The high level findings from the preliminary feasibility analysis are summarise below.

Residential development:

- Based on average land values, residential development is likely to be feasible in the DDO28 and DDO29 areas at a density of 3.0 FAR.
- Based on average land values, residential development is likely to be feasible in the DDO33 area at a density of 5.0 FAR.
- Development at lower densities might be feasible if sites can be acquired for lower than average prices (Table 18) or if revenues increase (Table 19).

Commercial development:

- New stand-alone commercial development is not likely to be feasible. Residual land values for hypothetical commercial developments are generally lower than existing land values. Where commercial developments appear feasible they are less profitable than the equivalent scale of residential or mixed use development.

Mixed use development with retail, commercial and residential:

- A hypothetical mixed use development is feasible in the DDO28 and DDO29 areas at an FAR of 3.0, and becomes feasible at FAR 2.5 with a 20% lower in base land value or a 10% increase in revenue.
- The hypothetical mixed use development in the DDO33 area is feasible at FAR 5.0 and marginal at 4.0, but feasible at 4.0 with a 20% lower in base land value or a 10% increase in revenue.

Feasibility testing by character area

The feasibility testing was repeated using land values and estimated revenues for the five character areas (see Table 16).

The following FAR assumption were applied to the character areas:

- South (2): 6:1
- Central (3): 3:1
- West (4): 3:1
- Station (5): 4:1
- North (6): 3:1

These FARs are generally higher than those use in the initial feasibility testing by DDO area.

The same three different land use mix scenarios were considered: all residential; all commercial; and a mixed use scenario of retail, commercial and residential.

The results of the feasibility analysis are provided in the tables below and follow the same format as the previous results.

Sensitivity test

Three sensitivity tests were applied to the feasibility testing by character area:

- A 20% lower land values
- A 10% increase in revenues, and
- A 6% inclusionary housing requirement. This test assumes that 6% of the total floor space is dedicated to social or affordable housing with ownership is transferred to a third party (e.g. Community Housing Provider) at no cost to them.

TABLE 20: FEASIBILITY TESTING BY CHARACTER AREA – BASE ANALYSIS

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	3.0	3.0	4.0	3.0
Site value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Threshold value (per sqm)	\$10,600	\$6,300	\$6,300	\$6,300	\$8,800
Residual land value (RLV) (per sqm)					
1. Residential only	\$14,200	\$7,100	\$7,100	\$9,500	\$7,100
2. Commercial only	\$7,500	\$3,700	-\$800	-\$1,000	-\$800
3. Mixed use (ret/com/res)*	\$14,600	\$7,100	\$6,000	\$8,400	\$6,000
Ratio of RLV to existing value					
1. Residential only	1.68	1.42	1.42	1.90	1.02
2. Commercial only	0.88	0.75	-0.15	-0.20	-0.11
3. Mixed use (ret/com/res)*	1.72	1.42	1.20	1.67	0.86

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

TABLE 21: FEASIBILITY TESTING BY CHARACTER AREA – 20% DECREASE IN LAND VALUES

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	3.0	3.0	4.0	3.0
Site value (per sqm)	\$6,800	\$4,000	\$4,000	\$4,000	\$5,600
Threshold value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Ratio of RLV to existing value					
1. Residential only	2.10	1.78	1.78	2.37	1.27
2. Commercial only	1.10	0.94	-0.19	-0.25	-0.13
3. Mixed use (ret/com/res)*	2.15	1.78	1.50	2.09	1.07

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

TABLE 22: FEASIBILITY TESTING BY CHARACTER AREA – 10% INCREASE IN SALES REVENUES

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	3.0	3.0	4.0	3.0
Site value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Threshold value (per sqm)	\$10,600	\$6,200	\$6,200	\$6,200	\$8,700
Ratio of RLV to existing value					
1. Residential only	2.13	1.81	1.81	2.41	1.29
2. Commercial only	1.25	1.06	0.07	0.10	0.05
3. Mixed use (ret/com/res)*	2.17	1.81	1.56	2.16	1.11

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

TABLE 23: FEASIBILITY TESTING BY CHARACTER AREA – 6% INCLUSIONARY HOUSING

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	3.0	3.0	4.0	3.0
Site value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Threshold value (per sqm)	\$10,600	\$6,200	\$6,200	\$6,200	\$8,700
Ratio of RLV to existing value					
1. Residential only	1.32	1.12	1.12	1.49	0.80
2. Commercial only	0.52	0.44	-0.46	-0.61	-0.33
3. Mixed use (ret/com/res)*	1.36	1.12	0.89	1.27	0.64

Source: SGS Economics and Planning, 2017.

*0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

Discussion

The high level findings of the feasibility testing by character area are summarise below.

Residential only development:

- Based on average land values, residential development is likely to be feasible in all character areas based on the nominated FARs, with the exception of the North character area. However, the first two sensitivity tests suggest development would be feasible there if sites can be purchased for less than average land values, or revenues are increased by 10%.
- The 6% affordable house requirement would make residential development in the Central and West character area less likely to be feasible (see Table 23).

Commercial development:

- Analysis by character areas also finds that new stand-alone commercial developments are unlikely to be feasible in West Melbourne.

Mixed use development with retail, commercial and residential floor space:

- A mixed use development is feasibility in three character area (South, Central and Station) and marginal in West character area.
- The 6% affordable house requirement makes mixed use development marginal in the Central character area, however it remains feasible in the South and Station character areas.

Feasibility testing by character area with higher FARs

A final round of feasibility testing considered higher FARs for two character areas, an additional use mix scenario and additional sensitivity tests.

The FARs were increased for two character areas:

- Central (3): 4:1 (was 3:1)
- Station (5): 5:1 (was 4:1)

A fourth use scenario was introduced: a mixed use development where 1:1 FAR was commercial floor space and the balance of available floor space residential.

The results of this analysis are provided in the Table 24 below.

TABLE 24: FEASIBILITY ANALYSIS BY CHARACTER AREA (HIGHER DENSITY) – BASE ANALYSIS

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	4.0	3.0	5.0	3.0
Site value (per sqm)	\$8,500	\$5,000	\$5,000	\$5,000	\$7,000
Threshold value (per sqm)	\$10,600	\$6,200	\$6,200	\$6,200	\$8,700
Residual land value (RLV) (per sqm)					
1. Residential only	\$14,200	\$9,500	\$7,100	\$11,900	\$7,100
2. Commercial only	\$7,500	\$5,000	-\$800	-\$1,300	-\$800
3. Mixed use	\$14,600	\$9,500	\$6,000	\$10,700	\$6,000
Ratio of RLV to existing value					
1. Residential only	1.68	1.90	1.42	2.37	1.02
2. Commercial only	0.88	1.00	-0.15	-0.25	-0.11
3. Mixed use (ret/com/res)*	1.72	1.90	1.20	1.89	0.67
4. Mixed use (com/res)**	1.54	1.67	0.90	1.85	0.64

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

** 1.0:1 commercial FAR and balance of floor space residential.

Sensitivity test

Five sensitivity tests were applied to the four use scenarios:

- 20% lower land values
- 10% higher revenues
- The 6% inclusionary housing requirement
- The inclusion of DCP contributions at a low rate
- The inclusion of DCP contributions at a high rate.

Two further tests considered the impacts of combining the 6% inclusionary housing requirement with the low and high DCP rates.

There is currently no DCP in place in West Melbourne. The sensitivity testing that included an allowance for DCP contributions assumed the following:

- A lower contribution rate of \$3000 per dwelling and \$3000 per 100 sqm of non-residential floor space, and
- A higher contribution rate of \$6000 per dwelling and \$6000 per 100 sqm of non-residential floor space.

TABLE 25: FEASIBILITY ANALYSIS BY CHARACTER AREA (REVISED) – SENSITIVITY TESTING

	South (2)	Central (3)	West (4)	Station (5)	North (6)
Assumptions:					
Floor area ratio	6.0	4.0	3.0	5.0	3.0
Ratio of RLV to existing value – Test 1: 20% lower land values					
1. Residential only	2.10	2.37	1.78	2.97	1.27
2. Commercial only	1.10	1.25	-0.19	-0.31	-0.13
3. Mixed use (ret/com/res)*	2.15	2.37	1.50	2.69	1.07
4. Mixed use (com/res)**	1.93	2.09	1.12	2.31	0.80
Ratio of RLV to existing value – Test 2: 10% high sale prices					
1. Residential only	2.13	2.41	1.81	3.01	1.29
2. Commercial only	1.25	1.42	0.07	0.12	0.05
3. Mixed use (ret/com/res)*	2.17	2.41	1.56	2.76	1.11
4. Mixed use (com/res)**	1.98	2.16	1.23	2.43	0.88
Ratio of RLV to existing value – Test 3: 6% affordable housing requirement					
1. Residential only	1.32	1.49	1.12	1.86	0.80
2. Commercial only	0.52	0.59	-0.46	-0.76	-0.33
3. Mixed use (ret/com/res)*	1.36	1.49	0.89	1.64	0.64
4. Mixed use (com/res)**	1.18	1.27	0.59	1.34	0.42
Ratio of RLV to existing value – Test 4: Allowance for DCP at lower rate					
1. Residential only	1.65	1.87	1.40	2.33	1.00
2. Commercial only	0.86	0.98	-0.17	-0.28	-0.12
3. Mixed use (ret/com/res)*	1.69	1.87	1.18	2.11	0.84
4. Mixed use (com/res)**	1.52	1.64	0.88	1.81	0.63
Ratio of RLV to existing value – Test 5: Allowance for DCP at higher rate					
1. Residential only	1.62	1.84	1.38	2.29	0.98
2. Commercial only	0.84	0.95	-0.19	-0.31	-0.13
3. Mixed use (ret/com/res)*	1.67	1.84	1.16	2.07	0.83
4. Mixed use (com/res)**	1.49	1.61	0.86	1.77	0.61
Ratio of RLV to existing value – Test 6: 6% affordable housing and allowance for DCP at lower rate					
1. Residential only	1.29	1.46	1.09	1.82	0.78
2. Commercial only	0.50	0.57	-0.47	-0.79	-0.34
3. Mixed use (ret/com/res)*	1.33	1.46	0.87	1.60	0.62
4. Mixed use (com/res)**	1.16	1.24	0.57	1.30	0.41
Ratio of RLV to existing value – Test 7: 6% affordable housing and allowance for DCP at higher rate					
1. Residential only	1.26	1.43	1.07	1.78	0.76
2. Commercial only	0.48	0.54	-0.49	-0.82	-0.35
3. Mixed use (ret/com/res)*	1.31	1.43	0.85	1.56	0.61
4. Mixed use (com/res)**	1.13	1.21	0.55	1.26	0.39

Source: SGS Economics and Planning, 2017. *0.5:1 retail FAR; 0.5:1 commercial FAR; balance of floor space residential

** 1.0:1 commercial FAR and balance of floor space residential.

3.4 Discussion

The findings of the final feasibility testing are summarised below:

- At the nominated 'higher' densities the residential and both mixed-used development scenarios are all feasible in the South, Central and Station character areas. The residential development scenario is also feasible in the West precinct but marginal in the North precinct.
- The mixed use development scenario with a higher proportion of commercial floor space results in a lower RLV, but the ratio of RLV to existing land value is still in the feasible range (greater than 1.25).
- The first two sensitivity tests – lower existing land values and higher sales revenues – both improve RLVs. However, in general these changes have a very limited impact on whether or not the hypothetical developments achieve the feasibility benchmark. The exception being the results for the commercial-only development scenario, which becomes feasible in the South and Central character areas when revenues are increased by 10%, and also in the Central character area when land values are decreased by 20%.
- The next three tests (affordable housing; DCP lower rate and DCP higher rate) individually have limited impacts on the feasibility test results.
- The combined sensitivity tests (affordable housing *and* DCP requirements) find that development should still be feasible for the residential and first mixed use scenario (0.5:1 retail and 0.5:1 commercial FAR) in the South, Central and Station character areas with these additional costs. The findings for the second mixed use scenario (1:1 commercial FAR) suggest the feasibility is marginal for this type of development in the South and Central character areas.
- The modest changes to the findings as a result of the various sensitivity tests suggest the findings of the base feasibility analysis are relatively robust.
- The introduction of floor area ratios, height controls and other planning policies is likely to increase certainty in the market concerning development potential, the anticipated built form outcomes, and the resulting underlying land values. Should potential revenues from new development increase over the next 10-15 years, developments feasible across the precinct will improve.

4. IMPLEMENTATION OPTIONS

4.1 Implementation options

There are a range of implementation options that Council could entertain as part of the West Melbourne Structure Plan. These Planning Scheme implementation options cover a range of tools (zoning, overlays, local policies, additional mechanisms), and have varying degrees of effectiveness to achieve Council's objectives for the precinct.

The effectiveness of a tool needs to be balanced with the risk of limiting development; if a tool is applied too broadly or strictly, there is a risk it will be 'overly' effective, potentially resulting in stifling or limiting development and investment in the precinct.

The following section outlines each of the potential tools, implications and any relevant issues. The tools are not necessary mutually exclusive and some could be used in combination.

Each tool is then assessed against a set of criteria, to help understand the relative benefits and implications and to help inform Council decision making regarding implementation.

Increased use of Commercial 2 zone

The purpose of the Commercial 2 zone includes 'encourage commercial areas for offices, appropriate manufacturing and industries, bulky goods retailing, other retail uses, and associated business and commercial services'. West Melbourne is currently predominantly zoned Mixed Use, which allows for both commercial and residential activity, as well as Residential Growth Zone, with some limited areas of Public Park and Recreation zone, and Public Use Zone. There is a small pocket of Commercial 1 zone fronting Victoria Street.

To this end, applying the Commercial 2 zone to selected areas where employment uses are to be retained, particularly locations closer to arterial roads, would limit residential development. While not a planning consideration per se, the application of the Commercial 2 zone would also, when applied to existing Mixed Use zoned areas, represent a 'backzoning' and likely result in reduced land values. This would likely be met with strong opposition from land owners.

Zoning is, however, a reactive tool, and applying the Commercial 2 zone would not stimulate commercial development where it is not a feasible proposition. Further, if this zoning is applied and the favoured uses are not viable, there is a risk of creating a planning blight on particular properties, resulting in low levels of re-investment in built form and ultimately contributing to public realm outcomes which are inconsistent with the policy to improve public realm.

The fact that residential development is prohibited in the Commercial 2 Zone also requires a particularly high-level of certainty about its application: the zone should only be applied where Council is confident residential is *never* appropriate. This requires increased levels of strategic justification and will likely increase the strength of stakeholder opposition.

'Fine grain' zoning

The purpose of the Commercial 1 zone includes 'To create vibrant mixed use commercial centres for retail, office, business, entertainment and community uses, and to provide for residential uses at densities complementary to the role and scale of the commercial centre'. To this end, the use of a combination of Commercial 1, Commercial 2, Mixed Use and potentially the Residential Growth zones, to specify desired outcomes for small areas or

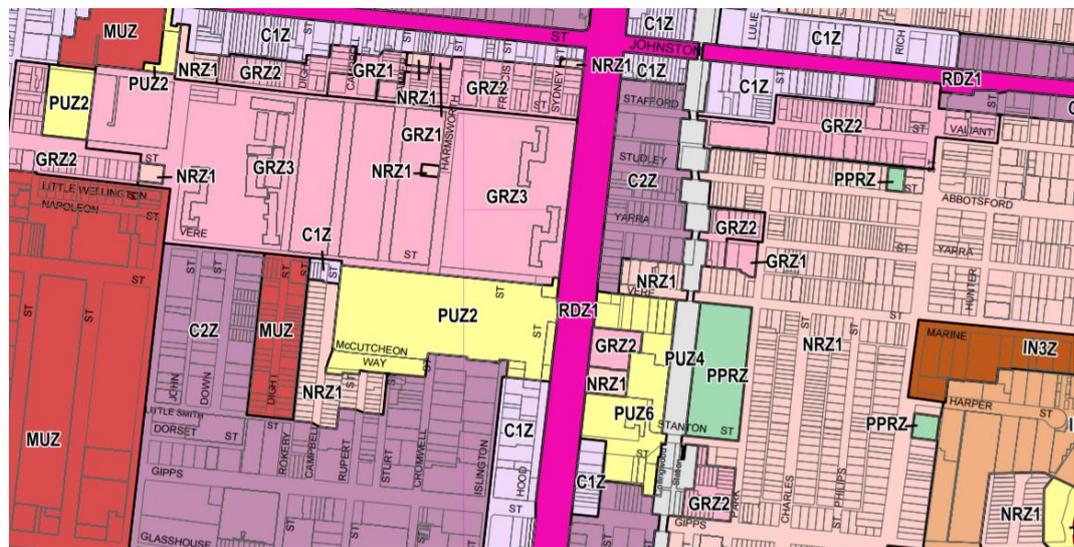
precincts would enable more specific land use outcomes to be identified throughout the precinct.

An example of this is provided in Figure 4, below, from the City of Yarra. It illustrates an inner city environment where a number of zones have been applied, reflecting desired land use and development outcomes.

This approach allows more consideration of the potential of individual precincts – or even individual sites – in setting the zoning, and more recognition of the diverse nature of existing conditions in the precinct.

A highly fine-grain approach may reduce the risk of planning blight from broader use of Commercial zones. It may, however, increase the strategic burden in justifying the amendment given the variations in approaches applied to individual sites.

FIGURE 4: CITY OF YARRA FINE GRAIN ZONING



New 'business oriented' Mixed Use Zone

A limitation of the current Mixed Use zone for supporting a genuine mix of uses is that it is oriented towards residential development; proposals for residential uses do not require a permit for use, so the Responsible Authority has no mechanism to discourage or refuse residential development. Further, the purpose of the zone includes a specific reference to 'housing at higher densities'. The purpose of the zone in the VPP is as follows:

- To implement the State Planning Policy Framework and the Local Planning Policy Framework, including the Municipal Strategic Statement and local planning policies.
- To provide for a range of residential, commercial, industrial and other uses which complement the mixed-use function of the locality.
- *To provide for housing at higher densities.*
- To encourage development that responds to the existing or preferred neighbourhood character of the area.
- To facilitate the use, development and redevelopment of land in accordance with the objectives specified in a schedule to this zone.

A possible solution to the 'residential bias' of the current mixed use zone this issue would be to advocate for a new form of Mixed Use zone where dwellings are a Section 2 use and the specific purpose relative to higher density housing is removed. The designation of dwelling as a Section 2 use would mean that the Responsible Authority would make decisions based on policies in the Scheme, including Local Policy. A specific Local Policy referring to West Melbourne's economic role (e.g. an updated 21.08) could articulate specific desired outcomes

in the Scheme and this would then be considered when applications for Residential are received.

There has been an ongoing discussion for many years about a need for more 'mixed use' Mixed Use Zone which treats commercial and residential uses in the same way, rather than preferencing residential uses. The situation at West Melbourne might provide a catalyst for the state government to consider introducing a new such zone, noting that modifying the existing zone would have potential widespread implications for areas where the MUZ currently applies.

A Special Use zone could also be designed to achieve a similar outcome; the key characteristic would be that residential development requires a permit for use, thereby triggering consideration of Local Policy. The Special Use Zone exists to allow customised zonings where "an appropriate combination of the other available zones, overlays and local policies cannot give effect to the desired objectives or requirements" (as specified in the state government's "Planning Practice Note 3 – Applying the Special Use Zone.") It should be noted that the state government has traditionally resisted its widespread application, preferring that standard zone solutions be used. Nevertheless, it is considered that a strong case can be made that the West Melbourne situation meets the tests outlined in the practice note, notably an absence of suitable alternatives in the standard suite of zones. Proposition of such a mechanism may also be effective as part of a wider advocacy process to encourage the state government to provide a business-oriented Mixed Use Zone.

The Comprehensive Development Zone allows similar scope for customised controls as the Special Use Zone. It is described as follows in the Department's publication *Using Victoria's Planning System*:

'This zone is similar to the Special Use Zone but is designed to allow more complex developments in accordance with a comprehensive development plan incorporated in the planning scheme. Generally, only large or complex developments would warrant the use of this zone.'

The zone is more traditionally used to facilitate development in a large estate subject to an overriding masterplan, and with a limited life span (such as its previous use in the City of Melbourne for Kensington Banks), rather than the more iterative development occurring in an existing neighbourhood. While it is possible to consider a structure plan as the development plan, this would be an unconventional use of the tool. Nevertheless, it exists as another possibility should the state government be reluctant to use a Special Use Zone.

Vertical zoning

'Vertical zoning' – requiring commercial floorspace, with some capacity for ground floor retail, in particular areas – was implemented by Stonnington in the Chapel Street area. The mechanism included a trigger for a planning permit for the use of a dwelling within the podium level of a building (the podium level being the area closest to street activity where commercial operations could locate).

Stonnington did this using the Activity Centre zone, which is a particularly flexible tool. It allowed the Planning Authority to stipulate the spatial distribution of uses via a Development Plan for a centre¹. The purpose of the zone includes 'encourage a mixture of uses and the intensive development of the activity centre, to deliver a diversity of housing at higher densities to make optimum use of the facilities and services, to create through good urban design an attractive, pleasant, walkable, safe and stimulating environment.

Stonnington proscribed a floorspace ratio and building height for every lot within the Structure Plan area, combined with the commercial floorspace requirements via the schedules of the ACZ. This provides certainty regarding the quantum of residential available on each site.

¹ It may be possible to use the ACZ to apply a 'fine grained' approach

Vertical Zoning would require a customised zoning solution such as an Activity Centre Zone or Special Use Zone. West Melbourne is not a designated Activity Centre, and does not neatly align with the intended precincts for the zone in the state government’s Practice Note “PPN – 56: Activity Centre Zone.” A Special Use Zone could also be used. The same caveats about the state government’s traditional reluctance to use this mechanism, noted above, would apply to the use of the Special Use Zone to achieve vertical zoning. The use of the ACZ to deliver vertical zoning requires identification of locations for residential and commercial floorspace within the centre.

Floor Area Uplift Scheme

Amendment C270 provides the framework for developers to increase the density of a site, in exchange for contributing to community infrastructure. The definition of community infrastructure could potentially include the provision of commercial floorspace, enabling developers to build at increased density in return for providing commercial floorspace.

Floor Area Uplift Schemes are attractive in incentivising desirable outcomes – this can be an appealing proposition compared to the traditional restrictive role of planning controls. However they also present some challenges.

Establishment of the baseline for such a scheme would require clear setting of building heights across designated precincts. There would also need to be consideration of how the objectives of those built form controls are affected by the use of the FAU scheme. For example, are the original objectives of the built form control still to be achieved if there are regular variations pursuant to the FAU scheme? If so, does this raise questions about the legitimacy of the original baseline? In such a situation, if the benefits of the FAU are essentially unrelated to those of the underlying built form control, there is the danger that a desirable built form outcome is traded away to achieve an unrelated planning objective. Alternatively, the built form objective may be seen to have been imposed to create artificial leverage to achieve an unrelated objective. This can threaten the achievement of the objectives of both the built form control and the FAU scheme.

Another key challenge relates to permanency of outcomes. It may prove difficult to enforce the retention of commercial floorspace. Even where mechanism exist to regulate future tenancies – whether through zoning, permit conditions, or Section 173 Agreements – it may in practice prove difficult to refuse to allow changes of use if tenancies struggle for tenancies in the future.

Such a scheme would also need to be a strong justification for the conceptualisation of commercial floorspace as community infrastructure.

Revised DDOs

Design and Development Overlays ‘identify areas which are affected by specific requirements relating to the design and built form of new development’. In the case of West Melbourne, mandatory height limits could be incorporated in to the Scheme. In some cases, this may prevent development of a site, resulting in the retention of existing buildings and space for commercial activity. This would also, however, potentially result in limiting investment in affected areas, leading to poor public realm outcomes.

The purpose of the DDOs is design and development, rather than land use mix, so it is generally not appropriate to attempt to control land use mix using this tool. While an argument can be mounted that there is a genuine nexus between built form and use outcomes – for example through the size of tenancies and age of buildings – controls that attempted to regulate such matters would stretch the typical application of built form controls in Victoria.

Using the DDO to constrain heights with a view to preventing residential development supplanting favoured uses is especially problematic. In such an approach the legitimacy of the height control would be undermined by the perception it was applied for an ulterior motive. Such a control would also not protect against outcomes that satisfied the height control but

did not meet the use-related objective (such as low- or medium-rise residential development).

If a use outcome is to be pursued through a suite of measures that include development controls in a DDO, it is therefore considered that the DDO need to operate in conjunction with a zone and policy that enact and legitimise those use-related objectives.

Local policy (LPPF)

The Local Planning Policy Framework enables Local Government to include relevant policy for consideration when planning decisions are being made. Updating the relevant local policy (21.16-5, and 21.08) to reflect the Structure Plan and to advocate for a mix of uses would ensure that objectives and outcomes are considered when planning decisions are made.

The key challenge in using the LPPF tool is ensuring that a planning decision is triggered; this requires the relevant uses (i.e. residential) to require a permit for use. In the Mixed Use Zone it is currently a Section 1 use, so there is no opportunity to apply any Local Policy regarding residential outcomes. Without such a change in zoning local policy would be ineffective.

Even where an appropriate trigger under zoning exists, local policy can be a weak tool. This is especially the case where there are competing objectives within the Scheme and lack of specific, spatially-resolved direction for particular places. Policy may be second-guessed by other decision-makers such as VCAT, or applied inconsistently over time. Policy should also not be used as a substitute for making hard decisions at a strategic level. Case-by-case policy-driven decision-making is unlikely to achieve a goal if the policy expresses that goal in ambivalent terms.

The chances of local policy being effective are increased where:

- The policy has a clear “hook” in zoning or another control (such as an overlay).
- The expected outcomes of the policy are clearly expressed and spatially resolved.
- The strategic justification is sound and likely to be looked upon favourably at appeal.

The current situation could provide an opportunity for a policy that meets these criteria. A policy can therefore be an effective part of a suite of implementation measures if supported by other tools.

Heritage listing

Listing specific properties, or increasing the heritage overlay may limit further development, and subsequently result in the retention of existing buildings for commercial uses, rather than residential. This has similar implications to the use of the DDO.

Assessment criteria

The challenges faced in implementing the West Melbourne Structure Plan objectives and aims, particularly those regarding retention of commercial activity, are common across many municipalities in Melbourne, and there is no one specific tool which will address the diversity of issues. It is likely that a combination of tools will be required; the development of a coherent implementation program will require an assessment of the relative characteristics of implementation tools.

The following assessment framework provides the context for identifying a suite of tools. It comprises

- Precedent: has the tool been successfully implemented before? In Melbourne?
- Practicality of implementing mechanism: can it be done using existing VPP tools? Is it difficult (this includes the level of State Government support for the use of tools in the way proposed)
- Stakeholder response: how might stakeholders and the community respond?
- Certainty of outcome: what is the likelihood of the intended outcome being delivered if the tool is implemented? Are there risks of unintended outcomes?
- Permanency or ‘stickiness’: how temporary or permanent will the outcome be?

- What is the time and/or cost required to implement the approach? Is this justified, given the outcome?

It is worth noting that there is, to some extent, an inevitable inverse correlation between efficacy and palatability for stakeholders. This is difficult to avoid where a policy objective involves constraining opportunities. Use of the Commercial 2 Zone, for example, will be resisted by stakeholders precisely because it very effectively constrains residential opportunities. Similarly, while the pairing of a Business-oriented Mixed Use Zone with a strong local policy is much more likely to be accepted by stakeholders, this increased acceptance derives partly from a reduced likelihood that the approach will constrain residential redevelopment.

TABLE 26: IMPLEMENTATION OPTIONS FOR RETAINING EMPLOYMENT

Criteria	C2 zoning	'Fine grain' zoning	Business orientated Mixed Use	Vertical zoning provisions via ACZ	FAU and commercial floor space as community benefit	DDO	Local policy (LPPF)	Heritage listing
Precedent	Use of C2 zone is widespread, however 'backzoning' from Mixed Use has not been done extensively	Well established however 'backzoning' from Mixed Use has not been done extensively	Doesn't currently exist, however has been discussed by various Councils and stakeholders	Limited to Chapel Street	Am C270 provides framework for community benefit, including, potentially, commercial floorspace.	Not appropriate tool to enforce or guide land use mix	Yes	Yes (although not to explicitly retain particular land uses)
Practicality/ difficulty	The mechanism to implement this is straightforward however developing the strategic justification may be more challenging	Will depend on extent of application Could be challenging to determine zones for specific sites, and any 'backzoning' may be challenging	Would require changes to VPP, however 'structure' of zone could be based on existing MUZ.	West Melbourne not currently designated an Activity Centre. Requires detailed block by block identification of land use mix	Will depend on extent of application and State Government appetite	Highly likely Relatively easy	Highly likely Relatively easy	Likely Relatively easy
Stakeholder response	May face resistance if land values affected	May face resistance if land values affected	Unlikely to face major resistance	Developers may resist approach, but if implemented where feasible can help create additional certainty	Developers may resist approach, but if implemented where feasible can help create additional certainty	May be supported, unless impacts on land/ development value.	Not likely to elicit significant response if consistent with Structure Plan	May be supported, unless impacts on land/ development value.
Certainty of outcome	High	High	High	High	Not clear	Low	Low	Low
Permanency/'stickiness'	More certainty but would not ensure particular employment uses	More certainty but would not ensure particular employment uses	More certainty	Does not ensure particular employment uses; may be pressure to convert to residential uses if tenanting difficult	Would not necessarily ensure particular employment uses	Little	Low	Low
Time/cost to justify and/or implement	Would require strong justification	Would require strong justification	Would require changes to VPP	Would require strong justification	Would require strong justification	Relatively easy	Relatively easy	Relatively easy

Source: SGS Economics and Planning

ADDENDUM: FEASIBILITY TESTING AND CAR PARKING PROVISION

This addendum was prepared in response to developments Council's the intended approach of the treatment of on-site parking and in calculating permissible floor in West Melbourne after the feasibility testing was complete. The following commentary speculates on the potential impact of this direction on the feasibility findings, and provides some guidance for further analysis that might be contemplated.

The treatment of on-site parking in the feasibility testing

The feasibility testing completed by SGS was commenced before the issue of on-site car parking requirements was resolved. The testing did not make any specific assumptions about the rate of parking provision or its format (above ground, below ground, or a combination).

In the absence of direction on parking provision, generous per square metre construction costs rate were applied to ensure costs associated with parking provision where include as a in the development costs. A flat rate of \$3000 for construction and \$250 for site preparation was assumed for each square meter of development in all feasibility scenarios.

The feasibility testing assumed that the all permissible floor space was habitable floor space (residential, retail or commercial). That is, an FAR or 4:1 on a 1000 sqm suite would yield 4000 sqm of saleable development. Parking was not included in the total floor space permissible under the applicable floor area ratio (FAR).

Council's intended approach to parking and permissible floor space

In the course of refining the West Melbourne Structure Plan, Council is contemplating including on-site parking as floor space for the purpose of calculating the total permissible floor space. Should this be the case, any floor space used for parking would result in a corresponding reduction in the potential habitable and 'saleable' floor space.

Council is also contemplating removing mandatory minimum parking requirement so that proponents would have absolute discretion over the amount of parking provided, including the option to provide no on-site parking.

The reasons for contemplating this approach include:

- Site testing has found that higher residential densities of around 200-250 dwellings per hectare (dph) on the Central (Spencer) precinct and 300-350 dph in the South (Flagstaff) precinct are achievable with the FARs provided, with parking floor space included.
- Proponents will have the option to build to the maximum FAR with no parking.
- Requirements for active frontages and good built form outcome would likely precluding above ground parking adjacent to the public domain.

Potential impacts on development feasibility

The potential impacts of these emerging directions for the feasibility testing are:

- For developments that include on-site parking:
 - Saleable floor space would be reduced and therefore total revenues reduced
 - Cost would be reduced (as parking floor space is cheaper than other floor space)
 - Cost savings are likely to be outstripped by revenue reductions.
 - The net effect on the feasibility results would ultimately depend on the amount of parking provided.
- For developments that include no on-site parking (or provide parking at a very low rate):
 - Costs are likely to be lower than those considered in the feasibility testing.
 - Revenues would be reduced on account of lower sales prices for dwellings or employment floor space without parking
 - The net effect of these changes is likely to improve the feasibility, although this would depend on the market appetite for dwellings and employment floor space without access to on-site parking.

Is it possible that the combination effect of a reduction of FAR due to the inclusion of parking and other policy initiatives that impact costs (development contributions, affordable housing obligation and other inclusionary requirements) could render development unfeasible, in the near term. However, future price increases for new development as a result of improvements to the amenity of West Melbourne would have a positive effect.

The land value expectation of incumbent land owners is also a significant unknown. The implementation of FAR controls should dampen expectations of high land values that are the result of speculative purchases made on the assumption that planning approvals for very high development yields can be secured.

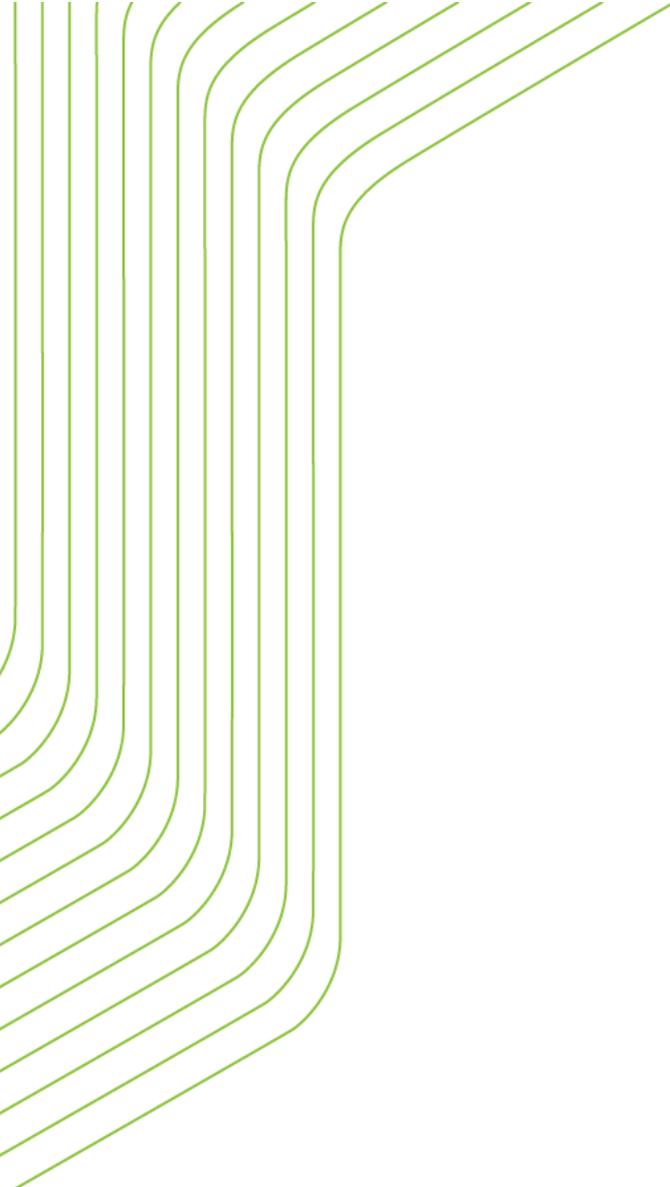
Further analysis

Pending finalisation of the West Melbourne Structure Plan further feasibility testing could be undertaken to better understand the impact of the proposed planning settings on development feasibility. This testing should be informed by:

- The maximum FARs for each character area
- Required minimum parking rates. In the absence of parking requirements a range of parking rates might be tested from none to a one per dwelling.
- Obligations arising from any development contributions plan and/or affordable housing obligation
- Any other inclusionary requirements (e.g. mandatory inclusion of a non-residential floor space).

In order to better understand land-owner expectations for potential redevelopment sites, Council might engage property advisory consultant to provide advice on price expectations. The existing land value assumptions used in by SGS in the feasibility testing are based on average values derived from Council valuations data and may not reflect current market expectations.

If land owners intentions and price expectations are known, Council can better gauge the likely impact of the new planning settings on prospects for new development progressing in the various precincts in the short term.



Contact us

CANBERRA

Level 2, 28-36 Ainslie Place
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE

Level 14, 222 Exhibition St
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY

209/50 Holt St
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

PARRAMATTA

Level 7, 91 Phillip Street
Parramatta NSW 2150
+61 2 8307 0121
sgsnsw@sgsep.com.au