CITY INVESTOR GUIDE SERIES: SYDNEY
Globally recognized for its iconic skyline, Sydney, Australia, is consistently ranked among the world’s most liveable cities, in part because of its warm climate, coastal geography and natural beauty. The city also boasts a world-renowned central business district, as well as an array of impressive regional economic centers that together make up the Sydney metropolitan area.

Home to nearly five million people and forecast to grow by a further 1.6 million by 2031, Sydney is a young and vibrant city with a highly diverse population. It currently generates around 70% of the total economic output for the state of New South Wales (NSW), and over a fifth of Australia’s GDP. The city’s robust economic output, which ranks above that of neighboring Hong Kong and Singapore, makes it an inviting and safe environment for investors. Recent purchases by overseas parties have set new records for land and property values.

That said, all is not positive for Sydney’s current outlook. For many years, it has suffered from underinvestment, and as a result, its infrastructure is struggling to cope with growing demands. Housing in particular is not meeting the current needs of the population, and Sydney’s commercial vacancy rates are the lowest in Australia.

Fortunately, the strong and popular NSW State Government has clear plans for Sydney’s future. It recently passed legislation to create the Greater Sydney Commission, which will lead metropolitan planning for the region. The state’s political will, coupled with available funding, means that the city is set to overcome its current challenges and continue to grow into one of the world’s most successful cities.

At this exciting time in the city’s history, Arcadis has compiled an insightful guide to investing in Sydney. We provide an outlook across Sydney’s investment landscape and identify the key opportunities and challenges to generating returns.
Whether you’re considering investing in Sydney for the first time or a seasoned expert looking to realize greater value from your investments, Arcadis can be your guide. We know how to deliver remarkable outcomes from investment in built assets.

READ ON IF YOU’RE WONDERING...

HOW DOES THE LAND MARKET WORK?

WHAT ARE THE OPTIONS FOR LAND USE?

HOW DOES THE PLANNING PROCESS WORK?
READ ON IF YOU'RE WONDERING…

WHAT ARE THE MAJOR DEVELOPMENT COST DRIVERS?
HOW SHOULD WE SELECT A PROJECT TEAM?
WHAT ARE THE MAIN RISKS ASSOCIATED WITH DEVELOPMENT IN SYDNEY?
FEDERAL:

- Recognizing the importance of cities to Australia’s GDP, the federal government recently created a Minister for Cities role, which brought a clear focus to the productivity, attraction and management of investment in Australia’s cities.
- Australia’s government recently launched a Smart Cities Plan, a policy similar to the British City Deals. These deals link investment in infrastructure to employment, housing construction and emissions reductions targets.
- In Australia, the federal government controls aviation, telecommunications, national public works and post-secondary education.

STATE:

- In 2015, the government of NSW passed the Greater Sydney Commission (GSC) Bill, which transferred powers for strategic planning from the Minister for Planning to the Commission. The Bill includes appropriate mechanisms to achieve cohesive and coordinated planning and infrastructure delivery in the Greater Sydney Region.
- The state government controls primary and secondary education, health, transport, state development, natural resources and environment, law and order, and housing.

LOCAL:

- Sydney has recently undergone local government amalgamation. The number of Local Government Areas (LGAs) has been reduced from 41 to 19 in an effort to increase the efficiency of services delivery.
- The three largest local centers are Sydney LGA, North Sydney LGA and Parramatta. The latter, located 23 kilometers west of Sydney’s CBD, is projected to become the city’s second CBD. The federal government has proposed the Badgerys Creek Airport to stimulate development of the area.
- Local governments control town planning and building regulations.
**ECONOMIC:**

- Sydney is Australia’s leading global city, the financial center of the Australian economy and an important hub within the Asia Pacific region.
- Sydney is home to the Australian Stock Exchange and the Futures Exchange. More than 75% of all foreign and domestic banks have their Australian headquarters in Sydney.
- Despite financial crises and a resource price crash, Sydney has benefitted from a strong national economy and has experienced 25 years of year-on-year growth.
- Sydney has outperformed the rest of the country for the past three years. From 2014 to 2015, Sydney’s GDP grew by 3% to $37 billion. Sydney’s economic activity accounts for 30.3% of Australia’s GDP and is greater than the combined GDP of all other cities in Australia.
- NSW has the largest manufacturing base in Australia. It was valued at over $33 billion in 2013 to 2014, with two thirds of this activity based in Sydney.
- There has been shift toward a greater contribution by the services sector, particularly in the area of health, with health and social services overtaking retail as Sydney’s largest employment sector at the last census.
- Currently, the financial and insurance services sector accounts for 20% of Sydney’s GDP; the professional, scientific and technical services sector for 10.5%; and manufacturing 7.8%.
- Situated in the same time zone as the rapidly growing economies of the Asia Pacific region, Sydney is well positioned as a provider of overnight services for Europe and North America.
- Sydney ranks among the world’s top-10 most connected cities, alongside New York, London, Tokyo, Paris and Hong Kong. It has critical links with major economic regions and the world economy.
SOCIAL:

- Sydney’s population is at an all-time high of five million and is forecast to grow by a further 1.6 million people by 2031.
- The median age of Sydney residents is 36 and 50% of the population is made up of first or second generation Australians. 19% of the population is tertiary educated.
- Public housing is under great pressure, and the state government has made public its plans for partnership with the private sector to address this issue.
- Housing affordability is a growing challenge for the city, and Sydney is the least affordable capital city in Australia, with low-income earners paying up to 70% of their income on rent. Housing affordability impacts the availability of essential workers in higher cost areas, while also creating geographic social divides between high- and low-income earners.

TECHNOLOGY:

- Sydney ranks 16th out of 20 cities on the Compass Startup Ecosystem Index; 64% of Australian tech startups are in Sydney; and Sydney is home to approximately 1,500 to 2,300 active tech startups.
- The city’s Tech Startups Action Plan focuses on an ecosystem that enables knowledge-based, innovation-driven businesses to flourish.
- University of Technology Sydney (UTS) has launched a collaboration initiative called Technology Intersections to bring together the private sector, government and UTS research to produce tech-led solutions to real economic challenges.
- The Transport Research Centre innovation hub was launched in May 2016 at UTS. The Centre will collaborate with road, bus and rail public transport service providers to develop and implement improved transport infrastructure and public services through solutions like passenger-sensing technologies and data analytics.
- UrbanGrowth NSW, the government’s urban transformation agency, aims to make the Bays Precinct in central Sydney the first in Australia with 100 mbps Broadband speed. The global tech giant Google has confirmed negotiations with UrbanGrowth NSW regarding possible relocation of its Australian headquarters to this precinct.
LEGAL:

• The Australian legal system is mature and transparent. Many overseas investors rely on it for managing their global asset portfolios.

• Sydney has a number of well established and specialist legal advisors in the infrastructure and property sectors, many of whom operate across Australian and international markets.

• A range of contract types facilitates the engagement of contractors, suppliers and consultants in the Australian market. Many contracts are based on the Australian Standards; equally, many contracts are bespoke, created by government departments and individual companies to suit their needs.

• Contracts typically include an agreed process for dispute resolution dictated largely by the needs of the parties involved. These processes tend to include relatively low-cost and fast procedures, such as expert determination and mediation, or more formal processes, such as arbitration and litigation.
ENVIRONMENT:

- In the 2016 Arcadis Sustainable Cities Index, Sydney ranked 22nd overall out of 100 cities, with sub-rankings of eighth for planet, 25th for people and 66th for profit.

- Australia’s first National Infrastructure Audit identified that seven of the top-10 most congested roads in the country are in Sydney. In 2011, road congestion cost the economy $15.1 million. Tom Tom, the navigation products company, ranked Sydney as the 30th most congested city in the world, just behind Shanghai.

- According to the Australian Climate Council, Sydney is highly vulnerable to flooding and coastal inundation, particularly when considering future impacts of climate change.

- According to the NSW Rural Fire Service, up to a million homes in Sydney are at risk of bushfires, with 200,000 of these at serious risk.

- Environmental sustainability policies adopted in Sydney directly influence building design, cost of energy and usage requirements for renewable energy. Tenants and investors expect their buildings to have high sustainability ratings, with assessments based on Green Star or NABERS.
## Figure 1: City Comparison

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>SYDNEY</th>
<th>LONDON</th>
<th>SINGAPORE</th>
<th>SHANGHAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>3%</td>
<td>2.9%</td>
<td>-0.9%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Population</td>
<td>5.05m</td>
<td>8.67m</td>
<td>5.35m</td>
<td>24m</td>
</tr>
<tr>
<td>GDP/capita</td>
<td>$74,851</td>
<td>$68,711</td>
<td>$17,943</td>
<td>$8,850</td>
</tr>
<tr>
<td>City size</td>
<td>12,368km²</td>
<td>1,572km²</td>
<td>719.1km²</td>
<td>7,037km²</td>
</tr>
<tr>
<td>Population density</td>
<td>408.3/km²</td>
<td>5,517 per-sons/km²</td>
<td>7,440 per-sons/km²</td>
<td>3,410 per-sons/km²</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.04%</td>
<td>5.9%</td>
<td>2.1%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>
**Figure 2: City Metrics**

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>INDICATOR</th>
<th>SYDNEY</th>
<th>COMPARISON CITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness</td>
<td>Power City Index (Mori Memorial Foundation)</td>
<td>12th</td>
<td>Singapore 5th</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shanghai 17th</td>
</tr>
<tr>
<td>Financial Power</td>
<td>Financial Centres index (Z/Yen)</td>
<td>17th</td>
<td>Singapore 3rd</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shanghai 16th</td>
</tr>
<tr>
<td>Global Engagement</td>
<td>Global Cities Index (AT Kearney)</td>
<td>14th</td>
<td>Singapore 8th</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shanghai 20th</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Sustainable Cities Index (Arcadis)</td>
<td>11/50</td>
<td>Singapore 10/50</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shanghai 30/50</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Cities Momentum Index (JLL)</td>
<td>8th</td>
<td>Singapore 6th</td>
</tr>
<tr>
<td>Appeal to super-rich</td>
<td>Wealth index (Knight Frank)</td>
<td>8th</td>
<td>Singapore 3rd</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shanghai 6th</td>
</tr>
<tr>
<td>Tourism</td>
<td>Destination Cities Index (Mastercard)</td>
<td>17th</td>
<td>Singapore 5th</td>
</tr>
</tbody>
</table>

*refer to inside back cover for source, definitions and notes.*
MARKET DYNAMICS:

SYDNEY MARKET DYNAMICS

Sydney is the most expensive city in Australia. In the Arcadis 2016 Sustainable Cities Index, which ranks cities in terms of the sustainability of people, planet and profit, Sydney ranked 78th out of 100 cities for affordability. Rents and land values have risen significantly in recent years, a trend that looks set to continue.

With limited supply of stock to the market, a competitive Australian dollar, historically low interest rates for borrowing, and a buoyant market across residential, commercial, industrial and retail sectors, many investors see Sydney as the first choice for investment in Australia. In addition, significant recent government funding of state infrastructure projects, such as the new Sydney Metro, Sydney’s second airport and motorway improvements is creating an appealing landscape for infrastructure by-product investment in the property sector.

RESIDENTIAL:

- Negative gearing has sent Sydney’s median house price soaring to $1 million in mid-2015.
- Total vacancy for the Greater Sydney residential market was last recorded at 2.1%.
- Driven by the low Australian dollar, 2016 has seen a 14.6% growth in new dwelling construction.
- Residential sales transactions to January 2016 amounted to 46,490 houses and 46,284 apartments for the previous 12 months.
- Concerns exist about the oversupply of residential units in some markets. Local banks have recently changed their policies toward investment borrowing, and all the major and many smaller banks have instituted restricted lending to overseas property buyers, often requiring proof of Australian income sources.
MARKET DYNAMICS:

SYDNEY MARKET DYNAMICS

HOTEL AND LEISURE:

• The weaker Australian dollar has increased Australia’s appeal as a tourist destination. The 2015 data saw 30.6 million visitor nights spent in Sydney (a 3.2% increase from the previous year). Significantly, international visitors accounted for 74.4% of the total visitor nights. JLL, a global provider of commercial and residential property services, reports current occupancy rates of 88.2%, further highlighting the high demand for Sydney hotels.

• Sydney’s hospitality market will benefit from new infrastructure, including the Sydney Light Rail Project, the new Sydney Convention Centre (to be completed in December 2016) and the Barangaroo mixed-use residential and commercial precinct. These expansions and new developments could add 1,033 rooms, representing a 4.9% increase on existing hotel stock.

• Offshore sales within the hotel industry continue to drive demand in this sector. With a reduction of domestic ownership, estate agent Knight Frank suggests offshore groups will seek out more joint ventures as a means of gaining exposure to assets and local knowledge.

RETAIL:

• The fall in the Australian dollar has supported local retailers, with increased tourism and reduced online purchasing.

• The resilient local economy has attracted international retailers, which has in turn increased demand for prime retail sites. CBD retail vacancy rates have gone from 4.1% to 3.3% in recent years. According to Knight Frank, the influx of international luxury retailers into the Australian market is likely to continue.

• The Sydney Light Rail project will bring new activity to the George Street shopping district in central Sydney. The government is on track to invest $220 million to improve the public domain, with the intention of boosting demand for retail space there.
COMMERICAL:
- The Sydney CBD office market is at the forefront of Australia’s office market rental recovery. Sydney CBD prime gross effective rents increased 2.1% to $714 per square meter in the second quarter of 2016. Momentum in prime gross effective rental growth has continued for seven consecutive quarters and driven year-on-year growth by 12.2%.
- Sydney CBD vacancy shifted upward by 0.3% to 7.1% over the second quarter of 2016. Grade A and B leasing markets are becoming increasingly competitive as a result of office withdrawals and tenant displacements.
- The Sydney CBD office market experienced positive net absorption of 33,300 square meters in the second quarter of 2016, highlighting the cyclical upswing of the Sydney CBD office market.
- The supply pipeline remains robust across the CBD office market with 210,500 square meters under construction.
- Driving the robust office market is the increase in companies seeking to transform corporate cultures with new premises that reflect values of innovation and collaboration.

PUBLIC PRIVATE PARTNERSHIPS:
- Public private partnerships in Sydney have a checkered past, but the NSW government is now prioritizing them and moving toward a more balanced sharing of risk. These days, public infrastructure is built and tested prior to being sold to private investors and/or operators.
- The NSW Government is also seeking to make greater use of the Unsolicited Proposal process. For example, the Unsolicited Proposal from Transurban and Westlink M7 shareholders for the NorthConnex motorway reached contractual and financial close in January 2015.
- The city is also seeing the rise of public private partnerships in healthcare facility projects. The Royal North Shore and Northern Beaches Hospitals are good examples of this model.
Because the development industry in Sydney is well established, easy-to-develop sites are hard to find. For organizations willing to take on complex regeneration projects, however, opportunities abound in both the city and surrounding areas. Another way developers can unlock value is by collaborating on the consolidation of land holdings into meaningful parcels.

KEY PLAYERS

DEVELOPERS:
The Sydney development market is dominated by three main types of developer, each with differing drivers, appetites for commercial risk and expectations of returns:

1. Publicly listed REITs, which are generally broad-spectrum industry developers undertaking projects in the commercial, industrial, retail and residential sectors.

2. Foreign investors, who trended toward the recently heated residential market and dominate the high-density developments market.

3. Private wealthy individuals or companies, which are generally opportunistic, undertaking projects from any sector, scale or complexity, assuming commercial returns are attainable.

Many of these three developer types have the financial capital backing to undertake these developments of their own accord; however, portfolio divestment sales or joint venture arrangements can ensure the private developers have sufficient capital to undertake future projects when conditions are right.
CONTRACTORS:

Both local and international contractors dominate the contractor market, and specialize in complex projects from various sectors. These sectors include, but are not limited to:

1. Transport infrastructure (road, rail, airports, marine)
2. Health (private and public)
3. Urban renewal (remediation of contaminated sites for various redevelopment schemes)

The numerous recent infrastructure projects released to the market have increased workload for these contractors, and inadequate staffing is creating potential delivery issues. Many contractors are now partnering in joint venture arrangements to create delivery capacity and ensure they are in a position to tender on projects released to market. For example, Chinese property giant Greenland Group recently struck a joint venture deal with Guangzhou-based Chinese developer Golden Horse for its $1.6 billion, seven-hectare residential project in Erskineville’s Ashmore precinct in inner Sydney.

CONSULTANTS:

- Sydney has a mature consultancy market with a mix of global brands and local consultants. Ongoing consolidation and the entry of global firms through acquisition have reduced the number of consultant practices in recent years, but the market remains fragmented for many services.
- Delivery models differ across asset classes, but most property-focused developments are led by architects during the initial design and planning stages.
- Project management firms take the lead for the procurement and management of the contractors and the overall delivery phase.
- Structural and building services engineers are often appointed separately from architectural services, although often one party will take the lead design role rather than appointing design management and coordination separately.
- A number of large specialist planning consultancies, as well as teams within major multi-disciplinary consultancies, provide valuable advice on navigating planning constraints and the development approvals process.
- Quantity surveying firms typically get heavily involved during the feasibility and planning stage of a project, supporting design optimization and value management. Post-contract commercial management activities often fall within the scope of project management consultants rather than specialist cost managers.
- Project managers often take on the role of employer’s agent to undertake contractual duties on behalf of the client.
- Project teams are typically brought together on a project-by-project basis; however because of the constraints of the hot market in Sydney and the relatively fragmented nature of the consultancy market, joint working arrangements between similar consultancies is not uncommon on major schemes.
"SUPERINTENDENT"
PROCUREMENT CONSIDERATIONS:

- Project funders can slow down the development process in Sydney. Before finance is released, these entities often require the contractual transfer of risks associated with cost, program, design and construction liability. Developers and their partners often fund early work such as pre-contract services or enabling works prior to the finalization of contracts.
- Most government procurement occurs through a competitive tender process.
- In the private sector, procurement is a mixture of tendering and direct engagement. The documentation prepared for the procurement of suppliers, consultants and contractors is rarely standard and varies widely. It is usually modified so that it meets the needs of the entity procuring the goods, services or works.
- In Australia, a variety of means exists to procure the delivery of a project. Very large infrastructure projects are often procured using a public-private partnership model. Other delivery models for projects include design and construct, construct only, EPCM, EPC and alliancing.
- Some clients engage a managing contractor to directly appoint and manage its supply chain for a particular project. The most common procurement route for residential and commercial development in Sydney is design and construct, based on a lump sum contract.
- Developers often complete concept design and transfer design and construction risk to a contractor using a design and construct agreement.
Finding and acquiring a suitable building site and gaining permission to build are perhaps the most significant challenges in Sydney’s development lifecycle. Investing in the city requires careful management of a complex and often problematic development equation.

An important aspect of land acquisition and planning in Sydney is its politicized nature. High-profile projects offer attractive yields but can be impacted by lengthy timescales for securing approval and derailed at various points by any of a number of interested parties, from members of the public to government ministers.
Sydney’s development opportunities fall into two categories: outer greenfield development and inner brownfield regeneration. Outer greenfield developments tend to require significant infrastructure reinforcement, such as roads, public transport and utilities, to enable them to gain approval and to unlock development opportunities.

Brownfield development sites pose other challenges, such as the need for remediation or access constraints, but can also have significant payoffs in terms of investment and development. In many communities, brownfield sites are targeted for transformation for a number of valuable end uses, ranging from continued industrial/commercial use to public parks and recreational areas. Generally speaking, population and industrial growth in many urban areas across Australia have created the need for programs and solutions that maximize the value of idle facilities and underused properties.

Regeneration is high on the agenda for Sydney development, particularly where it can add jobs and blend new housing with healthcare, education and retirement in mixed-use environments. Currently, the Bays Precinct, part of the city’s largest single urban renewal program since the Sydney Olympics, aims to transform waterfront areas located within two kilometers of the Sydney CBD. On these projects, investors should anticipate being required to contribute to infrastructure and placemaking as part of the master plan.

In Sydney, sites for regeneration tend to come from either the private sector, as in the case of industrial or manufacturing sites, or from the public sector, as in surplus transport lands. Private land opportunities are generally brought to the market either off-market or by tender. Public land, on the other hand, comes to the market via UrbanGrowth, the NSW urban transformation agency. The purpose of UrbanGrowth is to bring large-scale government land assets to the market in order to create world-class urban areas that will transform Sydney.

Many property development companies in Sydney are targeting lucrative urban regeneration projects. These developments are transforming cities with large-scale mixed-use developments that combine apartments and offices with other sectors, including healthcare, education and retirement.
Land acquisitions (both greenfield and brownfield renewal) are becoming increasingly difficult to secure due to a lack of available stock in the market and the undersupply of stock in all sectors (residential, commercial and industrial).

Greenfield development sites tend to either be zoned for their intended use or are rural and therefore require a re-zoning proposal. Greenfield sites often come with significant upfront capital costs for new service infrastructure amplifications required to cater for the development.

Potential property investors in Australia should be aware of the potential liabilities of environmental contamination associated with historical land usage or usage of adjoining properties. Australia has a well-established set of environmental regulations that govern the development and repurposing of potentially impacted properties. The regulatory framework should provide certainty in the process and potential outcomes throughout the acquisition and redevelopment process.

The recent foray of foreign investors in the Sydney market has seen a rapid rise in land purchase values across all sectors. Strategic land acquisitions without planning approval involve higher levels of risk associated with land use, permitted density and other more detailed planning conditions.

Re-zoning of land is achieved through a developer-funded process whereby independent studies of existing site conditions are assessed and compared with the proposed change in use. These studies are submitted to the state government’s planning department for consideration, public exhibition and implementation. This is a challenging process that can take anywhere from 18 to 24 months or occasionally more.

Some additional points:

- Presently, there is high demand for investment land from both Australian-based and overseas investors. The resulting low yields on land transactions mean that the landowner takes a large share of development value. Many transactions are in sealed bids to maximize competitive pressure.
- Off-market sales and exchanges present better pricing opportunities for clients with established networks in Sydney property markets.
- Strategic land acquisition without planning consent involves higher levels of risk associated with land use, permitted density and other more detailed planning conditions.
- Permission for change of use is obtained through a public planning process that is initiated on a case-by-case basis by a developer.
- Sydney sites are often difficult to develop to their full potential because of planning and contamination constraints. Given the high levels of demand for land in Sydney, a lack of understanding of these risks can result in developers paying too much for a site in a competitive bid.
• The planning system is highly complex, and developers in Sydney need to consider the Environmental Planning and Assessment Act 1979, State Environmental Planning Policies, Local Environmental Plans and Development Control Plans. Successful outcomes typically require consultation with a broad range of stakeholders, including local and state government agencies and special interest groups dealing with conservation, business and community interests. Overseas clients will likely require assistance to ensure their projects achieve the best outcomes.

• The planning approval process introduces risks associated with the extent of development permitted on a site. Factors that might limit the utilization of a site include existing land use, allowable development density, height restrictions, neighboring uses, previous uses, biodiversity values and heritage.

• Sydney’s heritage legislation protects many buildings for their historic value. Developers must consider conservation, which could reduce redevelopment options.

• Most developments include requirements for assessment processing fees and financial contributions from clients for infrastructure and community facilities. They also tend to require other community benefits such as local employment on the construction project.

• Planning involves politics as well as technical considerations. Consent authorities determine planning consents based on recommendations from planning professionals and public consultation. As a result, consents are often granted with extra conditions.

• The developer or other stakeholders can appeal any decisions. The appeal process is highly technical and relies on planning and legal experts.

• Planning applications are either lodged with the Department of Planning and Environment (DP&E) for state significant development or with the relevant local council.

• The Greater Sydney Commission aims to streamline the planning process by providing comprehensive city planning guidelines.
PERMISSION FLOWCHART

Figure 3: NSW Development Application Process

IS THE DEVELOPMENT STATE SIGNIFICANT DEVELOPMENT?
(CAPITAL INVESTMENT VALUE / STATE SIGNIFICANT SITES)

LODGE DEVELOPMENT APPLICATION WITH LOCAL COUNCIL

PUBLIC NOTIFICATION (IF REQUIRED)

RESPONSE TO SUBMISSIONS

DETERMINATION

YES - PREPARE ENVIRONMENTAL IMPACT STATEMENT

LODGE DEVELOPMENT APPLICATION WITH DEPARTMENT OF PLANNING & ENVIRONMENT LOCAL COUNCIL
### FIGURE 4: SUMMARY OF KEY MARKET DIFFERENCES

<p>| Markets | Strong residential development growth resulting from historic under supply is not keeping up with current demand. Premium commercial space is lacking in key hub locations due to a market preference for high-density residential development and tenancy withdrawals and displacements. |
| Construction | Significant government investment in large key infrastructure projects, coupled with a high-density residential boom has saturated the construction industry. The industry is suffering from shortages in skilled labor and delivery capacity, forcing joint venture and alliance strategies to form for project deliveries. |
| Cost and inflation | Strong demand from building and infrastructure projects has escalated construction costs to rates greater than national inflation (1 to 2%). Construction costs are somewhat suppressed by a downturn in the resource mining sector. |
| Contracts | A variety of contracts exist, including Design and Construct contracts for major infrastructure and building projects and public private partnerships, which are becoming increasingly popular for larger urban regeneration projects. |
| Building | Buildings are governed by national codes: the National Building Code of Australia and Australian Standards. Local council development control plans (DCPs) define detailed plans such as permissible floor space ratios and citing requirements. |
| Planning | Planning in Sydney is highly complex, with smaller project approvals generally granted by local government council. Larger infrastructure projects and urban regeneration projects are generally planned and approved by state government bodies. |</p>
<table>
<thead>
<tr>
<th>DUBAI</th>
<th>SHANGHAI</th>
<th>ARCADIS INSIGHT</th>
</tr>
</thead>
<tbody>
<tr>
<td>High levels of office availability exist, but the market is controlled. Inward investment is creating a safe haven in Dubai. Build-it-and-they-will-come policy is still fuelling development.</td>
<td>As a Tier 1 City, Shanghai still has a very active real estate market despite lower-tier cities showing signs of consolidation.</td>
<td>Our local presence and knowledge of the market helps investors and developers add value by upgrading, redeveloping and building assets.</td>
</tr>
<tr>
<td>The construction market is growing at around 5% per annum through public and private sector investment. Continual investment is needed in roads and other infrastructure to enable new development in buildings.</td>
<td>The big local Chinese contractors dominate construction and claim a major share of the market.</td>
<td>Our local knowledge enables us to connect investors with the best designers and contractors. Our ability to serve as a full-service firm gives investors one point of contact in the process while also receiving an excellent level of service.</td>
</tr>
<tr>
<td>Construction prices in Dubai increased by less than 1% in the past year. General inflation is at 4 to 5% according to the UAE National Bureau of Statistics.</td>
<td>The rate of growth in capital investment in China is slowing, which is creating some spare construction capacity; however, labor costs continue to increase and prices remain unchanged.</td>
<td>Our in-depth knowledge of cost and market dynamics combined with our expertise in design and product selection provides the necessary skillset to deliver value for an investment at a predictable cost.</td>
</tr>
<tr>
<td>Contracts are generally FIFIC-based and well established. Design-Bid-Build is the predominant procurement route, and Design and Build is becoming more common.</td>
<td>Standard contract documentation is in place and widely adopted by major developers influenced by international cost managers.</td>
<td>We are able to advise our clients on the most suitable contract for their development. We also advise on contract amendments proposed by clients and their legal advisors.</td>
</tr>
<tr>
<td>Dubai Municipality sets the building code and construction specification requirements. These are subject to individual interpretation. Free Zones have independent Building Control authorities.</td>
<td>Standards are relatively high compared to lower-tier cities because of the internationalization of quality and influence from MNC developers. Compliant solutions are developed by Local Design Institutes (LDIs).</td>
<td>The effective interpretation of standards and design of compliant buildings is a great opportunity to optimize development value.</td>
</tr>
<tr>
<td>Dubai Municipality is the main authority for planning. Approval is based on political and technical factors. Rapid approvals and minimum red tape are common.</td>
<td>Shanghai Planning Bureau has ultimate authority on the shape and size of developments within the city. The approval process is rigorous.</td>
<td>Arcadis is experienced in dealing with the local, state, and federal planning processes. The team is equipped to appropriately predict a project’s course for approval and associated timing.</td>
</tr>
</tbody>
</table>
FACT FILE:
COST OF CONSTRUCTION

By global and regional standards, Sydney is an increasingly expensive place to build. A booming economy, infrastructure investment, pressures on wages, and the scarcity of supply of core services and skilled labor have driven up costs.
The impact of the Sydney boom on costs has been mitigated by a surplus of skilled labor in other parts of the country. Following plunges in oil and commodity prices, the resources sector outside of Sydney took a hit, which has meant growing demands in the city have been met to some extent by labor elsewhere. That said, the distance and differences in skills has prevented sufficient mobility of labor into Sydney to fill the gap. As a result, contractors and consultants are still competing heavily for scarce workers and the services of sub-consultants. A significant impact of this restriction of the assembly of high-quality teams is that developers are being forced to selectively bid based on project type, size and the attractiveness of the client.

Figure 5: Construction Costs Table

<table>
<thead>
<tr>
<th></th>
<th>SYDNEY</th>
<th>LONDON</th>
<th>DUBAI</th>
<th>SHANGHAI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$ per m²</strong></td>
<td>MIN</td>
<td>MAX</td>
<td>MIN</td>
<td>MAX</td>
</tr>
<tr>
<td>High-rise prestige offices</td>
<td>2,680</td>
<td>4,020</td>
<td>3,890</td>
<td>4,970</td>
</tr>
<tr>
<td>Medium/high-rise offices, average standard</td>
<td>2,230</td>
<td>2,860</td>
<td>3,630</td>
<td>4,520</td>
</tr>
<tr>
<td>Out-of-town shopping center</td>
<td>1,610</td>
<td>2,050</td>
<td>2,470</td>
<td>3,630</td>
</tr>
<tr>
<td>Multi-story car parks, above ground (&lt; 4 levels)</td>
<td>540</td>
<td>890</td>
<td>840</td>
<td>1,200</td>
</tr>
<tr>
<td>Apartments - average size and quality</td>
<td>1,790</td>
<td>2,230</td>
<td>2,660</td>
<td>3,230</td>
</tr>
<tr>
<td>Apartments - high-rise private, luxury</td>
<td>1,960</td>
<td>2,290</td>
<td>4,190</td>
<td>5,890</td>
</tr>
<tr>
<td>5 star hotel</td>
<td>2,590</td>
<td>3,240</td>
<td>4,890</td>
<td>6,760</td>
</tr>
</tbody>
</table>

*refer to inside back cover for source, definitions and notes.
There are three types of law in Australia: statutory law, common law and contract law. Statutory laws are the laws established by the three tiers of government in each of the states and territories of Australia. Common law has evolved over many years of decisions of judges, courts and similar tribunals on individual cases. Contract law is the agreement between two or more parties to a contract. All of these types of law have an impact on the legal framework for developments in Australia.
Following development application (DA) approval, a Construction Certificate (CC) is required before construction can commence. The construction certificate verifies the following:

- The detailed construction plans and specifications of the development are consistent with the development consent and comply with the Building Code of Australia.
- All required contributions and fees are paid.
- All development consent conditions that must be satisfied before a certificate can be issued have been met.

Some building works and change of building use can be undertaken through a simpler approval process called “complying development”. In most cases, approval under this system is issued within 10 days. There are many categories of complying development, including those that add dwellings to an area. An LGA or approved Principal Certificate can be appointed as the certifying body.

Mandatory inspections must be carried out before an occupation certificate can be issued. An occupation certificate gives approval to use or occupy a building in conjunction with the development consent or a complying development certificate. For some classifications of buildings, a final fire safety certificate is required.

Appointed builders or contractors should be aware of the critical stage inspections. If an inspection is missed, it could delay the building project and hold up the receipt of an occupations certificate. A compliance certificate confirms that the building works or certain aspects of development are acceptable or meet relevant standards. It can also be used to have a building classified or past classified under the Building Code of Australia.
UTILITIES & CRITICAL SERVICES:

Sydney’s infrastructure is used intensively with limited additional capacity. New development might therefore need to fund extra utility infrastructure capacity for electrical supply, potable water, sewer, gas and telecommunications.

New electricity connections are usually provided by the regulated utility, either Ausgrid or Endeavour Energy. Much of Sydney’s distribution is underground, and costs of connection can be relatively high. In addition, not all works to connect electricity are procured in competition, and as a result, the service is often delivered at premium prices.

Potable water and sewer services are provided to developments by Sydney Water. The costs of additional infrastructure to satisfy an increase in demand are usually the responsibility of the developer.

Green development policies in Sydney require the use of sustainable initiatives, including on-site energy generation and rainwater capture and reuse. These measures often add costs to projects, but because they contribute to sustainability ratings such as Green Star, they can also add value to a development.

For example, a developer might face a restriction on discharging more surface water into drains than previous uses, which usually requires expensive on-site storage and attenuation. Also, the requirements for the quality of water discharged to the external drainage system might result in the need for some form of treatment, which could also add costs to a project.
I’D LIKE TO MAKE A LONG-TERM INVESTMENT — IS THE MARKET SUITABLE?

Some forecasts indicate Sydney will require more than 600,000 extra homes and corresponding infrastructure within the next two decades. The city also has a pressing need to contain urban sprawl so that transport infrastructure can catch up with transport requirements. As a result of these drivers, Sydney is well suited to long-term investment. With that investment, however, must come long-range planning and thoughtful decision-making. Issues include an aging population and growth in single-person households, for example, and delivering appropriate housing stock to serve those populations will be vital to long-term success. With broad experience across a range of city-shaping projects, Arcadis is well placed to provide the thought leadership needed to ensure strategic and sustainable long-term investment decisions.
Sydney is a diverse and progressive market characterized by a network of significant urban centers. Each center has a different profile and character and offers a range of investor opportunities of all asset scales and types. Arcadis answers some of the key questions facing investors looking to enter the Sydney market.

**HOW DO I ENSURE I DON’T PAY TOO MUCH FOR LAND?**

Readily developable land is scarce in Sydney. Both greenfield and brownfield development sites carry individual development risks that are always borne by the developer. These risks are generally outweighed by the return on investment (ROI), however accurate due diligence prior to acquisition is necessary to ensure that individual project risks are identified, commercially costed and evaluated in the project feasibility.

Latest market values for land acquisitions and associated construction costs for the development, together with development and professional services costs for the project, are often required to ascertain the real or underlying value of the land.

The initial due diligence process will identify areas of project risk that can be further investigated to de-risk a project. Alternatively, it can ensure that sufficient funds are allocated to risk items, so that project feasibility can be accurately stated.
OPPORTUNITIES

HOW DO I GET THE MOST OUT OF MY ASSET?

There is speculation that some slowdown or correction in the high-rise residential market is imminent. For this reason, careful consideration of location, product type and market are all essential when making investment decisions.

WHAT IS THE RIGHT ASSET CLASS FOR MY INVESTMENT?

The Sydney market offers numerous investment opportunities with differing risk profiles and commercial returns across sectors. Sub-markets within these industry sectors offer a diverse range of opportunities and deal structures that can align with particular investment strategies, associated risk appetites and expected returns for each investment.
New commercial buildings must build flexibility into the design of their floorplates and servicing strategies to accommodate changing occupational requirements. Provision for enhanced connectivity between floors within tenancies and excellent end-of-journey facilities, such as lifts and washrooms, are minimum requirements. Occupiers increasingly value exemplary environmental and sustainable characteristics, and higher performing buildings will have a competitive advantage.

That said, opportunities for sustainable development that preserves links with Australia's past could provide a rich, multi-layered experience that is difficult to achieve in other ways. Older buildings that don’t meet the requirements of prospective tenants often have great potential for adaptive reuse. One such example is the repurposing of the White Bay Power Station as a technology hub, with corresponding district redevelopment to include professional-level housing options and a possible new ferry service.
CONCLUSIONS:
CAPITALIZING ON OPPORTUNITIES IN SYDNEY
Sydney has good prospects for both brownfield and greenfield development, with each presenting unique opportunities and challenges. Inner brownfield development offers opportunities for both public and private land acquisition, as well as for creative, sustainable adaptive re-use of heritage sites. Greenfield development by contrast often necessitates new utility infrastructure, including electrical supply, potable water, sewer, gas and telecommunications.

Sydney’s planning and approvals can be complex. Efforts to streamline and simplify Sydney’s planning processes are currently underway, but having a partner who can help navigate the complexities is invaluable. By working with Arcadis, investors and developers can ensure they mitigate the risks and get the greatest value from investing in this exciting and growing city.
Arcadis is the leading global design and consultancy firm for natural and built assets. Applying our deep market sector insights and collective design, consultancy, engineering, project and management services, we work in partnership with our clients to deliver exceptional and sustainable outcomes throughout the lifecycle of their natural and built assets.

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**KEY FIGURES ARCADIS:**

- 27,000 people globally
- €3 billion in revenues globally
- 700 people in Australia

**FIGURE 2:**

Criteria definitions:

- **Performance** including the economy, R&D, culture and the environment based on published indices.
- **Financial Power** – an assessment of business environment and specific position of the financial services sector calculated using published indices and survey responses.
- **Global engagement** – overall assessment of connectivity in business, culture and politics based on published indices.
- **Sustainability** – balanced assessment of economic, social and environmental sustainability based on published indices.
- **Real estate momentum** – combines short-term market indicators describing demand for real estate with long-term measures of the attractiveness of a market based on innovation, education and so on.
- **Attraction to the super-rich** – informal comparison of city attraction based on factors that attract Ultra-High Net-Worth Individuals such as business activity, lifestyle and concentration of the wealthy.
- **Tourism** – measures the number of tourists and their spending habits.

**FIGURE 5:**

Notes:

- Costs are current in Autumn 2016 based on exchange rates on 10th October 2016
- Office costs include the developer’s finish but exclude the tenant’s fit-out
- Hotel costs include FF&E
- All costs exclude allowances for external works, professional and statutory fees and local sales taxes
- Rates are calculated on the basis of gross internal floor area