Economic Assessment

95 Nicholson Street and 504, 472 and 486 Pacific Highway, St Leonards

October 2013

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Executive Summary

To address the potential impact of rezoning of 95 Nicholson Street and 504, 472 & 486 Pacific Highway, the future market demand for office space within the St Leonards 'Specialised Centre' needs to be assessed. The purpose of this is to understand and test the current and long-term requirements for office floorspace within St Leonards Specialised Centre. This will consider the composition of targeted jobs growth outlined in the draft Metropolitan Strategy for Sydney to 2031, addressing whether the withdrawal of the subject site from the office market could constrain the St Leonards Centre's capacity to accommodate this jobs growth target. This assessment will also consider the future composition of office demand, and the potential for specialised health related office demand to be accommodated in a more specialised location, such as the Royal North Shore Hospital (RNSH) redevelopment.

The proposed redevelopment of the subject site at 95 Nicholson Street and 504, 472 & 486 Pacific Highway will consist of 3 residential towers with an indicative dwelling yield of 907 new apartments, comprising a total of 78,655sq.m of Gross Floor Area (GFA). The proposed development will also consist of 2,450 sq.m (GFA) of ground floor retail and 3,950sq.m (GFA) of commercial / office floorspace.

In summary, having had regard to this, it is our view that the rezoning of 95 Nicholson Street and 504, 472 & 486 Pacific Highway will not have a detrimental impact on jobs growth within the St Leonards Centre for the following reasons:

ST LEONARD'S OFFICE MARKET

- Other competing CBDs and centres are better placed to attract traditional commercial/office based industry sectors and tenants. With 53% of the St Leonards office stock classified as C-D Grade it is evident from the age of office stock that the centre has not continued to attract investment in new office developments or major refurbishments.

- Fragmented ownership and stratification of office stock within St Leonard presents a barrier to redevelopment of lower grade office stock and providing the market with the floor plate/size of product being sought in other centres.

- In addition to this, the price point for asking rents is not competitive with other suburban centres, such as Macquarie Park / North Ryde which combines affordable rental rates with higher grade stocks and larger floor plates affecting the St Leonards office market's ability to attract key anchor tenants that underpin new commercial developments. For example 88 Christie Street is yet to confirm a pre-lease anchor tenant, while IBM will be partially relocating its operations out of their building in late 2013 to their Pennant Hills office and Leighton's is seeking to relocate its head office to North Sydney.

- This lack of tenant interest in new developments within St Leonards is reflected in its January 2013 vacancy rate which has increased 12% (from 11% in July 2012), higher than other Sydney Metropolitan office markets (as measured by the Property Council of Australia).

- While this assessment tests the targeted jobs growth for the St Leonards Specialised Centre outlined in the draft Metro Strategy, historic low absorption rates indicate historic low demand for new office space within the St Leonards CBD. Estimated historic employment growth does not validate expected employment growth in the draft Metro Strategy.

- Since January 2003 only 18,611 sq.m of new office space has been taken up by the market, which equates to 1,861 sq.m per annum over the last 10 years. Based on Urbis employment to floor space benchmarks this is estimated to have approximately accommodated between 93 and 124 jobs per annum, aggregating to 930 to 1,240 new office jobs over the last 10 years.

- This is reflected in the lack of tenant pre-commitments to the proposed commercial developments identified within the St Leonards centre discussed previously. Given the historically low absorption rate. It indicates that office development is unlikely to be the key driver of employment growth, whereas health based employment will be the largest driver. This aligns with the RNSH redevelopment which in addition to an expansion of health services will increase potential commercial development capacity by approximately 9,530sq.m.

RESIDENT AND WORKFORCE DEMOGRAPHICS

- The occupation profile, while primarily white collar for both residents and workers, shows that a higher proportion of St Leonard's residents work in white collar related jobs than St Leonards workers.

- This is reflected in the place of work of residents, which shows residents working primarily in the Sydney Inner City (36%), North Sydney (21%) and Chatswood / Lane Cove (20%).

- Despite this the centre has a significantly higher number of jobs (28,961) compared to employed residents (8,087) accommodated within the St Leonards Centre, resulting in the need to 'import' workers from other centres. This is especially true in the Health Services industry which comprises 25% of local jobs compared to 10.7% of employed residents.

- While the protection of employment land to provide local jobs is important, in the instance of St Leonards the provision of additional dwellings likely to attract workers could improve the proportion of workers employed in the Centre also living locally.

- Information Media and Telecommunications (5.8%), Manufacturing (3.5%), Retail Trade (4.0%) and Financial and Industrial Services (5.8%) are the next most represented industries. The smaller representation of these services illustrates that while St Leonards is a viable commercial hub, is not a major CBD in Sydney's north. It also reflects the fact that highly specialised industries including Arts and Recreational Services (1%), Electricity, Gas, Water and Waste Services (0.2%), Mining (0.1%) and Agriculture, Forestry and Fishing (0.1%) are not well represented.

- This contrasts the North Sydney LGA for example, which maintains a larger working age population than other centres, reflecting its diverse industry base. In addition to this, more than 70% of new jobs in the North Sydney LGA are expected to be the Professional Scientific & Technical Services industry, reflecting its role as a regional centre role within Metropolitan Sydney, and the 'centre of gravity' for the professional services industry in the Lower North Shore.

FORECAST SUPPLY / DEMAND FOR OFFICE SPACE

- The proportion of office based employment under the Draft Metro Strategy jobs growth targets will be sufficiently accommodated in existing or approved developments.

- Between 2011 and 2031 the draft Metro Strategy targets the growth of 8,000 additional jobs within the St Leonards Specialised Centre.

- If this target is achieved it is expected that 3,882 will be office based jobs which would result in demand for between 58,200 and 77,600 sq.m of additional office floorspace, based on an employment to floor space ratio of between 15 and 20 sq.m per employee.

- According to the Property Council of Australia's (PCA) January 2013 Office Market Report (OMR) St Leonards has approximately 368,596 sq.m of existing office floor space. With a vacancy rate of 12% vacant floor space equates approximately to 44,231 sq.m. In addition to vacant stock there is a pipeline of approved commercial developments with a total of 73,052 sq.m office space.

- The combination of existing vacant stock and proposed commercial floorspace will be sufficient to accommodate the employment growth targeted by NSW Government's draft Metro Strategy. The withdrawal of the subject sites at 504, 472 & 486 Pacific Highway equates to 21,547 sq.m of office space, will not result in a deficit in office supply.

TABLE 1 – SURPLUSE / DEFICIT OF OFFICE FLOORSPACE

	OFFICE FLOOR SPACE SQ.M
Vacant Existing Floor Space	44,231
Proposed Commercial Developments	73,052
Withdrawal of 95 Nicholson Street and 504, 472 & 486 Pacific Highway	- 21,547
Existing and Approved Supply	**95,736**
Demand for Office Floor Space (by 2031)	58,200 - 77,600
Surplus/Deficit (by 2031)	**18,100 – 37,500**

Source: BTS 2012; draft Metro Strategy; PCA Office Market Report January 2013; Urbis

- This does not take into account proposed/planned commercial developments that have not yet received development approval. Redevelopments such as the RNHS Redevelopment or the expansion of South St Rail Plaza are examples of proposed/planned developments that could yield office floorspace beyond the identified approved pipeline. Relocation of much of the health services into the new Clinical Services building will allow for potential redevelopment of existing health services buildings into commercial development. This includes Precinct-C (approximately 9,500sq.m of commercial floorspace) and the Douglas Building.

DIRECT AND INDIRECT EMPLOYMENT BENEFIT

- The proposed redevelopment, based on the proposed GFA has been estimated to generate 768 Full-Time Equivalent (FTE) construction jobs. It is expected that total annual wages generated during the construction phase of the proposed development will be $42.2 million.

- The ongoing employment yield from the commercial / retail component of the proposed development is expected to generate between 294-359 jobs. This equates to an expected annual wages generated by the proposed retail and commercial floorspace between $20.1 million and $25 million per annum.

1 Study Background

1.1 STUDY PURPOSE

In addressing the potential impact of the rezoning of 95 Nicholson Street and 504, 472 & 486 Pacific Highway, the future need for office development within the St Leonards 'Specialised Centre' has been considered. The purpose of this assessment is to understand and test the current and long-term requirements for office floorspace within St Leonards Specialised Centre. This will consider the composition of targeted jobs growth outlined in the draft Metropolitan Strategy for Sydney to 2031, the historic and current market for commercial floorspace within the St Leonards market and the need for commercial floor space catered to health sector tenants driven by the continuing growth of the market for health services within the area.

1.2 METHODOLGOY AND STRUCTURE

Urbis have been appointed to undertake an Economic Assessment of the proposed rezoning of the commercial offices at 95 Nicholson Street and 504, 472 and 486 Pacific Highway, St Leonards to allow for their redevelopment as a mixed use residential project.

The purpose of this report is to provide an assessment of the economic impact of the proposed rezoning. In assessing the future need for office development to support the targeted employment growth within St Leonards Centre outlined in the draft Metro Strategy.

This will specifically assess:

- **Section 2** will provide an overview of the North Shore office market, specifically focusing on the performance of and investment in the St Leonards office market over the last decade, and identifying the quantum of new supply of floorspace that will provide employment capacity within the St Leonards CBD.
- **Section 3** will assess the population, demographic and employment drivers and outcomes that could foreseeably impact future demand for office development / supply.
- **Section 4** using industry benchmarks and case studies this section will provide an estimate demand for employment land by land use, identifying the net demand for office floor space until 2036. Compared to the supply of office floor space and the project development pipeline in **Section 2** will identify whether the St Leonards CBD market has sufficient capacity to support office based jobs growth, in line with NSW Government targets outlined in the draft Metropolitan Plan.
- **Section 5** will identify the direct and indirect economic benefits of the proposed rezoned development.
- **Section 6** will summarise the key findings of the economic assessment of the proposed rezoning of 95 Nicholson Street and 504, 472 and 486 Pacific Highway, St Leonards.

1.3 STUDY AREA

The subject sites are located at 95 Nicholson Street and 504, 472 & 486 Pacific Highway, St Leonards on the border of the Lane Cove and North Sydney LGAs. They have frontage to the Pacific Highway and are directly opposite the St Leonards CBD and town centre precinct. The subject sites are close to proximity key locations within the St Leonards Centre, located on the north side of the Pacific Highway, namely:

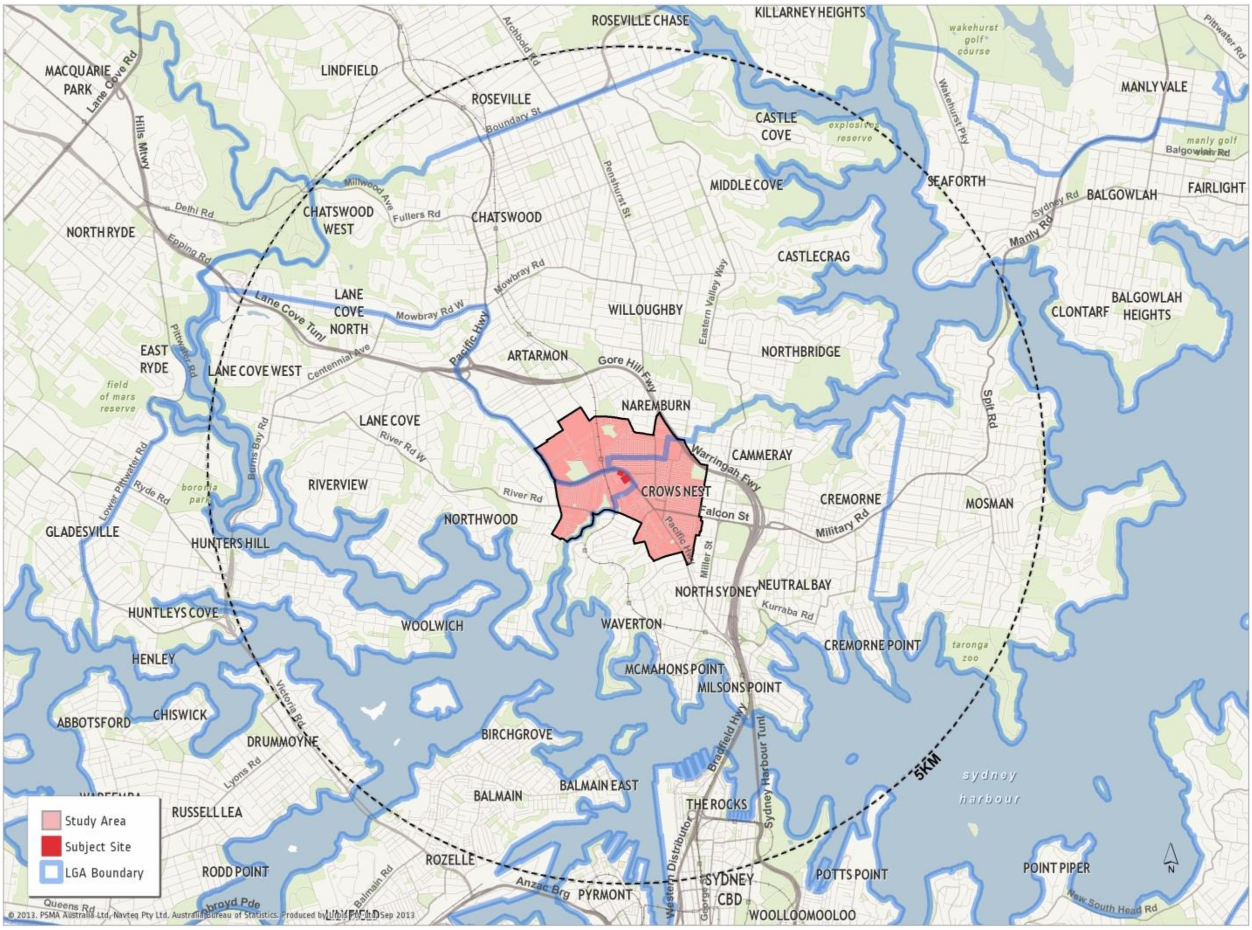
- The St Leonards railway station, 200 metres west
- Royal North Shore Hospital, 450 metres west (access on Herbert Street)
- The newly developed Gore Hill Technology Park, 1.5km west along the Pacific Highway
- North Sydney TAFE, 1km west along the Pacific Highway

Medium to low density residential is located to the south and south-west of the subject sites.

FIGURE 1 – 95 NICHOLSON STREET AND 504, 472 AND 486 PACIFIC HIGHWAY, ST LEONARDS

St Leonards Specialised Centre identified in the draft Metropolitan Strategy, is defined in the Bureau of Transport Statistics (BTS) Journey to Work Centre Summary at a Travel Zone level. This has been mapped overleaf in Figure 2, forming the study area of the economic assessment.

FIGURE 2 – STUDY AREA, ST LEONARDS SPECIALISED CENTRE

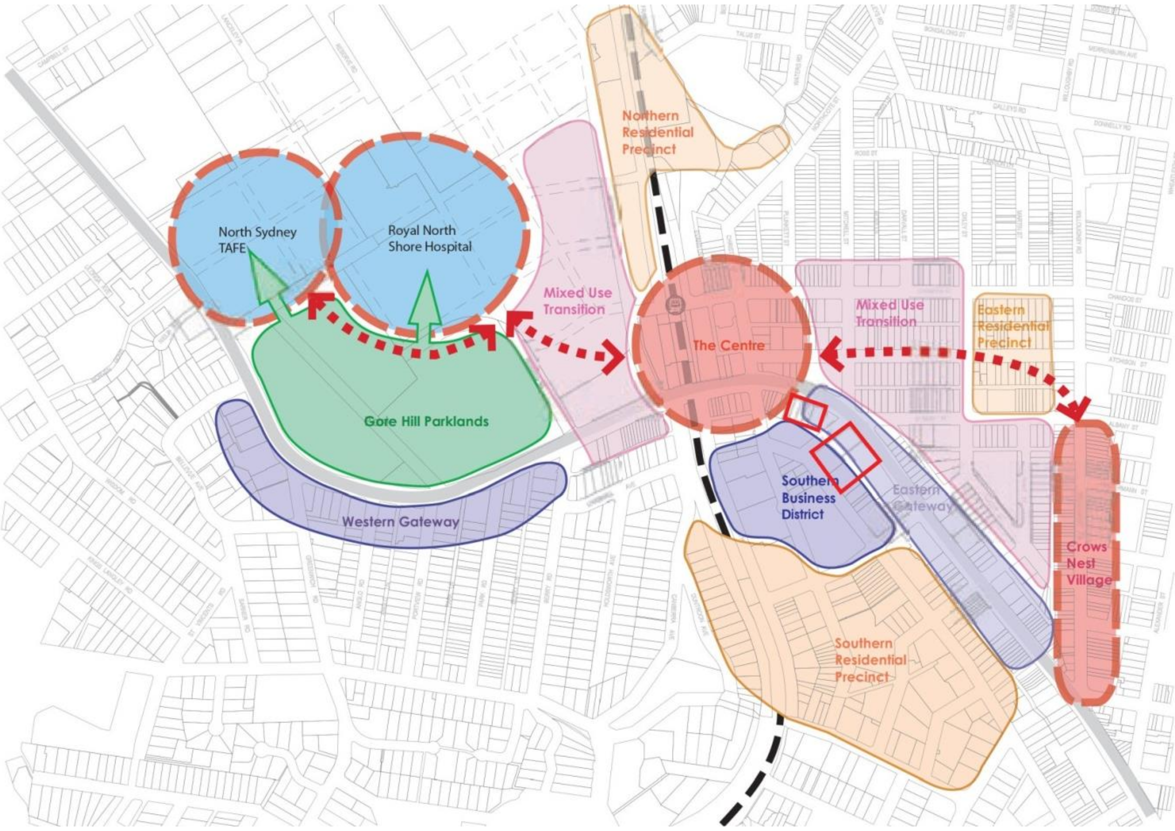


Within St Leonards, the Core Centre has been outlined in Figure 3 overleaf which identifies its centre as the railway station, with the commercial core south of the Pacific Highway and east of the railway station, along the Pacific Highway.

There are currently mixed used precincts separating the St Leonards Core with the Crows Nest Village (to the south east) and RNSH and Gore Hill Parklands (to the west). The current structure results in an isolated St Leonards Core, limiting economic and social benefits from Crows Nest and the RNSH health precinct.

St Leonards is serviced by vehicle access via the Pacific Highway and train access at St Leonards Railway Station. The St Leonards Railway Station is located on the North Shore Line and Northern Line of Sydney's CityRail network. Buses also service St Leonards, with services along the Pacific Highway. There is no railway station at Crows Nest. The walkability of the commercial area is poor given the elongated nature of the precinct and the busy nature of the Pacific Highway.

FIGURE 3 – ST LEONARDS CORE

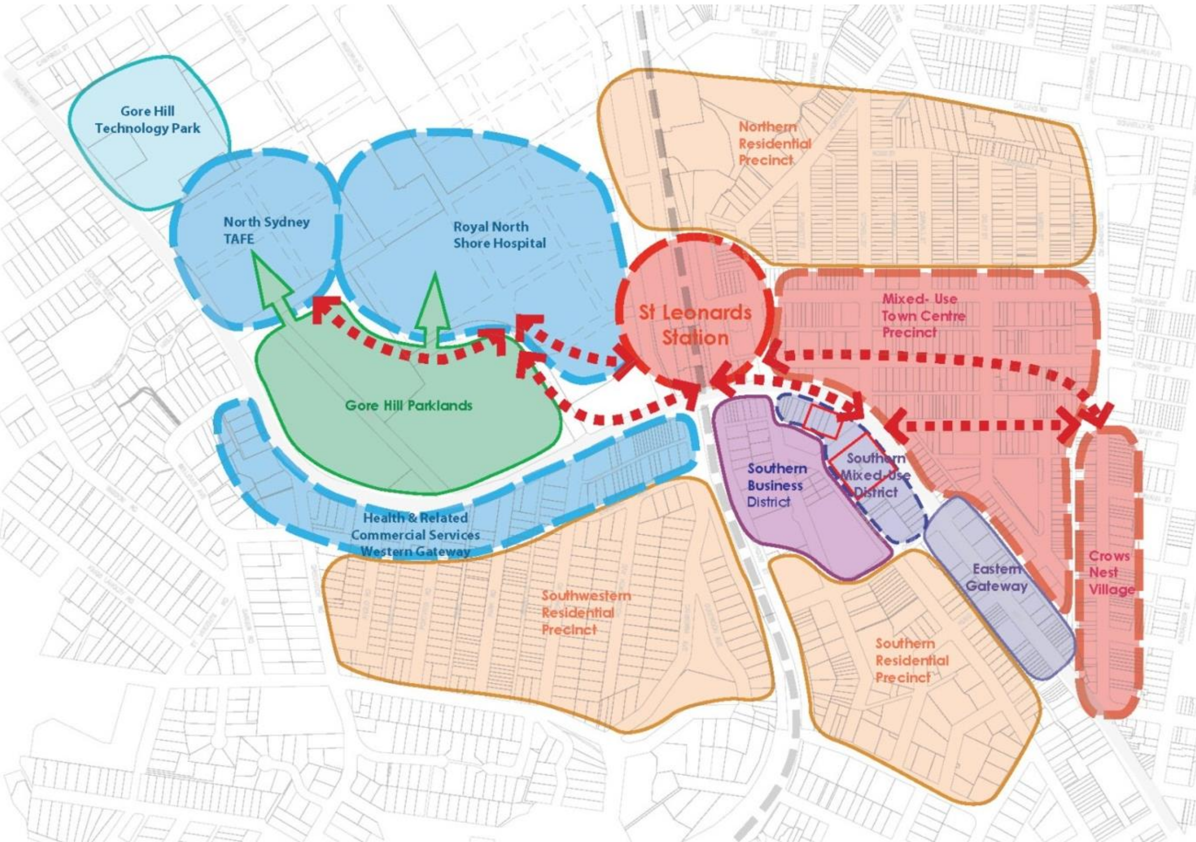


Source: Urbis

The changing nature of the St Leonards Core, illustrated in Figure 4, aims to establish better integration by the creation of an eastern gateway to the centre, with commercial and residential developments on both the southern and northern sides of the Pacific Highway, linking the St Leonards Railway Station and Crows Nest Village.

The redevelopment of the RNSH also sees improved integration between the St Leonards Core and the growing health services precinct to the west of the railway station and south-west of the Pacific Highway. The increase in health services will result in the creation of employment within the St Leonards Core. The continued expansion of the Gore Hill Technology Park sees the development of modern and specialised office space, better equipped to service the St Leonards commercial market in the short to long term future.

FIGURE 4 – CHANGING NATURE OF ST LEONARDS CORE



2 Office Market Review

This section will assess the strength of the office market in the St Leonards centre, in comparison to other North Shore Centres. The key measures that St Leonards, and other North Shore centres will benchmarked on will include:

- The centre's size and location, relative to other competing centres
- Demand for office space, measured through an analysis of historic net absorption and vacancy
- Comparison of rents and yields
- Location and format of the development of new commercial within the market.

2.1 OFFICE MARKET – LOCATIONS AND SIZE

The St Leonards Centre is located 5 kilometres north of the Sydney CBD, between the North Sydney, Chatswood and Macquarie Park office markets. As of January 2013 the St Leonards Centre had a total of 369,000 sq.m of office space, making it smaller than the North Sydney (862,000 sq.m) and Macquarie Park (840,000 sq.m) office markets, but larger than Chatswood (282,000 sq.m).

Compared to these markets, St Leonards has the softest vacancy rate (12%) and an average net face rent of $407 per sq.m, placing it behind North Sydney ($519 per sq.m) but ahead of Chatswood ($389 [per sq.m) and Macquarie Park ($316 per sq.m).

Figure 5 illustrates the total quantum of office stock within the St Leonards / Crows Nest market, and the shift in grade, since 2000. As at January 2013, approximately 53% of office stock has been classified as C and D Grade. This grade of office space has historically accounted for a third of total office stock, however has increased since July 2009. The increase was due to a large proportion of the St Leonards office stock being re-rated against the Property Council of Australia's Guide to Office Quality. The most notable shifts from January 2009 levels (prior to the re-ratings) to January 2013 are an increase in the proportion of C Grade space from 33% to 49% (121,000 sq.m to 181,000 sq.m) and a decrease in the proportion of B Grade space from 34% to 19% (123,000 sq.m to 69,000 sq.m).

FIGURE 5 – OFFICE STOCK, CROWS NEST / ST LEONARDS

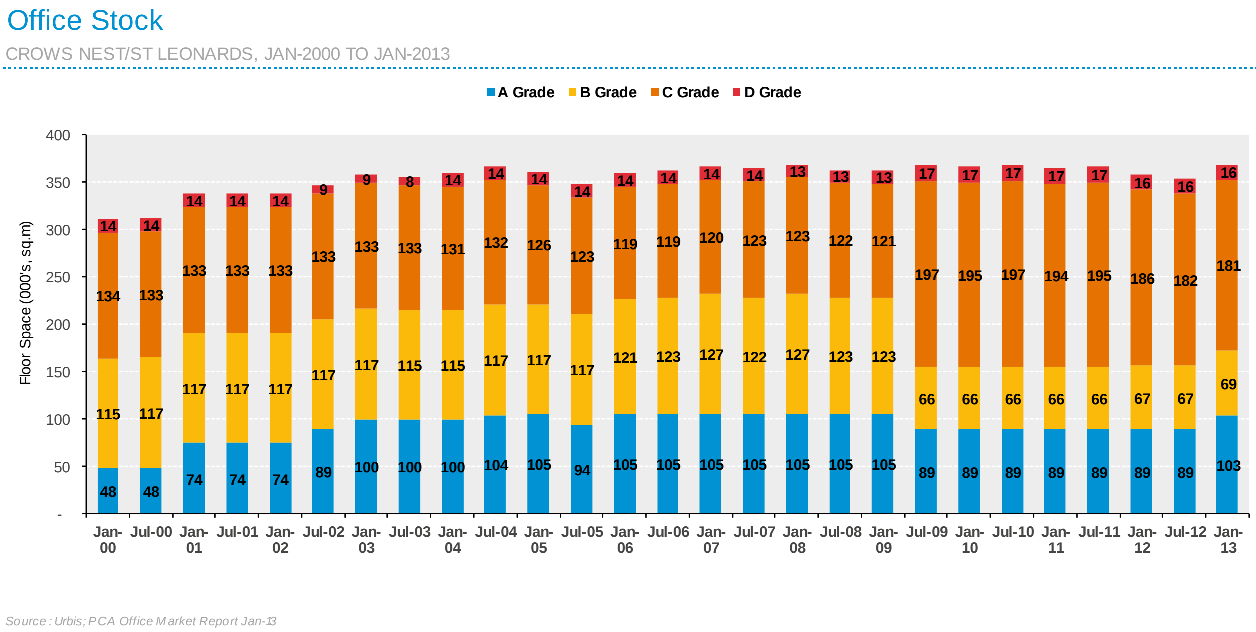
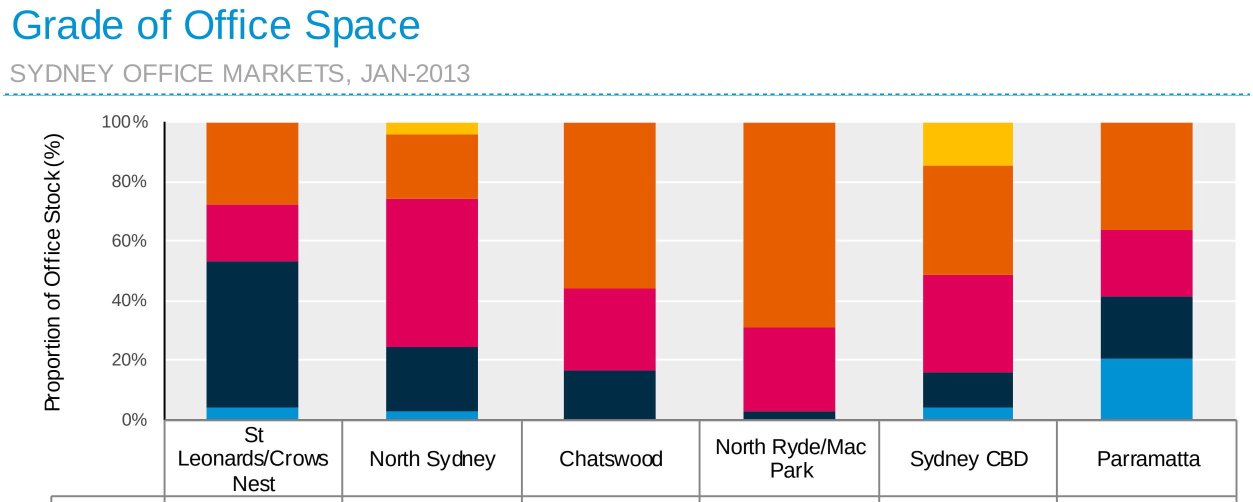


Figure 6 shows the distribution of St Leonard's office stock quality compared to the other major commercial centres. As noted, the volume of C Grade stock is significantly greater than all other major commercial centres.

FIGURE 6 – GRADE OF OFFICE SPACE, SYDNEY OFFICE MARKETS



	St Leonards/Crows Nest	North Sydney	Chatswood	North Ryde/Mac Park	Sydney CBD	Parramatta
Premium	0	36,500	0	0	719,605	0
A Grade	102,699	186,296	157,412	581,846	1,786,867	255,017
B Grade	69,288	430,866	76,746	234,812	1,571,536	158,656
C Grade	181,006	186,230	46,233	20,570	579,770	144,739
D Grade	15,603	21,662	454	2,721	201,349	144,309

Source : Urbis; PCA Office Market Report Jan-13

This research indicates that the Sydney CBD has the greatest amount of premium office stock. 50% of the office stock in North Sydney is classified as B-Grade which has remained relatively constant for some time. Chatswood (55%) and Macquarie Park (68%) both have large amounts of A-Grade office accommodation.

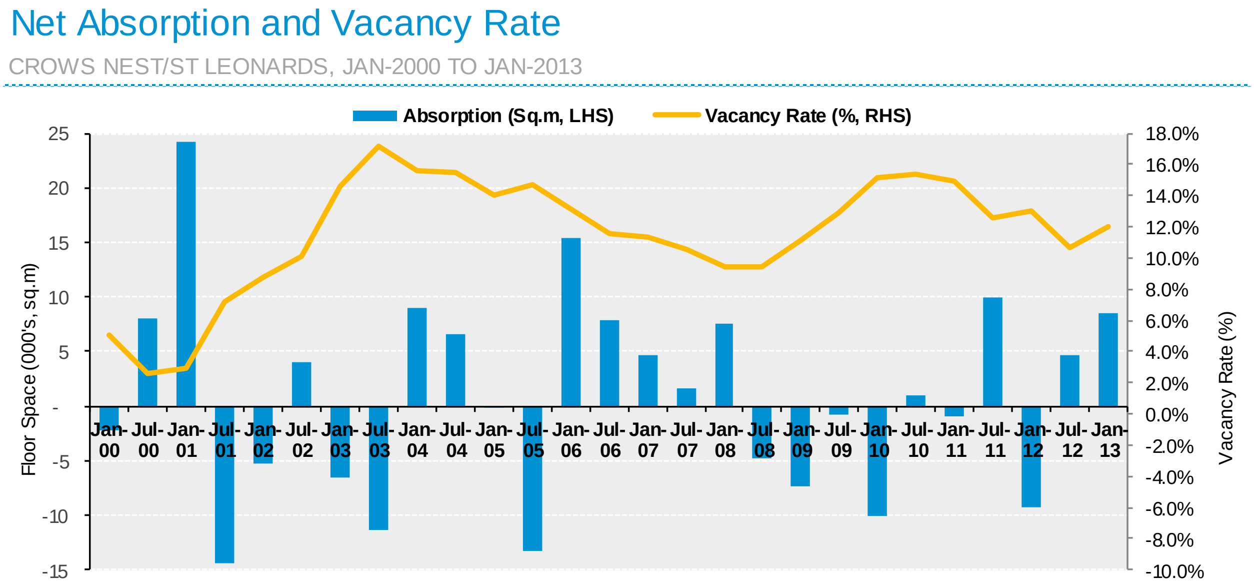
Conversely, in St Leonards some 53% of its office stock is classified as C-D Grade. It is evident from the age of office stock that the St Leonards Centre has not continued to attract new office investment, office developments or major refurbishments. This has detracted from the appeal of St Leonards to the office tenant market, compared to other centres that have attracted a higher level of investment in new higher grade stock.

2.2 NET ABSORPTION AND VACANCY RATE

Since January 2003 only 18,611 sq.m of new office space has been taken up in the St Leonards office market, which equates to 1,861 sq.m per annum since January 2003. Figure 7 displays the St Leonards net absorption for January 2013 of 8,464 sq.m, representing an increasing trend in space leased since January 2012 (-9,228 sq.m) and July 2012 (4,638 sq.m).

Urbis notes that the largest movements in absorption has been amongst A and D grade stock, with an additional 8,501 sq.m of A Grade floor space being absorbed by the market, while 1,102 sq.m of D Grade stock being withdrawn.

FIGURE 7 – NET ABSORPTION AND VACANCY RATE

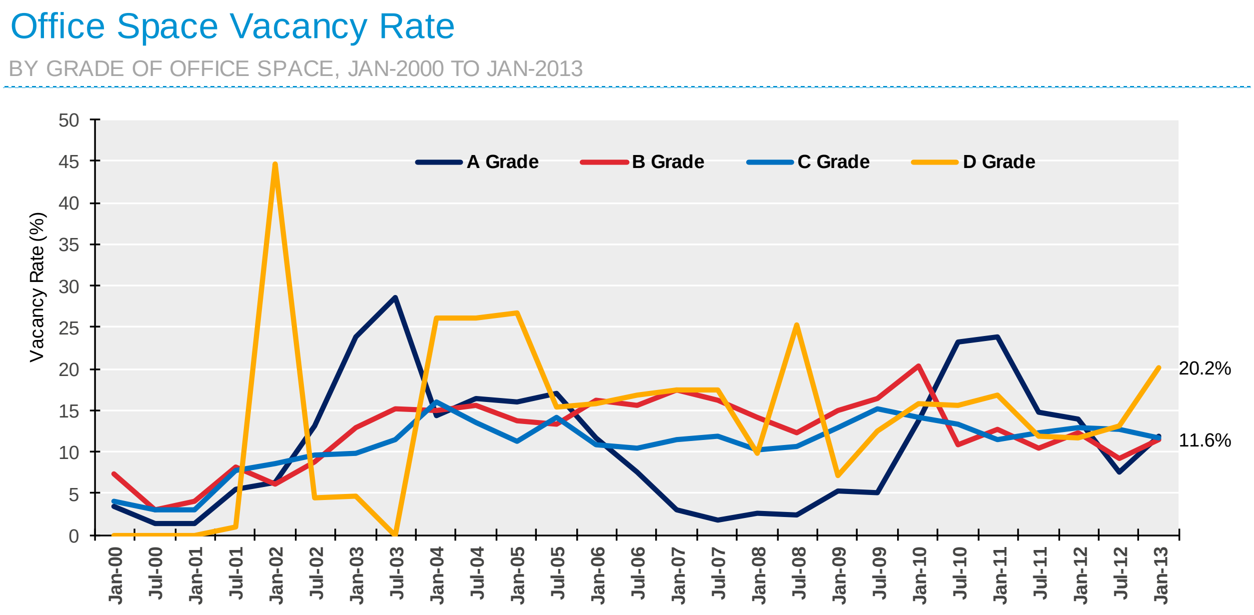


Source : Urbis; PCA Office Market Report Jan-13

The vacancy rate outlined overleaf in Figure 8 shows vacancy increasing amongst D Grade office stock over the 6 months to January 2013 by 20.2% compared to 11.6% across all other grades of stock.

There was also an observable increase in A Grade vacancy attributable to the growth of A Grade office stock by 14,000 sq.m in January 2013. This reflects the demand from tenants for A Grade stock compared to lower quality C and D Grade stock which comprises the majority of office stock in the St Leonards / Crows Nest market.

FIGURE 8 – OFFICE SPACE VACANCY (%), BY GRADE



Source : Urbis; PCA Office Market Report Jan-13

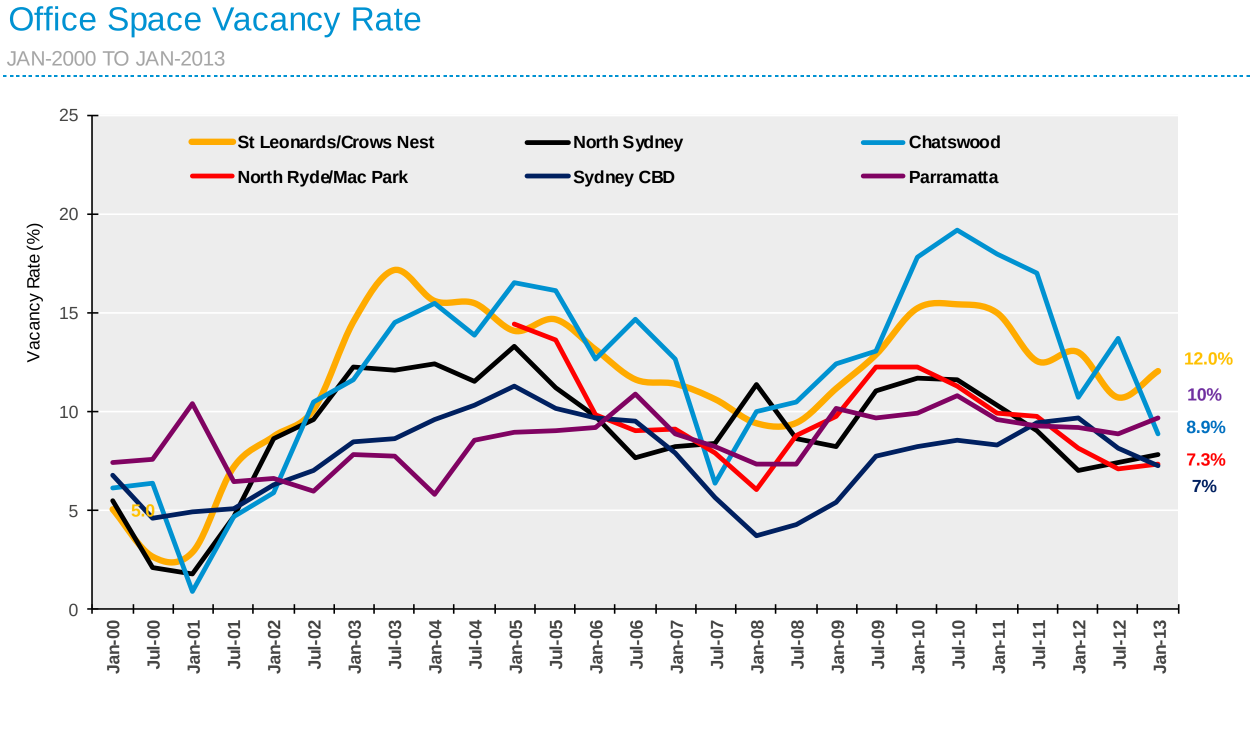
2.3 OFFICE VACANCY – MARKET BENCHMARK

Figure 10 overleaf provides a comparison of office market vacancy between different Sydney CBDs from January 2000 to January 2013, providing an indication of market demand for commercial office floor space across Metropolitan Sydney's CBDs and Centres.

In January 2013 St Leonards had the weakest vacancy rate at 12% compared to the CBDs benchmarked. This follows a period which saw St Leonard's office market vacancy fall from 13% in January 2012 to 10.7% in July 2012, with the recent increase to 12% attributed to a sharp rise in D Grade office vacancy as described in Section 2.2 and Figure 8.

Historically St Leonards and Chatswood have displayed the weakest office vacancy, reflecting their higher cost compared to the Macquarie Park / North Ryde and suburban location compared to North Sydney and Sydney CBD.

FIGURE 9 – OFFICE SPACE VACANCY (%), BY MARKET



Source : Urbis; PCA Office Market Report Jan-13

2.4 RENTS

Table 2 below compares the April 2013 Average Net Face Rents of different CBD locations within Sydney. The rental data illustrates that St Leonards' seeks a higher average rents compared with Chatswood, North Ryde/Macquarie Park and Parramatta. This is primarily driven by the cost of construction of office development compared to outer suburban location such as North Ryde / Macquarie Park, who have a format / type that allows for larger consolidated floor plates. The higher cost in St Leonards drives up the yields required to justify this higher cost, and the subsequent rent sought for office space.

As with Chatswood, North Ryde/Macquarie Park and Parramatta, there is not a significant spread between A and B grade office rents in St Leonards compared to North Sydney. This has been supported by rental growth across both A and B Grade markets, being 1.9% and 2.7% respectively to April 2013. The faster growth in the B Grade office market does not reflect an increase in tenant demand, rather the sector 'catching up' with the A Grade office market which experienced strong rental growth since mid-2009 to late 2011.

Overall it illustrates that the St Leonards / Crows Nest office market has a higher rental cost compared to outer locations, while not having the locational amenity of more central locations such as North Sydney and the Sydney CBD. This has an impact on the St Leonard's Centre competiveness compared to other office market locations.

TABLE 2 – MARKET RENTS AND YIELD

MARKET	GRADE	AVERAGE NET FACING RENT ($)
St Leonards / Crows Nest	A	$468
	B	$383
	TOTAL	**$419**
North Sydney	A	$606
	B	$489
	TOTAL	**$519**
Chatswood	A	$413
	B	$359
	TOTAL	**$389**
North Ryde/Mac Park	A	$330
	B	$283
	TOTAL	**$316**
Parramatta	A	$378
	B	$294
	TOTAL	**$336**

Source: Urbis; Knight Frank Research

2.5 NEW SUPPLY

In addition to the existing supply of office accommodation within St Leonards, there are five proposed developments that have been approved through Part 3A development applications. These five projects are summarised in Table 3. The progression of new developments in the St Leonards area is dependent on tenant pre-commitments. 88 Christie Street is still yet to achieve any pre-lease tenants and with a two year construction period, is unlikely to be realised before 2016. IBM has also relocated part of their operations resulting in the withdrawal of half of 601 Pacific Highway.

TABLE 3 – OFFICE DEVELOPMENT PIPELINE

PROJECT	ADDRESS	STAGE	AVERAGE OFFICE FLOOR PLATE (SQ.M)	BUILDING HEIGHT (STOREYS)	OWNER	OFFICE NLA (NET LETTABLE AREA SQ.M)
88 Christie Street	88 Christie Street	DA Approved	1,770	16	Winten Property Group	26,500
Gore Hill Technology Park - Building D1	219-247 Pacific Highway	DA Approved	2,000	8	Lindsay Bennelong Development	16,000
Gore Hill Technology Park - Buildings D3	219-247 Pacific Highway	DA Approved	2,000	7	Lindsay Bennelong Development	15,000

PROJECT	ADDRESS	STAGE	AVERAGE OFFICE FLOOR PLATE (SQ.M)	BUILDING HEIGHT (STOREYS)	OWNER	OFFICE NLA (NET LETTABLE AREA SQ.M)
Gore Hill Technology Park - Building D2	219-247 Pacific Highway	DA Approved	2,000	6	Lindsay Bennelong Development	15,000
-	5-7 Atchison Street	DA Approved	552	1	Palmluck Pty Ltd	552
Total						73,052

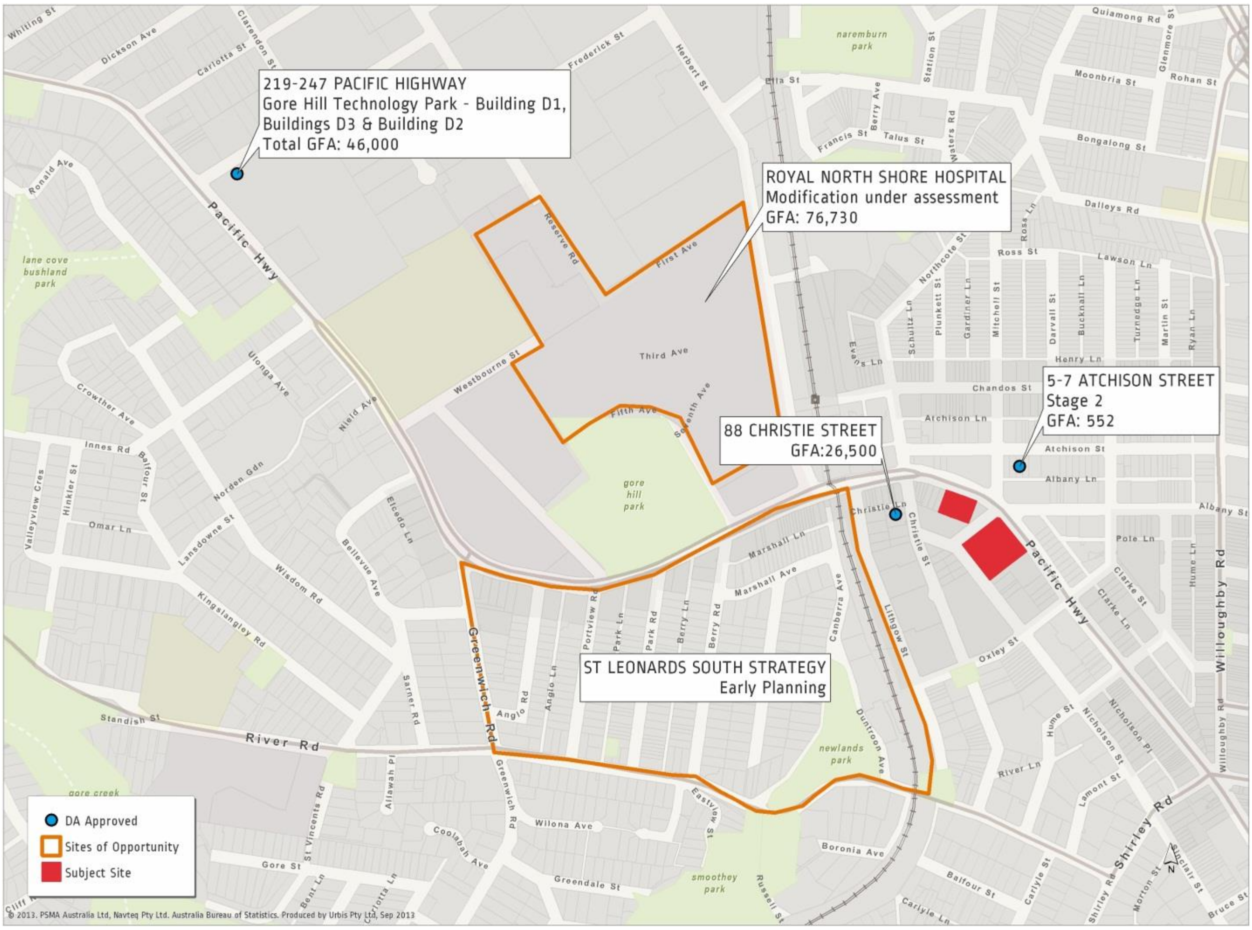
Source: Cordells 2013; Urbis

Figure 10 below shows the geography of the approved projects illustrated in Table 3. In addition to this 'sites of opportunity' have been outlined.

The Royal North Shore redevelopment currently has a modification to the project approval, to allow an increase from 178,370sq.m to 186,150sq.m GFA and corresponding increase in commercial floorspace from of 76,200sq.m to 76,730 sq.m, which is expected to be completed by 2015.

The St Leonard's South Strategy is a precinct south of the Pacific Highway currently undergoing a masterplanning process. It contains fragmented retail and commercial buildings along its frontage to the Pacific Highway and the proposed St Leonards Rail Plaza, a mixed use precinct south of the forum. While no commercial redevelopment has been identified in the early stages of the masterplanning process, opportunities exist if the fragmented ownership of sites along the Pacific Highway can be consolidated.

FIGURE 10 – OFFICE DEVELOPMENT PROJECTS AND 'SITES OF OPPORTUNITY'



2.6 SUMMARY

The key findings of the analysis of the St Leonards Centre compared to other North Shore office markets are as follows:

- Since January 2003 only 29,923 sq.m of new office space has been taken up by the market, which equates to 2,992 sq.m per annum over the last 10 years.

- Urbis note that the largest movements in absorption has been amongst A and D grade stock, with approximately an additional 8,500 sq.m of A Grade floor space being absorbed by the market, while 1,100 sq.m of D Grade stock being withdrawn. This reflects the type of office space in demand by the market.

- Moving forward it is unlikely that the St Leonards Centre will achieve a significant uplift in development activity of a 'standard' office product, given competition from other centres. This is reflected in the lack of tenant pre-commitments to the proposed commercial developments identified within the St Leonards centre discussed previously.

- The faster growth in the B Grade office market does not reflect an increase in tenant demand, rather the sector 'catching up' with the A Grade office market which experienced strong rental growth since mid-2009 to late 2011. Overall it demonstrates St Leonards higher rental cost compared to other suburban centres.

- This lack of tenant interest in new developments within St Leonards is reflected in its January 2013 vacancy rate which has increased 12% (from 11% in July 2012) and the pressure from other centres that provide a more competitive commercial office product compared to the St Leonards Centre, in terms of size/format, cost and location.

- The net effect of this will likely contribute to continued low absorption rates compared to key centres such as the Macquarie Park / North Ryde corridor, North Sydney, Parramatta and the Sydney CDB, which provide either a superior location or more affordable stock.

3 Resident and Worker Profile

3.1 RESIDENT PROFILE

This section will assess the population, demographic and employment drivers and outcomes that could foreseeably impact future demand for office development / supply. This will be conducted in two parts; the first section will include an analysis of residents living within the St Leonards Centre:

- Resident population growth
- Age distribution
- Family / household profile
- Average and distribution of income
- Place of work.

The second section will look specifically at workers employed within the St Leonards Centre, identifying the worker:

- Industry profile
- Occupation profile
- Place of residence.

This will consider the connection between workforce, resident population and growth in employment and subsequent demand for office stock.

3.1.1 POPULATION AND DEMOGRAPHICS

Population growth in the St Leonards Centre has had a higher annual growth rate than the Lower North Shore between 2001 and 2011, this is illustrated below in Table 4 which shows an annual growth rate of 4% between 2001 and 2006 compared to 3.1% between 2006 and 2011. The Lower North Shore and Sydney Metro Area contrast this, both growing at a slower annual rate between 2001 and 2006, increasing between 2006 and 2011.

The latest forecasts from the Department of Planning and Infrastructure indicate that population growth will increase significantly from 2006 to 2011 levels in the St Leonards Centre to an average annual rate of 2.1% between 2011 and 2016 and 2.4% between 2016 and 2021, while the Lower North Shore is expected to slow to 1.2% and 1.4% per annum respectively over this period.

TABLE 4 – RESIDENT POPULATION

Resident Population

ST LEONARDS CENTRE, LOWER NORTH SHORE AND SYDNEY METRO AREA 2001 TO 2031

		Historic		Forecast			
	2001	2006	2011	2016	2021	2026	2031
St Leonards CBD	10,100	12,300	14,300	15,900	17,900	19,300	20,700
Lower North Shore	180,400	188,200	201,300	213,600	228,800	240,800	252,000
Sydney Metro Area	4,128,300	4,282,000	4,606,200	4,991,400	5,410,800	5,810,500	6,205,700
		2001-2006	2006-2011	2011-2016	2016-2021	2021-2026	2026-2031
St Leonards CBD		4.0%	3.1%	2.1%	2.4%	1.5%	1.4%
Lower North Shore		0.9%	1.4%	1.2%	1.4%	1.0%	0.9%
Sydney Metro Area		0.7%	1.5%	1.6%	1.6%	1.4%	1.3%
St Leonards CBD		440	400	320	400	280	280
Lower North Shore		1,560	2,620	2,460	3,040	2,400	2,240
Sydney Metro Area		30,740	64,840	77,040	83,880	79,940	79,040

Source : ABS Census 2011; Bureau of Transport Statistics 2013; Urbis

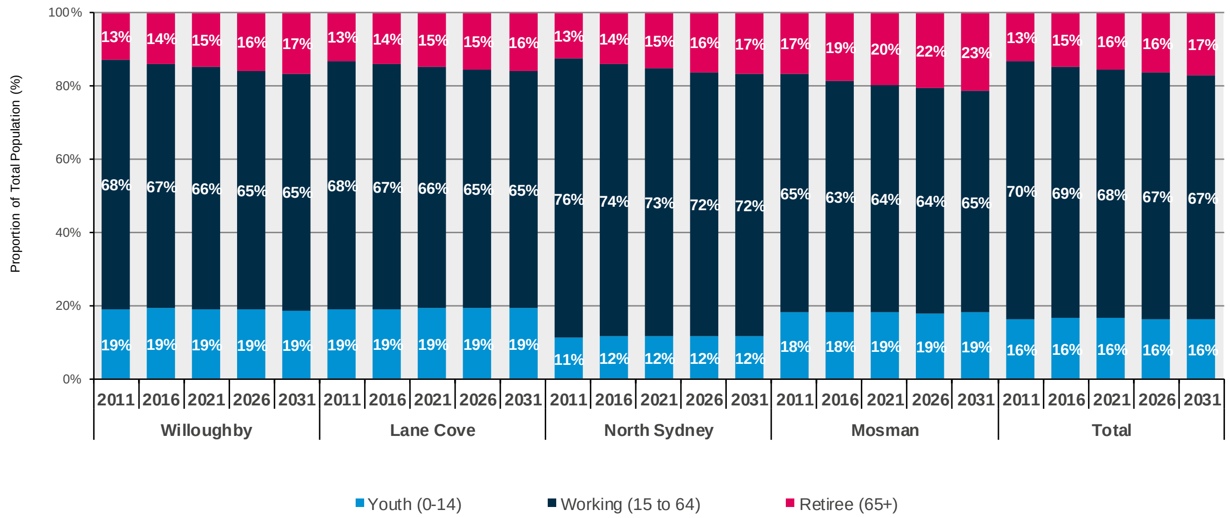
The age distribution of these forecasts, illustrate a declining working age population, and an increasing 65+ 'retiree' age group by 47.8% between 2011 and 2031 compared to the working age which is expected to increase by 8.4% over this period. This aligns with the strengthening of the St Leonards Centre around a health sector hub co-located with the RNSH, which will service a growing market for health services amongst Lower North Shore residents. Figure 11 illustrates this further with the ageing nature of this area (taken to be Willoughby, Lane Cove, North Sydney and Mosman LGAs), with the retiree (65+) age group growing from 13% to 17% of the resident population between 2011 and 2031.

There are a lower proportion of workers residing within Willoughby, Lane Cove and Mosman, all of which are forecast to comprise a higher proportion of youth aged residents, indicating a higher proportion of families within their LGAs.

FIGURE 11 – AGE FORECASTS

Age Forecasts (%)

WILLOUGHBY, LANE COVE, NORTH SYDNEY AND MOSMAN, 2011 TO 2031



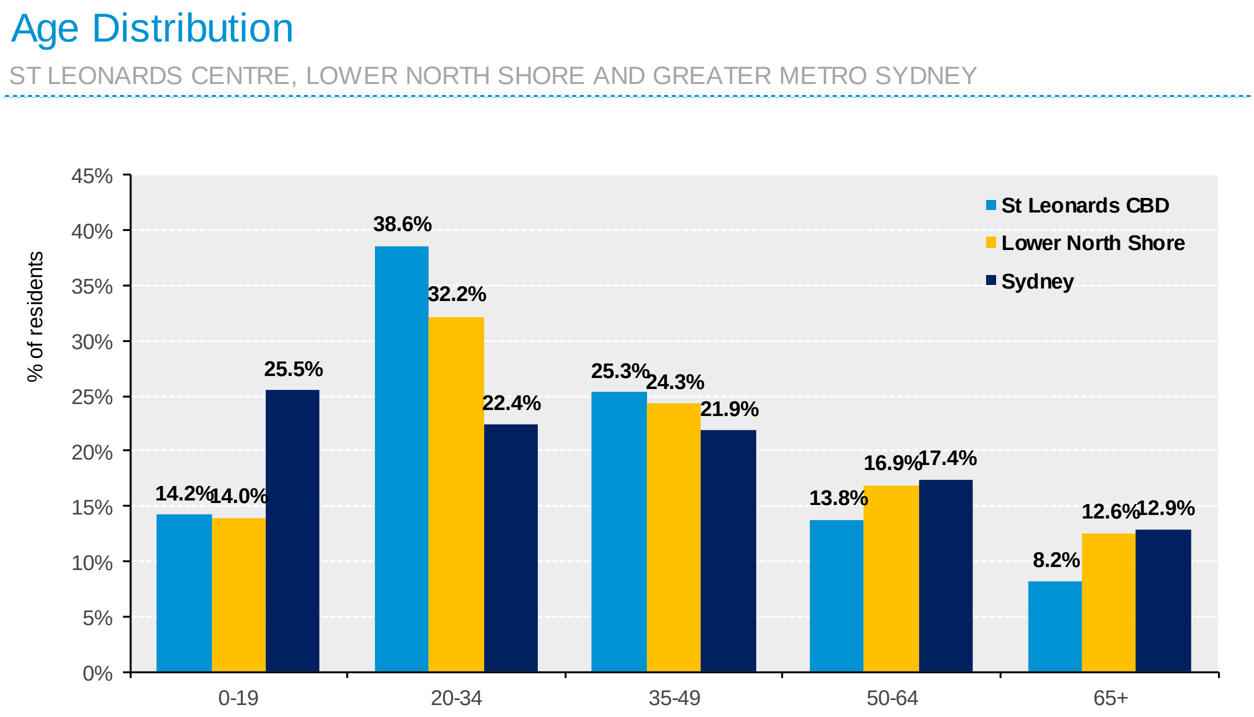
Source : Urbis; ABS 2011 Census; Bureau of Transport 2012

North Sydney maintains a higher working age population than other centres, reflecting its differing industry base. More than 70% of new jobs are expected to be the Professional Scientific & Technical Services industry. This reflects North Sydney's regional centre role within Metropolitan Sydney, and the 'centre of gravity' for the professional services industry in the Lower North Shore.

3.1.2 AGE DISTRIBUTION

Figure 12 outlines the age distribution amongst St Leonards Centre residents, compared to the Lower North Shore and Sydney Metropolitan Area in 2011. St Leonards has a higher proportion of residents aged 20-34 and 35-49, suggesting a younger age profile, with fewer families and households with dependents. This age group also typically has high workforce participation, indicating a higher proportion of workers living within the St Leonards Centre compared to the Lower North Shore and broader Sydney Metro Area.

FIGURE 12 – AGE DISTRIBUTION



Source : ABS Census 2011; Urbis

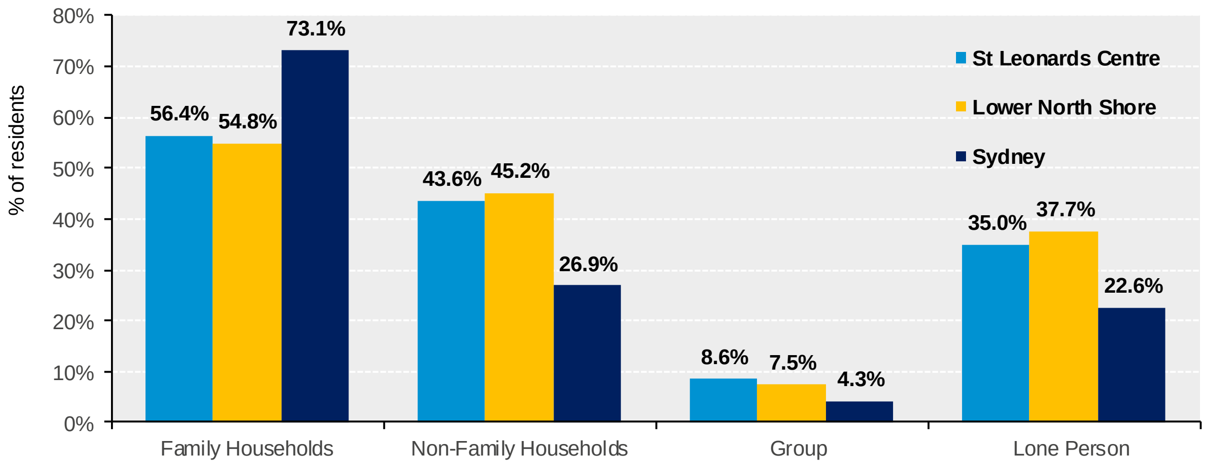
3.1.3 FAMILY HOUSEHOLDS

The household composition of St Leonards reflects the age distribution illustrated in Figure 13, showing a higher proportion of non-family households compared to the Sydney Metro Area, and has approximately the same as other Lower North Shore locations.

FIGURE 13 – FAMILY HOUSEHOLDS

Family Households

ST LEONARDS CENTRE, LOWER NORTH SHORE AND GREATER METRO SYDNEY



Source : ABS Census 2011; Urbis

3.1.4 INCOME DISTRIBUTION

The income distribution outlined in Table 5 below indicates that St Leonard's households have a slightly higher average income than the Lower North Shore average, and significantly higher than the Sydney Metro Area average. This is driven by a higher proportion of households earn over $130,000 per year (46% of households), significantly higher than the Sydney Metro Area (26.4% of households).

TABLE 5 – INCOME DISTRIBUTION

Income Distribution

ST LEONARDS CENTRE, LOWER NORTH SHORE AND SYDNEY 2011

	St Leonards Centre	Lower North Shore	Sydney
$Neg/Nil	2.3%	2.0%	1.7%
$1-$10,400	1.2%	1.3%	1.7%
$10,400-$15,600	1.7%	1.7%	2.8%
$15,600-$20,800	2.7%	3.3%	5.7%
$20,800-$31,200	4.2%	5.1%	8.5%
$31,200-$41,600	3.9%	4.8%	8.0%
$41,600-$52,000	4.9%	5.4%	7.6%
$52,000-$65,000	6.2%	6.3%	8.1%
$65,000-$78,000	7.1%	6.6%	7.6%
$78,000-$104,000	12.4%	11.2%	12.6%
$104,000-$130,000	7.3%	7.1%	9.4%
$130,000-$156,000	19.6%	18.4%	10.6%
$156,000-$182,000	8.5%	8.5%	6.4%
$182,000-$208,000	5.7%	5.2%	3.3%
$208,000 plus	12.1%	13.0%	6.1%
Average Income	$126,002	$125,167	$94,428

Source : ABS Census 2011; Urbis

3.1.5 INDUSTRY OF EMPLOYMENT

According to the Bureau of Transport Statistics Journey to Work data the St Leonards Centre accommodates 8,087 employed residents, with their industry of employment outlined in Table 6 below.

The industry distribution illustrates the contrasting industry profile of Lower North Shore residents compared to the broader Sydney distribution. It shows that there are a much lower proportion of residents working in industrial sectors such as manufacturing, transport, postal and warehousing and construction (9.5%) compared to the broader Sydney distribution (21.3%). St Leonards has a resident employment profile typical of the Lower North Shore, with a slightly higher proportion of local workers in the Information media and telecommunications (+2%) and professional, scientific and technical services (+2.4%) industry sectors, compare to the Lower North Shore.

TABLE 6 – INDUSTRY OF EMPLOYMENT

Industry of Employment

ST LEONARDS CENTRE, LOWER NORTH SHORE AND SYDNEY METRO AREA 2011

	St Leonards Centre	Lower North Shore	Sydney
Agriculture, forestry & fishing	0.1%	0.2%	0.4%
Mining	0.2%	0.3%	0.2%
Manufacturing	4.0%	4.2%	8.7%
Electricity, as, water & waste services	0.5%	0.5%	0.9%
Construction	3.1%	3.7%	7.2%
Wholesale trade	5.5%	5.1%	5.4%
Retail trade	5.8%	6.8%	10.1%
Accommodation & food services	4.9%	5.5%	6.4%
Transport, postal & warehousing	2.4%	2.5%	5.4%
Information media & telecommunications	7.6%	5.6%	3.1%
Financial & insurance services	13.9%	13.1%	6.7%
Rental, hiring & real estate services	1.9%	2.7%	1.8%
Professional, scientific & technical services	22.5%	20.1%	9.8%
Administrative & support services	3.8%	3.8%	3.6%
Public Administration & safety	4.2%	4.1%	5.8%
Education & training	5.8%	7.3%	7.8%
Health care & social assistance	10.1%	10.1%	11.2%
Arts & recreation services	1.5%	1.7%	1.7%
Other services	2.4%	2.7%	3.7%

Source : ABS Census 2011; Urbis

3.1.6 OCCUPATION

Compared to the broader Lower North Shore, St Leonards has a slightly higher proportion of white collar workers, however presents a profile typical of most Lower North Shore LGAs. It has a higher proportion of Professionals compared to the Lower North Shore and Sydney, contributing to the higher proportion of white collar workers residing within the St Leonards centre and the average income above the Sydney Metro Area.

TABLE 7 – RESIDENT OCCUPATION

Occupation of Residents

ST LEONARDS CENTRE, LOWER NORTH SHORE AND SYDNEY METRO AREA 2011

	St Leonards Centre	Lower North Shore	Sydney
Managers	18.9%	19.9%	13.5%
Professionals	46.5%	42.3%	26.0%
Community & Personal Service Workers	5.6%	6.6%	9.0%
Clerical & Administrative Workers	13.9%	14.5%	16.5%
Sales Workers	6.3%	7.2%	9.2%
White Collar (%)	**91.2%**	**90.4%**	**74.3%**
Technicians & trades workers	6.0%	6.1%	12.4%
Machinery operators & Drivers	1.1%	1.1%	5.8%
Labourers	1.8%	2.5%	7.5%
Blue Collar (%)	**8.8%**	**9.6%**	**25.7%**

Source : ABS Census 2011; Urbis

3.1.7 PLACE OF WORK

The majority of workers residing in the St Leonards Centre are employed within the areas of close proximity. As shown in Figure 15 overleaf, Sydney Inner City (36%), North Sydney / Mosman (21%) and Chatswood – Lane Cove (20%) represent the majority of employment centres where St Leonards Centre residents work. This indicates that workers residing within the St Leonards Centre are contained largely within the Lower North Shore, and the Sydney CBD. It reflects the high proportion of white collar workers residing within the area, and that these are the locations with the majority of these types of employment opportunities.

FIGURE 14 – PLACE OF WORK, EMPLOYED RESIDENTS

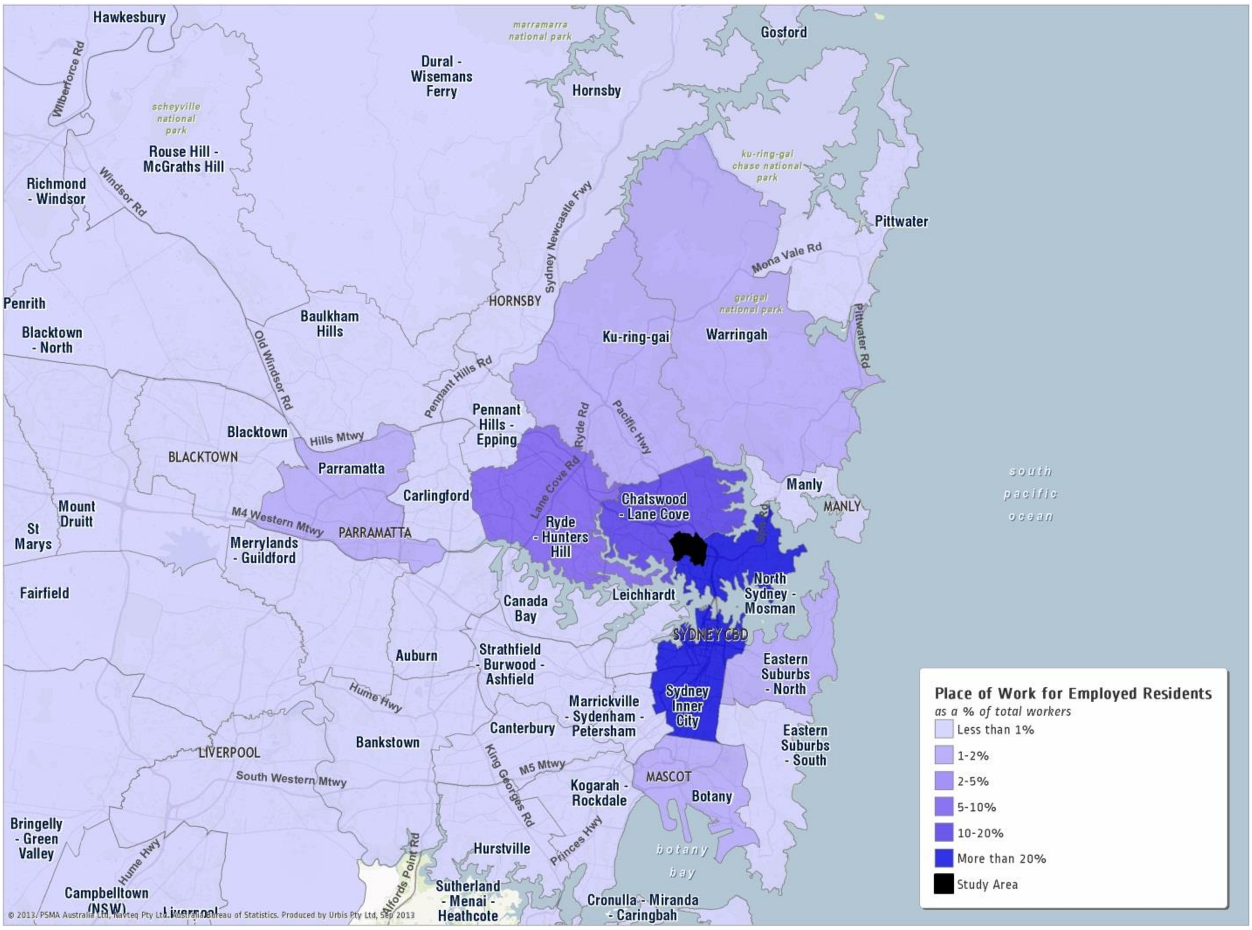
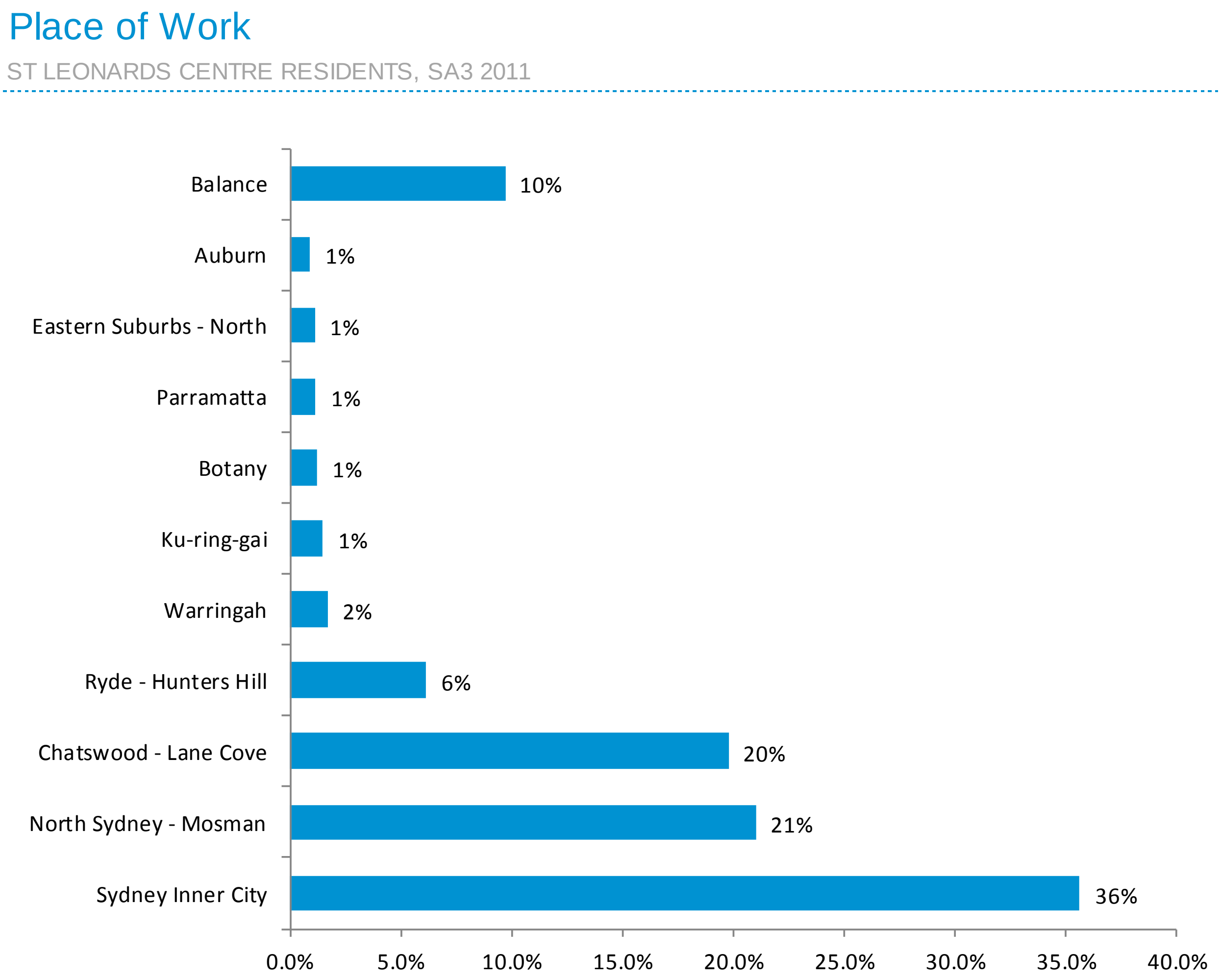


FIGURE 15 – PLACE OF WORK



Source : Bereau of Transport Statistics; Urbis

3.2 WORKERS

This section will assess the employment drivers and outcomes that will impact future demand for office development / supply. This will include the industry profile of the St Leonards Centre, including industry sector and the breakdown of the type of employment (e.g. white versus blue collar jobs).

3.2.1 INDUSTRY OF EMPLOYMENT

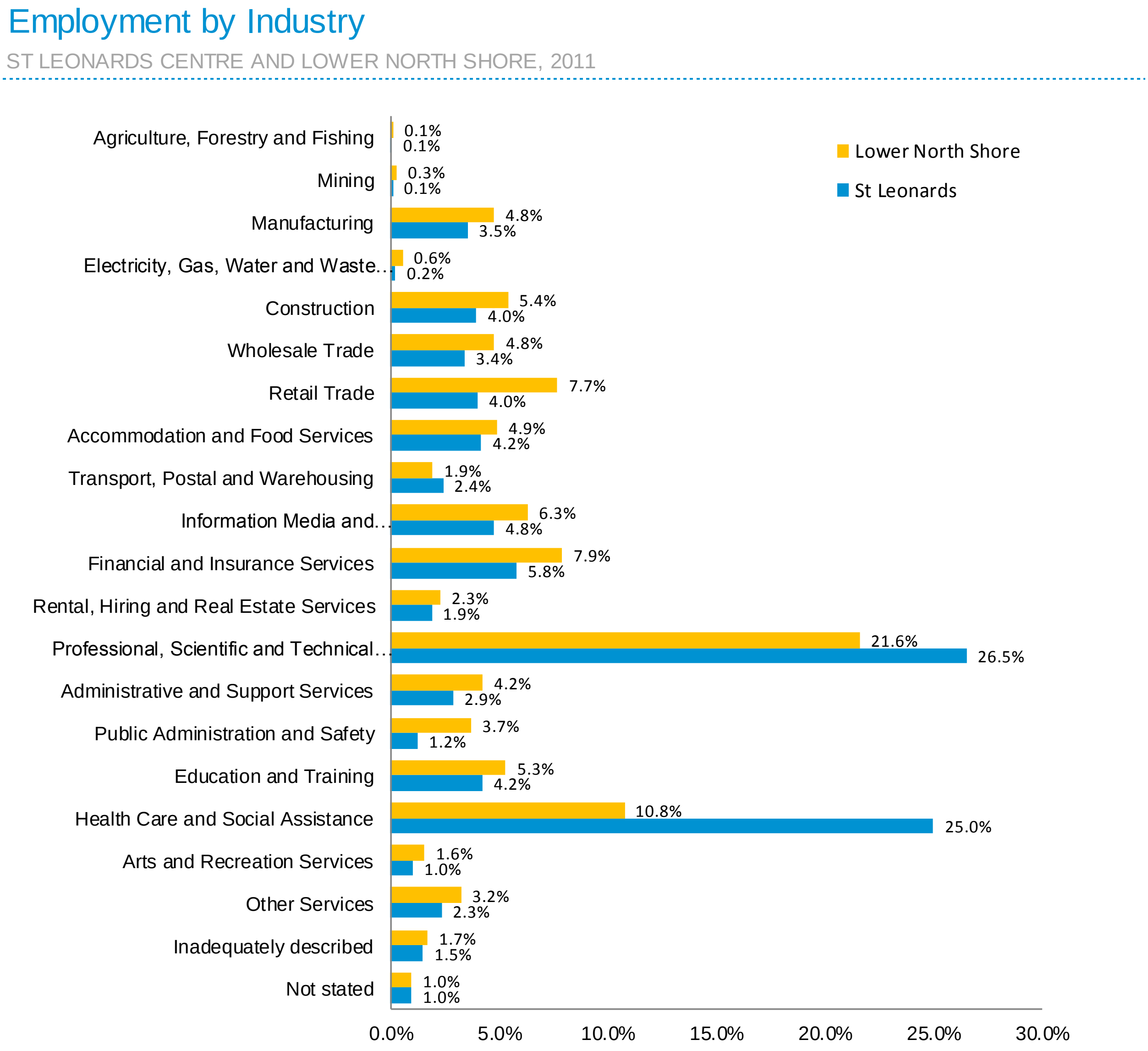
Contrasting the relatively small number of employed local residents, the St Leonards Centre accommodates 28,961 jobs, with the distribution of jobs across industry sectors outlined in Figure 16 overleaf compared to the Lower North Shore LGAs. Employment sectors represented in the St Leonards Centre are displayed in Figure 16 overleaf, which shows Professional, Scientific and Technical Services (26.5%) and Healthcare and Social Services (25%) feature prominently, and representing a higher proportion of jobs than the Lower North Shore LGAs in comparison.

The higher proportion of Health Services jobs in St Leonards Centre is aligned to the presence of the RNSH and medical services businesses located along the Pacific Highway. With the RNSH redevelopment and expansion of health related services south of the Pacific Highway, further employment in these sectors are expected in the short to long term.

Information Media and Telecommunications (4.8%), Manufacturing (3.5%), Retail Trade (4.0%) and Financial and Industrial Services (5.8%) are the next most represented industries. The smaller representation of these services illustrates that while St Leonards is a viable commercial hub, is not a major CBD in Sydney's north.

Give the size and tenant profile of St Leonards Centre, highly specialised industries including Arts and Recreational Services (1%), Electricity, Gas, Water and Waste Services (0.2%), Mining (0.1%) and Agriculture, Forestry and Fishing (0.1%) are not well represented.

FIGURE 16 – EMPLOYMENT BY INDUSTRY



Source : Bereau of Transport Statistics; Urbis

3.2.2 OCCUPATION

White collar workers including Professionals (43.3%), Managers (16.7%) and Clerical and Administrative workers (16.9%) are well represented in the St Leonards Centre as shown in Table 8 overleaf. This is consistent with the St Leonards Centre which accommodates a number of office towers, Health Service providers and the RNSH. This trend in white collar representation is likely to continue with the changing nature of the St Leonards Centre. The occupation profile in the Lower North Shore is consistent with the St Leonards Centre.

TABLE 8 – OCCUPATION

Occupation of Workers

ST LEONARDS CENTRE AND LOWER NORTH SHORE 2011

	St Leonards Centre	Lower North Shore
Managers	16.7%	18.0%
Professionals	43.3%	35.5%
Community & Personal Service Workers	5.6%	6.5%
Clerical & Administrative Workers	16.9%	16.1%
Sales Workers	5.2%	8.0%
White Collar (%)	**87.7%**	**84.1%**
Technicians & trades workers	7.1%	8.8%
Machinery operators & Drivers	1.0%	1.7%
Labourers	2.5%	3.4%
Blue Collar (%)	**10.5%**	**14.0%**
Other	**1.8%**	**1.9%**

Source : BTS 2013; Urbis

3.2.3 PLACE OF RESIDENCE

The majority of workers in the St Leonards Centre reside in the north shore of Sydney. As displayed in Figure 17, residents of North Sydney (9.7%), Willoughby (8.8%), Warringah (7.2%) and Ku-ring-gai (7.0%) represents approximately a third of employee population in St Leonards. This is consistent with the rationale that the work force seeks employment closer to their place of residence.

FIGURE 17 – PLACE OF RESIDENCE

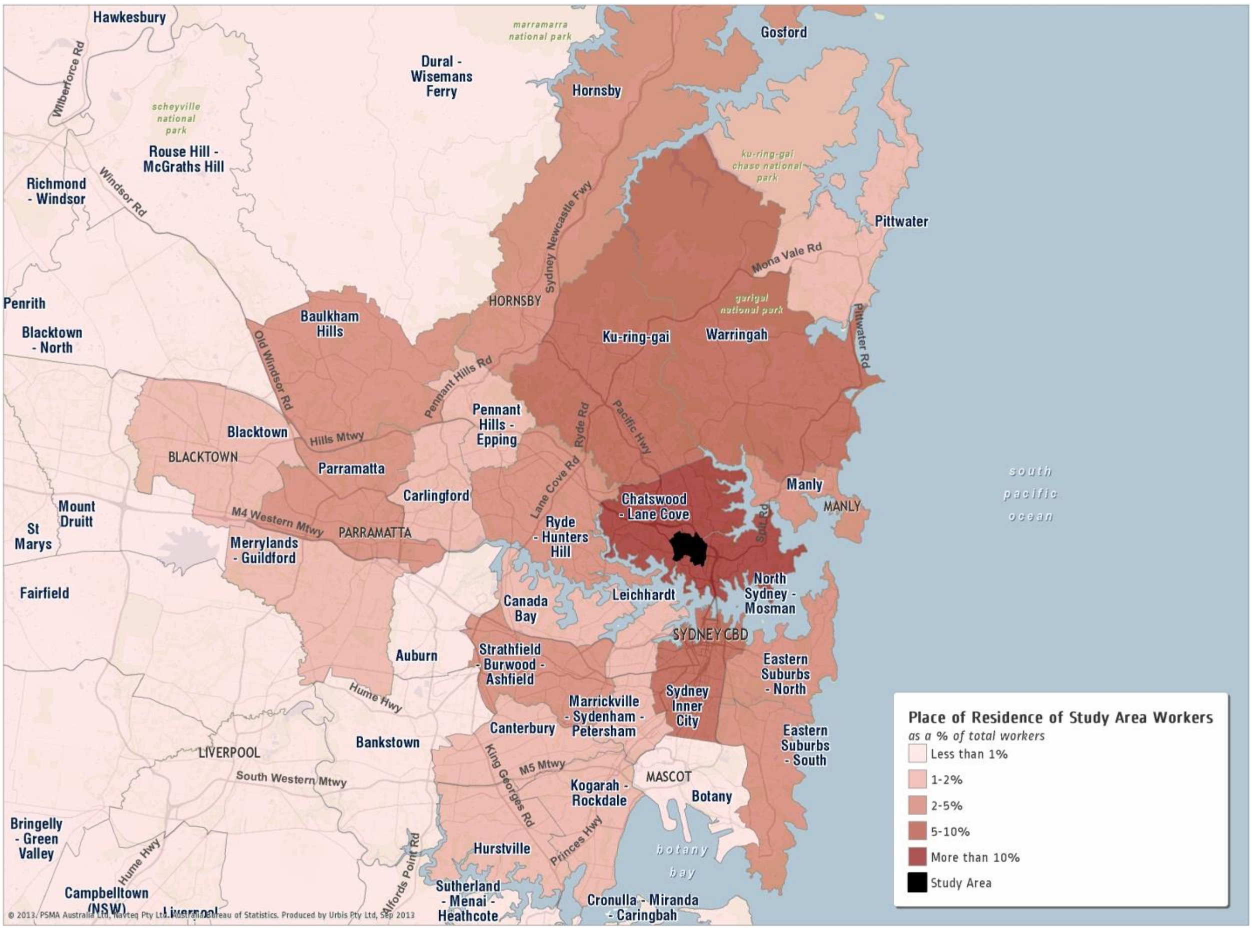


TABLE 9 – PLACE OF RESIDENCE

Place of Residence

ST LEONARDS CBD 2011

LGA	Number	%
North Sydney	2,808	9.7%
Willoughby	2,548	8.8%
Warringah	2,076	7.2%
Ku-ring-gai	2,028	7.0%
Hornsby	1,833	6.3%
Sydney	1,609	5.6%
Lane Cove	1,377	4.8%
Ryde	1,253	4.3%
The Hills Shire	976	3.4%
Parramatta	852	2.9%
Balance	11,600	40.1%
Total	28,961	100.0%

Source : ABS Census 2011; Urbis

3.3 SUMMARY

- The occupation profile, while primarily white collar for both residents and workers, shows that a higher proportion of St Leonard's residents work in white collar related jobs than St Leonards workers. This is reflected in the place of work of residents, which shows residents working primarily in the Sydney Inner City (36%), North Sydney / Mosman (21%) and Chatswood / Lane Cove (20%).

- The industry sector profile also illustrates this, with a much higher proportion of workers (25%) than residents (10.7%) in the health sector – reflecting the fact that the St Leonards Centre is strongly skewed towards the provision of health services.

- The age distribution of St Leonard's residents shows a higher proportion of 20-34 and 35-49 year olds than the Lower North Shore area, with fewer family households with dependents. This age group also typically has high workforce participation, indicating a higher proportion of local St Leonards residents are working age compared to the Lower North Shore and broader Sydney Metro Area.

- The centre has a significantly higher number of jobs (28,961) compared to employed residents (8,087) accommodated within the St Leonards Centre, resulting in the need to 'import' workers from other centres. This is especially true in the Health Services industry which comprises 25% of local jobs compared to 10.7% of employed residents.

- The age distribution of these forecasts, illustrate a declining working age population, and an increasing 65+ 'retiree' age group by 47.8% between 2011 and 2031 compared to the working age which is expected to increase by 8.4% over this period. The higher proportion of Health Services jobs in St Leonards Centre is align to this demographic, which is services by the RNSH and medical services businesses located along the Pacific Highway. With the RNSH redevelopment and expansion of health related services south of the Pacific Highway, further employment in these sectors are expected in the short to long term.

- Information Media and Telecommunications (5.8%), Manufacturing (3.5%), Retail Trade (4.0%) and Financial and Industrial Services (5.8%) are the next most represented industries. The smaller representation of these services illustrates that while St Leonards is a viable commercial hub, is not a major Centre in Sydney's north. It also reflects the fact that highly specialised industries including Arts and Recreational Services (1%), Electricity, Gas, Water and Waste Services (0.2%), Mining (0.1%) and Agriculture, Forestry and Fishing (0.1%) are not well represented.

- This contrasts the North Sydney LGA for example, which maintains a higher working age population than other centres, reflecting its differing industry base. In addition to this, more than 70% of new jobs in the North Sydney LGA are expected to be the Professional Scientific & Technical Services industry, reflecting its role as a regional centre role within Metropolitan Sydney, and the 'centre of gravity' for the professional services industry in the Lower North Shore.

- While the protection of employment land to provide local jobs is important, in the instance of St Leonards the provision of additional dwellings likely to attract workers could improve the proportion of workers employed in the Centre also living locally. This requires an assessment of the demand for employment generating floorspace compared to supply, to determine whether converting office floorspace to dwellings will impact the employment targets outlined in the draft Metro Strategy which will be conducted in the following section.

4 Demand for Office Space

In assessing the economic impact of rezoning the subject site into mixed use it is necessary to consider whether removing office floor space will effect the St Leonards Centre's capacity to accommodate future employment growth and achieve the Metro Strategy's jobs target of 8,000 additional jobs by 2031. Identifying whether this will lead to a shortage in the supply of office floorspace can be derived from employment forecasting, with demand benchmarked to an employee to floorspace (sq.m) rate. Applying this to the Metro Strategy target of 8,000 jobs will provide an indication of the office floorspace capacity required to accommodate the employment target outlined in the Metro Strategy.

4.1 EMPLOYMENT GROWTH

Between 2011 and 2031 the draft Metropolitan Strategy has an employment growth target of 8,000 additional jobs within the St Leonards Centre, based on Bureau of Transport Statistics (BTS) forecasts Urbis estimates that approximately 3,882 of these jobs will require office floor space. The future growth sectors are outlined in Figure 18 below, which illustrates that Health Care and Social Assistance will be the key industry sector driving growth to 2031.

FIGURE 18 – PROPORTION OF JOBS GROWTH, 2011 TO 2031

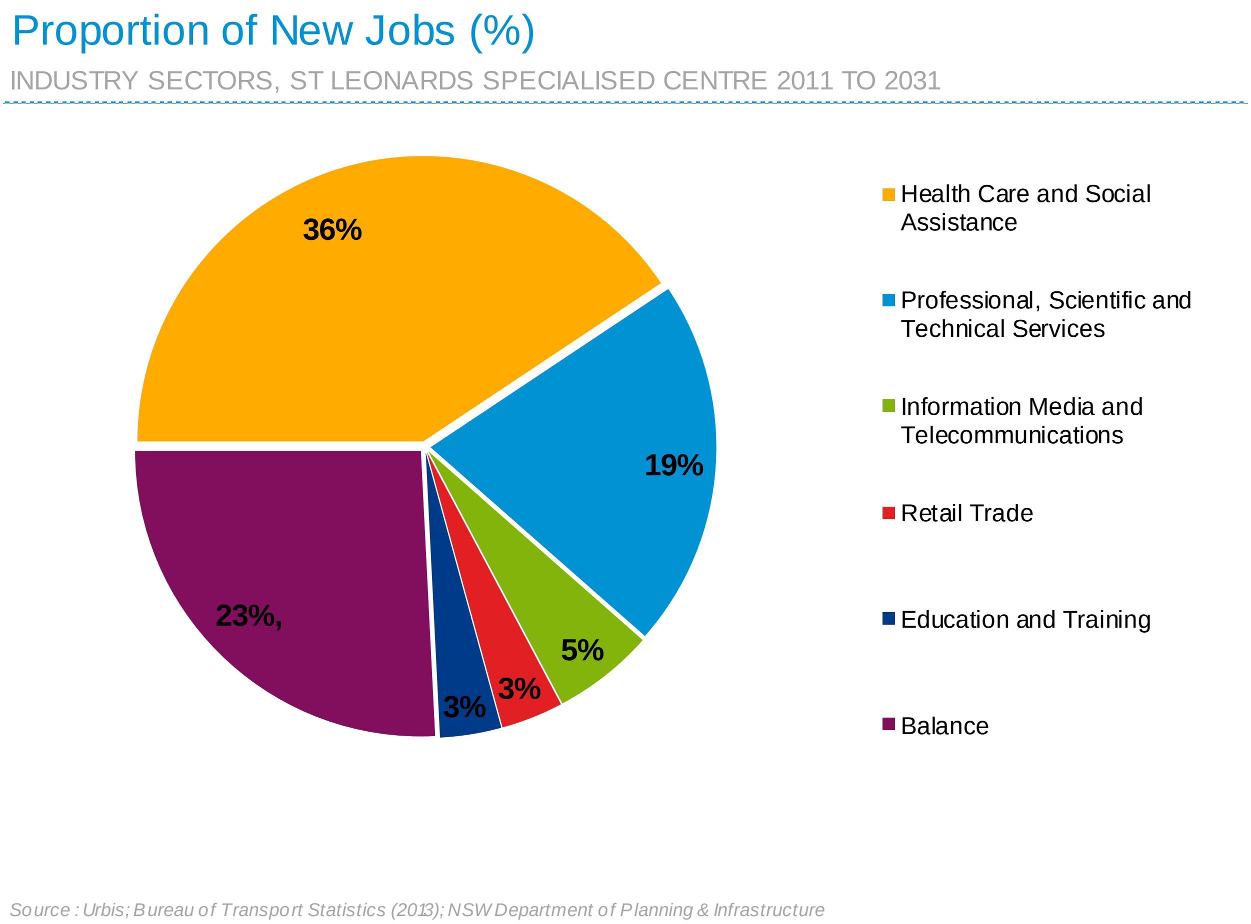


Table 10 overleaf illustrates the jobs targets outlined in the draft Metropolitan Strategy, and apportioned across different industry sectors (based on Bureau of Transport employment forecasts). The key growth sectors outlined above in Figure 17 are expected to add the following jobs if the target is met:

- Health Care and Social Assistance, increasing by 3,980 jobs
- Professional, Scientific and Technical Services, increasing by 2,043 jobs
- Information, Media and Telecommunications, increasing by 561 jobs

- Retail Trade, increasing by 344 jobs
- Education and training, increasing by 339 jobs

TABLE 10 – FORECAST EMPLOYMENT, BY INDUSTRY

Historic and Forecast Employment

ST LEONARDS CENTRE, 2011 TO 2031

Industry Sector	2011	2021	2031	2011-2031	2011-2031 (Annual Growth %)
Agriculture, Forestry and Fishing	16	10	10	-6	-2.1%
Mining	27	87	102	75	6.9%
Manufacturing	1,025	444	325	-700	-5.6%
Electricity, Gas, Water and Waste Services	65	255	233	168	6.6%
Construction	1,144	1,041	969	-175	-0.8%
Wholesale Trade	984	1,044	1,077	93	0.5%
Retail Trade	1,160	1,488	1,504	344	1.3%
Accommodation and Food Services	1,210	1,408	1,546	336	1.2%
Transport, Postal and Warehousing	697	701	579	-118	-0.9%
Information Media and Telecommunications	1,381	1,770	1,942	561	1.7%
Financial and Insurance Services	1,679	1,761	1,839	160	0.5%
Rental, Hiring and Real Estate Services	546	337	278	-268	-3.3%
Professional, Scientific and Technical Services	7,680	7,821	9,723	2,043	1.2%
Administrative and Support Services	832	1,070	1,060	228	1.2%
Public Administration and Safety	361	656	631	270	2.8%
Education and Training	1,223	1,326	1,562	339	1.2%
Health Care and Social Assistance	7,244	9,619	11,224	3,980	2.2%
Arts and Recreation Services	296	268	271	-25	-0.4%
Other Services / Unclassified	1,391	511	456	-935	-5.4%
Total	**28,961**	**32,961**	**36,961**	**8,000**	**1.2%**

Source : Urbis; BTS 2012 Release; NSW D&PI, Draft Metro Strategy

Different industry sectors have different needs when it comes to the type of floorspace required to operate their respective businesses. The industry employment forecasts presented in Table 10 are summarised below in Table 11 outlining the total jobs by land use.

TABLE 11 – JOBS BY LAND USE

LAND USE	JOBS GROWTH (2011 TO 2031)
Industrial *Includes industrial components of 'non-industrial' sectors such as retail, wholesale trade and information technology.*	-354
Office *Includes office components of sectors where majority of employment is accommodated in 'non-office' floorspace, such as education and training, health and arts and recreational services and industrial industries such as construction and urban services.*	3,882
Retail *Includes retail components of accommodation and food services and wholesale trade.*	412
Education *Does not include office based education services.*	322
Health *Does not include office based health services.*	3,582
Other	307
Off-Site	-160
Home	8
Total	**8,000**

Source: Bureau of Transport Statistics 2012; Urbis

The office based employment is expected to be comprised of a number of different industry sectors, where the majority of operations are located in non-office floorspace such as:

- Health services (10% office floorspace)
- Urban services (10% office floorspace)
- Construction (5% office floorspace)
- Education and training (5% office floorspace)
- Arts and recreation (30% office floorspace).

These sectors may be better suited to collocating office based employment with its other non-office based operations, with the functional benefits of collocating with its core business greater than the amenity associated with CBD locations.

4.2 DEMAND FOR FLOORSPACE – ST LEONARDS CENTRE

To determine the floorspace requirement that will arise from the additional jobs targeted for the St Leonards Centre Urbis have derived employment floorspace densities, from the typical sq.m per employee by land use. This takes into account differing floorspace requirements for industry sectors and business types, with industrial operators typically needing a larger sites with fewer employees, resulting in a lower employment yield per sq.m compared to non-industrial uses.

Office floorspace employment density is expected to be between 15 to 20 sq.m per job. The potential higher employment density of 15 sq.m per employee reflects the observed trend for office tenants to rationalise leased floorspace, coming in the form of greater use of open plan workplaces, in an effort to reduce costs. As such, the additional demand for office floorspace has been expressed as a range using both employment densities.

TABLE 12 – FLOORSPACE DEMAND, 2011 TO 2031

LAND USE	SQ.M / JOB	FLOORSPACE
Industrial	150	-53,049
Office	15 - 20	58,200 - 77,600
Retail	25	10,291
Education	25	8,057
Health	10	35,819
Other	10	3,075

Source: Bureau of Transport Statistics 2012; Urbis

It shows that between approximately 58,200 and 77,600 sq.m of office floorspace will be required to accommodate the targeted employment growth outlined the Metro Strategy.

It is important to note that these forecasts have assumed that the draft Metropolitan Strategy job targets for St Leonards will be achieved. Urbis notes that the St Leonards office market over the last 10 years (since January 2003) took up only 18,611 sq.m of new office space, equating to 1,861 sq.m per annum. Based on Urbis employment to floor space benchmarks this is estimated to have accommodated between 93 and 124 jobs per annum, aggregating to 930 to 1,240 new office jobs over the last 10 years. In order to achieve the employment targets set out in the draft Metropolitan Strategy, and outlined in Table 9, the future take up rate of office floorspace will need to shift from the historic rate observed over the last 10 years.

In addition to this, if this historic rate is maintained until 2031 (18 years from 2013), it will result in approximately 33,500 sq.m being absorbed, and a surplus of 62,200 sq.m of vacant office stock.

4.3 SUPPLY / DEMAND FLOORSPACE – ST LEONARDS CENTRE

According to the Property Council of Australia's (PCA) Office Market Report (OMR) January 2013, there is currently 44,231 sq.m of vacant office space in the St Leonards Centre, with an additional 73,052 sq.m of office floor space proposed across the five commercial development projects outlined previously in Section 2.5.

This is summarised below in Table 13, and taking into account the withdrawal of the subject site from the supply of office space, provides an indicative existing and future supply of office space within the St Leonards market.

As shown in Section 4.2 the additional demand for office floorspace is expected to be between 58,200 and 77,600 sq.m by 2031. Based on the existing vacant floorspace and proposed supply this will result in a surplus of office floorspace by 2031 between 18,100 and 37,500 sq.m. These figures are approximates and rely on the draft Metropolitan Strategy job target being met, and the proposed commercial developments being completed.

TABLE 13 – SURPLUS / DEFICIT OF OFFICE FLOORSPACE

	OFFICE FLOOR SPACE SQ.M
Vacant Existing Floor Space	44,231
Proposed Commercial Developments	73,052
Withdrawal of 95 Nicholson Street and 504, 472 & 486 Pacific Highway	- 21,547
Existing and Approved Supply	**95,736**
Demand for Office Floor Space (by 2031)	58,200 - 77,600
Surplus/Deficit (by 2031)	**18,100 – 37,500**

Source: BTS 2012; draft Metro Strategy; PCA Office Market Report January 2013; Urbis

4.3.1 OTHER SOURCES OF COMMERCIAL FLOORSPACE

The supply of office floorspace outlined in Table 13 does not take into account proposed developments (which have not been granted approval) such as the Royal North Shore Hospital (RNSH) redevelopment which will involve a significant addition of employment generating commercial floor space that will accommodate health related services sectors (e.g. consulting, research, education and treatment).

Urbis estimates that approximately 10% of the total Health Care and Social Assistance Sector's 3,980 (398) jobs targeted for between 2011 and 2031, will be office based. This equates approximately to between 6,000 and 8,000 sq.m in commercial space that will be ideally be co-located with health services. This agglomeration effect is a feature of other health services hubs such as the specialised centre Westmead Health.

TABLE 14 – HEALTH BASED OFFICE EMPLOYMENT, ST LEONARDS SPECIALISED CENTRE

	2011-2021	2021-2031	2011-2031
Health Based Office Employment	238	162	400
Floor Space (Sq.m)	3,573 – 4,765	2,424 – 3,232	5,998 – 7,997

Source: BTS 2012; Urbis

This indicates that approximately 8.6% of future demand for office floorspace will be health based, and better suited to co-locating in the RNSH development, rather in office space like the subject site, removed from the Health related commercial services corridor west of the station or in the RNSH redevelopment.

As such there is a case for the relocation of commercial space away from Pacific Highway locations east of the forum area closer to the RNSH, allowing for the co-location / agglomeration of more health sector office employment closer to existing health facilities. Based on the relocation of health specific services away from the centre of the precinct, Urbis has previously estimated the commercial development potential for Precinct C, which is expected to have the potential to accommodate approximately 9,500 sq.m of office potential, as well as the Douglas Building outlined in Figure 20 below.

FIGURE 19 – RNSH PRECINCT C

4.4 SUMMARY

Given the existing pipeline of approved commercial development and the likelihood that over the next 18 years additional commercial projects will be developed, the supply of commercial/office space is unlikely to be a constraint on achieving the target job outlined in the draft Metro Strategy.

- Between 2011 and 2031 the draft Metropolitan Strategy targets employment growth of 8,000 additional jobs within the St Leonards 'Specialised Centre'. Based on Bureau of Transport Statistics (BTS) forecasts Urbis estimates that approximately 3,882 of these jobs will be office based, requiring office floor space.

- Urbis estimates office floorspace employment density to be between 15 and 20 sq.m per job, taking into account the potential for continued office floorspace rationalisation amongst office tenants. This indicates that there will be demand for approximately 58,200 to 77,600 sq.m of additional office floorspace by 2031, to accommodate the target of 8,000 jobs outlined in the draft Metro Strategy.

- This can be sufficiently accommodated within the existing vacant floorspace and proposed supply, and will result in a surplus of office floorspace by 2031 between 18,100 and 37,500 sq.m (assuming all commercial office development projects are developed).

- In addition to this approximately 8.6% of future office floorspace demand will be health based. The demand for office floorspace from the health sector is better suited to co-locating in the developing Health hub and in the redevelopment of the RNSH Precinct C, which is expected to have the potential to accommodate approximately 9,500 sq.m of potential office space.

- It is important to note that these forecasts have assumed that the draft Metropolitan Strategy job targets for St Leonards will be achieved. Urbis notes that the St Leonards office market over the last 10 years (since January 2003) took up only 18,611 sq.m of new office space, equating to 1,861 sq.m per annum. Based on Urbis employment to floor space benchmarks this is estimated to have accommodated between 93 and 124 jobs per annum, aggregating to 930 to 1,240 new office jobs over the last 10 years. In order to achieve the employment targets set out in the draft Metropolitan Strategy, and outlined in Table 9, the future take up rate of office floorspace will need to shift from the historic rate observed over the last 10 years.

5 Construction and Ongoing Employment Benefits

The proposed redevelopment of 95 Nicholson Street and 504, 472 & 486 Pacific Highway will deliver employment benefits associated with the construction phase of the development and the jobs from commercial and retail floorspace.

5.1 CONSTRUCTION EMPLOYMENT

Table 15 provides estimates for the total employment generated during construction for both the retail and residential components of the proposed development.

TABLE 15 – CONSTRUCTION EMPLOYMENT AND INCOME GENERATION

JOBS AND WAGES	CONSTRUCTION
Total Jobs	**768**
Full-Time	692
Part-Time	77
Full-Time Equivalent	**730**
Average Annual Wage ($ Gross)	$1,112
Total Annual Wages ($ M)	**$42.2**

Source: ABS 'Average Weekly Earnings' 2013; Urbis

The proposed development is expected to generate 768 jobs, consisting of 692 full-time and 77 part-time jobs. For the purposes for deriving a total for annual wages from the development, the 77 part-time jobs have been treated as equivalent to 38 full-time jobs, as per the ratio assumption of 2:1.

Assuming a weekly wage of $1,112 (Gross) it is expected that total annual wages generated by construction of the proposed development is $41.3 million.

5.2 ONGOING COMMERCIAL / RETAIL EMPLOYMENT

The proposed redevelopment will incorporate 3,950 sq.m of commercial and 2,400 sq.m of retail Gross Floor Area (GFA), which will generate ongoing employment opportunities once completed to local workers within the St Leonards Centre.

Table 16 looks at the ongoing employment generated by the retail and commercial components of the proposed development. The table is based on a gross floor area to employment ratio, for type of retail use in the proposed development.

TABLE 16 – DIRECT EMPLOYMENT IMPACT FROM RETAIL

	GROSS FLOOR AREA (GFA, SQ.M)	EMPLOYMENT YIELD PER SQ.M (JOBS / GFA SQ.M)	EMPLOYMENT	ANNUAL WAGES ($ M)
Commercial	3950	15 – 20	198-263	$14.7-$19.6
Retail	2,450	25	96	$5.4
Total	8,750	-	294-359	$20.1-$25

Source: Urbis

The retail component of the proposed development is expected to generate 96 jobs on an ongoing basis for the local community. Without knowing the mix of the speciality retail component, total wages derived from employment is assumed to be 'store based retailing' (non-food|) which according to ABS 2010 Employee Earnings and Hours is $971 gross earnings per week. Allowing for a 3.7% increase in private sector wage growth since 2010, this is expected to equal $1,083 per week for retail employees. The proposed development is therefore expected to generate ongoing annual wages of $5.4 million.

The commercial component of the proposed development is expected to generate between 198 and 263 jobs, once completed. This could appeal to a mix of office based industry sectors, with different average wages. To estimate the weekly earnings generated, Urbis have used the average weekly earnings of a Professional, Scientific and Technical Services worker ($1,430.70 per week) as the typical wage of workers likely accommodated in the proposed commercial space. This equates to ongoing annual wages between $14.7 million to $19.6 million. The combined annual wages generated by the retail and commercial floorspace is expected to be between $20.1 million and $25 million.

5.3 SUMMARY

The proposed development at 95 Nicholson Street and 504, 472 & 486 Pacific Highway will result in a number of direct economic benefits, at the construction stage of the development and the ongoing employment uses. These include:

- A total of 768 construction jobs, which equate to 730 full-time equivalent positions and estimated to result in $42.2 million per annum in wages

- Ongoing employment will be between 294 and 359 jobs, resulting in an aggregate annual wage between $20.1 million and $25 million per annum

6 Summary of Economic Assessment

The study's key findings indicate that the conversion of the subject site from office to mixed use will not have an adverse economic impact on the St Leonards Centre, for the following reasons:

- Demand for traditional office space is better accommodated in competing commercial centres that can provide either more affordable or better located office stock.
- There is sufficient supply of existing vacant and proposed office stock to accommodate the office component of the draft Metropolitan Strategy's employment target
- Specialised health based office space will seek to collocated within the RNSH redevelopment, closer to the delivery of health services

Expanding on this, the analysis of data underpinning and validating these findings are as follows:

Demand for traditional office space is better accommodated in competing commercial centres that can provide either more affordable or better located office stock.

- Other competing centres are better placed to attract traditional commercial/office based industry sectors and tenants. With 53% of the St Leonards office stock classified as C-D Grade it is evident from the age of office stock that the centre has not continued to attract investment in new office developments or major refurbishments.
- This lack of tenant interest in new developments within St Leonards is reflected in its January 2013 vacancy rate which has increased 12% (from 11% in July 2012), higher than other Sydney Metropolitan office markets (as measured by the Property Council of Australia).
- In addition to this, the price point for asking rent does not appear to be competitive with other suburban centres, such as Macquarie Park / North Ryde which combines affordable rental rates with higher grade stocks and larger floor plates affecting the St Leonards office market's ability to attract key anchor tenants that underpin new commercial developments. For example 88 Christie Street is yet to confirm a pre-lease anchor tenant, while IBM will be partially relocating its operations out of their building in late 2013 to their Pennant Hills office. Nor does the St Leonards Centre have the locational amenity of North Sydney or Sydney CBD.
- Historic absorption rates indicate low demand for new office space within the St Leonards Centre over the last 10 years (since January 2003). Over this period 18,611 sq.m of new office space has been taken up by the market, equating to 1,861 sq.m per annum. Based on Urbis employment to floor space benchmarks this is estimated to have accommodated between 93 and 124 jobs per annum, aggregating to 930 to 1,240 new office jobs over the last 10 years. While this assessment tests the targeted jobs growth for the St Leonards Specialised Centre outlined in the draft Metro Strategy, we note that absorption of new office space will need to increase to meet the 58,200 – 77,600 sq.m office floorspace needed to accommodate the 3,980 office jobs identified in Section 4.2.
- This aligns with the forecast industry breakdown of future jobs growth, with Health Services expected to comprise 36% of jobs added in the St Leonards Centre between 2011 and 2031, compared to professional services (19%) and Information Technology (5%). This Health Services employment growth will likely be accommodated within the RNSH redevelopment which in addition to an expansion of health services will increase potential commercial development capacity by approximately 9,530sq.m.
- The St Leonards Centre accommodates a much higher proportion of jobs (28,961) compared to employed residents (8,087), resulting in the need to 'import' workers from other centres. This is especially true in the Health Services industry which comprises 25% of local jobs compared to 10.9% of employed residents. While the protection of employment land to provide local jobs is important, in the instance of St Leonards the provision of additional dwellings likely to attract workers could improve the proportion of workers employed in the Centre also living locally, and based on the employment forecasting conducted does not appear to come at the expense of the employment targets outlined in the draft Metropolitan Strategy.

There is sufficient supply of existing vacant and proposed office stock to accommodate the office component of the draft Metropolitan Strategy's employment target

- Between 2011 and 2031 the draft Metropolitan Strategy targets the growth of 8,000 additional jobs within the St Leonards Specialised Centre. If this target is achieved it is expected that 3,882 will be office based jobs which would result in demand for between 58,200 and 77,600 sq.m of additional office floorspace, based on an employment to floor space ratio of between 15 and 20 sq.m per employee.

- According to the Property Council of Australia's (PCA) January 2013 Office Market Report (OMR) St Leonards has approximately 368,596 sq.m of existing office floor space. With a vacancy rate of 12% vacant floor space equates approximately to 44,231 sq.m. In addition to vacant stock there is a pipeline of approved commercial developments with a total of 73,052 sq.m office space.

- The combination of existing vacant stock and proposed commercial floorspace will be sufficient to accommodate the employment growth targeted by NSW Government's draft Metro Strategy. The withdrawal of the subject sites at 95 Nicholson Street and 504, 472 & 486 Pacific Highway equates to 21,547 sq.m of office space, will not result in a deficit in office supply.

Specialised health based office space will seek to collocated within the RNSH redevelopment, closer to the delivery of health services

- The RNSH redevelopment and the expansion of the forum south of Pacific Highway are examples of proposed/planned developments that could yield office floorspace beyond the identified approved pipeline Given that approximately 8.6% of future office floorspace demand is expected to be health based, it may be better accommodated in the RNSH Precinct C redevelopment, co-locating in the developing Health hub, which is expected to have the potential to accommodate approximately 9,500 sq.m of potential office space.

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