21 October 2024

Carmel Donnelly
IPART

Submitted on web portal

Dear Carmel

Re: Mamre Road Precinct - Economic Viability Queries

Thank you for the opportunity to provide feedack on IPART's draft findings on the Mamre Road Stormwater Scheme. Following the public hearing last week, representatives from Atlas Economics (**Atlas**) met with IPART's chief econoimst and subject matter team members. We have responded to those specific queries under separate cover.

Atlas Economics (**Atlas**) was previously engaged to carry out work for the Mamre Road Landowners Group (**MLOG**). We note that the work is now complete and Atlas' engagement has concluded. The views expressed herein are that of Atlas' and not of the MLOG's.

Estimate of Land Purchase Price

In 2023, Atlas prepared a Feasibility Analysis (**the Atlas Study**) of the Mamre Road Precinct (**the Precinct**). The Atlas Study was carried out to quantify the impact of the proposed Sydney Water stormwater charge of $1.3 million per hectare.

Atlas analysed market sales transactions in the Precinct, examining sale rates paid for land at the time. The analysis showed that sale rates were ~$400/sqm in 2020 when the Precinct was rezoned and by 2022 were in excess of $500/sqm. A cost of land assumption of $575/sqm was made in the Atlas Study.

The adopted cost of land assumption was also in line with Penrith City Council's land valuations ($575/sqm) for the Mamre Road Contributions Plan (2021) which was adopted in 2022 (extracted below from Background Report).

7.3 Land Acquisition

Land acquisition rates were provided by Curtis Valuations in March 2022. The rates adopted for the Section 7.11 Plan are summarised in Table 9.

Table 9 - Land Acquisition Rates

Land Type	Acquisition Rate ($/m^2)
Developable	$575
Constrained	$90

Mamre Road Section 7.11 Plan Background Report

Source: IDC (2022)

We note the context in which prices were paid for land when the Precinct was rezoned. The costs associated with the 'new' water targets were only known in 2023. **Table 1** outlines a chronology of events leading up to rezoning in June 2020.

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Precinct Rezoning

Table 1: Chronology of Events to Rezoning

Date	Event
2019	The rezoning of Mamre Road Precinct was identified in 2019 to be required because "*industrial land ready to develop in this area could be exhausted within 4 to 5 years*" (DPE, 2019).
28 April 2020	A new Planning System Acceleration Program was announced to accelerate the determination of projects that inject investment into the NSW economy.
April to Oct 2020	6 tranches of projects announced, with accelerated determination of 101 major projects and planning proposals.
22 May 2020	The Mamre Road Precinct rezoning announced as part of Tranche 2 of the priority projects As part of the announcement, NSW Government stated: "*The Mamre Road project alone creates opportunities for more than 5,250 jobs and it will happen sooner because the NSW Government has reallocated planning resources to assess these projects faster*." The then DPE advised that the Mamre Road Precinct would be rezoned under the existing Western Sydney Employment Area State Environmental Planning Policy (WSEA SEPP).
11 June 2020	The Mamre Road Precinct was rezoned. As part of the announcement, the NSW Government stated: "*The first industrial estates for the Mamre Road Precinct are expected to be occupied from mid-2021*."

Source: Mamre Rd Landowners Group

In 2019, the then Department of Planning and Environment (**DPE**) foreshadowed an exhaustion of "ready-to-develop industrial land" in 4-5 years, which was why the rezoning of the Precinct was required (DPE, 2019).

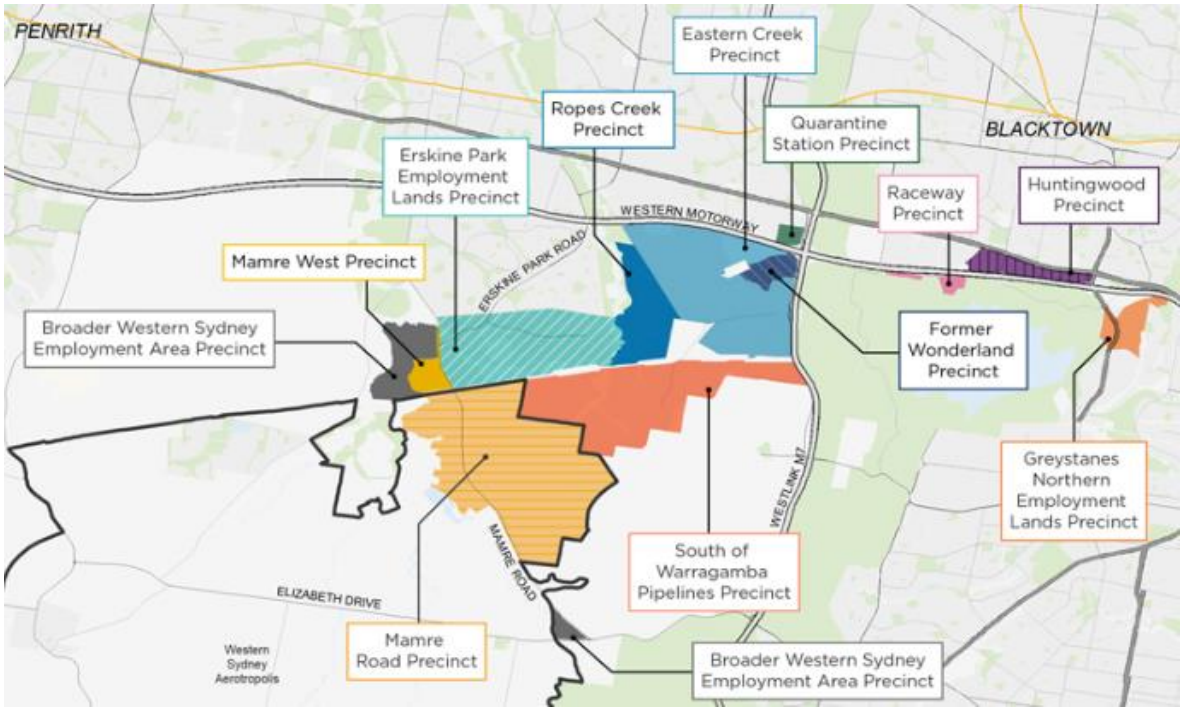
The Precinct's rezoning in June 2020 sent a market signal to the market that the Precinct was ready for investment - that progress to development applications (DAs) could occur within six months of rezoning and thereby to occupancy in mid-2021. At that time there were no key barriers to progressing to DAs within the Precinct.

- A local 7.12 contribution plan (Penrith City Council) had applied to the land.
- Site specific development control plans were permissible under the WSEA SEPP; there were recent examples at directly adjoining industrial estates and satisfactory arrangements had existed for regional infrastructure provisioning.

At the time of rezoning there was no mention by the NSW Government of a new way of considering stormwater. Given the fast-tracked rezoning as an extension to the adjoining Western Sydney Employment Area, Industry was guided that planning controls could be consistent with the adjoining Western Sydney Employment Area. Land was purchased on that basis.

For context, a map of the rezoned precincts in the Western Sydney Employment Area is provided at **Figure 1**.

Figure 1: Western Sydney Employment Area - Rezoned Precincts



Source: https://www.planning.nsw.gov.au/plans-for-your-area/priority-growth-areas-and-precincts/western-sydney-employment-area/overview

Table 2 provides a comparison of infrastructure costs sourced from various contribution plans at the time of the rezoning.

Table 2: Comparison of Infrastructure Contributions (2020)

Infrastructure Contribution ($/ha)	Applicable at Rezoning (2020)			Current/ Proposed (2024)
	Western Sydney Employment Area[1]	Western Sydney Employment Area)[2]	Marsden Park Industrial (Western Sydney Growth Area)[3]	Mamre Road Precinct[4]
Special Infrastructure Contribution	$150,000	$108,631	$108,631	$234,583
Local Council Local Contributions (s7.11 or s7.12)	Fairfield City Council $150,000-$250,000 (s7.12 plan - 1% dev. cost)	Penrith City Council $150,000-$250,000 (s7.12 plan - 1% dev. cost)	Blacktown City Council $650,000-$750,000 (Marsden Park Industrial CP 21 s7.11 plan)	Penrith City Council $680,165 (s7.11 plan)
Stormwater Charge	Not applicable	Not applicable		Not applicable
Regional Stormwater Charge	Nil	Nil	Nil	$850,000
DSP Charge	Nil	Nil	Nil	$50,000
Total ($/ha)	**$300,000-$450,000**	**$260,000-$360,000**	**$760,000-$860,000**	**$1,815,000**

Notes: 1 - Fairfield City Council (2011), 2 - Penrith City Council (2020), 3 - Blacktown City Council (2016), 4 - Penrith City Council (2024)

Source: various

In the Western Sydney Employment Area, total infrastructure contributions ranged from $300,000 to $450,000 per hectare. In Marsden Park Industrial, stormwater management was included within Blacktown City Council's s7.11 contributions plan and was at the time the highest applicable in an industrial area. Total charges there ranged from $760,000 to $860,000.

In the absence of other information, the market and Industry had no reason to believe that the Precinct would be subject to new water targets or that infrastructure contributions that would be different to the above industrial areas. As **Table 2** shows, without the Sydney Water charges, total developer charges (SIC, s7.11) in the Precinct are >$900,000 per hectare.

From July 2020, Industry investment into the Precinct accelerated - with >$2.9 billion poured into the Precinct to purchase land. By comparison, prior to that, less than $400 million was spent on purchasing land in the Precinct.

Post-Rezoning

After the Precinct was rezoned in June 2020, information began to emerge on a shift change in how stormwater was to be dealt with within greenfield developments. Over the three years that followed, the cost implications began to emerge, culminating in Sydney Water's announcement in 2023 of a $1.3 million charge per hectare (stormwater and recycled water) and $50,000 per hectare (drinking water DSP).

No Prior Knowledge

Atlas agrees with the proposition that if a developer is aware of developer charges pre-purchase and if they are prudent, they would pay an appropriate price for land, i.e. discounting their land purchase offer compared to what they might otherwise be prepared to pay in the absence of those developer charges.

Developers make commercial decisions and base investment decisions on the best information available at the time. The price paid for land effectively represents the highest price they can afford to pay after allowing for the cost of development (including developer charges) and an allowance for commercial profit and risk. Offers made to landowners after a precinct has been rezoned must be competitive in order to secure land.

In 2020 when the land was rezoned, it would have been reasonable to assume that development in the Precinct would be subject to similar planning obligations and developer charges as in other similar greenfield industrial developments - including the adjoining Western Sydney Employment Area.

As shown in **Table 1**, total charges ranged from $300,000 to $860,000 per hectare of developable area. In the absence of information to the contrary, the prices paid for land in the Precinct reflected those expectations of developer charges.

It is evident from the billions of dollars' worth of investment in the Precinct from 2020, that the market responded resoundingly to the signal sent by its rezoning and statements made in conjunction by NSW Government with that rezoning. More than 70% of the Precinct has now been purchased for development.

The estimate of land purchase price in the Atlas Study (dated 2023) reflected the prices paid by the market then. It also had regard to the land acquisition rate adopted in the Mamre Road Contributions Plan (2021) which was informed by a valuation.

Now that Land has been Purchased

Impact on Decisions in the Precinct

On the facts in 2024, i.e. that a $850,000 per hectare stormwater and recycled water charge would now apply ***and*** that 50%-60% of otherwise developable land would be sterilised for an unknown period of time, we expect that the prices earlier paid for land in the Precinct would have been too high.

When faced with a 'surprise' developer charge that was not anticipated, a developer has two choices:

- If the unexpected cost is minor and does not compromise economic viability - absorb the new costs and accept a slightly lower profit margin and project return.
- If the unexpected cost is significant and cannot be absorbed without compromising viability - increase rents/ prices of the completed development to recoup the unexpected costs.

The cost to deliver the new water targets are not minor. The $850,000 and $50,000 per hectare charges are 3.5 times higher than in other greenfield industrial areas (as noted in IPART's report on page 16).

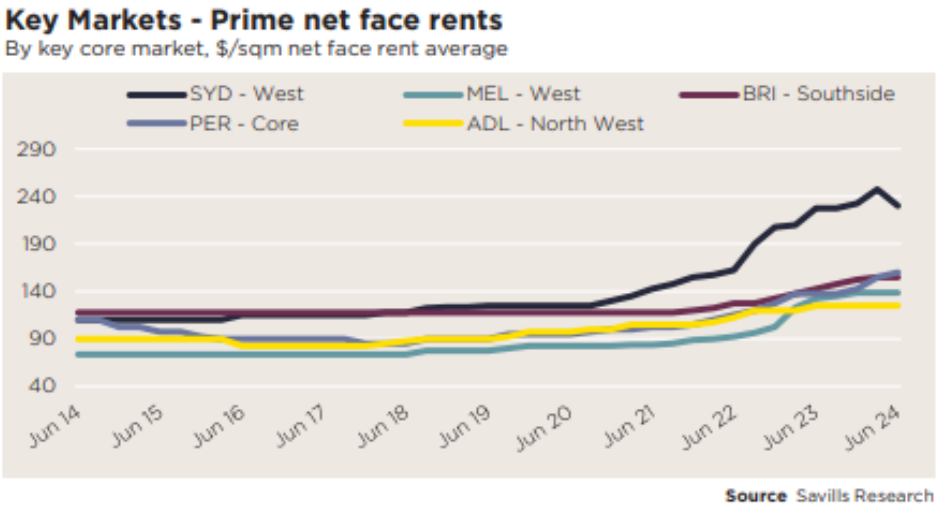
The ability of developers to increase rents depends on whether there is market willingness, but critically, whether there is market capacity to pay higher rents.

Businesses are at Rental Capacity

At the time of the Atlas Study (2023), market rents in the Precinct were circa $185/sqm.

Figure 2 shows the movement of rents in Western Sydney against other Australian capital cities. From around 2018, rents escalated sharply relative to the other capital cities. Rents are now 80% higher in Sydney than in Melbourne. In 2024 Sydney's rents began to trend downwards.

Figure 2: Average Prime Net Face Rents (2014-2024)



Source: Savills (2024)

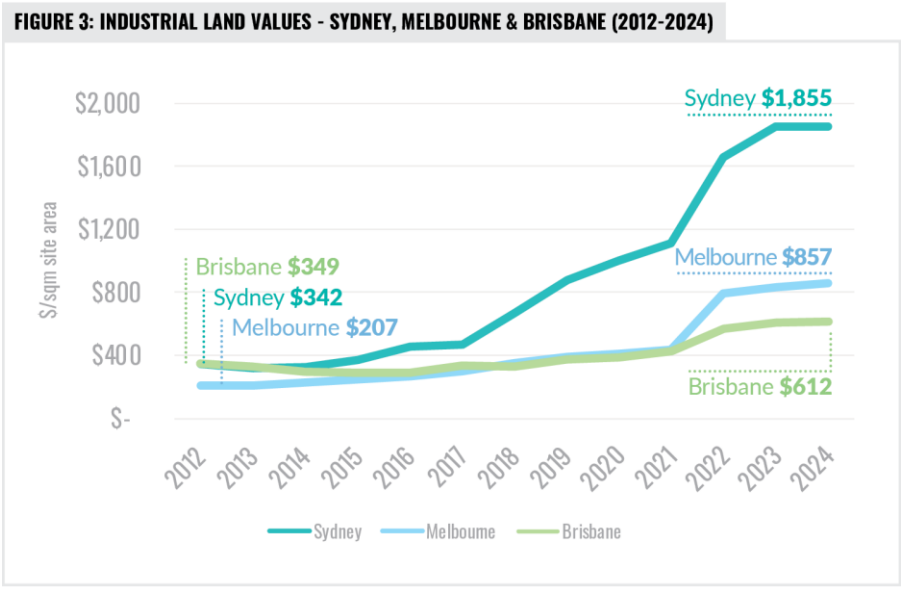
The evidence suggests to a lack of market capacity to pay higher rents. Sydney businesses would operate on similar cost models as similar businesses in other capital cities. As **Figure 2** shows, only rents in Sydney have begun to trend downwards - this suggests business affordability for higher rents is at its limit.

The significantly higher rents in Sydney were explored in Atlas' study Sydney's Housing Crisis and the Industrial Sector.

Due to an acute shortage of serviced industrial land in Sydney, land values started to escalate sharply about a decade ago (~2014). **Figure 3** shows that average industrial land values in Sydney (metro) are 3x Brisbane's and 2x Melbourne's. This means higher sale prices/ rents are needed to offset the higher cost of land.

There is an observed lag from the time industrial land values began to outstrip Melbourne and Brisbane (~2014) to when industrial rents started the same trajectory (~2018). This makes sense - as higher rents are sought for buildings as and when they reach completion.

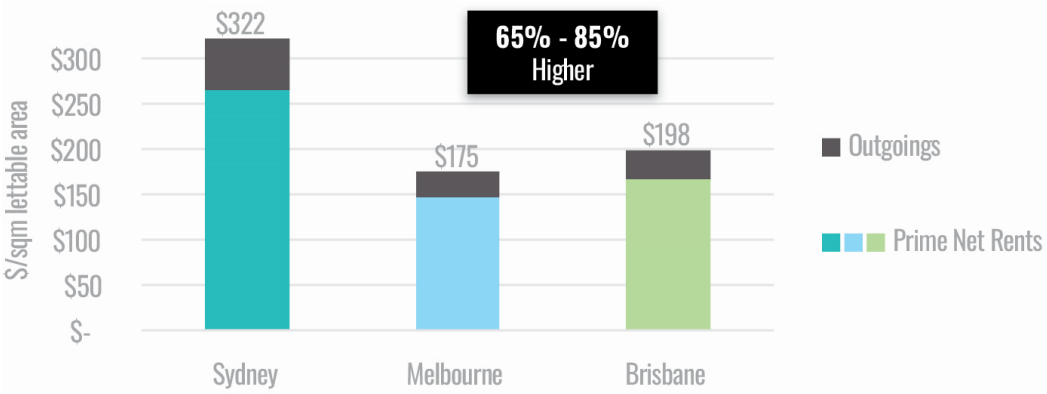
Figure 3: Average Industrial Land Values (2012-2024)



Source: Cushman and Wakefield

Figure 4 shows that metro Sydney's average rents are in 2024 65%-85% higher than metro Brisbane and metro Melbourne's.

Figure 4: Comparison of Gross Industrial Rents (2024)



Source: Cushman and Wakefield

With industrial rents significantly higher in Sydney compared to its peer capital cities, it has direct consequences for the cost of doing business and business investment.

Atlas' study Sydney's Housing Crisis and the Industrial Sector interviewed businesses in the construction supply chain, many of whom indicating that the high cost of industrial property was causing them to look elsewhere for expansion opportunities.

An extract of some of what businesses said to project partners Infosys Portland (supply chain consultants) is provided overleaf.

Source: Atlas (2024)

High rents in Sydney have induced a shift in the centre of gravity from Sydney to Melbourne, as explored in Migration of National Distribution Centres to Victoria. This issue was also highlighted in Australian Financial Review last week.

Developers who purchased in the Precinct at prices now considered too high, would need to charge higher rents to:

- Cover the unexpected $600,000 per hectare cost (over and above $300,000 as was applicable elsewhere).
- Cover the cost of the interim infrastructure arrangements:
    - Non-developability of land for an unknown period of time.
    - Cost of the infrastructure (CapEx and OpEx).
    - Cost to dismantle/ de-commission the infrastructure.

On the evidence, we conclude it would be challenging for developers to pass on the unexpected costs through higher rents. Businesses are already at rental capacity, many of whom are considering locations outside Sydney. Those businesses who cannot operate outside Sydney and do accept higher rents, will naturally seek to recover the rents through customer prices.

Faced with a loss of billions of dollars of investment (for land already purchased), developers could potentially decide to proceed with development and seek to recover the unexpected costs through higher rents. This carries a number of significant risks (for Industry and for Sydney more broadly):

- **Market risk** - risk that the higher rents sought are not accepted by the market. This would lead to high vacancy and developments that are not viable (a development is not viable when then cost of production is higher than the value of the completed product).
- **Financial risk** - risk that further investment in the Precinct is not recovered.
- **Precinct failure** - if the higher rents sought are unsuccessful (e.g. beyond the capacity of businesses to pay), development in the Precinct will stall and will not deliver the supply that Sydney has been starved of.
- **Higher cost of living** - if the higher rents sought are successfully charged to tenants, they would raise the cost of business and the cost of living to a new level.

Impact on Development at Badgerys Creek

How would the stormwater arrangements in the Precinct impact development at Badgerys Creek?

The market is now aware of the new water targets and the costs associated with their implementation in the Precinct. There would be a market expectation that similar arrangements would be required at Badgerys Creek (and the Aerotropolis). There is however significant uncertainty around:

- The quantum of the stormwater charge that would apply.
- The land sterilisation implications for development at Badgerys Creek.

Atlas expects that developers will hold off purchase decisions until there is more certainty around the scope and cost of the stormwater management system. Our view is that the stormwater arrangements proposed in the Precinct will stall development at Badgerys Creek.

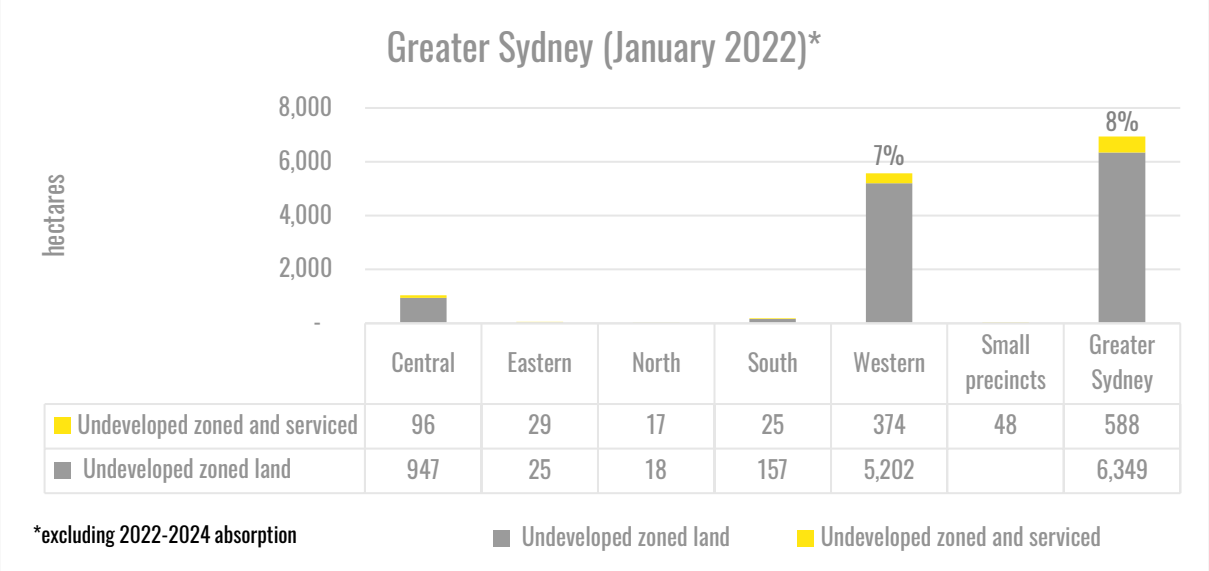
Impact on Supply of Industrial Land in Sydney

Would there be an impact on supply of industrial land in Sydney if the Precinct did not develop?

The Atlas Study did a deep dive into the remaining supply of industrial land in Sydney. It found that, as at January 2022, there was 588 hectares of undeveloped and serviced land (which was about 8% of total undeveloped zoned land). This was as noted in DPE's Employment Lands Development Monitor (**ELDM**) (DPE, 2022).

Figure 5 shows the quantum of undeveloped land in Greater Sydney (serviced and not serviced) as at January 2022. There is a ***significant*** amount of undeveloped zoned land that is unable to be developed due to a lack of infrastructure servicing.

Figure 5: Undeveloped Zoned Land and Serviced Land, Greater Sydney (as at January 2022)



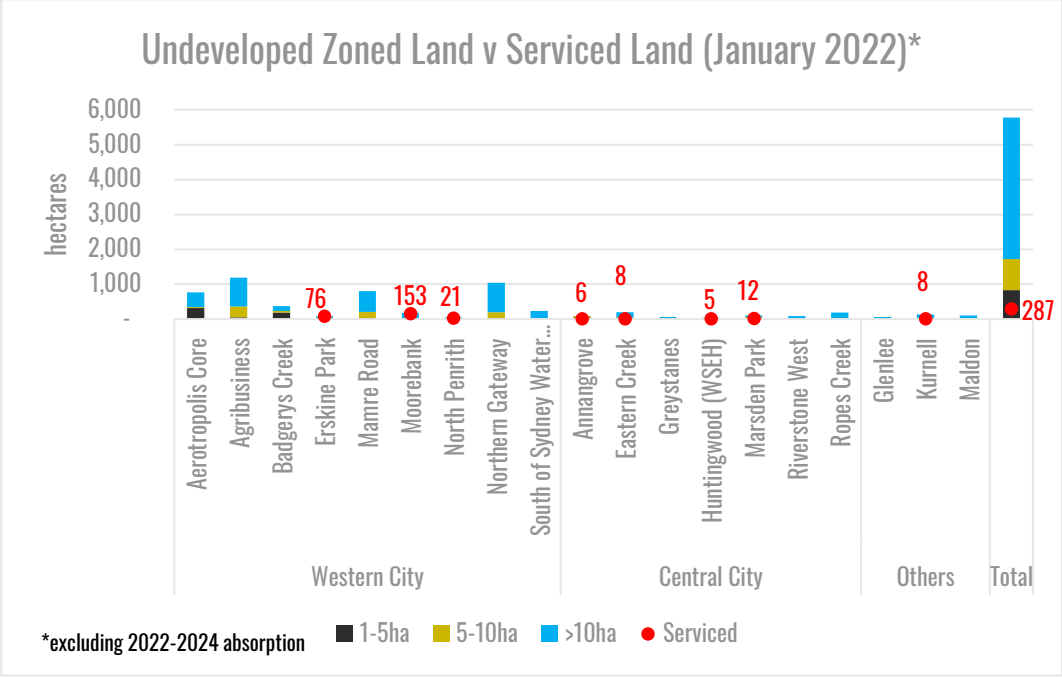
	Central	Eastern	North	South	Western	Small precincts	Greater Sydney
Undeveloped zoned and serviced	96	29	17	25	374	48	588
Undeveloped zoned land	947	25	18	157	5,202		6,349

Source: DPE (2022)

The Atlas Study noted that:

- Of the precincts listed in the ELDM as being undeveloped (zoned and serviced), only 4 precincts had land sized greater than 20 hectares.
- Of the 588 hectares, only 287 hectares was greater than 1 hectare, though the Atlas Study noted that even 1 hectare is too small for many occupier needs.
- 153 hectares of the 287 hectares is in the Moorebank precinct. The Moorebank Intermodal is focused on accommodating tenants who make use of the rail facilities – it is not generally available to anyone.
- Other than at Moorebank, **Figure 6** shows the distribution of lots >1 hectare (red dots) with Erskine Park having 76 hectares and North Penrith with 21 hectares. All the other precincts have hardly any serviced land >1 hectares.

Figure 6: Undeveloped Zoned Land and Serviced Land by Size (>1ha)



Source: DPE (2022)

Just taking Erskine Park and North Penrith - there was 97 hectares of serviced land as at January 2022.

This then begs the question - how much industrial land does Sydney need?

The development of industrial land in Sydney, Melbourne and Southeast Queensland (2017-2021) averaged:

- Greater Sydney - 135ha per annum
- Metropolitan Melbourne - 288ha per annum
- Southeast Queensland (**SEQ**) - 190ha per annum

Since the Atlas Study (2023), there has been one additional year of data for Melbourne - take up of 409 hectares in 2022.

Sydney's annual take-up (development) of land (135ha) has been anaemic - even lower than SEQ's average (190ha) - a region with only 3.6 million people (compared to Sydney's 5.3 million). When overlaid against the strong industrial land value and rent movements (**Figure 3** and **Figure 4**) it would appear that the low take-up of land was not due to a lack of demand, but rather a lack of supply opportunities.

Atlas' view is that at a minimum, Sydney needs 300 hectares industrial land annually. This is because:

- Transport and logistics operators respond to population and business demand for the distribution of goods.
- The building and housing construction supply chain similarly responds to population need for housing.

It is self-evident that the larger the population base of a region, the greater will be the region's need for housing, as well as its need for industrial land. These are direct relationships.

The demand profiles of Melbourne and SEQ provide two bookends which help us observe this direct relationship between the population base and the take-up of industrial land.

Atlas' view is that 300 hectares is the minimum annual demand for industrial land. However, because Sydney has been so starved of serviced industrial land supply (in the making for at least a decade), much more land than 300 hectares per annum would be initially needed to re-set prices. A flood of serviced land supply is needed to provide scope for a comprehensive re-setting of prices - providing headroom and needed relief for the cost of business and business investment.

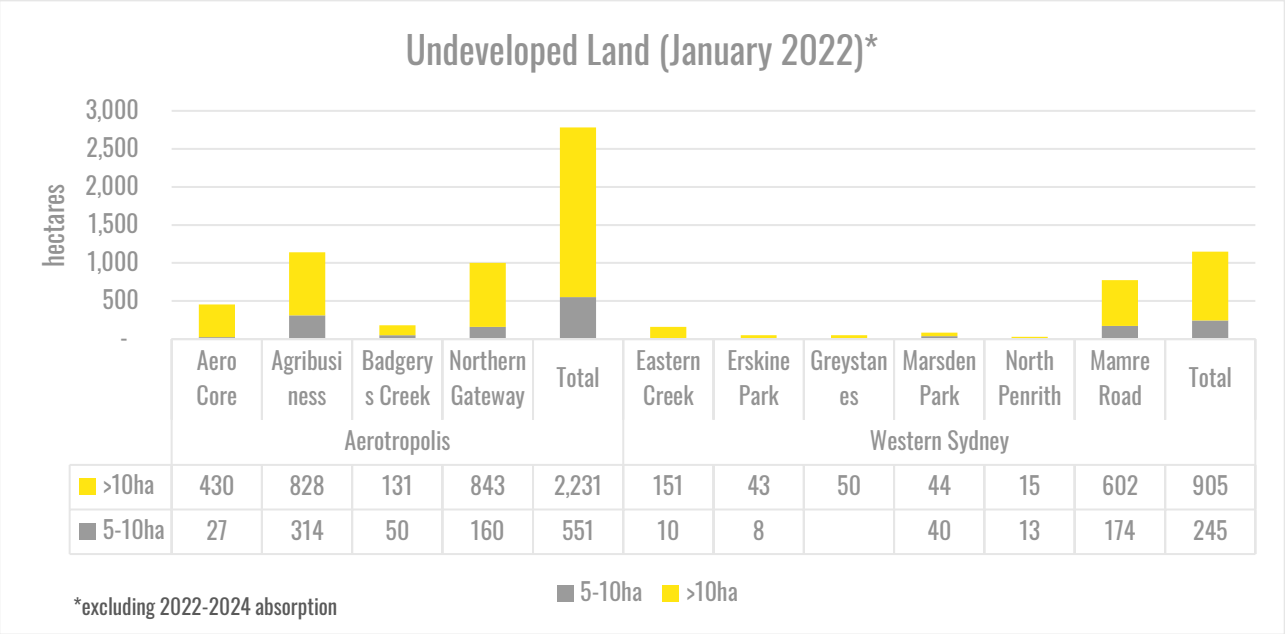
Currently (October 2024), the amount of serviced land remaining (588 hectares at January 2022) would be even lower after allowing for take-up and development of land during 2022, 2023 and 2024. Based on published research from agency firms as well as with industry, currently, Atlas expects that industrial land stocks would be close to exhaustion.

This, and the above factual information could be verified with DPHI.

The next question that arises is - are there other precincts capable of providing the flood of industrial land supply needed?

The Atlas Study found that of Greater Sydney's total undeveloped zoned land, only 8% was serviced. **Figure 7** shows the quantum of zoned industrial land in the Aerotropolis and in Western Sydney (sized >5ha).

Figure 7: Undeveloped Zoned Land (>5ha)



Source: DPE (2022)

Precincts in the Aerotropolis contain almost 2,800 hectares of zoned land. All of this land is however not serviced. Atlas further understands that infrastructure service planning in the Aerotropolis is not well advanced yet. In Western Sydney, it is clear that the Precinct represents the only area with a large quantum of large lots capable of delivering the flood of industrial land supply that is needed in Sydney.

The large-scale nature of the Precinct therefore justifies a targeted focus to ensure it can be viably serviced and delivered. It makes further sense given it (the Precinct) already has significant investment (billions of dollars of land purchased) and tenant interest. The Precinct is also far advanced in development planning, with many SSDAs already lodged.

There is no other precinct in Sydney capable of releasing industrial land supply quickly. The Precinct is therefore critical to the immediate solution of easing Sydney's chronic capacity issue of having less than one year's supply of land remaining.

Therefore to answer the question - would there be an impact on supply of industrial land in Sydney? if the Precinct did not develop, Sydney's supply of industrial land would continue to be constrained. At a time when the supply of serviced industrial land in Sydney is all but exhausted, the uncertainty and additional cost burden in the Precinct has significant ramifications for Sydney's productivity and competitiveness.

Impact on Demand for Industrial Land in Sydney

What would be the impact on demand for industrial land in Sydney?

Given the billions of dollars of investment (for land purchased) and the additional cost of the charges and sterilisation of land, it is inescapable that developers would seek to recover the unexpected costs through higher rents.

If successful, these higher rents would raise the cost of doing business and the cost of living to a new level. Equally, it is not a given that these higher rents would be accepted by businesses and could thereby stall development in the Precinct.

Sydney's significantly higher rents (compared to peer capital cities) is already having direct consequences for the cost of doing business and business investment.

- Atlas' study Sydney's Housing Crisis and the Industrial Sector found that some businesses are already looking elsewhere for expansion opportunities.
- High rents in Sydney have induced a shift in the centre of gravity from Sydney to Melbourne, as explored in Migration of National Distribution Centres to Victoria.

If a higher level of rents was set, we believe it will result in one or more of the following:

- Accelerate and reinforce the shift in the centre of gravity away from Sydney.
- Reduce the demand for land as businesses can afford to occupy less space.
- Reduce the opportunities for business investment and growth.
- Increase the cost of business which will flow onto consumer prices and the cost of living.

Businesses are already at rental capacity, many of whom are considering locations outside Sydney. Those businesses who cannot operate outside Sydney and do accept higher rents, will naturally seek to recover the rents through customer prices.

The Impact of Land Sterilisation

The impact of land sterilisation on the economics of development in the Precinct is several-fold:

- An inability to develop 50%-60% of the land for an unknown period of time.
- CapEx cost to construct the infrastructure and OpEx cost to maintain the infrastructure for unknown period of time.
- Cost to dismantle and decommission the interim infrastructure at some time in the future.
- Revenue deferred from delayed development on the rest of the land.

Working through an example, the analysis shows that to offset the cumulative impact on revenue, a significant increase in net rent is required.

Regardless of whether rents at this level are achievable, they represent a poor outcome for Sydney:

- If these higher rents are beyond the capacity of businesses to pay, development in the Precinct will stall and will not deliver the supply that urgently Sydney needs.
- If these higher rents are accepted by tenants, they would raise the cost of business and cost of living to a new level.

More detailed analysis on the impact of land sterilisation has been provided under separate cover to IPART's chief economist and subject matter team.

Land Values and Sydney Water's Cost to Acquire Land

Adjustment of Land Values

IPART's draft report's findings on economic viability are premised on the theory that the burden of the developer charges:

- Would fall on the landowners (through lower land sale prices); or
- Be borne by developers through reduced margins.

As demonstrated above, both propositions are impractical assumptions.

- The developer charges (resulting from new water targets) were not known when the land was rezoned and purchased. At the time of rezoning, Industry operated under the notion that stormwater charges could cost around $300,000 per hectare (as discussed on pages 2-3). From July 2020 following rezoning of the Precinct, >$2.9 billion of investment poured into the Precinct. More than 70% of the Precinct's original landowners have already taken payment for the land. Any opportunity for the burden of the developer charges to fall on the landowners has passed.
- The cost implications of the unexpected developer charges are significant. Analysis of a case example shows that the cumulative impact of the higher charges and sterilisation of land (assumed in the example for 6 years) results in a negative profit margin. It is therefore unrealistic to assume that the developer charges could be borne "through reduced margins".

On page 42, IPART's draft report says that:

> "*…developers who purchased land before knowing the final costs have incurred a sunk cost. Moving forward, they would need to focus on actual costs and avoid letting past investments cloud future decisions*."

This statement does not reflect the commercial realities of how Industry and the market operate. The "sunk cost" of land is not small. Since the rezoning, more than $2.9 billion has been invested in the Precinct.

The draft report goes on to say that:

> "*…developers who bought land early have not experienced negative financial impacts from their investment decisions*."

This statement is also not true. Early land purchasers would have incurred holding costs on that land. Some early land purchasers would have pre-committed to lower rents (that were applicable at the time) with tenants - which means there is less scope for increasing rents to recover the unexpected costs from higher rents.

Sydney Water's Cost to Acquire Land

Atlas is aware that Sydney Water's land cost assumption is at a rate of $650/sqm (escalated at CPI + 4% annually over 10 years). Given IPART's basic premise is that if developer charges are known, the burden of those developer charges would fall on the landowners (through lower sale prices), the price Sydney Water would pay for land should accordingly be lower.

When Sydney Water acquires land, the market would have been informed of IPART's determination and the requirement for land sterilisation. If rents are not able to be increased beyond $185/sqm, development would not be economically viable (as indicated by a negative profit margin). In that example, the value of land falls to $5,000/ha ($0.5/sqm).

This reduced land value ($0.5/sqm) illustrates how the burden of the new water targets reduces the value of land.

It would be incorrect for Sydney Water to assume a rate of $650/sqm for land acquisition - which does not reflect the now known developer charges. By adopting a land value rate ($650/sqm) that does not reflect the cost of the stormwater targets, the calculation of the regional stormwater system would be inflated. This has obvious implications for the $850,000 per hectare charge suggested.

Water Charges Sending a Market Signal

During the public hearing on 15 October 2024, IPART's presentation noted the NSW Productivity Commissioner's recommendation on the reintroduction of metropolitan water charges. In his final report (November 2020), the Productivity Commissioner noted that cost-reflective water infrastructure charges would send a market signal "to undertake the right amount of development in the right places".

There appeared to be a suggestion in the IPART presentation the water charges would send the "right price signal" about where and when to develop, in line with the Productivity Commissioner's recommendations.

Atlas makes a number of observations:

- The Precinct was already rezoned for development when the Productivity Commissioner's final report was issued.
- It is therefore no longer about "sending the right price signal about where to develop".
- The Productivity Commissioner noted the importance of mapping out a transition path that avoids unintended impacts, recommending that Sydney Water and Hunter Water, *inter alia*, to develop and consult on charging methodologies.

Given the time that has elapsed since the Precinct was rezoned and the market's resounding response to the signal for investment, the time for "sending the right price signal of where to develop" has passed.

The Precinct's Importance to Sydney

In our meeting last week (and at the public hearing), Atlas queried if a Cost Benefit Analysis (**CBA**) of the new water targets had been carried out. Attendees from DPHI appeared to recall a CBA carried out by the now DCCEEW (Department of Climate Change, Energy, Environment and Water). The critical question that remains unanswered is:

- Whether a CBA of the new water targets was based on Sydney Water's costs (which were only available in 2023); and
- Whether the CBA considered the distributional impacts of the new water targets?

Atlas' deep dive into the issue of economic viability shows that delivery of the new water targets through Sydney Water's regional system (at rates suggested by IPART and the sterilisation of land for an unknown period of time) cannot be absorbed into profit margins. Without another funding source, higher rents are the only way for development to be viable.

In summary, it is our view that the Precinct therefore is critical for immediate development. This is because:

- There are no other large precincts with the scale needed to quickly alleviate the supply shortage (refer to **Figure 7**).
- Businesses are already looking outside of Sydney for expansion opportunities, jeopardising Sydney's productivity.
- Without intervention, there is likely to be billions of dollars investment lost and stalled development in the Precinct. This risks reputational harm to NSW and its ability to foster viable investment opportunities.

Please contact the undersigned should you require further information.

Yours sincerely

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