



RUPERT STREET: COMMUNITY BENEFIT ASSESSMENT



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1. INTRODUCTION

The Molonglo Group (MG) owns the premises of 81-89 Rupert Street, in Collingwood. The former industrial warehouses of this site were previously occupied by Vice Australia offices and Schoolhouse Studios, an organisation which hosted artist studios and an event space.

MG has developed a broad vision for development on this land comprising a mix of uses (excluding permanent residential). Plans formerly included commercial offices, continuing artist studios, niche manufacturing, hospitality, niche retail, hotel, and a range of publicly accessible spaces, including a rooftop park. Due to changes in market conditions and an influx of new hotels in the area, the uses have been updated to a more diverse mix of small office, retail and creative spaces to better support Collingwood's local economy.

From March 2018 to May 2019, MG undertook a public participation program to intimately understand the complexity of the neighbourhood surrounding the site and facilitate public input to the Rupert Street project. The program looked at different tension points among residents and workers, current and predicted economic trends, local opinions on gentrification, Indigenous history, botanical landscape, environmental sustainability and more. It did this through research and analysis, public events, group discussions and one-on-one conversations. Key community needs identified by the public participation program that the development could respond to included:

- Publicly accessible rooftop garden
- Subsidised workspaces for artists
- Public art
- Community meeting facilities

SGS prepared a report in 2019 which applied a cost benefit analysis framework to assess the value of the community benefits generated by the Molonglo proposal versus the additional value added to their Rupert Street site by virtue of allowing a building of up to 13 storeys. Council has since issued a Town Planning Permit with endorsed plans for the site. This report reviews the community benefits offered in these endorsed plans and compares them with our original estimate.

This Cost Benefit Analysis framework approach is consistent with the 'value sharing' principle established for the Central City area by Amendment C270 to the Melbourne Planning Scheme. Under this principle, a 'flagfall' amount of development is defined through height limits or plot ratios. Proponents wishing to acquire additional development capacity are required to pay for this through the provision of community benefits, quantified to be at least equal to the uplift in residual land value associated with the additional development capacity above the flagfall amount.

Local policy in the Yarra Planning Scheme allows for this approach, albeit not on a clear base level as with central city development. Application of this approach in Collingwood could enable Council to approve a substantial development on the Molonglo site without necessarily setting a precedent for adjoining sites under the equitable development concept. Proponents of taller development on other sites in the precinct would only gain approval if they similarly provide community benefit equivalent to the uplift in residual land value.

For this project, SGS values the community benefits provided by MG's atypical development and compares this to the gain to MG from a development which exceeds the flagfall amount of development.

2. PUBLIC BENEFIT FOR FLOOR AREA UPLIFT – CONCEPTUAL BASIS

The conceptual basis of an exceedance policy lies in the fact that development capacity is a public asset. The residual land value of any given site is a function of its development capacity and locational attributes. If development capacity increases at a particular site, this is a windfall gain to the land owner who can benefit from this increased development capacity which flows from greater net saleable floor area to higher residual land value. Planning authorities, as monopoly suppliers of development rights, are therefore justified in requiring a developer receiving this windfall gain to redirect some of this benefit to the community.

Exceedance of implicit or explicit height or density limits in local planning policies may be justified if:

- The design is satisfactory in terms of streetscape impact, privacy, sunlighting, daylighting and other architectural and town planning standards, and
- A public benefit is delivered to reflect the value of the additional (commercial) development capacity generated as a result the additional height/density

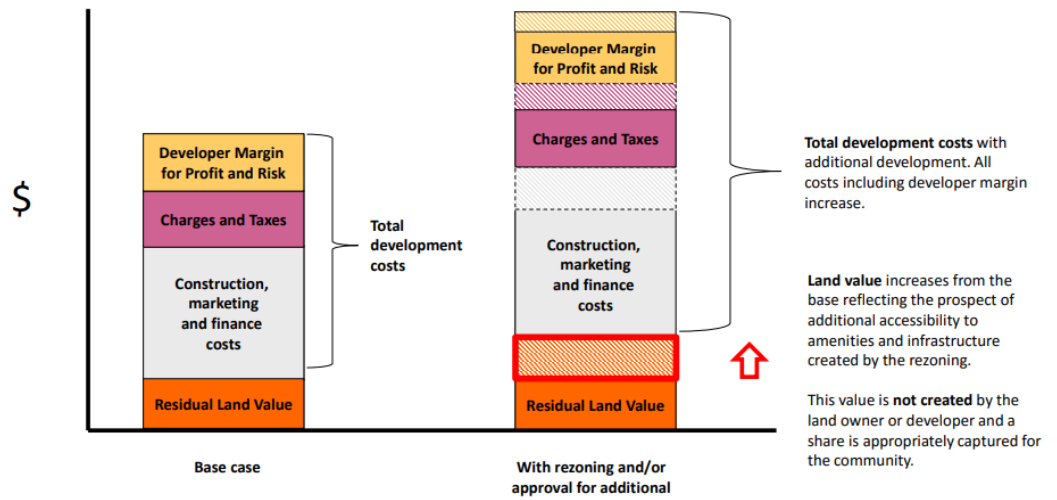
The following definitions describe concepts for this policy:

- *Exceedance* refers to planning applications seeking approval to exceed the implicit or explicit height controls increasing the total floor and/or the total value of the development.
- *Community benefits* are long-lived assets that provide benefits to the community.
- *Residual land value (RLV)* refers to the estimated price a rational developer would be willing to pay for a site, assuming a hypothetical redevelopment of that site. RLV is calculated by subtracting the estimated cost to redevelop the site, including a margin for profit and risk, from anticipated revenues. This concept is illustrated in the figure below.
- *Land value uplift* refers to the notional increase in RLV generated by a planning approval for an exceedance (floor space or height or both) relative to the RLV of a development that complies with the preferred maximum height.
- Community benefits are deemed significant (that is they are *significant community benefits*) when their value is in line with the land value uplift generated by a planning approval for an exceedance relative to a development that complies with the preferred maximum height.

The concept of providing developers with additional development capacity in return for public benefits of equivalent value is beginning to take hold in the Victorian planning system.

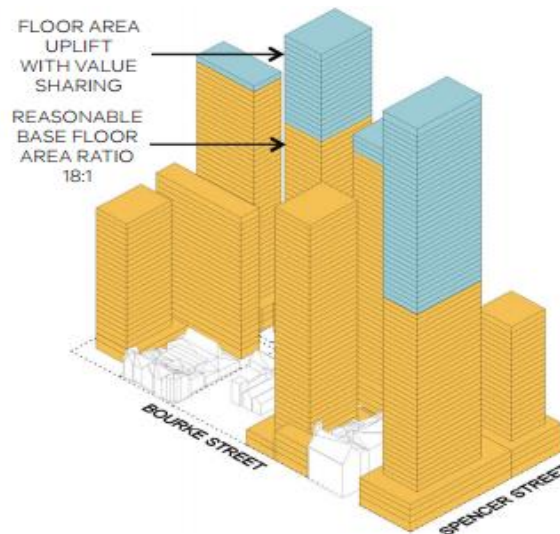
Amendment C270 to the Melbourne Planning Scheme establishes a codified 'price' for additional development capacity beyond a nominal Floor Area Ratio (FAR), which must be paid via a defined list of public benefits.

RESIDUAL LAND VALUE WITH AND WITHOUT ADDITIONAL DEVELOPMENT CAPACITY



The amendment provides new built form provisions and specifies a value sharing scheme for the Melbourne Capital City Zone. This provides for the delivery of public benefits (such as additional open space, community facilities and affordable housing provision) based on floor area uplift. Clause 22.03 of the Scheme sets out how 'Floor Area Uplift and Delivery of Public Benefit' mechanism is to operate (see figure below).¹

CAPITAL CITY ZONE FLOOR AREA UPLIFT



The City of Stonnington Planning Scheme Amendment C172 provides a similar scheme of community benefits in line with private benefits gained from exceedances

Similar arrangements have also been applied in Am GC81, the State Government's permanent planning controls to apply at Fishermans Bend. However, in this case, the public benefits in question are limited to transfer of social housing at zero consideration.

These planning scheme amendments signal a greater propensity for the value capture frame of development contributions to be formally included within Planning Schemes.

¹ http://delwp.vic.gov.au/_data/assets/pdf_file/0017/363113/1611-C270-Summary-Doc.pdf

The Yarra Planning Scheme does not currently have an explicit policy on floor area uplift, though it does provide some guidance on the consideration of the value of public benefits via their local policy Clause 21.05-2, which sets out:

Development on strategic redevelopment sites or within activity centres should generally be no more than 5-6 storeys unless it can be demonstrated that the proposal can achieve specific benefits such as:

- *Significant upper level setbacks*
- *Architectural design excellence*
- *Best practice environmental sustainability objectives in design and construction*
- *High quality restoration and adaptive re-use of heritage buildings*
- *Positive contribution to the enhancement of the public domain*
- *Provision of affordable housing.*

This guidance, along with the conceptual underpinnings of operating exceedance schemes, provides the basis for the analysis in this report.

3. VALUE OF PUBLIC BENEFITS GENERATED BY THE PROPOSAL

3.1 Introduction

Compared to a standard commercial development, MG's project will include a range of features which will benefit the community. The benefits identified and quantified for this exercise are:

- Publicly accessible rooftop garden
- Subsidised artist studios and maker Spaces
- Public art
- Mixed-use commercial and community spaces

SGS views these aspects of MG's project as additional to what a proponent might be expected to provide under a standard complying development.²

3.2 Publicly accessible rooftop garden

The proposed development includes a sizeable area of publicly accessible space in the form of a rooftop garden. The rooftop garden will provide approximately 705sqm (formerly 709sqm) of additional space which will perform a similar function to public open space.³ This quantum of space is comparable to parks in the City of Yarra:

- Peel Street Park - approximately 1,050sqm
- Cambridge Street Park - approximately 820sqm
- Oxford Street Park - approximately 500sqm
- McNamara Reserve - approximately 500sqm

Importantly, MG intends to implement features which will make the rooftop garden function as an inviting space for the public as opposed to a closed off private space. It is intended that the rooftop would be assessable 18 hours a day by the public. Use by the public will be encouraged at the street level with a staircase which will have active uses along the way to the park. This will provide an inviting environment for people to use and visit the park as they would with other urban public open space.

Urban parks and open space have well established benefits to communities. These benefits are economic, social, and environmental including:

- Health and well-being: there is a strong connection between contact with nature and human health
- Community liveability: green infrastructure enhances the attractiveness and liveability of an area

Some portion of these benefits manifest as an uplift in property values and rents for surrounding residents. The value of this uplift, from a significant amount of open space in an

² Previous versions of the plan included a Community Centre which has not been included in the 2022 plans.

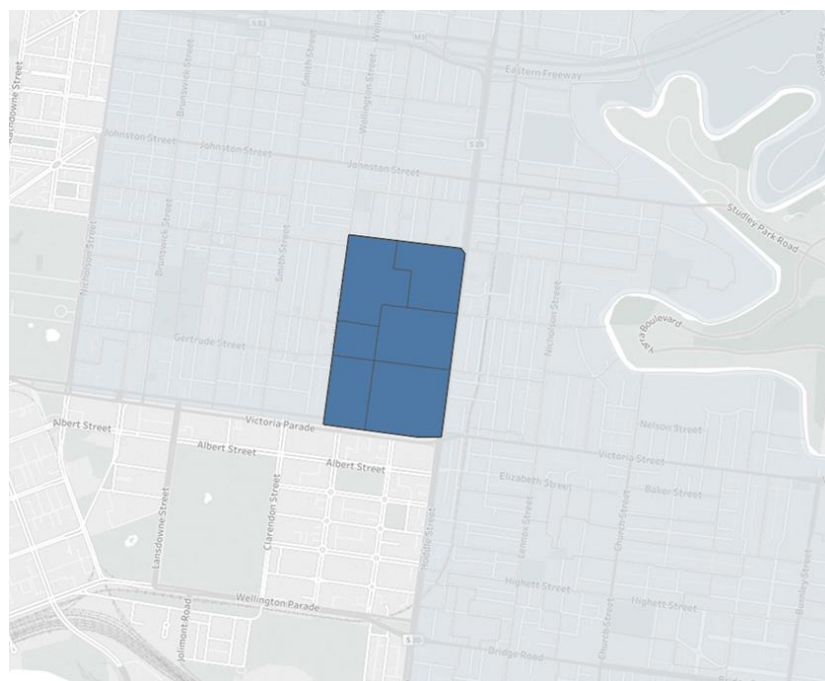
³ The total landscaping throughout the building, including the central ravine and podium landscaping is approximately 2,305sqm.

urban environment, has been valued in the range of 2% to 20% for dwellings in close walking distance.⁴

The rooftop park is of a moderate size; it is not of the same scale as a vast parkland where the upper range of 20% uplift would apply. Therefore, SGS has taken the lower bound of 2% to value this uplift. SGS applied this uplift to a catchment surrounding the Rupert Street site which would be accessible by a 5 to 10 min walk, see figure below. This catchment is home to around 700 dwellings which we have valued at the average 2022 Collingwood apartment rent (\$500 a week or \$26,000 a year).⁵ This results in an annual benefit of around \$364,000 which is applied from completion of the building in 2024.

Previous plans also assumed \$500 a week or \$26,000 a year, producing the same \$364,000 open space benefit.

COMMUNITY CATCHMENT AROUND RUPERT STREET



3.3 Subsidised artist studios & makers spaces

The 2019 proposal included an arts and crafts maker space measuring 446sqm and artist studio space measuring 649sqm, for a total of around 1,100sqm of studio space.

The new plans dedicate 663 sqm to a mix of subsidised artist studios and maker spaces, allowing for a broader range of uses than the former plans. In addition to the artist studios, MG is targeting industries such as artisan food production or baking, fashion or textile designers and makers, and practitioners in ceramics or clay.

MG intends to rent this space out at below market rents, providing a community benefit from the delivery of this space which would not occur under a typical development. SGS has valued this benefit as the differential between commercial market rents (around \$600 sqm year) and the intended subsidised rent rate at the Rupert Street development (\$350 sqm year). This differential of \$250 sqm a year is applied to the area dedicated to subsidised artist studios and makers spaces in the development. This results in a benefit of around \$270,000 a year following project completion for the 2019 plans, or \$165,750 a year for updated 2022 plans.

⁴ http://www.environment.sa.gov.au/files/1a6b24e1-d957-4da7-bb86-a12d0114fccd/bg-gen-Green_Infrastructure_Evidence_Base_December_2012.pdf

⁵ Molonglo Group correspondence

This benefit is contingent on enduring tenancy arrangements which ensure the space remains available at below market rates into the future. MG intends to ensure tenancies align with the aims of the building through a Tenant Charter and leasing mandate.

ARTIST STUDIO RENTS

A comprehensive survey conducted by SGS in 2013 found that artist studios and related 'creative spaces' in inner Melbourne generated per square metre rentals in the range of \$325 to \$525 per annum. A few of the creative studio providers that are still operating have increased their offer and prices over the last six years. For example, the average rent at Manallack studios in Brunswick increased from \$375 per square metre in 2013 to \$450 per square metre in 2019.

As a conservative estimate, this report has adopted the average value from the survey completed in 2013 and inflated it to 2019 dollars. This equates to an annual per square metre rental cost of \$400 in 2019.

An audit of maker spaces on the Creative Spaces website in May 2019 shows rental prices for maker spaces can range from \$250 per square metre to \$870 depending on the users preferred length of stay, location, and amenities.

EXISTING MAKER SPACES IN INNER NORTHERN SUBURBS

Location	Annual sqm rent
The Cavern Table Studios at 127b Campbell St Collingwood	\$249/sqm
SJS Gallery at 120 Alexandra Pde Fitzroy	\$375/sqm
Collingwood Space – Street Frontage	\$578/sqm
Sackville St, Collingwood	\$869/sqm

Source: Creativespaces.net.au

3.4 Public art

The development includes a number of publicly accessible public art installations. As this level of public art investment would not be provided by a typical development it is reasonable to include the value of the public art as a community benefit.

The design of the project includes a trellis gatehouse structure which frames the entrance to the central ravine and forms a structure for extensive landscaping. This feature, designed by London-based 6a architecture, is considered a significant piece of public art.

To value this benefit, SGS has taken the cost of the public art as a community benefit, as this is what it could cost to commission the art outside of this project. The project Quantity Surveyor has priced the artwork at \$130,000. This benefit is realised as a lump sum following completion of the building in 2024. The value of this public art did not change in the updated plans.

3.5 Gallery space

An art gallery space will be offered at subsidised rates, to be accessed freely by the community during opening hours. The tenant would also be required to run public programs for school groups and artist talks.

469 sqm would be available in a range of \$350 - \$425/sqm to a not-for-profit tenant, compared to a range of \$560 - \$585 for a commercial tenant. The midrange was used to

calculate the differential to determine the community benefit. This amounts to \$185/sqm for the subsidised area.

This resulted in a benefit of around \$86,765 per annum for the Gallery space.

3.6 Community meeting facilities

MG's 2019 plans proposed meeting facilities which will be available to the community as part of the development. Around 100 sqm of meeting room facilities were to be available for use by community groups at low cost or free.

This performs the public service functions equivalent to a council provided community meeting facility as part of a library or community centre. This increases supply of these facilities which would otherwise need to be met by local government. Therefore, there would have been a community benefit provided by this development which would not be provided under a typical development.

SGS valued this benefit as equivalent to the cost which Council would incur if it delivered an equivalent sized meeting room. To do this we took a construction cost of \$2,000 a sqm based on Rawlinsons 2018 cost for a small scale community facility in Melbourne. Applied to community facilities of 100 sqm, this benefit was valued as a lump sum of \$200,000 and would have been realised following building completion in 2022.

This benefit does not apply to the plans updated in 2022.

3.7 Mixed use community facilities

Three commercial facilities will be made available to the public for set hours each month. While these hours may be outside normal commercial operating hours, they are within 'social' hours when community members may seek spaces for work or leisure.

- A 132sqm Cultural Venue will be available for 10 hours per month
- A 27sqm Dining Room will be available for 48 hours per week
- A 62sqm Atelier will be available for 24 hours per week

The market rate for these areas ranges from \$525 - \$950/sqm.

As some facilities are open to the community for up to 14 hours per day, use for these facilities have been proportioned to community benefit based on assumed commercial operations of fourteen hours per day, five days a week, across the year.

This model implicitly assumes full utilisation of these spaces by the community. MG have advised that two Engagement Officers will be on staff to encourage and facilitate community use of the facilities.

TABLE 1: MIXED USE COMMUNITY BENEFITS

	Hours p.a.	% Community Use	Sqm	\$Sqm	Community benefit Per Space
Cultural Venue	120	0.03	132	\$525	\$2,285
Dining Room	2,496	0.69	27	\$725	\$13,423
Atelier	1,248	0.34	62	\$950	\$20,194
Total Community Benefit					\$35,902

Source: SGS Economics & Planning, 2022

This resulted in a community benefit of around \$35,902 per annum.

3.8 Benefits identified but not quantified

In addition to the benefits identified above, SGS notes the following additional benefits which have not been quantified due to uncertainty in the realisation of the benefit or difficulty in quantifying.

- **Lower private vehicle use:** MG's development includes a significant reduction in the number of car parks when compared to the statutory requirements as set out in the Planning Scheme (40 car parks compared to 261). Reducing car parks encourages active and public transport use which has community benefits in public health, environmental benefits, and reduction in road congestion.
- **Good design:** MG has commissioned world class architects (6a) to design the building. This means the development would likely have higher design outcomes than a typical development on this site. Good building and urban design have community benefits. Arguably, however, good design should be provided in all circumstances, not just in return for additional development rights.

4. ONGOING JOBS

The development is expected to generate capacity for more workers across knowledge, retail, hospitality and cultural industries. The former use of the space had capacity for around 50 full time equivalent (FTE) jobs.

Using broad categories and future commercial floorspace estimates for Melbourne,⁶ SGS estimates a total of approximately 447 jobs within the proposed development, with a breakdown into categories as shown in Table 2. 'Other Services' include the community and restricted recreation areas.

TABLE 2: JOB TO FLOORSPACE RATIO

Category	Space (Sqm)	FTE
Accommodation & Food	786	30.23
Business Services	8,272	330.88
Other Services	2,270	52.79
Retail	991	33.03
	Total FTE	446.93

Source: SGS Economics and Planning, 2022

Floorspace per job is likely to change in the future in response to multiple factors which shape the way we work. Increases in remote working, automation and outsourcing may decrease density over time.

⁶ <https://www.planning.vic.gov.au/policy-and-strategy/metropolitan-industrial-and-commercial-land-use-plan#documents>
Part B, p.110

5. VALUE OF ADDITIONAL DEVELOPMENT CAPACITY

MG’s proposal is for a 13 storey building (plus rooftop). A typical development which could occur on this site would likely be lower. Based on Yarra’s local policy, there is support for a 6 storey building (plus rooftop and mezzanine level – nominally 7 storeys) without any of the public benefit initiatives proposed by MG.

Accordingly, SGS has taken a 6 storey development as the flagfall amount of development permitted. Therefore, the proposed 13 storey building represents a windfall to MG equivalent to the value of 6 storeys (see figure below illustrating this).

WINDFALL AND FLAGFALL LEVELS OF DEVELOPMENT

Windfall
Windfall
Windfall
Windfall
Windfall
Windfall
Flagfall
Flagfall
Flagfall
Flagfall
Flagfall
Flagfall
Flagfall
Flagfall

This additional development capacity is worth approximately \$3.5m to MG or 6/13 of MG’s RLV for the total project of \$7.5m.⁷ This benefit to MG is realised following planning approval for the site and is therefore incurred in the first period, with a present value of \$3.2m.

⁷ Sourced from MG, from an initial indicative development feasibility.

6. CONCLUSION

The total community benefits previously expected from MG’s development, based on 2019 floorplans, was \$5.5m in present value terms at a standard discount rate of 7%. The key benefits were the rooftop park’s open space benefit and subsidised artist studios.

The total community benefits delivered by MG’s revised 2022 floorplans is \$5.4m in present value terms at a standard discount rate of 7%. The key benefits remain the rooftop park’s open space benefit and subsidised maker spaces.

The present values for both scenarios were calculated on a base year of 2019 to allow for direct comparability.

PRESENT VALUE OF COMMUNITY BENEFITS AND ADDITIONAL DEVELOPMENT CAPACITY

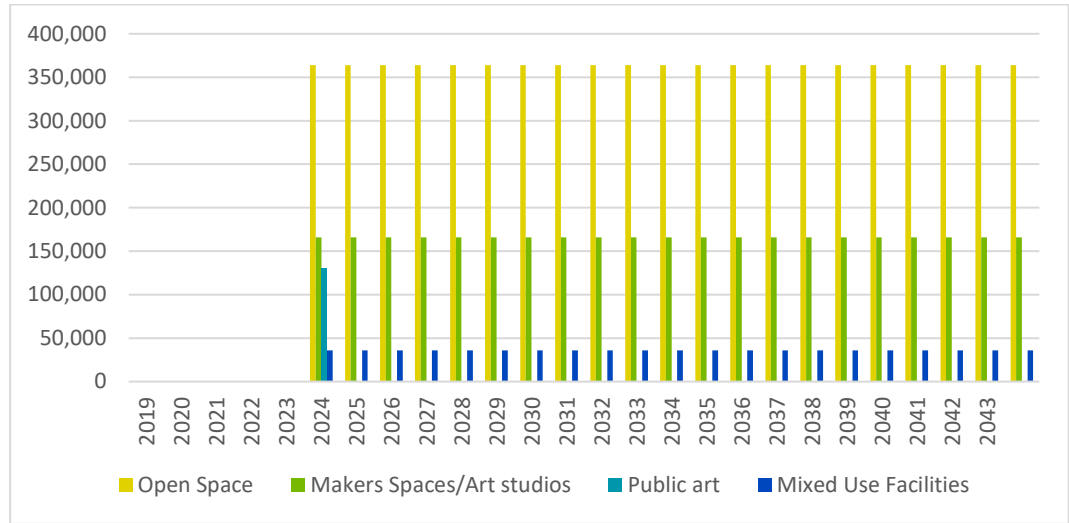
Item	Present value – 2019 Plans	Present value – 2022 Plans
<i>Total additional development capacity (windfall to MG)</i>	\$3,235,083	\$3,235,083
Rooftop park	\$3,008,959	\$3,008,959
Subsidised Makers Spaces/Art Studios	\$2,273,252	\$1,370,151
Public art	\$92,688	\$92,688
Community Facilities	\$142,597	\$0
Gallery Space		\$640,707
Mixed Use Community Facilities	\$0	\$296,777
<i>Total community benefits</i>	<i>\$5,517,497</i>	<i>\$5,409,283</i>

As noted, the value of additional development capacity MG receives as a result of being able to build to a higher height of 13 storeys is \$3.2m in present value terms.⁸

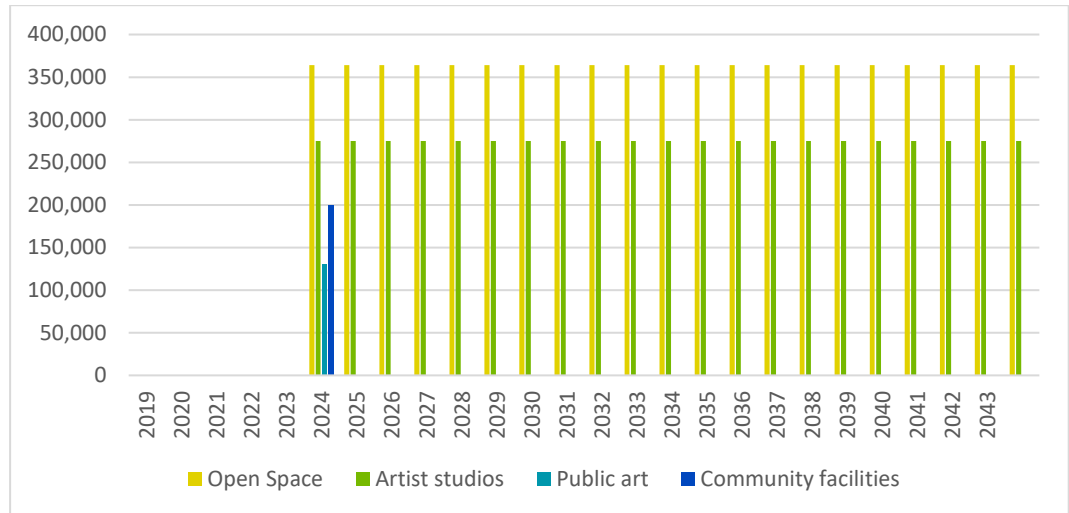
The community benefits have reduced by \$108,214 in the 2022 version of the plans. Notwithstanding this slight decrease, the value of the community benefits generated remains higher than the windfall amount provided by the additional development capacity. Therefore, the windfall to MG from additional development capacity is more than offset by the community benefits delivered by the development. SGS concludes that, provided that the community benefit features are delivered and remain in place over the life of the building, the community stands to gain in net terms from MG’s project compared to standard development on the site.

⁸ See note on following page.

PROFILE OF COMMUNITY BENEFITS; 2022



PROFILE OF COMMUNITY BENEFITS; 2019



PRESENT VALUES

Present values allow comparison of benefits which will occur at different periods in the future, in today's dollars. This accounts for the concept that a dollar today is valued less than a dollar next year, even ignoring the effects of inflation.

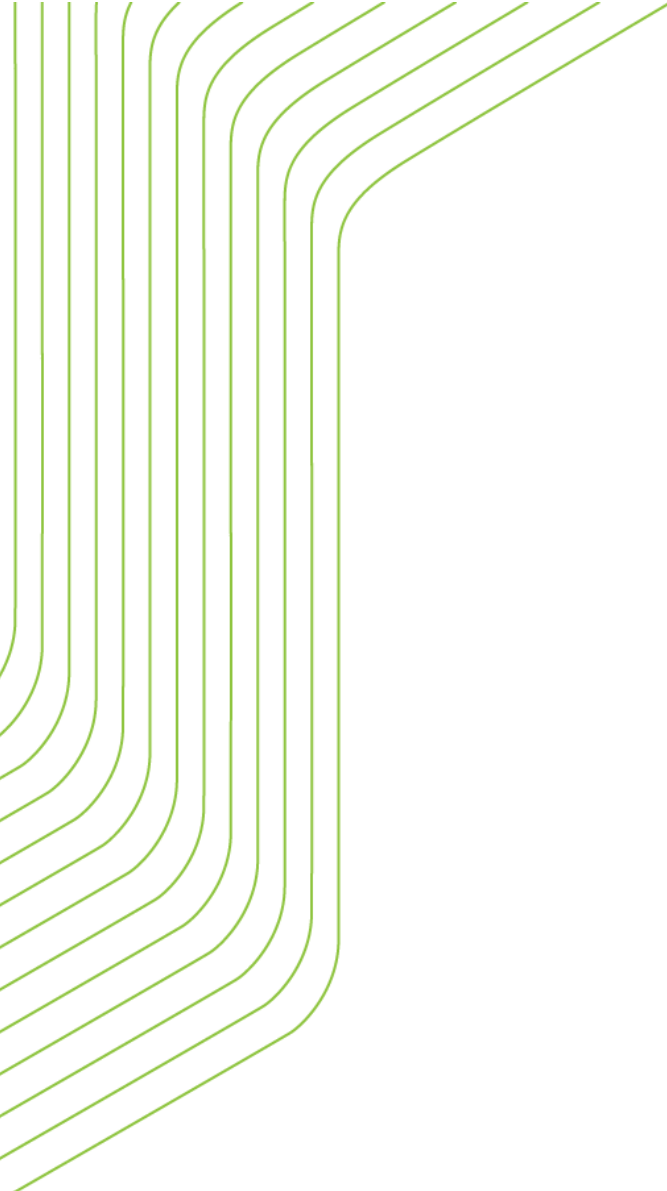
PV is calculated as: $PV = \frac{F_1}{1+r} + \frac{F_2}{(1+r)^2} + \dots + \frac{F_n}{(1+r)^n}$

Where F_i is the benefit incurred in period i and r is the discount rate.

The standard real discount rate used in project evaluation in Australia is 7%.

For more background on present values see:

https://economicdevelopment.vic.gov.au/_data/assets/word_doc/0007/1492603/Guidance-on-discount-rates-internet1.docx



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