



**epra**

REVITALISING URBAN PLACES

19 March 2010

Hon. John Kobelke MLA  
Chairman  
Public Accounts Committee  
Parliament House  
PERTH WA 6000

Our Ref: EPRA-03680 / 940163

Dear Mr Kobelke,

**PUBLIC ACCOUNTS COMMITTEE INQUIRY INTO PROJECT  
PLANNING FOR WESTERN AUSTRALIAN INFRASTRUCTURE  
PROJECTS – QUESTIONS ON NOTICE**

Thank you for your letter of 8 March 2010 regarding the Committee hearing held on Tuesday, 2 March 2010.

As requested, please find attached:

1. A copy of the benefit-cost analysis conducted by EPRA arising from the style and type of developments contained in the NBL Master Planning documents (Attachment 1); and
2. Indicative valuations of the land being redeveloped in the NBL project following the completion of associated improvements in the redevelopment (Attachment 2).

Yours sincerely,

**Tony Morgan  
Chief Executive Officer**

**report**

East Perth Redevelopment Authority

The Link

07/95

August 2007



**feasibility | strategy | impact**

**pracsys.**

#### **Disclaimer**

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## **1 Basis for Analysis**

This analysis has been prepared in support of a funding submission by the East Perth Redevelopment Authority to the Government of Western Australia. The funding is required to facilitate undergrounding the Perth-Fremantle rail line west from Perth Station to Lake Street, replacing the Perth Bus Station with an underground facility and developing land in the precinct.

The scope of the analysis is limited to direct revenue benefits to State and Local Governments related to newly developed land and buildings generated as a result of the project. A range of revenue sources is relevant to the analysis. These revenue sources include:

- WA Government Stamp Duty on property transactions
- WA Government Land Tax
- WA Government CBD parking levies
- City of Perth rates

Other smaller charges have not been included in the analysis; such as WAPC subdivision and survey strata application fees, and City of Perth rubbish collection, building approval charges and FESA charges. Other than the CBD parking levies, any other car parking fees are considered to be net revenue neutral, and are therefore not included in this analysis.

State payroll tax is another potentially significant revenue source that may warrant analysis in future. Payroll tax has been excluded from the analysis because it is difficult to associate the creation of new tax revenue (companies with payrolls exceeding \$700,000) with the development of land and buildings as planned for The Link.

Wherever possible, the analysis focuses on revenue sources that are specifically attributable to the project, and which would not occur elsewhere in the economy. For instance, although it is arguable that new dwelling development to accommodate new residents would occur elsewhere, the stamp duty revenue from the site goes from near zero to a very substantial figure over a relatively short space of time. In effect, notwithstanding that some new dwelling development may occur elsewhere, this is largely 'new' revenue to the WA Government that would not occur if the development did not proceed.

Furthermore, there is likely to be a significant 'value uplift' resulting from The Link developments in favour of surrounding properties on Roe Street, James Street, William Street, Lake Street, Wellington St and Murray Street. These value increments will flow through into greater Government revenues based on increasing rents and transaction values in the peripheral areas.

## 2 Revenue Drivers

The four revenue sources included in this analysis are driven by either transactions (i.e.: property values) or activities occurring on the land (eg: retail trading, dwelling occupancy, car parking, etc).

Revenue Source	Driver
WA Government Stamp Duty	Transaction value of land and/or buildings
WA Government Land Tax	Unimproved Land Value (ULV)
WA Government CBD parking levies	Long term parking bays
City of Perth rates	Gross Rentable Value (GRV)

Source: WA Government and City of Perth publications

In the analysis that follows, each of these revenue sources is estimated in static terms, followed by a summary of revenues in a cashflow model.

### 2.1 City of Perth

#### Rates

City of Perth rates are levied on gross rentable values of properties. In this analysis, two rate revenue sources are considered. First, the new properties to be created on The Link site, plus additional rates generated in the periphery due to 'value uplift' associated with The Link development. The rate of this value uplift in the periphery is assumed to be 50%, based on the relatively low historical value of peripheral properties on Wellington St and Roe Street in particular.

Rates are then applied to The Link and Periphery at the standard City of Perth levels shown in the table below. The resulting revenue impact, once all development is complete, is \$10.3 million, collected annually. This compares to negligible rates currently being collected from The Link site properties.

Rates	Rate	Link GRV Rate Base \$	Periphery GRV Rate Base \$	GRV Uplift Factor	Periphery Rate Base Uplift \$	Additional Rates \$
Residential	5.3%	59,527,477	6,471,192	50%	3,235,596	3,326,443
Commercial	4.7%	97,535,744	31,631,831	50%	15,815,916	5,327,528
Retail	7.5%	9,536,779	25,604,852	50%	12,802,426	1,675,440
<b>Total</b>					<b>31,853,938</b>	<b>10,329,411</b>

Source: Colliers 2007; City of Perth Rates Database; Pracsys Calculations

## 2.2 WA Government

The basis for Stamp Duty on transactions is the sale value of land and/or buildings. The aggregate value of property sales for Link sites are taken directly from valuations prepared by Colliers. Values for the periphery have been calculated by capitalising Gross Rental Values from the City of Perth rates database at commercial rates for residential, office and retail property benchmarks. These values are presented in the table below.

Study Area	Land Sale Value \$	Residential Property Sale Value \$	Office Sale Value \$	Retail Sale Value \$
Link Site	223,300,000	1,073,604,200	1,759,100,000	172,000,000
Periphery	Nil	258,847,680	395,397,888	320,060,650

Source: Colliers 2007; City of Perth Rates Database, Pracsys Calculations

## 2.3 The Link- Stamp Duty

The Link site has \$151 million of stamp duty revenue accruing for initial sale of land and subsequent sale of residential, commercial and retail buildings. The sales of buildings will then continue similarly once every 5 years (residential) and once every 10 years (commercial and retail). Stamp Duty on the sale of residential properties (apartments) has been reduced from 5% to 4% to take account the impact of first home buyers not paying the duty. This assumes 20% of such sales will be to first home buyers

Link Site Area	Sale Value \$	Stamp Duty	Stamp Duty Revenue \$
Initial Land Sale	223,300,000	5.00%	11,165,000
Residential	1,073,604,200	4.00%	42,944,168
Office	1,759,100,000	5.00%	87,955,000
Retail	172,000,000	5.00%	8,600,000
<b>Total</b>	<b>3,228,004,200</b>		<b>150,664,168</b>

Source: Colliers 2007; City of Perth Rates Database; Pracsys Calculations

## 2.4 Periphery- Stamp Duty

As properties surrounding The Link development experience their value uplift and are sold for redevelopment, a further round of stamp duty revenue will be generated. This analysis assumes that each building will eventually be sold, or that buildings will be sold on average every 5 years (residential); or every 10 years (commercial and retail). This stamp duty revenue has been discounted by 50% to take account of buildings that will not be sold over the period of the analysis, and therefore will not generate any Stamp Duty revenue for the Government. The resulting estimate for Stamp Duty revenue from the periphery is \$23 million.

Periphery Area	Sale Value \$	Stamp Duty	Provisional \$	Discount	Net Stamp Duty Revenue \$
Initial Land Sale	Nil	Nil	Nil	Nil	Nil
Residential	258,847,680	4.00%	10,353,907	50%	5,176,954
Office	395,397,888	5.00%	19,769,894	50%	9,884,947
Retail	320,060,650	5.00%	16,003,033	50%	8,001,516
<b>Total</b>	<b>964,306,218</b>		<b>46,126,804</b>		<b>23,063,417</b>

Source: City of Perth Rates Database; Pracsys Calculations

## 2.5 Car Park Levy

A total of 787 car bays will be generated for long term commercial users as a result of the proposed development. At a \$205 annual levy, this will generate \$161,000 revenue for the WA Government.

	Rate per bay \$	Bays	Car Park Levy
New Car Park Spaces	\$205	787	<b>\$161,335</b>

Source: Colliers 2007; City of Perth Car Parking

## Land Tax

Land Tax applies to the unimproved land value of sites at The Link. Based on WA Treasury's sliding rate formula, the aggregate annual land tax payable for the 15 taxable sites proposed (excluding sites B8 and B9) is \$3,684,525. This estimate does not allow for increments in unimproved land value (ULV).



## 2.6 Cashflow

The table below shows the anticipated timing of government revenues.

Future Revenues in 2007 Dollars (\$m)							
2012	2013	2014	2015	2016	2017	2018	2019-2030
3	3	32	12	17	34	31	485

Source: Pracsys Calculations

Net Present Value of future government revenues, determined on the basis of a discount rate of 12.97 percent, which is the risk-adjusted 10 year bond rate for the WA Treasury Corporation, amounts to \$222 million. This compares to an anticipated capital cost in 2010 of approximately \$100 million.

## 3 Conclusion

Both the static analysis of government revenue impacts associated with The Link development and the net present value of future cashflows show a positive return for the government on its initial investment. Based on conventional commercial investment criteria, the project should proceed. The table below shows the increase in transaction-based cashflows and recurrent cashflows associated with the development. Given the near nil-revenue position of the site in its current state, the revenue impacts associated with development are compelling.

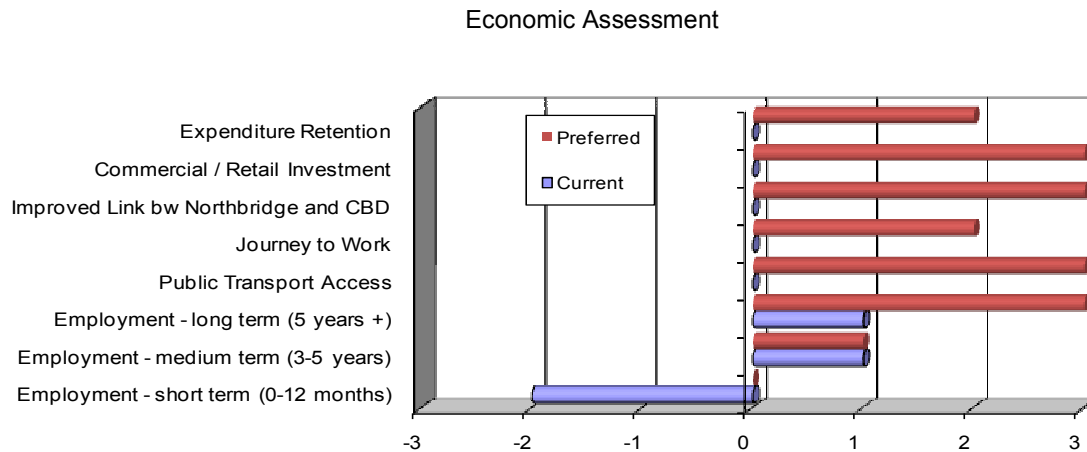
The Link & Periphery	Do Nothing \$	The Link \$
<b>Transaction-based Revenues</b>		
Initial Land Sale Stamp Duty	Nil	11,165,000
Residential Developments Stamp Duty	Nil	48,121,122
Office Developments Stamp Duty	Nil	97,839,947
Retail Developments Stamp Duty	Nil	20,602,274
<b>Recurrent Revenue</b>		
Land Tax (annual)	Nil	3,684,525
Car Park Levy (annual)	Nil	161,335
<b>NPV of Cash Flows</b>		<b>222,446,152</b>
<b>Costs (not included in NPV)</b>		
Bus Station Construction	-30,000,000	
Undergrounding		-100,000,000

## 4 Triple Bottom Line Assessment

### 4.1 Scenario Descriptions

This study incorporates the current railway situation, with the railway line remaining in its current state and location. The building of the Arena may result in incremental improvements along Wellington Street; however the outcomes are expected to be significantly lower from an economic, social and environmental perspective when compared to the preferred option of sinking the railway line.

The future scenario would see a vast improvement to the site with direct benefits flowing from a more activated and attractive economic precinct. The potential benefits include increased residential, worker and visitor populations resulting in revitalisation of the buildings which line Roe and William Streets as well as greater infrastructure utilisation rates. The increased utilisation would result in greater rent being received; this money is likely to be spent by businesses to improve the scale and appearance of the existing buildings which would add value and character to the Precinct.



The key economic outcomes of this scenario are as follows:

#### Employment – Short Term (0-12 months):

Currently the only existing employment is at the bus station, the preferred option would include rail construction employment

#### Employment – Medium Term (3-5 years)

The current and preferred options would see steady medium term employment as a result of commercial building construction and commercial operations employment

#### Employment – Long Term (5 years +)

Sinking of the railway line provides significant long term employment due to construction employment and redevelopment of the western area

#### Public Transport Access

The preferred option foresees a considerable increase in pedestrian traffic, driving rates & rents

#### Journey to Work

Sinking of the railway line reduces travel time.

#### Improved Link between Northbridge and CBD

A significant improvement in vehicle traffic access, particularly north of the CBD to Northbridge as well as numerous improvements to pedestrian permeability.

#### Commercial/Retail Investment

Currently there is no justification for commercial development (apart from the Arena and surrounds). There are very few pedestrian links on Wellington St (S)/Roe St (N) which will not sustain significant commercial activity.

Sinking of the railway creates a framework for development (i.e.: roads, pedestrian thoroughfares, frontages etc); permanent residential population provides immediate consumer markets for ground level retail; daytime workers support a variety of café/restaurant uses. Roe (N)/Wellington (S) will follow with new redevelopment based on increased land value (greater rates revenue, increased transactions, etc). Significantly better investment environment due to increased land values which will enable businesses to access finance (i.e.: bank loans) and be in a better position to service debt through higher rents

#### Expenditure Retention

There is potential for the area to become more self-sustaining as greater variety and depth of opportunities to spend, particularly for visitors who may not spend at all because there are presently no places to spend. This represents an opportunity to capture an additional \$350 million in CBD revenue. If there is no further retail development in CBD, it will be captured by suburbia.

**4.2 Social Outcomes**



Walkability

The current elevated pedestrian walkways at the entertainment centre, bus station, horseshoe bridge and cultural centre overpass have little supporting amenity and are therefore ineffective for activation. The proposed option offers significant improvements to pedestrian permeability.

Housing Provision

Currently there are no housing provisions. The preferred option would yield approximately 1,700 new dwellings (3,060 new residents) and associated amenities, creating a sustainable community. Of this new housing 15% (250 dwellings) would be made available for affordable housing.

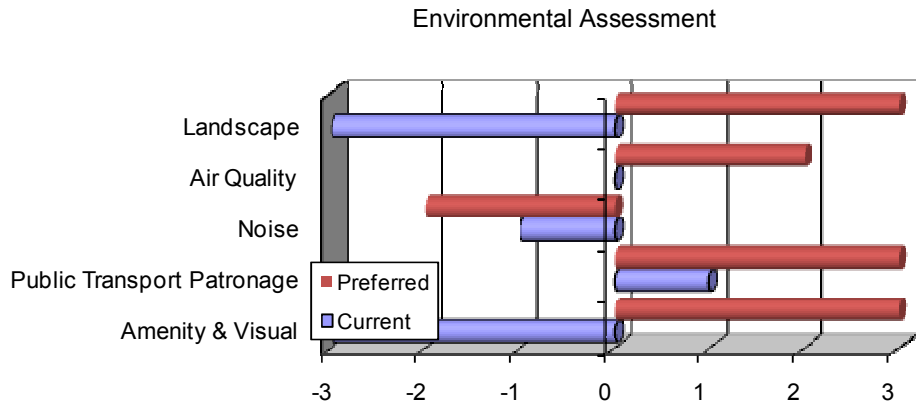
Community Cohesion

Potential for new physical linkages between CBD and Northbridge create cultural blending that generates the required level of interest and urban vitality

Safety

Currently, split levels create safety issues by diluting population concentration. The preferred option would see a greater population density, particularly in the Northbridge Precinct which provides passive surveillance, lighting and improves safety.

**4.3 Environmental Outcomes**



Landscape

Currently, there is low level landscape at grade, the railway line does not possess any pedestrian access and is impassable to vehicles. The proposed option would result in greater landscaping at ground level, large public areas which create opportunities for street art and sculpture.

Air Quality

Increased housing density close to the city reduces car trips and associated pollution. Sinking of the railway line will lower the car to dwelling ratio will reduce vehicle emissions.

Noise

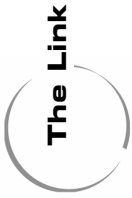
Presently, the railway at grade generates substantial noise and associated negative externalities. Events at the Arena will result in occasional high noise pollution. The preferred option would reduce negative noise externalities from the rail line, however increased population density will slightly increase inner city noise.

Public Transport Patronage

The current railway would result in a slight increase in public transport patronage due to general population growth. By sinking the railway, local population concentrations (residents, workforce, visitors, and special event crowds) will result in a large increase in train and bus porting.

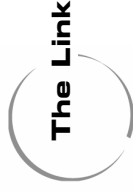
Amenity & Visual

The current site is an inaccessible industrial landscape. Sinking of the railway line would considerably improve the visual elements of the area with architecturally designed buildings, use of public art and attractive landscaping.



5 Appendix 1

Frequency	LOT	Sale Date	Annual uplift		Annual		On Sale	30 mths after sale, then every 10 years			30 mths after sale, then every 10 years			Annual Land Tax
			Council Rates	Car Parks	Car Park Levy	Stamp Duty - Land		Stamp Duty - Resi	Stamp Duty - Office	Stamp Duty - Retail	Stamp Duty - Office	Stamp Duty - Retail	Stamp Duty - Office	
	A1	1-Jan-15	602,798	32	6,560	635,000	5,076,000	2,960,000	995,000	187,975				
	A2	1-Jun-16	1,265,280	130	26,650	1,150,000	73,248	15,215,000	1,090,000	424,875				
	A3	1-Jan-15	1,241,407	133	27,265	1,250,000	0	15,510,000	1,125,000	470,875				
	A4	1-Jan-16	698,291	8	1,640	850,000	10,930,320	0	995,000	286,875				
	A5	1-Jan-18	1,593,537	164	33,620	1,225,000	0	20,890,000	470,000	459,375				
	B1	1-Jan-14	202,922	24	4,920	482,500	0	2,325,000	420,000	120,450				
	B2	1-Jan-14	190,986	16	3,280	370,000	711,200	1,570,000	350,000	85,575				
	B3	1-Jun-13	71,620	3	615	200,000	995,200	0	370,000	35,375				
	B4	1-Jul-18	405,845	8	1,640	675,000	6,144,600	0	210,000	206,375				
	B5	1-Jul-18	376,003	34	6,970	365,000	5,781,440	0	175,000	84,025				
	B6	1-Jul-18	1,342,868	78	15,990	1,790,000	0	17,230,000	440,000	719,275				
	B7	1-Jul-18	358,098	2	410	362,500	5,382,720	0	265,000	83,250				
	B8	1-Jul-18	113,398	1	205	0	1,787,560	0	0	0				
	B9	1-Jul-18	89,525	152	31,160	0	1,422,520	0	0	0				
	C1	1-Jan-13	280,510	2	410	600,000	3,519,360	0	875,000	171,875				
	C2	1-Jan-12	417,781	0	0	580,000	1,120,000	3,555,000	420,000	162,675				
	C3	1-Jan-12	692,323	0	0	630,000	0	8,700,000	400,000	185,675				
			<b>787</b>		<b>\$161,335</b>	<b>\$11,165,000</b>	<b>\$42,944,168</b>	<b>\$87,955,000</b>	<b>\$8,600,000</b>	<b>\$3,684,525</b>				
Periphery		1-Jul-14	386,220				7,765,430	14,827,421	12,002,274	N/A				
			<b>\$10,329,411</b>											



6 Appendix 2

Government Revenue		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Additional Council Rates	10,329,411	0	0	0	0	0	1,110,104	1,462,234	1,856,142	4,086,567	6,050,139	6,050,139	10,329,411	10,329,411
Car Park Levy	161,335	0	0	0	0	0	0	1,025	9,225	43,050	71,340	71,340	161,335	161,335
Stamp Duty - Land	11,165,000	0	0	0	0	0	1,210,000	800,000	852,500	1,885,000	2,000,000	0	4,417,500	0
Stamp Duty - Residential	42,944,168	0	0	0	0	0	0	0	1,120,000	3,519,360	1,706,400	5,076,000	10,930,320	1,193,248
Stamp Duty - Office	87,955,000	0	0	0	0	0	0	0	3,895,000	0	3,895,000	18,470,000	0	27,470,000
Stamp Duty - Retail	8,600,000	0	0	0	0	0	0	0	770,000	875,000	1,140,000	2,120,000	995,000	1,910,000
Stamp Duty - Peripheral Reside	7,765,430	0	0	0	0	0	0	0	5,176,954	0	0	0	0	5,176,954
Stamp Duty - Peripheral Office	14,827,421	0	0	0	0	0	0	0	9,884,947	0	0	0	0	0
Stamp Duty - Peripheral Retail	12,002,274	0	0	0	0	0	0	0	8,001,516	0	0	0	0	0
Land Tax	3,684,525	0	0	0	0	0	348,350	555,600	761,625	1,420,475	2,132,225	2,132,225	3,684,525	3,684,525
TOTAL														
Escalated	6.0%	\$615,997,936	0	0	0	0	2,668,454	2,818,859	32,327,909	11,829,452	16,995,104	33,919,704	30,518,091	49,925,473
NPV	12.97%	\$222,446,152												







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# FINANCIAL EVALUATION

FOR  
  
THE LINK

UNDER INSTRUCTIONS FROM  
  
**EPRA – AUGUST 2007**

