Blacktown City Council

Attachment 6

Market Appraisal and Economic Feasibility Study

Market Appraisal and Economic Feasibility of Blacktown and Mount Druitt CBDs

Prepared for Blacktown City Council

May 2016

Table of Contents

List of Tables

List of Figures

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1 Executive Summary

1.1 Background

Blacktown City Council engaged JLL to provide advice on the current and future residential, commercial and retail market demand and feasibility of development in the Blacktown and Mount Druitt CBDs. The impetus of this advice being that Council recently resolved to support the creation of both CBDs as strong mixed use centres that are vibrant and great places to live and recreate and that are activated by residential, commercial and retail development.

In order to achieve this vision, they require the abovementioned advice which will involve a review of existing planning controls in both CBDs, including land use, building height and floor space ratio. The review will form the basis of new planning controls to:

- more accurately reflect government expectations for the centres
- more accurately reflect market expectations
- provide opportunities for growth.

1.2 Scope

Within the project brief, Blacktown City Council has specifically identified the following tasks to be completed:

- undertake a baseline socio-economic profile of the CBDs, including:
    - identification of current level of economic activity in the CBDs, estimate on the number of employees across the various industries and labour catchments (i.e. where workers come from)
    - description of current economic activity in the CBDs relative to the broader economy
    - an understanding of the role and function of the CBDs
- provide a market appraisal of the trends and drivers, and market context for residential, commercial and retail development within the CBDs.
- undertake feasibility testing of residential, commercial and retail development to review and test current planning controls (land use zones, FSRs and building heights)
- recommend key planning controls to address market demand and feasibility within the Blacktown and Mount Druitt CBD, including written justification for any changes to existing planning controls
- consider comparable locations that would compete for market activity and developer interest
- identify measures and actions council can take to assist with economic activation of the CBDs, including incentives and measures to stimulate development and investment
- advise on development projections over a 5, 10 and 15 year period, considering existing uses, patterns of supply and demand and commercial viability
- work closely with, and incorporate advice provided by the consultant advising on architecture/urban design.

1.3 Key Findings

Provided below is a summary of our key findings from our market appraisal and economic feasibility of Blacktown and Mount Druitt CBDs.

Review of Prior Studies

- JLL undertook a review of the “Blacktown Planning Strategy – Economic and Employment Input” produced by Hill PDA. We found that the previous study provided some interesting observations relating to the employment trends within the Blacktown LGA and City Centre, however, we found limitations of the report, which primarily related to the analysis of the property opportunity.

- Limited analysis of the property market, particularly where Blacktown sits in the broader market, makes it difficult to justify the conclusions related to property. Additionally, the lack of discussion around the property factors, which would have been inherently required to undertake the feasibility analysis, makes us question the validity of the results of this analysis.

Economic Influences on the Property Market

- Global and Australian economic growth has continued in 2015, albeit not at the rate experienced in 2014. The slower global growth was driven by weaknesses in emerging markets, low commodity prices and subdued world trade.
- 2016 has got off to a difficult start with concerns re-emerging about a Chinese hard landing. In Australia, the falling business investment remains as one of the key concerns for the Australian economy, with mining investment continuing to decline and non-mining investment yet to pick up the slack.
- The NSW economy rebounded in 2014 and this continued into 2015. The buoyant housing market has boosted the consumer sector with retail turnover growing by 4.8% y-y in September. Throughout the course of 2015 the labour market has also improved significantly.
- Low interest rates and robust growth in the housing market should help to support the NSW economy in the short term. The outlook for NSW remains positive with GSP growth of 2.2% expected in 2016.

Infrastructure Influences on the Property Market

- Infrastructure plays a vital role in the property market, particularly as it influences economic conditions as well as the opportunity to improve the amenity and accessibility of precincts and regions. In June 2014 the NSW Government adopted the Rebuilding NSW Plan. Rebuilding NSW is an initiative which is attempting to boost the NSW economy by investing $20 billion in infrastructure related to transport, water, education, health sports and arts.
- Of particular note, from the above, is the focus of this investment towards Western Sydney. Rebuilding NSW invests over $10 billion in Western Sydney and presents a once-in-a-generation opportunity to build the infrastructure that Western Sydney desperately needs. This infrastructure includes: Sydney Metro and the Western Sydney Rail Upgrade Program, Parramatta Light Rail, Sydney WestConnex and Other Road Upgrades, Creation of a Parramatta Cultural Precinct and Upgraded Stadia and a Creation of New Schools and Expanded Hospitals.

Planning Context

- The NSW Government has effectively downgraded the importance of the Blacktown and Mount Druitt CBDs, particularly in relation to employment growth. Council have utilised this as an opportunity to review planning controls to support the creation of both CBDs as strong mixed use centres that are vibrant and great places to live and recreate.

Demographic Overview of the CBDs

- The existing and expected future significant population growth within the Blacktown LGA will act as a catalyst for a number of property types. The Blacktown LGA has been the fasted growing LGA in New South Wales over the last decade and is expected to continue as one of the fastest growing LGAs. This significant population growth will have implications to growing demand for retail, support office and residential.

Residential Market in Context

- The Sydney residential market is deep into the eleventh hour of a housing upturn with in recent times; significant capital growth being experienced, as well as, unprecedented sale rates particularly for new product. During this time of substantial growth it is important to have reference to metrics and data points that articulate the historic residential market cycles which we are able to draw some conclusions from as it relates to future demand.

- In undertaking our analysis, we compared unit and house price growth (based) across the different markets (both Blacktown and Mount Druitt suburbs, the Blacktown LGA and the Greater Sydney area), which revealed quite different results depending on housing type.
- In terms of house prices, these different markets generally saw aligned growth over the last ten years. Whereas, there was a significant divergence in growth of unit prices, with Greater Sydney leading the way, followed by Blacktown (suburb and LGA), and Mount Druitt having the least (based) growth of these markets during the period.
- JLL have had reference to the public data series available via the NSW Department of Planning & Environment, which identifies the net take-up of dwellings (through Sydney Water connections) of Sydney suburbs. According to this data series, over the past 10 years the suburb of Blacktown has had a historic dwelling take-up of 137 per annum, while the suburb of Mount Druitt has experienced 71 per annum.
- In our forecast of dwelling take-up to 2031, we had consideration to a number of demand and supply factors identified within the body of the report (as summarised above), through this we derived a forecast of 3,234 (or 216 per annum) additional dwelling within the Blacktown CBD. Additionally, we identified that potential exists for this to increase through a rezoning of the B3 Commercial Core land to B4 Mixed Use, which we have assessed as 3,952 (or 263 per annum).
- A forecast for the Mount Druitt CBD is much more difficult due to a number of factors. These include; development activity being historically limited, the limited activity has also not focussed predominantly on specific areas, and, significant future growth is expected outside of our study area (to the South of the railway line). Therefore, while difficulty exists in making a forecast our assessment is that broadly the opportunity within the Mount Druitt CBD is challenged due to the above, as well as limited appropriate development sites.
- The residential market within the CBDs will benefit from both population growth and increased desire to locate closer to transport centres. However, considering the above, the Blacktown CBD will likely be the greater beneficiary of this demand, while Mount Druitt CBD encounters constraints in the short to medium term.

Office Market in Context

- Office uses broadly fit into three category types, these are; investment grade office (generally large floor plated assets in defined office precincts), support office (generally providing localised services to the community and share some characteristics to retail uses) and office uses that support another primary land use e.g. industrial. Our observation regarding the opportunity for Blacktown and Mount Druitt CBDs generally falls within the support office category, with some potential for investment grade office in the Blacktown CBD.
- The Blacktown CBD, although having some assets which could be considered investment grade, is not an investment grade market and as such is not tracked by most property research groups. Our broad observation from the historic tracking of other office markets, which may be of relevance to the Blacktown CBD, is the general shift and growing importance over time to suburban office markets.
- Having consideration to the factors which attract an occupier to a location, we have identified that the Blacktown CBD has significant constraints in its ability to entice an occupier, whereas we see no opportunity for investment grade for the Mount Druitt CBD. The opportunity is therefore more present in the support office market, as identified, this use supports the local area and thus growth generally occurs organically in line with population growth.
- In deriving our forecasts, we utilised a mix of tools depending on the office type. In assessing investment grade we utilised historic net absorption across the Sydney office market & the Deloitte Access Economics (DAE) growth forecasts for white collar employment growth. Whereas, for support office we utilised the population growth forecast provided by the NSW Department of Planning & Environment.

- As a starting point for our assessment, we needed to determine the number of employees within office accommodation for both CBDs. In order to do this we utilised Journey to Work (JTW) data derived from the ABS which identifies the employment of the centres. Through a number of assumptions we dived these employment figures into broad categories, these being office, retail and other.
- We then used this employment number for office to derive an approx. office area for Blacktown CBD, being 45,480sqm. We then identified the buildings which we would consider investment grade office and estimated the approx. area through a variety of internal and external sources, at 29,400sqm. Thus the 16,080sqm difference related to support office.
- Once separated we were able to make our assessments. For investment grade office, we utilised sensitivity analysis around the likelihood of an occupier (likely government) and then checked this assessment against the forecasted white collar employment growth from DAE. This assessment equated to an additional 7,500sqm (or 500sqm per annum) of investment grade office space in the 15 years to 2031, however, this is our mid-point and in reality this figure could be significantly higher through opportunity arising from a major tenant (most likely Government) or effectively zero if what has occurred in recent history continues.
- In terms of support office, we grew this by population growth and resulted in an additional 5,700sqm (or 380sqm per annum) for Blacktown CBD and 4,700sqm (or 313sqm per annum) for Mount Druitt CBD.
- We see opportunity for organic growth of support office in both CBDs, in line with population growth. While we see no opportunity for investment grade office in the Mount Druitt CBD and limited opportunity in Blacktown CBD, at least in the medium term.

Retail Market in Context

- In relation to the retail provisions for the Blacktown CBD, most retail falls into three broad areas; the Major Regional shopping centre at Westpoint, the Kmart department store, and, the strip retail. We are of the view that from a demand perspective significant medium to long term opportunity should exist, driven by above average population growth. Whereas, we envision some limitations to supply resulting from value in existing improvements, as demolition of shops to build new shops is typically unfeasible. However, as mixed use development is currently occurring and expected to continue, this will provide the supply needed to meet future demand.
- In relation to the retail provisions for the Mount Druitt CBD, the vast majority of the retail space sits within the Major Regional shopping centre at Westfield and the Luxford Court shopping centre. As with Blacktown CBD, demand for retail going forward should be supported by the population growth. Again, we see more concern related to the supply constraints, as almost half of the CBD land is controlled by a single owner (Westfield), thus future supply will be dictated to a large extent by their plans.
- Similarly to our office assessment, we have utilised our derived employment figure for the office, retail and other category. We have utilised this in conjunction with the Property Council of Australia (PCA) shopping Centre Directory, which provide an extensive shopping centre database including centre ownership, management, size, tenancy mix and more, with this we were then able to derive the Gross Lettable Area Retail (GLAR) of the major centres in Blacktown CBD (Westpoint) and Mount Druitt (Westfield).
- Utilisng these data sources in combination with our typical employment contributions by retail type we were able to derive the the GLAR of the non-major centres, combining this with the major centre retail, we then grew by population growth. Thus we assessed a growth of 47,663sqm (or 3,178sqm per annum) for the Blacktown CBD and 26,400sqm (or 1,760sqm per annum) for the Mount Druitt CBD.

Feasibility Analysis

- In developing our scenarios, we had reference to the work undertaken (summarised above), as well as various consultations with Council staff as to what would be considered appropriate and testable from a feasibility analysis sense. The result is a mix of office developments and mixed use development scenarios.

- The results of our office assessments are summarised below:
  - Mount Druitt CBD smaller scale office — Unviable
  - Blacktown CBD smaller scale office — Unviable
  - Blacktown CBD A-grade office (spec) — Unviable
  - Blacktown CBD A-grade office (pre-commit) — Unviable
- As outlined within the body of the report, the above analysis is intended to provide an observation on the relative viability of varying scenarios, in a current market context, which appears to be unviable. We have also had regard to the underlying drivers, that support the potential for office uses in the medium to longer term, and again we identify significant challenges in achieving this nature of development.
- On balance, we consider there is material risk that if Council were to maintain the existing commercial core, over the longer term, an unsatisfactory amount of development will occur. Notwithstanding the above, JLL considers merit in keeping a commercial core, albeit a smaller version of the current core.
- The results of our mixed use assessments are summarised below:
  - Mount Druitt CBD mixed-use — Breakeven to viable
  - Blacktown CBD mixed-use — Breakeven to viable
- The reason for the range in viability is related to the two assessment methods. This difference suggests a disconnect between the underlying assumptions utilised in the feasibility used by JLL by comparison to those used by developers. By example, developers may be more optimistic and may include (a) lower construction costs and (b) higher gross realisations with the potential inclusion of price escalation over time (which we have not adopted).
- Again, as outlined above, JLL notes that the intent of the above analysis is to provide relative viability opportunity or risk of this nature of development in a current market context. On balance, our view is that mixed use development in Mount Druitt and Blacktown is broadly viable, however, risk exists that developments are progressed through the planning stage and stall if/when economic conditions deteriorate – which has been seen previously in both of these locations.
- Within the report, we identified a number of potential planning changes for Blacktown CBD which may improve viability. One factor that was considered was an adjustment in the height of buildings. Our analysis adopted a 50 metre height limit which is towards the lower end of the majority of the mixed-use land. As such, while we believe an increase in the height would likely result in incremental improvement in feasibility, having adopted a generally conservative height limit we see an increase in the height as an unrequired change, from a viability perspective, and should only be done with additional justification e.g. improved design outcomes, etc.
- One of the key planning related factors which encumbers the viability of mixed-use development within the Blacktown CBD is the first floor non-residential provision (Clause 7.12 of the Blacktown LEP). Revising this clause would improve feasibility, however, this should only be completed subject to Councils strategic requirements to maintain the clause in current form to promote commercial supply.
- In terms of potential planning changes for Mount Druitt CBD, similarly to Blacktown CBD, we adopted a 50 metre height limit, however, this is higher than the 32 metre height limit currently permitted. As our results were still of marginal viability with the increased height, we recommend reviewing these height controls, albeit we note an increase in height does not necessarily result in an improvement in viability and requires the demand to exist for the higher apartments.

Promoting Economic Activation

- In order to support the creation of the Blacktown and Mount Druitt CBDs as strong mixed use centres; Council can, and should, take measures to promote economic activation. We have provided within this section a number of measures and actions that can be utilised by local council's in achieving economic activation; this included those which related to:

- Land Use Planning Controls and Incentives
- Self-Promotion and Economic Development
- Attract Government Employment to the Location
- Provision of Parking
- Influence Planning, Transport and Social Infrastructure
- Financial Incentives
- Place making
- Clustering

- It is not just feasibility which would drive the creation of strong mixed use centres, as such we recommend the initiatives provided be reviewed by Council to identify ones which align best with the strategic vision of the Blacktown and Mount Druitt CBDs. We also recommend utilising a number of these tools to ensure a multi-pronged approach that achieves the greatest impact.

Conclusions and Recommendations

- Ultimately, we see a number of opportunities within the CBDs for residential and employment growth, both required to ensure the creation of strong mixed use centres. While we also note a number of hindrances, mostly related to the Mount Druitt CBD, we believe these are mostly short to medium term considerations and will over time maintain a lesser impact.
- While risk exists in reducing the area zoned commercial core, on balance, we consider this risk is significantly offset by the potential that comes with a mixed use precinct, with the vibrancy and employment that goes with it, considering:
    - As has occurred historically, office development has proved unviable and if this status quo continues the employment opportunity is negligible;
    - A mixed use rezoning will likely result in increased development, resulting in employment growth; and,
    - There can be unnecessary focus on specific locations for employment growth when the primary opportunity is elsewhere as is the case with the Blacktown LGA. By example the Blacktown Hospital redevelopment, located just outside of the study boundary, on completion of Stage 2 will be an investment in excess of $700 million. In addition the Blacktown LGA benefits from having significant employment centres with excellent transport infrastructure.

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2 Review of Prior Studies

The purpose of this section is to provide an understanding into the previous studies undertaken of relevance to this current work. We have provided below a review of the prior study, being the *"Blacktown Planning Strategy – Economic and Employment Input"* produced by Hill PDA.

2.1 Blacktown Planning Strategy – Economic and Employment Input: Hill PDA (2010)

Blacktown City Council commissioned a consultant team led by Cox Richardson to prepare two planning strategies, one related the Blacktown LGA and the other to the Blacktown Urban Renewal Precinct (URP – an area spanning a 2km radius around Blacktown City Centre). The strategies seek to facilitate and manage the growth of Blacktown LGA as a Regional City with a Regional Centre by 2036. Hill PDA were engaged as part of the consultant team to provide economic input into the preparation of the strategies, ultimately providing:

1. *Profiled existing employment in Blacktown LGA by industry in comparison to other regions in Sydney as well as unemployment and underemployment, what jobs attract workers to Blacktown LGA and what jobs are Blacktown's residents leaving for;*
2. *Forecast growth in demand for employment by industry and how this may translate into demand for floorspace;*
3. *Estimated existing retail floorspace supply and demand and how this is likely to change over time with population growth;*
4. *Reviewed trends in Blacktown's labour force skills and occupations to better understand how ongoing change may influence the number and nature of jobs required in Blacktown over the study period;*
5. *Provided economic input into the design and preparation of different development scenarios for Blacktown Town Centre;*
6. *Undertaken a review of the Blacktown property market;*
7. *Provided advice regarding the economic viability of a mix of commercial uses in the Blacktown URP; and*
8. *Tested the feasibility of residential development in three locations nominated by Council in Blacktown LGA.*

From the above analysis, the study resulted in a number of key issues and recommendations being identified. These are summarised below:

1. *The creation and implementation of Master Plans for Blacktown's activity centres and employment lands*
2. *Progressing catalyst sites*
3. *Establish a dialogue with existing landowners and stakeholders*
4. *Establish a dialogue with other councils influenced by growth in the North West*
5. *Priority processing of development applications*
6. *Allocating resources to development of catalyst infrastructure*
7. *Funding infrastructure through the NSW Local Infrastructure Fund*
8. *Marketing and advertising Blacktown*
9. *Work with the retail industry*
10. *A new strategic centre in Blacktown's north sector*
11. *Build relationships with tertiary education institutions*
12. *Further research into critical success factors for attracting new and emerging businesses.*

While the above analysis provided interesting observations relating to the employment trends within the Blacktown LGA and URP, we note some limitations of the report which primarily related to the analysis of the property opportunity. The analysis into the ABS and Transport Data Centre (now Bureau of Transport Statistics), was undertaken with vigour, however, the significant focus on these data sources and limited analysis of the property market, particularly where Blacktown sits in the broader market, makes it difficult to justify the conclusions related to property. Additionally, the significant lack of discussion around the property factors, which would be inherently be required as inputs to undertake the feasibility analysis, makes us question the validity of the results of this analysis.

3 Economic Influences on the Property Market

The objective of this section is to provide the economic context as to the factors which may impact the property market. This makes reference to the conditions which are currently being experienced in the global, national and state economies and how these will impact the property market, particularly the Sydney office market.

3.1 Overview of Key Economic Considerations

Key Points

- Global and Australian economic growth has continued in 2015, albeit not at the rate experienced in 2014.
- The slower global growth was driven by weaknesses in emerging markets, low commodity prices and subdued world trade.
- 2016 has got off to a difficult start with concerns re-emerging about a Chinese hard landing. Additionally the oil price has fallen and now sits around $30 (February 2016).
- In Australia, the falling business investment remains as one of the key concerns for the Australian economy. Mining investment continues to decline (-8.2% q-q) as the large resources construction projects move towards production and non-mining companies have yet to pick up the slack.
- The NSW economy rebounded in 2014 and this continued into 2015. The buoyant housing market has boosted the consumer sector with retail turnover growing by 4.8% y-y in September. Throughout the course of 2015 the labour market has also improved significantly.
- Low interest rates and robust growth in the housing market should help to support the NSW economy in the short term. The outlook for NSW remains positive with GSP growth of 2.2% expected in 2016.

Global Economy

- Global growth disappointed in 2015 with growth estimated to have been recorded at 3.0% following 3.3% in 2014.
- The Euro area's fragile recovery looks to have continued with GDP growing by 0.3% q-q in 3Q15. Oxford Economics forecast a gradual improvement in economic growth in 2016.
- GDP growth in the US is expected to match that recorded in 2014 (2.4%) with the same expected again in 2016 (Oxford Economics). The strong US dollar and trade headwinds continue to weight on growth.
- China's economic growth continued its slowdown in 4Q15 growing by 6.9% y-y. Although there is potential for a harder landing, Oxford Economics currently predicts that the Chinese economy will grow by 6.3% in 2016 as the economy continues its transition away from heavy industry towards services.
- The Japanese economy grew by 0.3% q-q in 3Q15 and growth appears to have been sustained in the final quarter with growth over the year estimated to by 0.7% (Oxford Economics).
- Singapore posted headline GDP growth of 2.0% in 4Q15; an improvement on the revised 1.8% recorded in 3Q. Longer term, the Singapore economy will restructure as investment tilts toward technology and knowledge-based industries.
- There is a general consensus view that economic growth will improve in 2016 and 2017, however, the outlook has been downgraded. Additionally risks remain skewed very much to the downside.

Domestic Economy

- Following on from a disappointing couple of quarters, economic growth in 3Q15 came in slightly above market expectations at 0.9%, equivalent to 2.5% over the year.
- Net exports was the key contributor to growth in 3Q15 (1.5pps) with exports growing whilst imports declined. Household consumption and Public sector consumption both made positive contributions to growth of 0.4 pps and 0.1 pps respectively.
- Falling business investment remains a key concern for the Australian economy as mining investment continues to decline sharply and non-mining companies have yet to pick up the slack.
- Business investment is expected to remain weak throughout 2016. However, further depreciation of the AUD should help to support exports. DAE forecast that Australian GDP will grow by a disappointing 1.9% in 2016 before picking up to 2.7% in 2017.

3.2 NSW Outlook

- Following a long period of relatively subdued growth the NSW economy rebounded in 2014 with State Final Demand (SFD) growing by 3.8% y-y. Growth stuttered in 3Q15 falling by 0.2% over the quarter, however, this is still equivalent to 2.6% growth over the past twelve months.
- Overall in 2015, New South Wales Gross State Product (GSP) is expected to have grown by 2.5%% (DAE), slower than the 3.8% recorded in 2014. This is above the national average growth (2.3%) in 2015.
- The two cuts in interest rates in 2015 helped to further boost the housing market in New South Wales with strong dwelling price growth. Dwelling prices in Sydney rose by 11.5% over the year to December 2015 and the average house price now rests at AUD 935,000 (RP Data). Growth appears to have started to moderate in the Sydney housing market over the past few months. Over the past two years house price growth has boosted the wider economic environment.
- The buoyant housing market has provided a boost for the consumer sector providing significant wealth effects. Household consumption growth (around 62% of the state economy) is estimated to have been 2.8% in the year to 3Q15 whilst real retail turnover grew by 4.8% in September 2015 (y-y). This is well above the national average growth of 3.2%. After recovering in 2013 private housing investment has continued to grow strongly with growth estimated to be 9.9% in 2015 (DAE).
- Along with the low interest rate environment the lower AUD has had a positive impact on the NSW economy boosting manufacturing, tourism and international education. Additionally, stronger infrastructure spending on road and rail projects over the next couple of years should help to bolster business investment. The NSW AUD20 billion privatisation agenda including the ‘poles and wires’ infrastructure should bolster spending on infrastructure.
- The labour market in New South Wales has improved significantly over the course of 2015. The number of employed people has increased by 4.6% since December 2014 whilst unemployment has moved down 0.8 pps from 6.0% to 5.2% in December 2015.
- Low interest rates and robust growth in the housing market should help to support the NSW economy in the short term. Overall, the outlook for the NSW economy is positive but with slower growth expected over the medium to long term as the consequences of strong house price growth filter through. DAE forecast NSW GSP will grow by 2.2% in 2016 before picking up 2.4% in 2017.

3.3 Implications for Property Markets

2015 closed its account with a moderate widening of credit spreads and rising long-term interest rates. At the same time commercial real estate yields compressed further. The yield gap remains wide in historical terms, but it is narrowing. The era of ultra-cheap debt is coming to an end. We expect the yield gap to narrow further through 2016, with most of the contribution coming from rising bond yields.

At the same time the continuing depreciation of the AUD, particularly against major Asia-Pacific currencies, emphasises the attractions of the Australian real estate market to offshore investors. There is no evidence to date that the investment inflow into commercial and residential real estate markets will slow during 2016. Ultimately, however, scarcity of prime grade assets may limit transaction volumes during 2016.

Risks are rising, reflected in widening credit spreads, although they remain constrained. The RBA has noted that:

… near-term risks to the domestic financial system from the commercial property sector appear modest, but they are rising. (FSR, October 2015).

Commercial real estate risk factors nominated by the RBA include:

- the supply pipeline of new construction
- the impact on values if offshore inflows were to cease for any reason
- lacklustre leasing activity in some markets, and
- the rising level of exposure by major domestic banks to commercial property, particularly office and retail assets.

Sharp falls in global sharemarkets during the early weeks of January 2016, and focus on the policy reactions of the Chinese authorities, do underline the possibility that crossborder capital flows within the AP region may slow. Repatriation of funds is the usual reaction by investors to uncertainty.

Countering this we would note the high level of tenant pre-commitment to most office construction projects and that withdrawals across CBD office markets (177,000 sqm) in 2015 have been exceeded only once in the past decade (2009). The Sydney and Melbourne markets have recorded a strong recovery in leasing activity while there are encouraging signs of stabilisation in Brisbane. Therefore while vacancy across CBD markets has risen from around 9% in 2012 to around 12½% currently, and 2016 will see the highest level of office completions since 2007, the risks associated with office markets can be characterised as asset specific rather than systemic.

In the case of retail assets, retail turnover growth appears to have stabilised around long-term levels of 3.7% p.a., household wealth (net worth) has fully recovered from the post-2007 slump and currently stands at $356,000, and employment (the number of people with jobs) is at record levels.

Bank lending is becoming more cautious under the impact of (a) rising capital adequacy requirements and (b) increased oversight by the regulatory authorities on the commercial property sector, as demonstrated in the RBA *Financial Stability Reviews* (March and October 2015). However to date domestic and offshore equity is readily available and despite a widening in credit spreads during Q3 and Q4, debt costs remain low by historical benchmarks, with offshore banking institutions increasingly attracted to the Australian market.

Yield compression and capital availability are enhancing the financial viability of many development and refurbishment projects. “Yield accretive” investment is back on the agenda. The next twelve months is therefore likely to see an expansion of development pipelines across markets and sectors. In NSW office markets, for example, our data suggests that in square meter terms 60% more construction will take place (2015-2020) than was the case (2010-2015). This of course represents potential gross additions to stock and takes no account of withdrawals for conversion or refurbishment.

Supporting the investment case for new developments, refurbishment or acquisition of existing assets, many of the underlying real economy indicators – retail spending, employment in business services, dwelling construction activity – are positive. Although the outlook for different Australian locations is diverging sharply as the global commodity price boom winds down, lease transactions in the Sydney and Melbourne CBD office markets show a broadening of the potential tenant base.

The yield compression cycle remained a dominant market theme through 2015 across all sectors – office, industrial and retail - supported by evidence from portfolio sales. The compression cycle, which commenced in 2010, is now in a mature phase. We expect that prime yields across the Australian commercial markets will stabilise around mid-2016, by which time global interest rates will have been rising for several months. As the yield compression cycle comes to an end, increased emphasis will focus on asset and market selection, timing decisions to enter or exit markets and comparisons between sub-markets and precincts. The macro-economic tail winds that have lifted transaction volumes and values since 2009 are moderating. The focus will therefore shift from broad strategic calls to analysis of specific investment opportunities and optimising the performance of existing assets.

4 Infrastructure Influences on the Property Market

Infrastructure plays a vital role in the property market, particularly as it influences economic conditions as well as can improve the amenity and accessibility of precincts and regions. We have provided below a summary of the Rebuilding NSW initiative with a particular concentration on its focus on Western Sydney.

4.1 Rebuilding NSW

In July 2011, Infrastructure NSW was tasked with preparing a 20 year Strategy that assesses the current state of infrastructure and identifies strategic priorities. This strategy was subsequently updated in 2014. The Strategy is independent advice to the Government on the specific infrastructure investments and reforms recommended to make NSW number one again. Following analysis and extensive consultation, in June 2014 the NSW Government determined to fully adopt the recommendations proposed by the Strategy through the Rebuilding NSW Plan.

Rebuilding NSW is an initiative of the NSW Government which is attempting to boost the NSW economy by investing $20 billion in infrastructure related to transport, water, education, health sports and arts. The allocation of funds into the various projects is summarised below.

Table 1: Rebuilding NSW - Infrastructure Resource Allocation

Sector	Project	Reservation	Funding from
Urban Public Transport	Sydney Rapid Transit	$7,000m	2016-17
	Sydney's Rail Future 2 Upgrades	$1,000m	2015-16
	Parramatta Light Rail	$600m	2017-18
	Bus Rapid Transit and Bus Priority Infrastructure	$300m	2016-17
Subtotal		$8,900m	
Urban roads	WestConnex northern and southern extensions; Western Harbour Tunnel	$1,100m	2015-16
	Pinch Points & Clearways	$400m	2015-16
	Smart Motorways	$400m	2015-16
	Gateway to the South	$300m	2015-16
	Traffic Management Upgrades	$200m	2015-16
Subtotal		$2,400m	
Regional transport	Regional Road Freight Corridor	$2,000m	2015-16
	Regional Growth Roads	$1,000m	2015-16
	Fixing Country Roads	$500m	2015-16
	Fixing Country Rail	$400m	2018-19
	Bridges for the Bush	$200m	2015-16
Subtotal		$4,100m	
Water security	Regional Water Security and Supply Fund	$1,000m	2017-18
Education	Future Focused Schools	$700m	2016-17
	Regional Schools Renewal program	$300m	2016-17
Subtotal		$2,000m	
Health	Hospitals Growth Program	$600m	2018-19
	Regional Multipurpose Facilities	$300m	2015-16
	Care Co-location Program	$100m	2016-17
Subtotal		$1,000m	
Culture & Sport	Culture and Arts	$600m	2017-18
	Sports Stadia	$600m	2017-18
	Regional Environment and Tourism Fund	$300m	2017-18

Subtotal		$1,500m	
Other Opportunities	Corridor Identification and Reservation	$100m	2016-17
Total		$20,000m	

Source: NSW Government http://www.nsw.gov.au/initiative/state-infrastructure-strategy

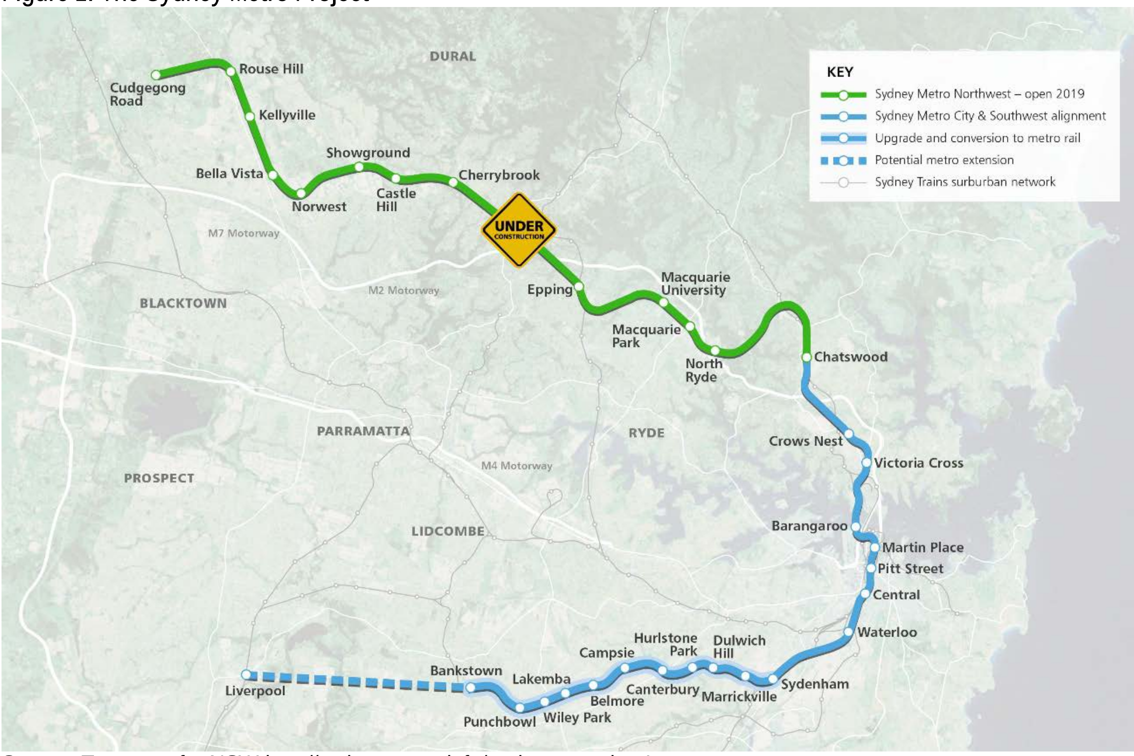
4.2 Focus on Western Sydney

Of particular note, from the above, is the focus of this investment towards Western Sydney. The NSW Government have identified that with a population of over 2 million people, Western Sydney is now bigger than many of Australia's capital cities. Rebuilding NSW invests over $10 billion in Western Sydney and presents a once-in-a-generation opportunity to build the infrastructure that Western Sydney desperately needs. This infrastructure includes:

Sydney Metro and the Western Sydney Rail Upgrade Program

Sydney metro is Australia's largest public transport project. The project is envisioned as a $7 billion investment to increase the number of trains accessing the city by 60%. The overall project is split into two phases; the Sydney Metro Northwest and the Sydney Metro City and South West. The Sydney Metro Northwest (formerly the North West Rail Link), between Rouse Hill and Chatswood, is well under construction with over half of the tunnelling now completed and expected operation within the first half of 2019. The Sydney Metro City and South West has two proposed core components, these are; a new 15 kilometre twin tunnel from Chatswood, under Sydney Harbour through Sydney's CBD to Sydenham; and, the proposed upgrade and conversion of the existing 13.5 kilometre railway from Sydenham Station to Bankstown Station to metro standards.

Figure 1: The Sydney Metro Project



Source: Transport for NSW http://sydneymetro.info/project-overview1

In addition to the Sydney metro project, $1 billion has been allocated for Sydney Rail future which includes funding for the Western Sydney Rail Upgrade program.

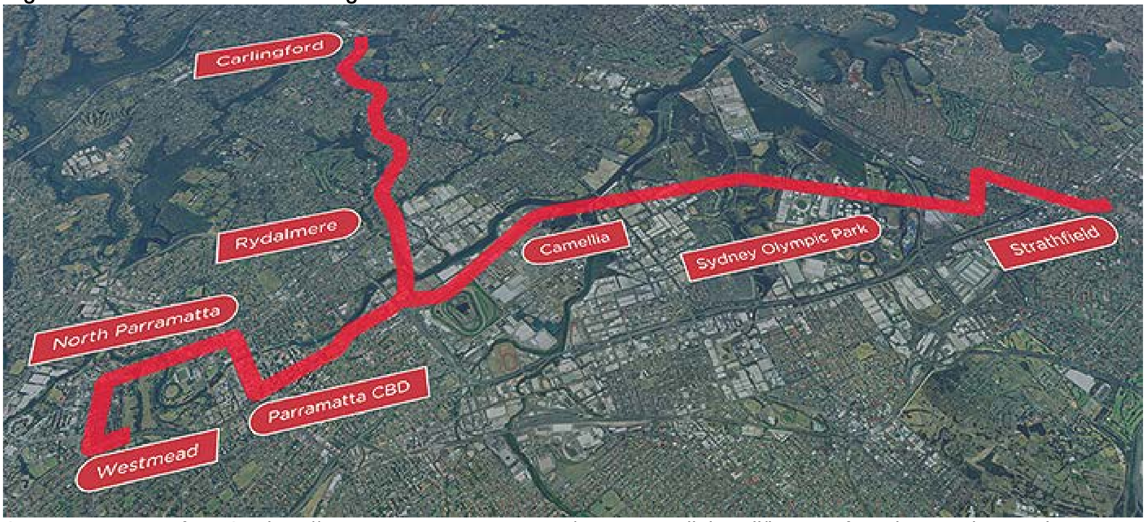
Parramatta Light Rail

The NSW Government had originally set aside $400 million toward its Western Sydney light rail plan, however, has additionally committed a further $600 million for light rail bringing the funding commitment to $1 billion. Ten possible options were originally canvassed; however, this was shortlisted to four options in October 2014. Each corridor shared a core route from Westmead Hospital to Camellia before going on to:

- Macquarie Park via Carlingford
- Castle Hill via Old Northern Road
- Bankstown
- Sydney Olympic Park and Strathfield/Burwood

The preferred network via Sydney Olympic Park was chosen following strategic evaluation of these four options, which focussed on their potential to encourage urban growth and contribute to the region's transport network. The figure below identifies the proposed network.

Figure 2: Preferred Parramatta Light Rail Network



Source: Transport for NSW http://www.transport.nsw.gov.au/parramatta-light-rail/how-preferred-network-was-chosen

Sydney WestConnex and Other Road Upgrades

An additional $1.1 billion investment into WestConnex extensions and Western Harbour Tunnel. The entire Westconnex project is a 33 kilometre road network which brings together a number of important road projects and will form a vital link in Sydney's Orbital Network. They include a widening of the M4 east of Parramatta, a duplication of the M5 East and new sections of motorway to provide a connection between the two key corridors.

WestConnex will be progressively opened to traffic as each stage is completed, with the final stage due to open in 2023. The entire project is expected to cost about $11-11.5 billion. Once complete, this should provide greater connectivity to a number of locations by connecting the two key corridors as well as alleviate other road infrastructure.

Figure 3: Sydney's Westconnex Network

Source: http://www.westconnex.com.au/about/index.html

In addition to the WestConnex funding, $400 million is reserved to implement the Smart Motorways technologies, including on the M4. This investment will attempt to address bottlenecks and pinch points to target improved traffic flows and reduce congestion.

Creation of a Parramatta Cultural Precinct and Upgraded Stadia

The NSW Government will engage with Western Sydney councils to identify co-investment opportunities for cultural infrastructure, as a recognition of the need for increased investment in arts and culture within Western Sydney.

Western Sydney will also benefit from a proportion of the $600 million stadia fund. The Government will identify best investments for rectangular stadia at Parramatta/Sydney Olympic Park.

New Schools and Expanded Hospitals

Investment in health and education will provide Western Sydney the opportunity to accommodate future population growth as they will be proportionate beneficiaries of:

- The $700 million Future Focused Schools Program to deliver new schools in Sydney's growth areas.
- The $600 million Hospital Growth Program.

5 Planning Context

The purpose of this section is to provide an understanding into the planning context associated to the Blacktown and Mount Druitt CBDs. We have provided below a review of the state and local planning strategies and controls and an assessment of their implications to the CBDs. Our review has been done in chronological order so as to appreciate the understanding at the time of each planning strategy.

5.1 Metropolitan Plan for Sydney 2036

The Metropolitan Plan for Sydney 2036, released in December 2010, built on the previous "City of Cities" Metropolitan Strategy. The Metropolitan Plan identified three Regional Cities in Parramatta, Penrith and Liverpool. Blacktown was identified as a Major Centre with the potential of becoming a Regional City, while Mount Druitt was identified as a Potential Major Centre. Both centres falling within the North West subregion.

The Metropolitan Plan identified that Major Centres had typically developed along Sydney's heavy rail and are key nodes in the structure of the city's broader transport network. It also noted *"they are significant locations for shopping, business and services and play a key role as employment destinations. Their accessibility and amenity makes them appropriate for higher density housing."* These centres are also characterised by an employment base of at least 8,000 jobs.

The Metropolitan Plan also described Potential Major Centres as *"existing centres with assets able to support growth such as public transport access and open space connections. They have potential to become larger shopping, jobs and service hubs in areas that may support increased residential development."*

Blacktown, as a Major Centre, in the Metropolitan Plan was set with an employment related target, which we have provided this below. Mount Druitt as a Potential Major Centre did not have a specified employment target.

Table 2: Employment Capacity Targets

Strategic Centre	2006 Base Employment	2036 Long Term Employment Capacity Target	2006-2036 Employment Growth
Blacktown	11,000	16,000	+5,000

Source: Metropolitan Plan for Sydney 2036 (December 2010)

In order for these locations to meet their targets and/or objectives the Metropolitan Plan identified a number of Future Directions, along with some potential examples of State Government Support. We have provided these for Blacktown and Mount Druitt in the table below.

Table 3: Future Directions for Strategic Centres

Centre Type	Centre Name	Future Directions and Examples of State Government Support
Major Centre	Blacktown	Major Centre serving the North West • Future Directions: o Provide capacity for office, retail, entertainment, cultural, public administration, services and health uses interwoven with higher density residential development to invigorate the centre. o Identify strategic sites to support commercial office development. o Improve linkages between north and south precincts. o Expand learning opportunities in the centre by attracting training organisations, conferences and festivals. o Strengthen links to Western Sydney Employment Hub. o Improve urban design of public domain and open space. o Improve pedestrian access and safety. • Examples of State Government support: o Department of Planning and Blacktown City Council to investigate the centre and environs as a priority area for urban renewal.

		o Blacktown Hospital: Cardiac Catherisation and Simulation Centre; University of Western Sydney (School of Medicine) Blacktown/Mt Druitt Clinical School. o Western Express rail; duplication of Richmond Rail Line. o Strategic Bus Corridors 1B, 2B, 3 (North–West T–way), 4, 43. o Commuter Car Park Program.
Potential Major Centre	Mount Druitt	Potential Major Centre serving the West between Blacktown and Penrith • Future Directions: o Exploit improved rail services to be provided by Western Express rail with opportunities for mixed use development and growth as a services centre for the subregion. o Significant potential for renewal and intensification of private and public housing areas. o Potential to build upon employment opportunities generated by Western Sydney Employment Area, TAFE campus and Mt Druitt Hospital. • Examples of State Government support: o Western Express rail. o Strategic Bus Corridors: 1A, 1B, 2A, 2B.

Source: Metropolitan Plan for Sydney 2036 (December 2010)

5.2 Masterplans and Planning Controls

Blacktown Planning Strategy 2036

The Blacktown Planning Strategy, released in 2011, is Blacktown City Council's *"key strategic land use planning document that will facilitate and manage future growth and development within the City of Blacktown to 2036."* The strategy demonstrates how the directions within the Metropolitan Plan for Sydney 2036 and subregional strategy will be realised.

The strategy plans to accommodate growth both in population and employment within the North West Growth Centre and established areas around key strategic centres and transport nodes. The document identifies 12 key strategies that will be actioned to guide and manage housing and employment growth in the Blacktown LGA. Underpinning a number of these strategies was the goal of achieving the Regional City status for the Blacktown CBD, initially highlighted within the Metropolitan Plan for Sydney 2036.

Blacktown City Centre and Mount Druitt Major Centre Masterplans

The Blacktown City Centre (2012) and the Mount Druitt Major Centre (2011) Masterplans are the more area specific tools for the facilitation and managing of the future growth described above. These Masterplans promote a number of changes to their respective CBD landscapes with both generally including; higher density housing, a mixture of employment uses, improvement to the public domain, provision of pedestrian orientated streets, and open spaces and green linkages.

Ultimately, at the core of these changes, as described above, is the attempt to realise the potential for both the Blacktown and Mount Druitt CBDs. This potential was identified in the Metropolitan Plan for Sydney 2036 and would see the Blacktown CBD regarded as a Regional City, while Mount Druitt becomes a Major Centre.

Blacktown Local Environmental Plan (LEP) 2015

The NSW Government directed all councils across NSW to prepare a new Standard Instrument LEP for their local government areas. Blacktown City Council was thus obligated to replace the Blacktown LEP 1988 with a new standard instrument. Replacing the LEP gave rise to the opportunity to:

- *"consider how best to provide for the City's long term employment and housing needs, in accordance with State Government employment and housing targets to 2036*
- *consider ways to protect the environment and meet the recreation needs of the current and future population*
- *update zoning and development controls to reflect current best practice."*[1]

[1] Blacktown LEP 2015 commences operation on 7 July 2015 (Council Meeting 8 July 2015)

Council resolved to commence the planning process in June 2006, through which councillors were presented with a number of reports that dealt with a number of relevant issues (e.g. heritage, zoning matters, etc.) In addition to these, Council prepared a series of strategies and masterplans (some of which are described above) to underpin the new LEP.

The result of the above being the draft LEP (formerly referred to as the *Draft Blacktown LEP 2013*) which was placed on public exhibition and received numerous submissions. After consideration to all submissions and final variations by the Department of Planning and Environment, the Blacktown LEP 2015 was made law.

5.3 A Plan for Growing Sydney

The December 2014 A Plan for Growing Sydney was released. This metropolitan strategy sets out the NSW Government's vision for Sydney over the next 20 years, it envisages that Sydney will be "*a strong global city, a great place to live*". This plan made significant adjustments to objectives and goals set out in the previous metropolitan plan, the greatest being the moving focus from Major Centres (now known as Strategic Centres) to subregions. The priorities for each Strategic Centre are now been submerged in the overarching subregion strategies. The plan states that *"subregional planning is the link between the big picture planning directions and detailed planning controls for local areas. It will also deliver planning outcomes across local council boundaries, where coordination between State agencies and/or local government is required"*.

The plan has continued to recognise the importance of Blacktown through its classification as a Strategic Centre, however, the potential of this centre (i.e. becoming a Regional City) which was reported in the previous metropolitan plan has not be noted. This is while the status of Mount Druitt, previously identified as a Potential Major Centre, has not been defined. Unlike the previous Metropolitan Plan this plan did not set any employment related targets, however, it does identify as an action to work with the Greater Sydney Commission to develop job targets for Strategic Centres. These job targets are yet to be set and it is our understanding that since the release of the plan their likelihood has reduced, particularly at a Strategic Centre specific level as opposed to a subregion level.

The plan identifies three priorities for Blacktown:

- *"Work with council to retain a commercial core in Blacktown as required, for long term employment growth."*
- *"Work with council to provide capacity for additional mixed-use development in Blacktown including offices, retail, services and housing."*
- *"Support hospital-related land uses and infrastructure around Blacktown Hospital."*

5.4 Implications

Blacktown City Council's understanding is that the NSW Government's vision for Blacktown and Mount Druitt centres, as reflected in A Plan for Growing Sydney, has changed. As highlighted above, the current planning controls for the Blacktown and Mount Druitt CBDs were prepared to promote employment growth and activation, which were to subsequently enhance the centres relative statuses.

Having consideration to the planning context above, we'd first acknowledge that the focus of A Plan for Growing Sydney has shifted significantly from the Metropolitan Plan for Sydney 2036 to a more macro perspective i.e. greater focus on the subregion and less focus on specific centres. That said, our interpretation of the above is in line with the view of Council, that is, the strategy has effectively downgraded the importance of these centres, particularly in relation to employment growth.

While the impact of the above could be material for the CBDs, as outlined within the executive summary, Council has instead opted to support the creation of strong mixed use CBDs which will:

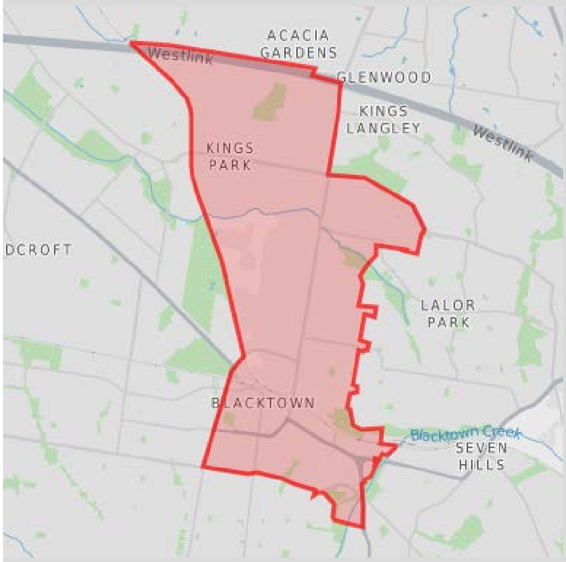
- more accurately reflect government expectations for the centres
- more accurately reflect market expectations
- provide opportunities for growth.

6 Demographic Overview of the CBDs

The purpose of this section is to provide an understanding of the demographic considerations which impact the Blacktown and Mount Druitt CBDs. This analysis has been undertaken at a top-down approach, firstly reviewing broader considerations to ultimately look at the specific implications for CBDs.

6.1 Demographic Profile

We have provided below a demographic snapshot of the areas surrounding the Blacktown and Mount Druitt CBDs. We have done so with consideration primarily to the Statistical Area Level 2 (SA2) ABS data. This data set being the most comprehensive at a small level area. The Blacktown CBD falls within the Blacktown (East) – Kings Park (SA2) with the demographic profile provided below.

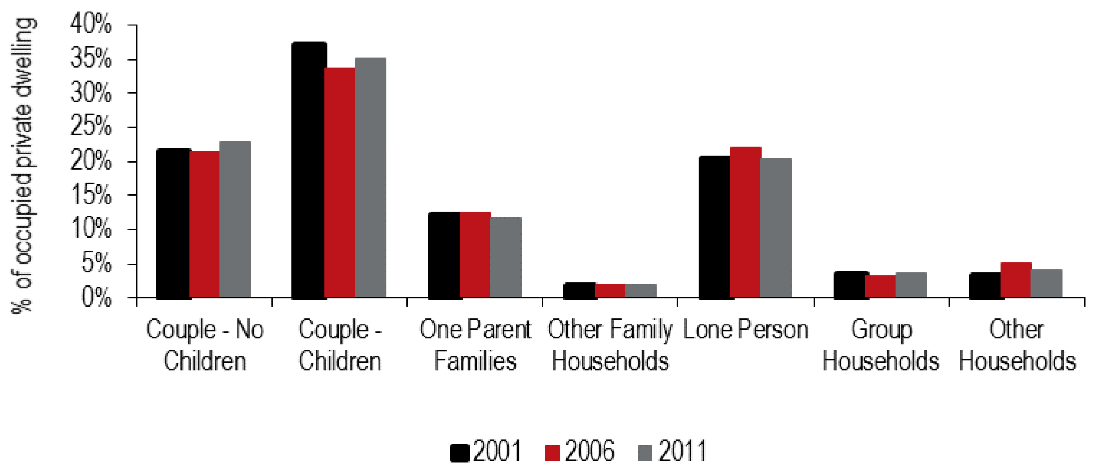
Blacktown (East) – Kings Park (SA2)	Description
	Blacktown (East) - Kings Park Statistical Area Level 2 (SA2) is located approximately 29.7km West of the Sydney CBD. As of June 2014 the population of the Blacktown (East) - Kings Park SA2 was 16,900, which made up 5% of the Blacktown LGA. The Blacktown (East) - Kings Park SA2 had a larger share of dwellings at 6%. According to the NSW Department of Planning & Environment, the population of the Blacktown LGA, which incorporates the Blacktown (East) - Kings Park SA2, is forecast to reach 473,300 by 2031, reflecting an average annual growth rate of 2.1% per annum, this being greater than the growth rate of 1.6% per annum expected across the Greater Sydney metropolitan over this period.

Demographic	Blacktown (East) - Kings Park	Blacktown LGA	Greater Sydney
Population 2014 - ERP June 2014	16,925	332,424	4,840,628
Percentage change (2013-14)	1.0%	2.2%	1.8%
Annual % change (last five years)	2.0%	2.1%	1.5%
Population aged 14 years & younger (%)	20.3%	23.7%	19.1%
Population aged 65 years and older (%)	11.1%	8.2%	12.8%
Population forecast by 2031		473,300	5,861,850
Population growth per annum forecast to 2031		2.1%	1.6%
Median age	32	32	36
Unemployment rate % (June 2015)	6.1%	6.2%	5.2%
Median weekly personal income ($)	$533	$563	$617
Median weekly household income ($)	$1,181	$1,386	$1,444
Median number of people per household	2.7	3.1	2.7
Total occupied private dwellings	5,600	96,402	1,601,529
Dwellings rented (%)	43.3%	30.9%	32.6%

Source: Australian Bureau of Statistics (ABS), Australian Government Department of Employment, NSW Department of Planning

Household Type

- The SA2 is characterised by a mix of smaller and larger household types. Couple – Children households are the largest single group comprising 35% of all households, which is almost on par with their share across the Greater Sydney region, but smaller than their share in the broader Blacktown LGA (44%). While the above is the largest single group, Lone Person and Couple – No Children together forms approximately 43% of all households.
- In terms of age the SA2's is generally aligned with the Blacktown LGA and broader Sydney, with under 35's in the SA2 equating to 55%, compared to the LGA (53%) and Sydney (48%).



Source: JLL, ABS - 2011 Census

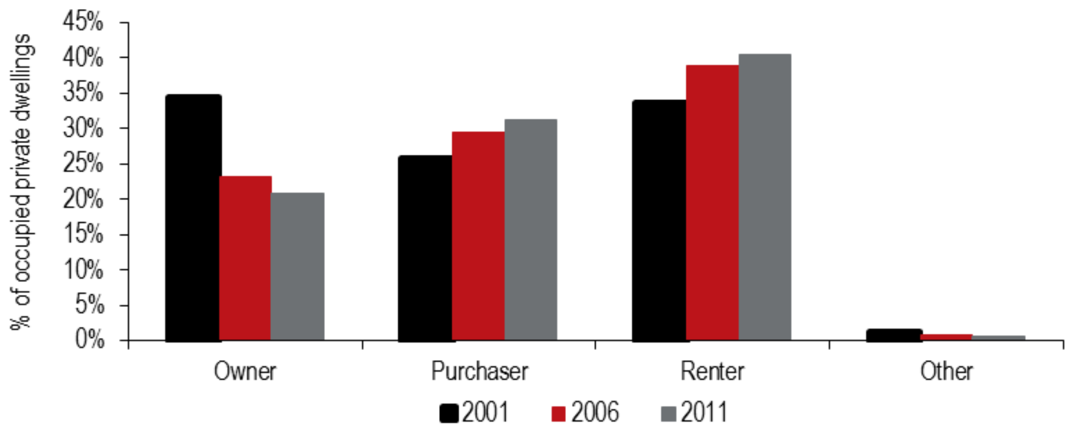
Weekly Personal Income

- The SA2's median weekly personal income of $533 is 14% below that of the Greater Sydney region. The SA2's median household income of $1,181 however, is approximately 18% below its Sydney metropolitan equivalent.
- Median personal and household incomes in the SA2 grew at an annualised rate of 3.7% and 3.5% between 2001 and 2011. This is generally on par with the annualised growth rate in personal and household incomes at the Greater Sydney level (3.4% and 3.8% respectively).
- Disaggregation of personal income by income band reveals that the SA2 has a slightly higher proportion of residents on all income bands compared with Greater Sydney, except in income bands of >$1,000 per week.

Source: JLL, ABS 2011 Census

Housing Tenure

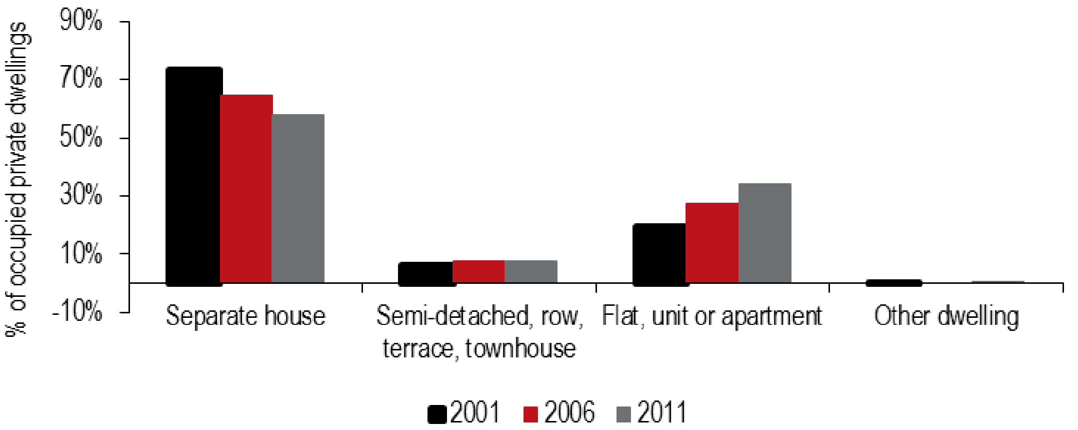
- The SA2's proportion of renters at 40%, is high compared to that across the Blacktown LGA and Greater Sydney, 29% and 30% respectively.
- The share of owner occupiers in the SA2 has fallen from 34% in 2001 to 21% in 2011. This has, however, been offset by an increase in the rate of home purchase which has risen to 31%.



Source: JLL, ABS - 2011 Census

Dwelling Structure

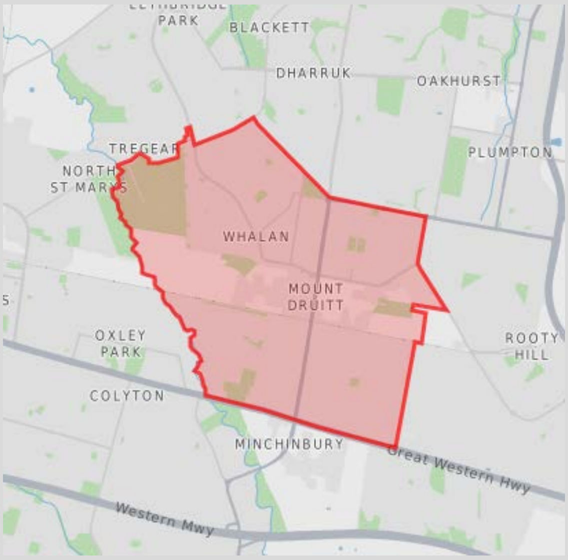
- The majority of the SA2's stock is low density dwellings, with detached and semi-detached comprising 66%% of the total occupied private dwelling stock. This is slightly lower than the share of this stock seen in the broader Sydney market (72%) and significantly smaller than the Blacktown LGA (94%). The share of low density has significantly decreased with a growth in apartments, which saw that stock increase from 20% in 2001 to 34% in 2011.
- 2 bedroom units constitute by far the largest share (86%) of the private apartment stock. A further 5% of all apartments consisting of just one bedroom.
- The shift to increased density housing in the SA2 clearly reflects the changing characteristics of the SA2's residents, which has been seen across a number of areas in Sydney, particularly those with good amenity and transport connections.



Source: JLL, ABS - 2011 Census

The Mount Druitt CBD falls within the Mount Druitt – Whalan (SA2) with the demographic profile provided below.

Mount Druitt – Whalan (SA2)	Description



Mount Druitt - Whalan Statistical Area Level 2 (SA2) is located approximately 37.8km West of the Sydney CBD. As of June 2014 the population of the Mount Druitt - Whalan SA2 was 23,100, which made up 7% of the Blacktown LGA. The Mount Druitt - Whalan SA2 had the same share in the total private dwelling stock at 7%.

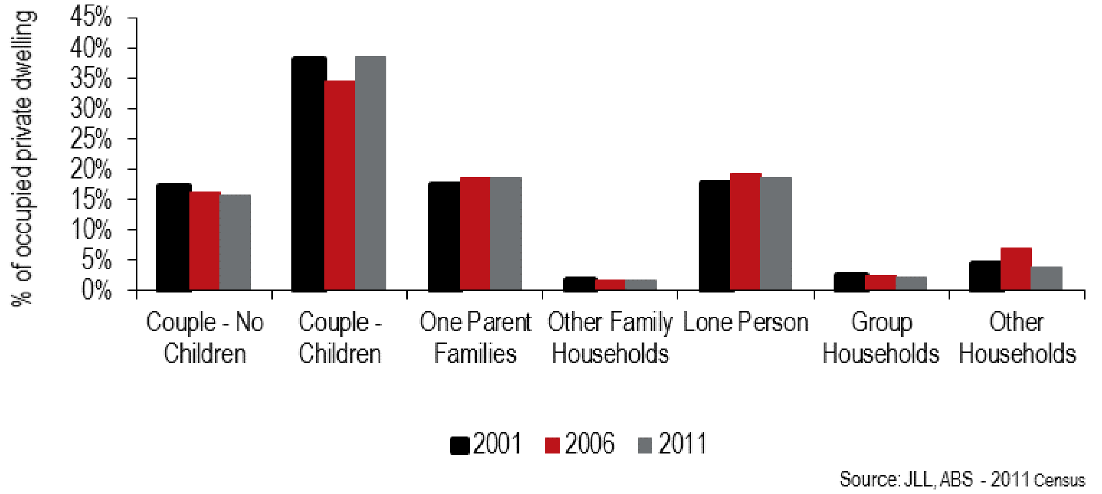
According to the NSW Department of Planning & Environment, the population of the Blacktown LGA, which incorporates the Mount Druitt - Whalan SA2, is forecast to reach 473,300 by 2031, reflecting an average annual growth rate of 2.1% per annum, this being greater than the growth rate of 1.6% per annum expected across the Greater Sydney metropolitan over this period.

Demographic	Mount Druitt - Whalan	Blacktown LGA	Greater Sydney
Population 2014 - ERP June 2014	23,113	332,424	4,840,628
Percentage change (2013-14)	0.4%	2.2%	1.8%
Annual % change (last five years)	1.4%	2.1%	1.5%
Population aged 14 years & younger (%)	26.0%	23.7%	19.1%
Population aged 65 years and older (%)	9.4%	8.2%	12.8%
Population forecast by 2031		473,300	5,861,850
Population growth per annum forecast to 2031		2.1%	1.6%
Median age	30	32	36
Unemployment rate % (June 2015)	14.0%	6.2%	5.2%
Median weekly personal income ($)	$396	$563	$617
Median weekly household income ($)	$973	$1,386	$1,444
Median number of people per household	3.1	3.1	2.7
Total occupied private dwellings	6,955	96,402	1,601,529
Dwellings rented (%)	47.4%	30.9%	32.6%

Source: Australian Bureau of Statistics (ABS), Australian Government Department of Employment, NSW Department of Planning

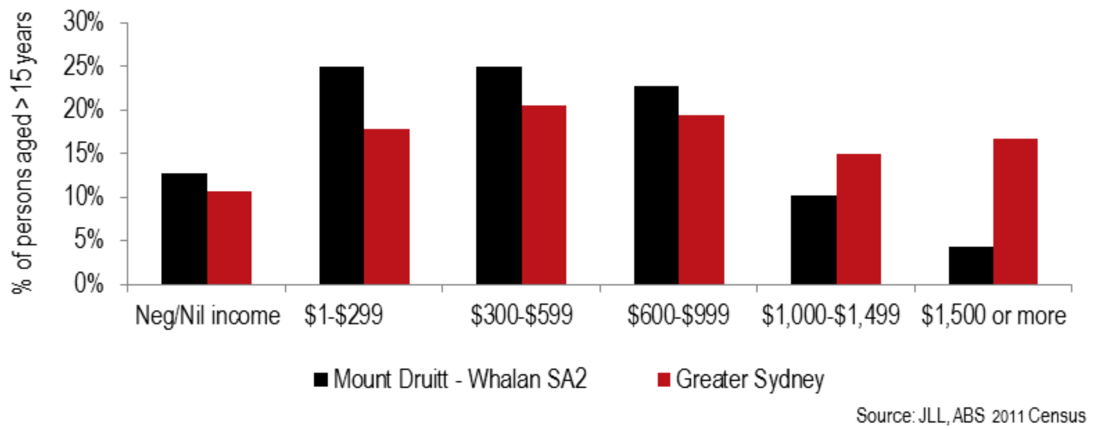
Household Type

- The SA2 is characterised by predominantly larger household types. Couple – Children households are the largest single group comprising 39% of all households, when combined with other larger househould types (One Parent and Other Family households), they make up approx. 59% of all household types, broadly in line with the Blacktown LGA (60%) and significantly greater than the Sydney region (47%).
- In terms of age the SA2's is generally aligned with the Blacktown LGA and broader Sydney, with under 35's in the SA2 equating to 56%, compared to the LGA (53%) and Sydney (48%).



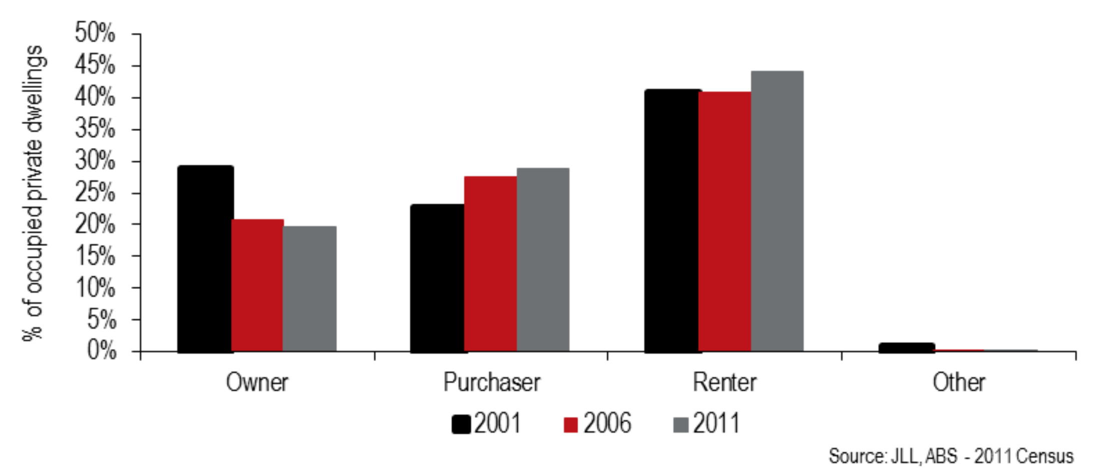
Weekly Personal Income

- The SA2's median weekly personal income of $396 is 36% below that of the Greater Sydney region. The SA2's median household income of $973, however, is approximately 33% below its Sydney metropolitan equivalent.
- Median personal and household incomes in the SA2 grew at an annualised rate of 2.6% and 3.4% between 2001 and 2011. This being lower than the annualised growth rate in personal and household incomes at the Greater Sydney level (3.4% and 3.8% respectively).
- Disaggregation of personal income by income band reveals that the SA2 has a quite a higher proportion of residents on all income bands compared with Greater Sydney, except in income bands of >$1,000 per week.



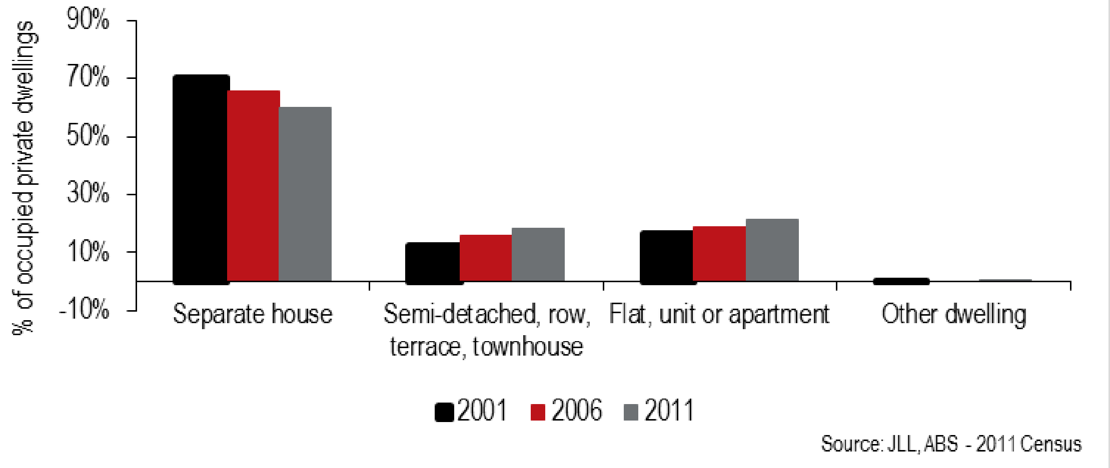
Housing Tenure

- The SA2's proportion of renters at 44%, is high compared to that across the Blacktown LGA and Greater Sydney, 29% and 30% respectively.
- The share of owner occupiers in the SA2 has fallen from 29% in 2001 to 20% in 2011. This has, however, been offset by an increase in the rate of home purchase which has risen to 29%.



Dwelling Structure

- The majority of the SA2's stock is low density dwellings, with detached and semi-detached comprising 78%% of the total occupied private dwelling stock. This is slightly higher than the share of this stock seen in the broader Sydney market (72%) and significantly smaller than the Blacktown LGA (94%). The share of low density has decreased with a commensurate growth in apartments, which saw that stock increase from 17% in 2001 to 22% in 2011.
- 2 bedroom units constitute by far the largest share (78%) of the private apartment stock. A further 7% of all apartments consisting of just one bedroom.
- The shift to increased density housing in the SA2 clearly reflects the changing characteristics of the SA2's residents, which has been seen across a number of areas in Sydney, particularly those with good amenity and transport connections.



A key observation from the above is the significant population growth which has been experienced and is expected to continue within the Blacktown LGA. The Blacktown LGA has experienced relatively strong growth over the past decade, averaging 6,400 residents per annum. Blacktown

LGA's population growth has consistently been higher than the average across Greater Sydney, averaging 2.1% per annum compared to 1.6% per annum for Greater Sydney. Over this time frame, Blacktown LGA has accounted for 9.1% of total metropolitan growth.

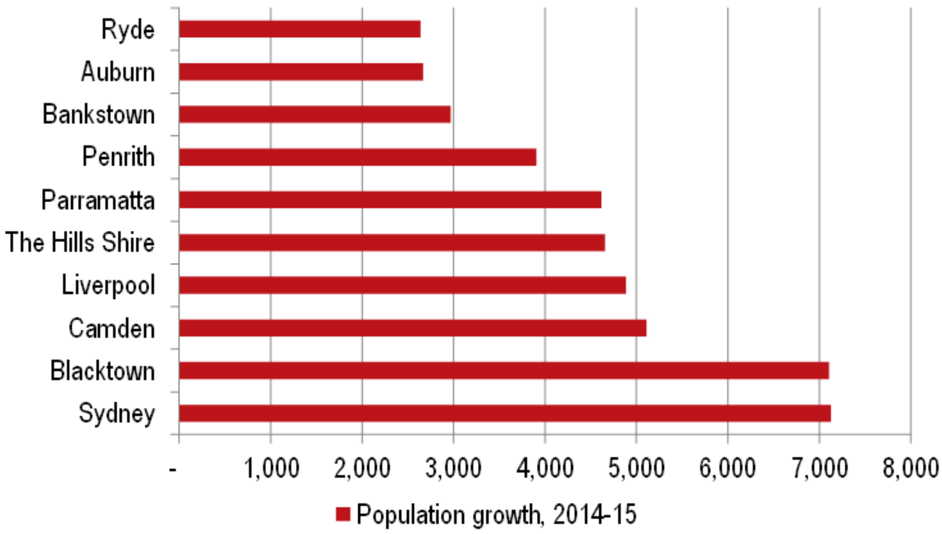
Table 4: Population Growth, Blacktown LGA vs Greater Sydney 2005-2015

	Blacktown LGA			Greater Sydney		
Year	Population	Change (number)	Change (%)	Population	Change (number)	Change (%)
2005	275,206			4,217,563		
2006	278,894	3,688	1.3%	4,256,161	38,598	0.9%
2007	284,925	6,031	2.2%	4,325,525	69,364	1.6%
2008	292,002	7,077	2.5%	4,409,562	84,037	1.9%
2009	299,450	7,448	2.6%	4,492,380	82,818	1.9%
2010	306,601	7,151	2.4%	4,555,516	63,136	1.4%
2011	312,346	5,745	1.9%	4,608,949	53,433	1.2%
2012	318,038	5,692	1.8%	4,676,118	67,169	1.5%
2013	325,046	7,008	2.2%	4,755,029	78,911	1.7%
2014	332,221	7,175	2.2%	4,837,661	82,632	1.7%
2015	339,328	7,107	2.1%	4,920,970	83,309	1.7%
Ave. growth p.a 2005-15		6,412	2.1%		70,341	1.6%

Source: Australian Bureau of Statistics (Cat 3218), JLL

Blacktown LGA has been the fastest growing LGA in New South Wales over the last decade. However, in the year to June 2015, it was matched by the City of Sydney LGA, which grew by an estimated 7,126 residents compared to Blacktown's growth of 7,107 residents. The figure below shows the 10 fastest growing LGAs in NSW for the most recent financial year (2014-15). All are within the Greater Sydney region, with Sydney and Blacktown well ahead of any other LGA.

Figure 4: Top 10 fastest growing LGAs, New South Wales 2014-2015



Source: Australian Bureau of Statistics (Cat 3218), JLL

As identified above, this high growth is expected to continue with the NSW Department of Planning and Environment forecasting average annual growth of 2.1% to 2031, higher than the 1.6% per annum expected across the Greater Sydney metropolitan over this period.

6.2 Implications for Blacktown and Mount Druitt CBDs

The key implication of the above is the existing and expected future significant population growth within the Blacktown LGA. The Blacktown LGA has been the fasted growing LGA in New South Wales over the last decade and is expected to continue as one of the fastest growing LGAs. This significant population growth will have significant implications to growing demand for retail, support office (discussed further in this report) and residential. It is unknown, how much of this demand will be focussed specifically within the Blacktown and Mount Druitt CBDs. Our view is that to the degree that planning and feasibility permits greater level of development than has historically occurred, a good proportion of this demand should exist within these centres, particularly as Sydney begins to accept a greater level of density (discussed further in this report).

7 Residential Market in Context

The objective of this section is to provide guidance to the opportunity and challenges associated to the residential asset class within the Blacktown and Mount Druitt CBDs. Ultimately, this section looks at providing; an insight into the broader Sydney, as well as specific Blacktown residential markets; the opportunities and challenges associated to the CBDs, and finally provide an assessment of a reasonable prediction of take-up for residential product.

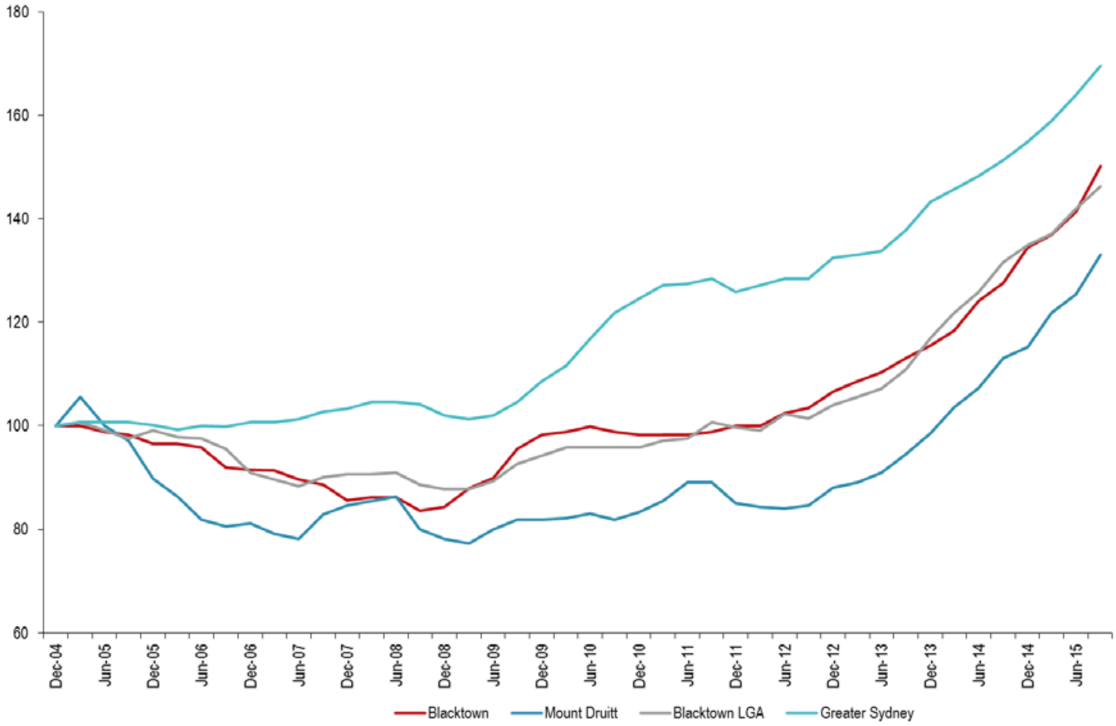
7.1 Sydney Residential Market Overview

The Sydney residential market is deep into the eleventh hour of a housing upturn with in recent times; significant capital growth being experienced, as well as, unprecedented sale rates particularly for new product. Our view is that during this time of substantial growth and demand the misconception arises that demand will continue in its current form unabated. As such, this section has at times reference to metrics and data points that articulate the historic Sydney residential market cycles which we are able to draw some conclusions from as it relates to future demand.

Historic Pricing Context

In order to showcase the significant growth described above, we have graphed in the figures below showing the median unit and house value growth (based to 100 at Q4 2004). While the suburbs of Blacktown and Mount Druitt, as well as the broader Blacktown LGA, have experienced growth over the past ten years in unit values this growth has fallen significantly short when compared with the growth experienced across the Greater Sydney region.

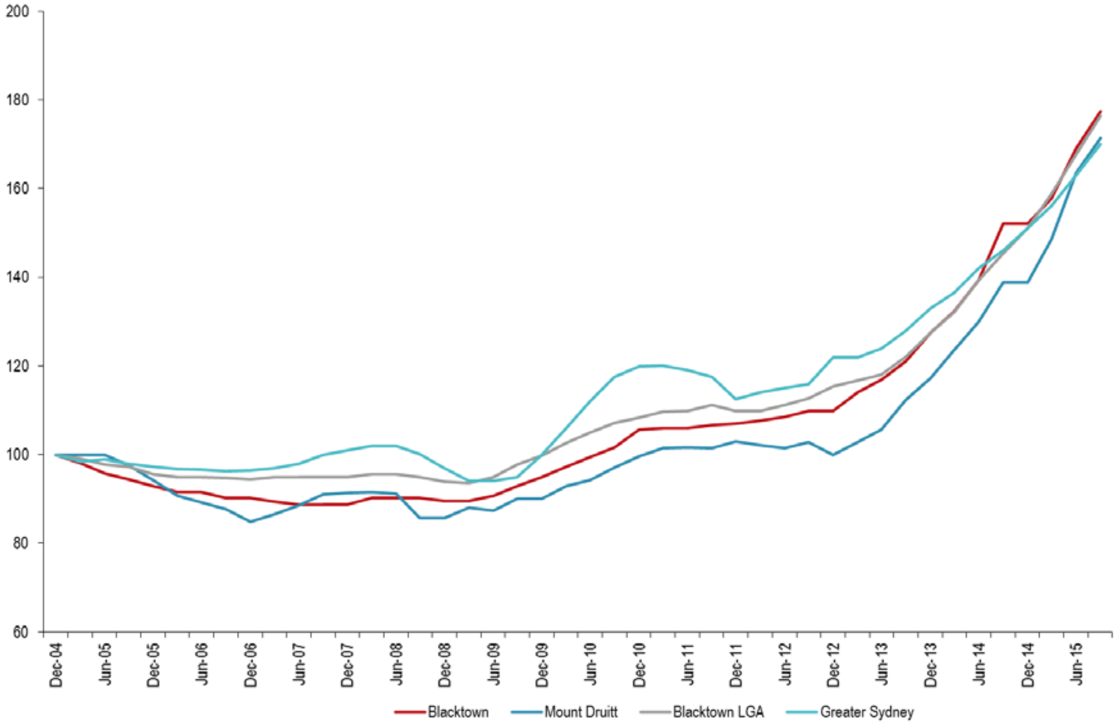
Figure 5: Median Unit Value Growth (Based to 100), Q4 2004 to Q3 2015



Source: JLL and CoreLogic

When comparing the unit growth to the house growth quite a different story is revealed. The growth of these suburbs, the broader LGA and the Greater Sydney area have generally aligned throughout the ten year period. This shows that while the growth (based) experienced within unit and housing in the Greater Sydney market were on par, there was significant growth premium (or discount) when comparing house and unit growth in the Blacktown, Mount Druitt suburbs and broader LGA.

Figure 6: Median House Value Growth (Based to 100), Q4 2004 to Q3 2015

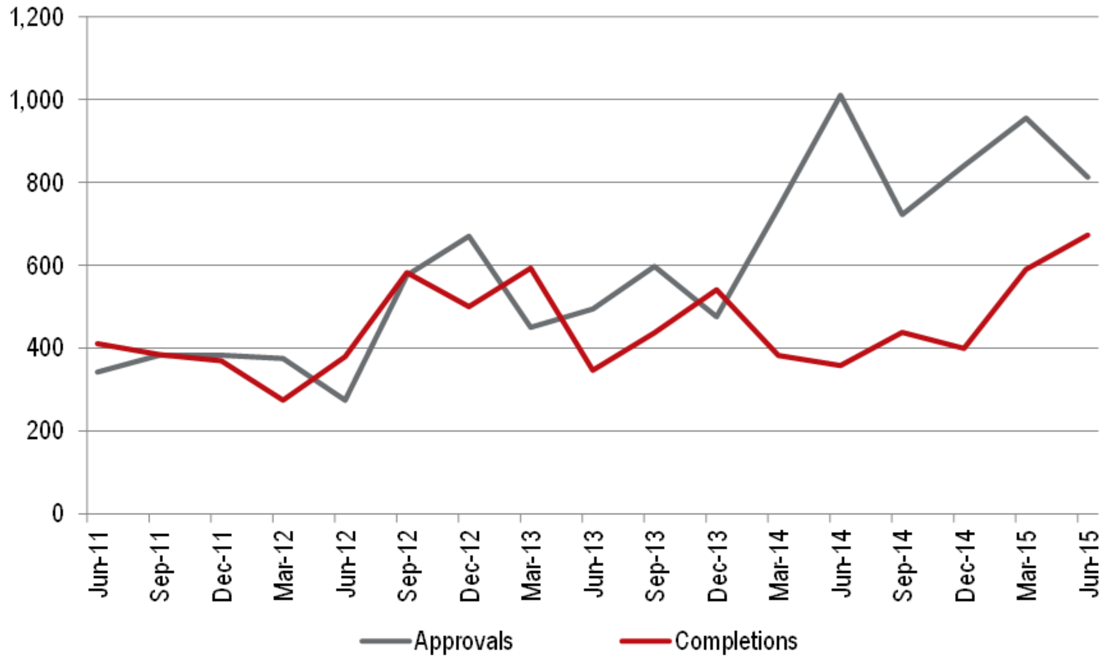


Source: JLL Strategic Consulting and CoreLogic

Supply Side Analysis

In order to have an understanding of the supply within the Blacktown LGA we have had reference to the NSW Government's Metropolitan Development Program (MDP). The MDP monitors approvals and completions for each LGA across the Greater Sydney region. The figure below illustrates the trend in approvals and completions over the last five financial years. There has been very strong growth in approvals over the last three financial years, reaching 3,329 dwellings in 2014-15 (up 18% on the previous year) while completions rose by 22% in 2014-15.

Figure 7: Dwelling approvals and completions, Blacktown LGA



Source: JLL Strategic Consulting, NSW Government, Metropolitan Development Plan

The following broad trends are noted:

- Completions have been reasonably consistent over the last four years averaging between 1,575 and 1,917 per annum;
- Approvals have trended higher over the last four years, peaking in June 2014;
- This suggests a likely increase in completions in the year ahead.

In undertaking previous analysis for Blacktown City Council, we were provided with recent dwelling approvals data in order to provide a more up-to-date assessment of the level of residential supply coming onto the local market. In the 2014-15 Financial Year, there was:

- 2,026 dwellings that received planning approval;
- 1,205 lots created through subdivision approvals;
- 1,392 dwellings receiving building approval.

The residential market comprised the following planning approvals.

Table 5: Type of residential approvals, 2014-15 financial year, Blacktown LGA

Type of Dwelling	Number	Percentage
Aged care units	104	5.1%
Attached dwellings	-	0.0%
Dual occupancy dwellings	142	7.0%
Dwellings	99	4.9%
Integrated housing	233	11.5%
Medium density housing	494	24.4%
Multiple dwelling housing		0.0%
Residential flat buildings	930	45.9%
Semi-detached dwellings	10	0.5%
Other	14	0.7%
Total	2,026	100.0%

Source: JLL Strategic Consulting, Blacktown City Council

Demand Side Analysis

A major factor that has, and will likely continue to influence demand within the Sydney residential market is the shift to density which we have been experiencing.

Compared with many other cities around the world, Sydney has, in fact, a relatively low housing density. However, over the past decade, there appears to have been a structural change in buyer preferences, particularly amongst younger cohorts. With many buyers appearing willing to trade space for the convenience of living in areas closer to, or with better transport links to, Sydney CBD. The higher land prices associated with these locations, of course, necessitate higher housing densities. This trend is evident in building approvals data for Sydney (seen in the below figure) with over 60% of approvals since 2010 being associated to attached dwellings.

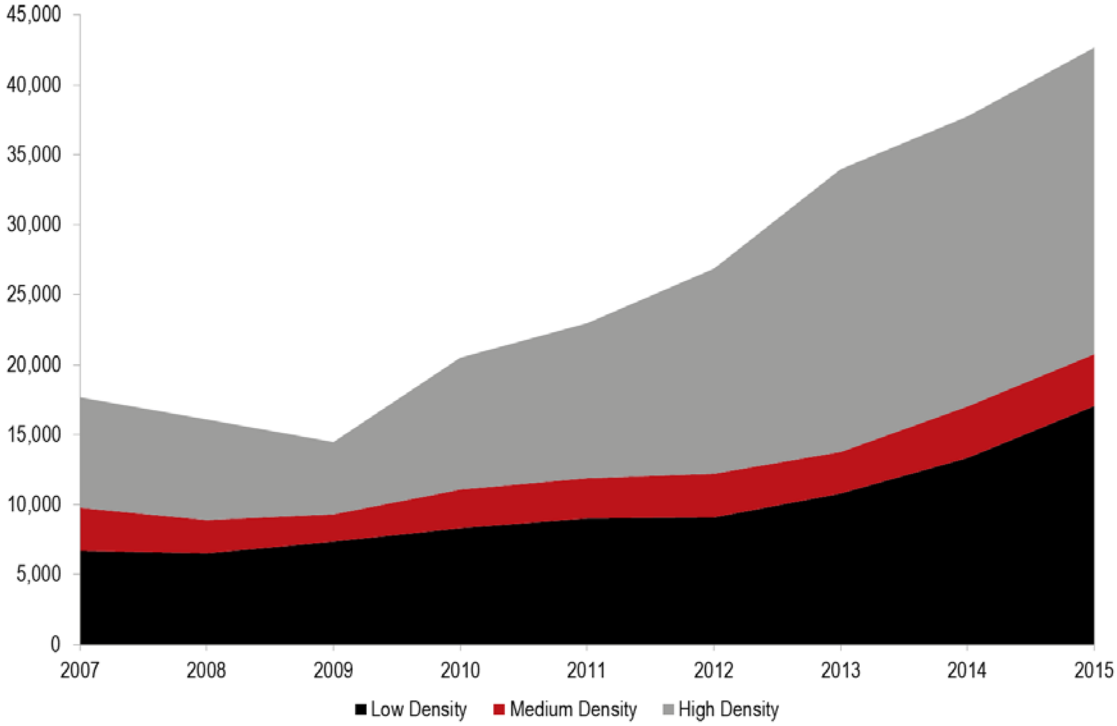
However, higher residential densities are unlikely to be confined solely to inner city locations. The Priority Precincts announced by the State Government in early 2013 aim to deliver higher density housing in highly accessible suburbs. These include Epping, North Ryde and Wentworth Point, allowing housing supply to increase in areas with close proximity to infrastructure, transport, services and jobs.

Higher residential densities are also proposed for suitable development sites located both within and on the periphery of the CBDs of regional cities such as Parramatta, Liverpool and Penrith.

A more recent trend is the inclusion of higher density housing in master plan communities. These are often located in outer Sydney in areas dominated by detached dwellings. Whilst apartments make up a relatively small proportion of the proposed housing in these schemes, they are seen as a way of both attracting investors and addressing the affordability issue facing many owner occupiers owing to their lower price points.

Indeed, in view of the challenges surrounding both housing supply and affordability in Sydney, it would appear that the trend of living in higher density housing will continue in the future. The majority will be located close to public transport, infrastructure and employment hubs.

Figure 8: Number of Sydney Private Sector Dwelling Approvals



Source: Australian Bureau of Statistics (only includes private sector new dwelling approvals)

7.2 Opportunities and Challenges

In order to understand the opportunities and challenges within the Blacktown and Mount Druitt CBDs we have attempted to gain an appreciation to the level of demand for residential of each. Key to understanding the demand for residential within a precinct is the ability of that precinct to meet the requirements of a residential population.

Mechanism to Asses Opportunities and Challenges

The below table utilises the Urban Development Institute of Australia's (UDIA) "Building Up" report. This report included a Centre's HealthCheck which contained a number of performance criteria which locations can be measured against. Each performance criteria has been given a value (10, 5 and 0) to enable a "health" score to be given. The table below provides details on each criterion and their values; we have had consideration to these criteria in performing our assessment.

Table 6: Centre's Health Check Criteria (UDIA)

Transport/Access	10	5	0
Train Station/Tram Stop	Major interchange with regular service.	Non-major station but with regular service	No station or station with no regular service
Bus	Bus interchange with regular service	Regular bus service	Little or no service
Major Roads	Access to motorway or toll road within 1km	Close to major arterial roads within 1-2kms	More than 2kms to arterial road
Car parking	On-street and multi-level council car parking	On-street plus major shopping centre parking	Only on-street parking or no parking opportunities.
Land Use	**10**	**5**	**0**
Housing Diversity	More than three types of housing	Only two types of housing	One predominant type of housing

Access to Employment	High – within town centre	Medium – no more than 1km from town centre	Low – further than 1km from town centre
Current Density	Medium to high density population – over 30 dwellings per hectare	Medium density – up to 30 dwellings per hectare	Low density – up to 15 dwellings per hectare
Land Use Diversity	Good mix of residential, commercial, retail and civic	Predominance of only two uses or activities	Predominance of only one use or activity
Urban Amenity	10	5	0
Community Infrastructure	High	Medium	Low
Safety	Very safe – natural surveillance through constant activity during and after usual business hours	Safe – natural surveillance through constant activity during business hours	Unsafe – little activity and natural surveillance
Retail Offering	High – shopping centre within 1km or vibrant and active main street (minimal vacancies)	Medium – Active main street with less than 10% vacancy	Low – Main street with more than 10% vacancy
Open Space	High – up to 25% of town centre land use	Sufficient - less than 20% of town centre land use	No open space in the centre
Walkability and Connectivity	High	Medium	Low
Public Domain	High quality – highly utilised and accessible	Good quality – good access and utilisation	Poor quality – under utilised
Renewal Potential	10	5	0
Infrastructure Contributions	Less than $5,000	Between $5,000 to $15,000	More than $15,000+
Proactive Controls	Flexible planning controls	Marginally flexible planning controls	Inflexible planning controls
Large Land Holdings	High availability – over 50% of the town centre	Medium availability – up to 50% of the town centre	Little to no availability – up to 25% of the town centre
Land Values	Low	Medium	High

Source: UDIA BuildingUp report

Assessment of Blacktown and Mount Druitt CBDs

In arriving to our assessment of Blacktown and Mount Druitt CBDs we have utilised the UDIA Centre's Health check above, providing an assessment of each key component below. We have utilised a scale of "Above Average", "Average" and "Below Average" which aligns to the table above.

Table 7: Residential Assessment of Blacktown and Mount Druitt CBDs

Characteristic	Blacktown CBD	Mount Druitt CBD
Transport/Access		
Train Station/Tram Stop	Above Average	Average
Bus	Above Average	Average
Major Roads	Above Average	Above Average
Car parking	Average	Above Average
Land Use		
Housing Diversity	Average	Average
Access to Employment	Average	Below Average
Current Density	Average	Below Average
Land Use Diversity	Above Average	Average
Urban Amenity		

Community Infrastructure	Average	Average
Safety	Average	Below Average
Retail Offering	Above Average	Above Average
Open Space	Average	Average
Walkability and Connectivity	Average	Below Average
Public Domain	Average	Below Average
Renewal Potential		
Infrastructure Contributions	Average	Above Average
Proactive Controls	Average	Average
Large Land Holdings	Below Average	Average
Land Values	Average	Above Average

Source: UDIA BuildingUp report, JLL Strategic Consulting

The table above highlights the existing demand within the Blacktown and Mount Druitt CBDs for residential. We note the above provides only a guide, especially as we consider through redevelopments some of these criteria are met and/or improved e.g. housing diversity and current density, which can have impacts on other criteria.

7.3 Historic Dwelling Take-up

As outlined above, we are of the view that when forecasting take-up for dwellings over a long term period reference should be made to longer term benchmarks. These account for shifts in the market cycle that occur over the long term. JLL have searched and obtained a public data series from the NSW Department of Planning & Environment for historic dwelling take-up for a number of suburbs across metropolitan Sydney. The below table identifies average annual take-up for dwellings in a selection of Western Sydney suburbs for a 10 year period (unless otherwise stated). We have utilised these within our assessment of dwelling take-up.

Table 8: Average Annual Take-up of Dwellings for a Selection of Western Sydney Suburbs

Location (State Suburb)	Local Government Area	Average Annual Take-up (10 years)
Sydney Olympic Park (* 4 years)	Auburn	379
The Ponds	Blacktown	344
Parramatta	Parramatta	258
Kellyville	The Hills Shire	215
Kellyville Ridge	Blacktown	184
Wentworth Point	Auburn	171
Pemulwuy	Holroyd	157
Ropes Crossing	Blacktown	152
Castle Hill	The Hills Shire	139
Blacktown	*Blacktown*	*137*
Lidcombe	Auburn	126
Stanhope Gardens	Blacktown	120
Homebush West	Strathfield	114
Bankstown	Bankstown	114
Llandilo	Penrith	97
Westmead	Parramatta	91

Guildford	Parramatta	90
Northmead	Parramatta	80
Auburn	Auburn	73
Mount Druitt	*Blacktown*	*71*
Mulgoa	Penrith	71
St Marys	Penrith	65
Cranebrook	Penrith	65
Baulkham Hills	The Hills Shire	65
Doonside	Blacktown	62

Source: JLL Strategic Consulting, NSW Department of Planning and Environment

7.4 Assessment of Blacktown and Mount Druitt CBDs

In order to provide our assessment of these CBDs we have had consideration to a number of factors, these factors included:

- The historic take-up of rates of residential within a selection of Western Sydney suburbs (including Blacktown 137 & Mount Druitt 71) as seen in the table above;
- The demand factors which dictate the opportunities and challenges, as identified above; and,
- The changing landscape which may impact these CBDs into the future.

Blacktown CBD

In deriving our assessment of take-up for Blacktown CBD, we firstly had consideration to the average annual take-up of residential within the Blacktown suburb, being 137. We have made the observation that over this period development has predominantly focused on the land immediately north of the CBD. Utilising this assumption we were then able to derive a rate of take-up for the existing B4 Mixed Use zoned land[2], which we then have adjusted due to future considerations, including, the greater acceptance of density, particularly surrounding transport nodes. Therefore, we have assessed a take-up rate of 216 per annum. The table below, utilising our assessed take-up rate, provides our indicative assessment of the additional dwellings to 2031.

Table 9: Forecasted Dwellings within Blacktown CBD – Existing B4 Mixed Use

Blacktown CBD	2021	2026	2031
Net addition (to Year)	1,078	2,156	3,234

Source: JLL Strategic Consulting

We have also provided an assessment of the additional dwellings which may be provided if all B3 Commercial Core zoned land[3] was rezoned to B4 Mixed Use. This assessment can be seen in the table below.

Table 10: Forecasted Dwellings within Blacktown CBD – Rezoned from B3 Commercial Core

Blacktown CBD	2021	2026	2031
Net addition (to Year)	569	1,138	1,706

Source: JLL Strategic Consulting

[2] Excluding the police station and surrounding lots (assuming a redevelopment and relocation of this site would not solely be driven off a financial outcome), as well as a portion of Westpoint (as we are of the view too much value currently exists in the improvements to develop).
[3] Excluding the RSL (based on discussion with Council), Railcorp (the same rationale as the police station) and a portion of Westpoint (same reasoning as above).

However, we note if the rezoning of the B3 Commercial Core did occur competition between the two locations would reasonably exist. As such, we have adjusted our forecast to reflect this competition. This adjusted forecast can be seen in the table below.

Table 11: Forecasted Dwellings within Blacktown CBD – Existing and Land Rezoned

Blacktown CBD	2021	2026	2031
Net addition (to Year)	1,317	2,635	3,952

Source: JLL Strategic Consulting

Mount Druitt CBD

There is significant difficulties in deriving an assessment for the potential growth within the Mount Druitt CBD. The primary reasons are that;

- Development activity has historically been limited;
- This limited activity has also not focussed predominantly on specific areas; and,
- Significant future growth is expected outside of our study area (to the South of the railway line).

The current known supply within the CBD also acts as a hindrance to assessing potential growth. Currently supply (approved and submitted) within the CBD equates to 822 dwellings, however, this is only in three sites with just over 60% of the supply within a single planning proposal, which is yet to be determined. As such, significant risk exists in terms of potential supply.

Beyond the above supply, going forward we see the Mount Druitt CBD market struggling to find appropriate sites to develop. This is as the existing B4 Mixed Use zoned land is constrained in many cases by value in existing improvements/use, which may include; Luxford Court, Aldi, McDonalds, Red Rooster, or by the value viewed by the community in the current operations, which may include; RMS, the Police Station and the Community Health Centre.

This value attributed by the community is also the case for the B3 Commercial Core zoned land which includes; the Town Square, the Public Pool, the Mount Druitt Hub and the Court House. As well, as the value that currently exists in the largest B3 Commercial Core zoned land being the Mount Druitt Westfield.

The combination of the above provides significant difficulty in assessing the potential growth within the CBD. However, we are of the view that having consideration to some of these factors, in addition to the constraints identified within **Section 7.2**, makes it likely that residential redevelopment opportunity within the Mount Druitt CBD is challenged, at least we envision for the short to medium term.

While we note that significant redevelopment is currently occurring in both CBDs, this is not without risk. This is as potential exists that developments are progressed through the planning stage and stall if/when economic conditions deteriorate – which has been seen previously in both of these locations.

8 Office Market in Context

The objective of this section is to provide both a background into the Sydney office markets, particularly the relationship between the CBD and suburban markets, and to understand the current and future drivers of office. In addition JLL will define and discuss the nature of 'support' office uses. This background understanding will then assist the more focused analysis and assessment of the Blacktown and Mount Druitt CBDs.

8.1 Office Market Definition

Office uses broadly fit into three category types, these are:

1. **Investment grade office assets**. These are generally defined as large floor plate office buildings within 'defined' office precincts. Within Sydney these include Sydney CBD, Macquarie Park and Parramatta, as well as others identified within this report. While the Blacktown CBD has some assets that broadly fits into this category we are aware that the majority of the A-REITS, which own the majority of investment grade assets, would consider Blacktown outside their investment profile.
2. **Support office uses**. These uses generally provide localised services to the community and share some characteristics to retail uses. They often benefit from access to the public and therefore car parking and exposure are important considerations. Examples include real estate agents and local solicitors' offices.
3. **Office uses that support another primary land use** e.g. a small amount of office within an industrial facility or medical facility. This is not considered in significant detail in this report as the nature of this type of product is generally found outside the CBD. Note, for the purposes of definition we have assumed the small amount of office that supports retail uses within the 'support office uses' above.

Our observation of the opportunity for office uses in the Blacktown and Mount Druitt CBDs generally fall into the second category. The Blacktown CBD has some potential for more of the first category, albeit, this has more risk associated to it and is in the longer term.

8.2 Overview of Investment Grade Sydney Office Markets

The Sydney office markets monitored by JLL comprise just over 9.615 million sqm of office space, 53% of which is located in the Sydney CBD market, and 47% located in the 9 major metropolitan office markets. The Blacktown CBD, although having some assets which could be considered investment grade, is not an investment grade market and as such is not tracked by most property research groups, including JLL. The Sydney metropolitan markets monitored by JLL include the following:

- Sydney Fringe
- North Sydney
- Chatswood
- St Leonards
- Norwest
- Sydney Olympic Park/Rhodes
- Sydney South
- Macquarie Park (including North Ryde)
- Parramatta

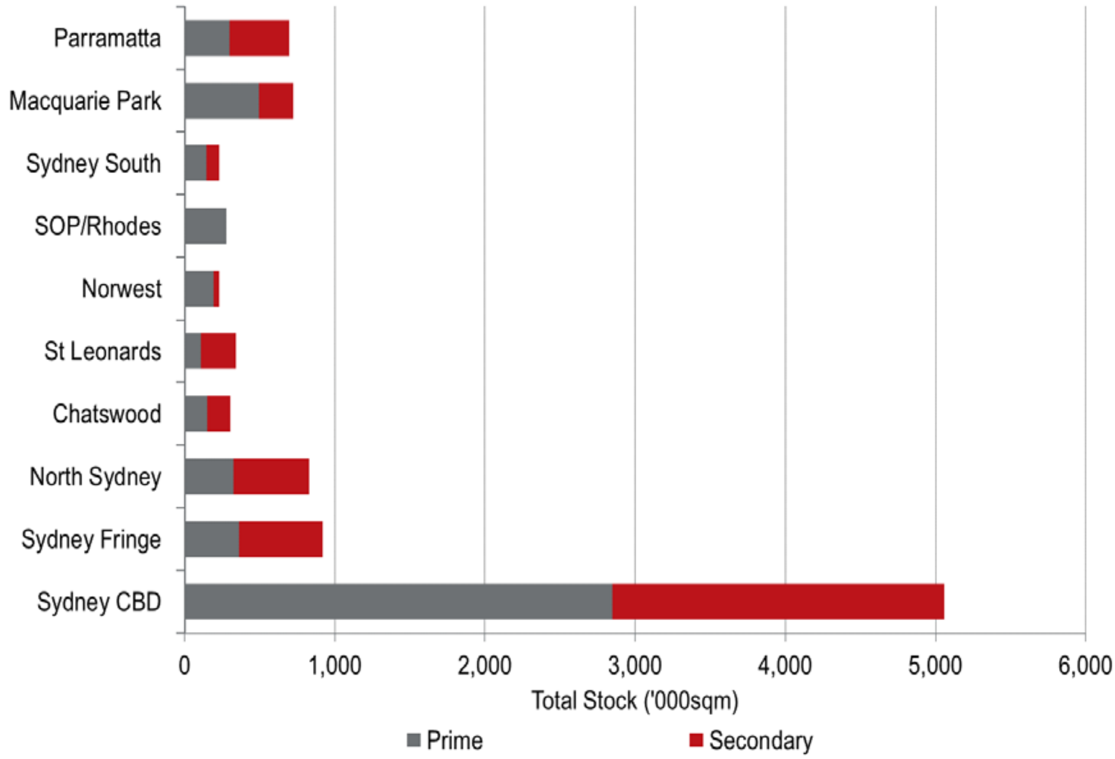
The metropolitan markets comprise a mix of fringe CBD locations, major suburban CBDs such as Parramatta and Chatswood, inner suburban locations and business parks. Each of these locations has quite different characteristics that may attract different occupiers.

- The Sydney Fringe office market adjoins the CBD market and provides a viable near city alternative to the CBD. Typically, occupancy costs are lower (both rents and parking costs) and car parking provision is higher. The Fringe locations suit companies that desire an affordable, central location with better access to low cost parking for both workers and customers.
- Suburban CBDs include Parramatta, North Sydney and Chatswood. Some of these markets have attracted a large government workforce (e.g. Parramatta) with state government in particular decentralising some of their services to these locations. The markets generally have reasonable access to public transport and a good mix of support services. Rents are significantly lower than the CBD market.
- Business parks are typically lower density office locations providing modern, affordable accommodation with plentiful parking for workers and customers. Low rise buildings with large floor plates are common, providing greater flexibility and efficiency. Examples in Sydney include Norwest and Sydney Olympic Park.
- Other inner suburban locations are often an extension of fringe markets and have attracted office accommodation due largely to their relatively central location and good access to transport e.g. St. Leonards/Crow Nest. These markets have often been attracted to their proximity to higher socio-economic residential areas which are where a high proportion of the employees reside.

Supply and Demand

As at Q4/2015, the total stock across the 9 monitored metropolitan markets was 4.555 million sqm. The Sydney largest metropolitan market is the Sydney Fringe and it comprises 0. 919 million sqm of stock and accounts for 9.6% of the total Sydney metropolitan market.

Figure 9: Prime and Secondary Grade Stock by Metropolitan Market, Q4/2015



Source: JLL Research

Table 12: Sydney Office Market Profile, Q4/2015

	Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Markets			

Sydney CBD	5,060	56.3%	43.7%
Metropolitan Markets[4]			
Sydney Fringe	919	39.6%	60.4%
North Sydney	829	39.5%	60.5%
Chatswood	304	48.9%	51.1%
St Leonards	342	32.0%	68.0%
Norwest	230	84.5%	15.5%
SOP/Rhodes	279	100.0%	0.0%
Sydney South	231	62.1%	37.9%
Macquarie Park	723	68.6%	31.4%
Parramatta	696	42.6%	57.4%
Sydney Metropolitan Markets	4,556	51.8%	48.2%

Source: JLL Research

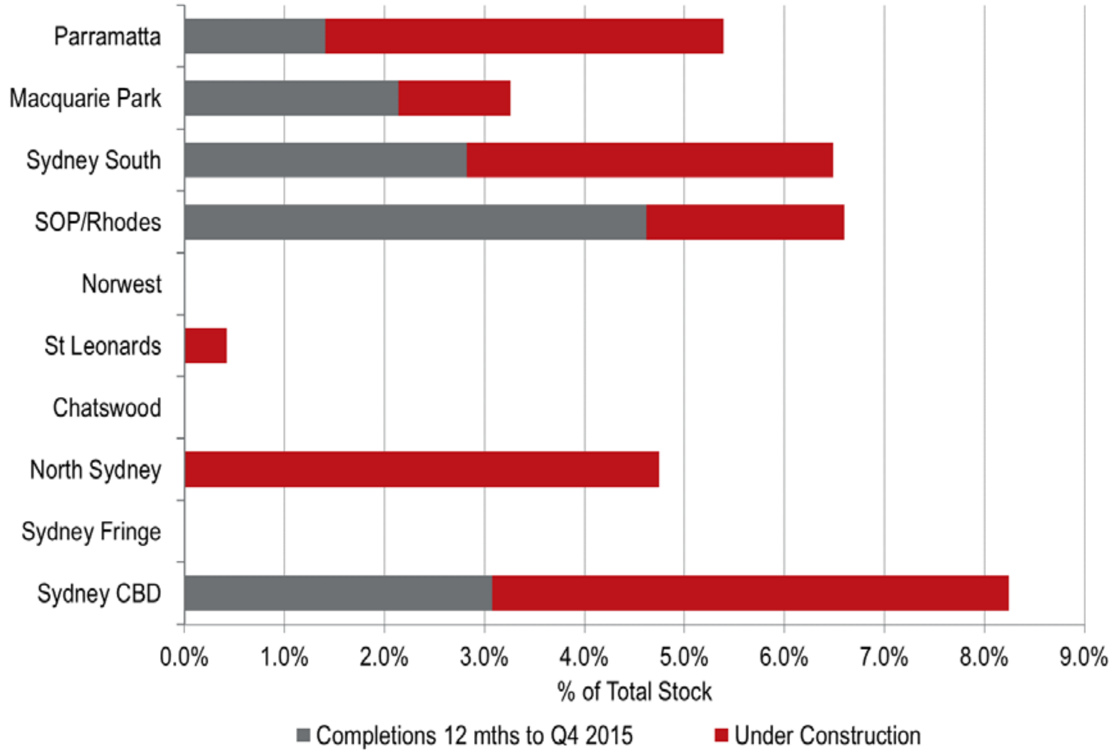
The Sydney leasing market has been buoyant across both the overall metropolitan market and the CBD market, with a net absorption in occupied stock in the 12 months to Q4 2015. While the Sydney metropolitan markets overall expanded by 61,087sqm, there was some considerable divergence between the best performing and worst performing, with the largest expansion coming from the Sydney Fringe (26,236sqm) and the largest contraction coming from North Sydney (17,030sqm). The level of expansion, however, was considerably less than the CBD market, which during the same period grew by 144,777sqm of occupied space.

New supply in the 12 months to Q4 2015 totalled 44,719sqm across the 9 metropolitan office markets, equivalent to just 1.0% of existing stock in this market. Of the 9 markets, 5 recorded no new supply with Macquarie Park, Sydney Olympic Park, Sydney South and Parramatta being the only contributors. The stand out of these, having consideration to size, being Sydney Olympic Park which contributed 12,900sqm equating to 4.6% of existing stock. During this same period the CBD saw supply of 155,794sqm, equivalent to 3.0% of existing stock.

Projects currently under construction across the Sydney metropolitan markets as at Q4/2015 totalled 90,667sqm, equivalent to 2.0% of existing stock. This is a relatively low level of construction activity when compared to CBD market, where 261,338sqm, equivalent to 3.8% of CBD stock, was under construction. Most of the metropolitan projects under construction are attributed to the North Sydney and Parramatta markets, which together account for 74% of the total construction across the metropolitan office markets.

[4] Only Prime Grade office stock is monitored at Sydney Olympic Park / Rhodes

Figure 10: Recent Construction Activity as % of Total Stock, Q4 2015



Source: JLL Research

Table 13: Sydney Office Market Profile, Stock, Supply and Net Absorption, Q4 2015

	Net Lettable Area	Net Absorption 12 mths to Q4 2015	Completions 12 mths to Q4 2015	Completions 12 mths to Q4 2015	Under Construction	Under Construction
	'000 sqm	'000 sqm	'000 sqm	% of NLA	'000 sqm	% of NLA
CBD Markets						
Sydney CBD	5,060	144.8	155.8	3.1%	261.3	5.2%
Metropolitan markets						
Sydney Fringe	919	26.2	0.0	0.0%	0.0	0.0%
North Sydney	829	-17.0	0.0	0.0%	39.4	4.8%
Chatswood	304	-10.0	0.0	0.0%	0.0	0.0%
St Leonards	342	3.2	0.0	0.0%	1.4	0.4%
Norwest	230	3.2	0.0	0.0%	0.0	0.0%
SOP/Rhodes	279	17.4	12.9	4.6%	5.5	2.0%
Sydney South	231	6.0	6.5	2.8%	8.5	3.7%
Macquarie Park	723	21.9	15.5	2.1%	8.1	1.1%
Parramatta	696	10.1	9.8	1.4%	27.8	4.0%
Sydney Metropolitan Markets	4,556	61.1	44.7	1.0%	90.7	2.0%

Source: JLL Research

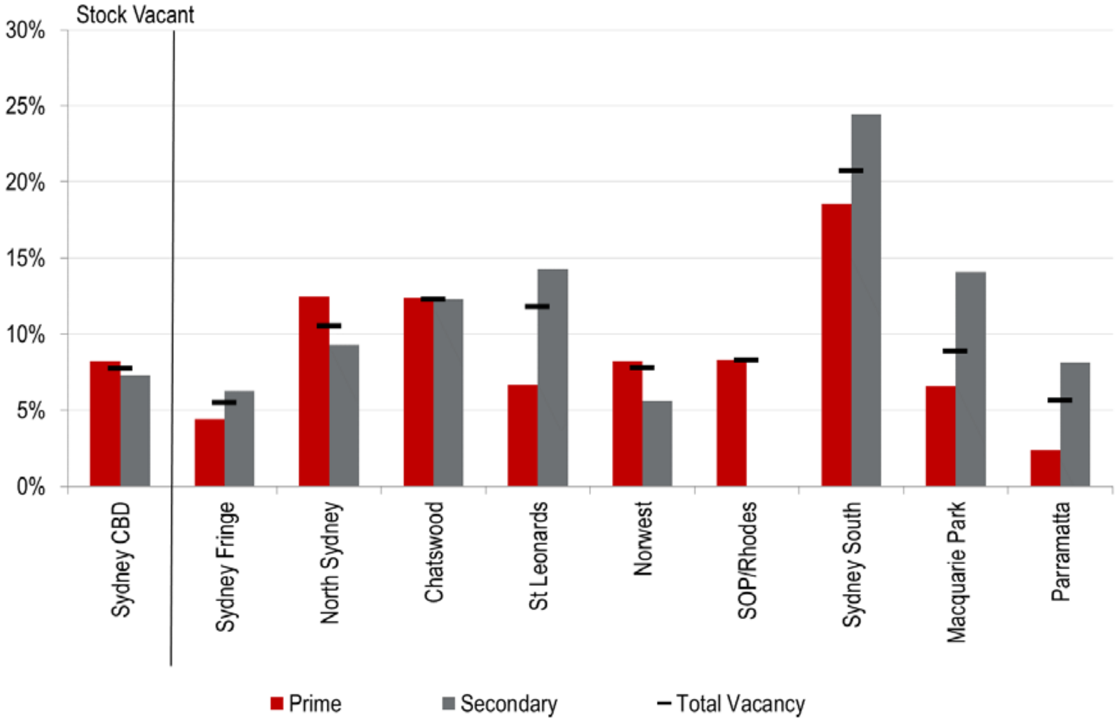
Vacancy

As at Quarter 4 2015, the average prime grade vacancy rate in metropolitan markets was 8.0% compared to 8.2% for the Sydney CBD market. Total vacancy was 9.0% while total vacancy for the CBD market was 7.8%%. The Sydney Fringe currently has the lowest overall vacancy rate of 5.5%, however, Parramatta has the lowest vacancy prime grade vacancy of any market at just 2.4%.

Historically the metropolitan and CBD market has typically had higher vacancy rates in secondary stock, however, more recently this has shifted with an almost even split between the markets. Three of the nine metropolitan markets (North Sydney, Chatswood and Norwest), along with the CBD, recorded a higher prime-grade vacancy than secondary-grade vacancy.

The relatively small South Sydney market has the highest vacancy rate of all monitored markets (20.8%) and the highest for both prime and secondary grade vacancy rates, 18.6% and 24.4% consecutively. Surprisingly, despite this vacancy level there had been an increase of 6,535sqm in the 12 months to Q4/2015, with additional stock of 8,465sqm currently under construction representing 3.7% of NLA, which will likely result in a continued increase to the vacancy rate in the next 12-24 months.

Figure 11: Prime and Secondary Vacancy Rates, Q4/2015



Source: JLL Research

Centre specific vacancy is provided in the following table.

Table 14: Australian Office Market Profile Vacancy, Q2/2015

	Vacancy	Prime Grade Vacancy	Secondary Grade Vacancy
	% NLA	% NLA	% NLA
CBD Markets			
Sydney CBD	7.8%	8.2%	7.3%
Metropolitan Markets			
Sydney Fringe	5.5%	4.4%	6.3%
North Sydney	10.5%	12.5%	9.3%
Chatswood	12.3%	12.4%	12.3%
St Leonards	11.8%	6.6%	14.3%
Norwest	7.8%	8.2%	5.6%
SOP/Rhodes	8.3%	8.3%	n.a.
Sydney South	20.8%	18.6%	24.4%
Macquarie Park	8.9%	6.6%	14.1%
Parramatta	5.7%	2.4%	8.1%

Sydney Metropolitan Markets	9.0%	8.0%	10.1%

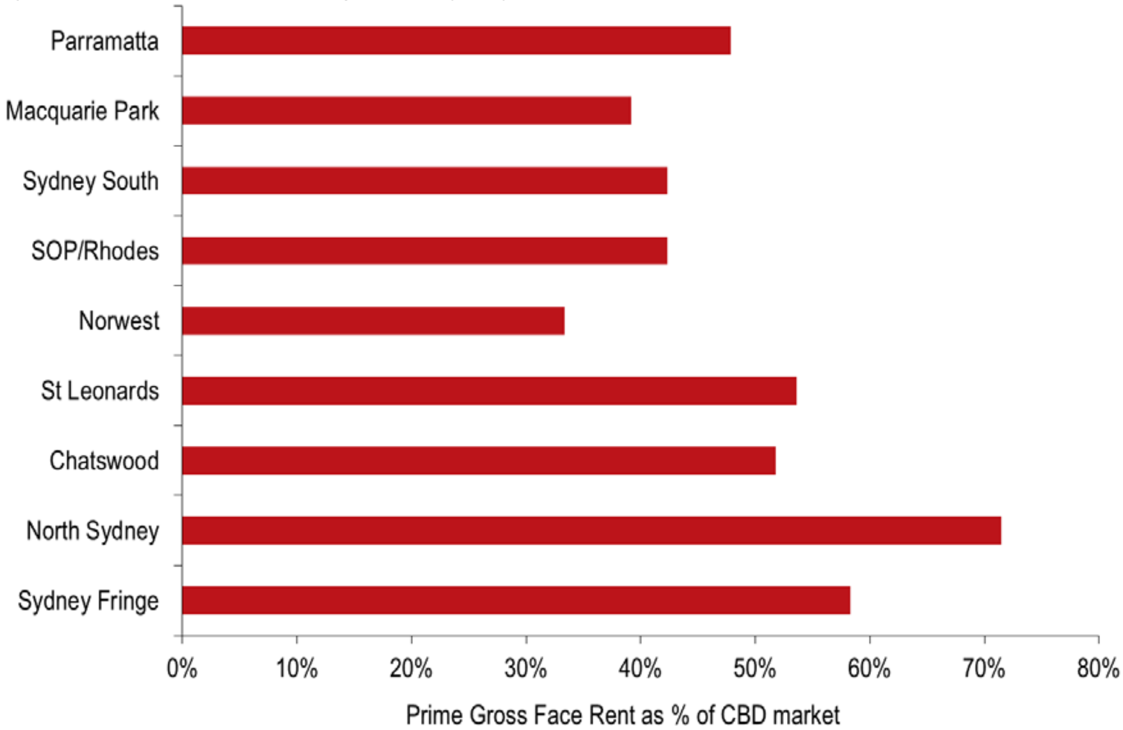
Source: JLL Research

Rental Market

Metropolitan markets are more affordable than the CBD market. Affordability is one of the key drivers attracting occupiers to metropolitan markets.

Prime gross face rents in Sydney metropolitan markets range from an average 33.4% of Sydney CBD rents in Norwest Business Park to 53.6% of CBD rents in St Leonards, with other metropolitan markets in between these levels. The North Sydney market is closer to Sydney CBD rents with prime gross face rents averaging 71.5%% of Sydney CBD rents.

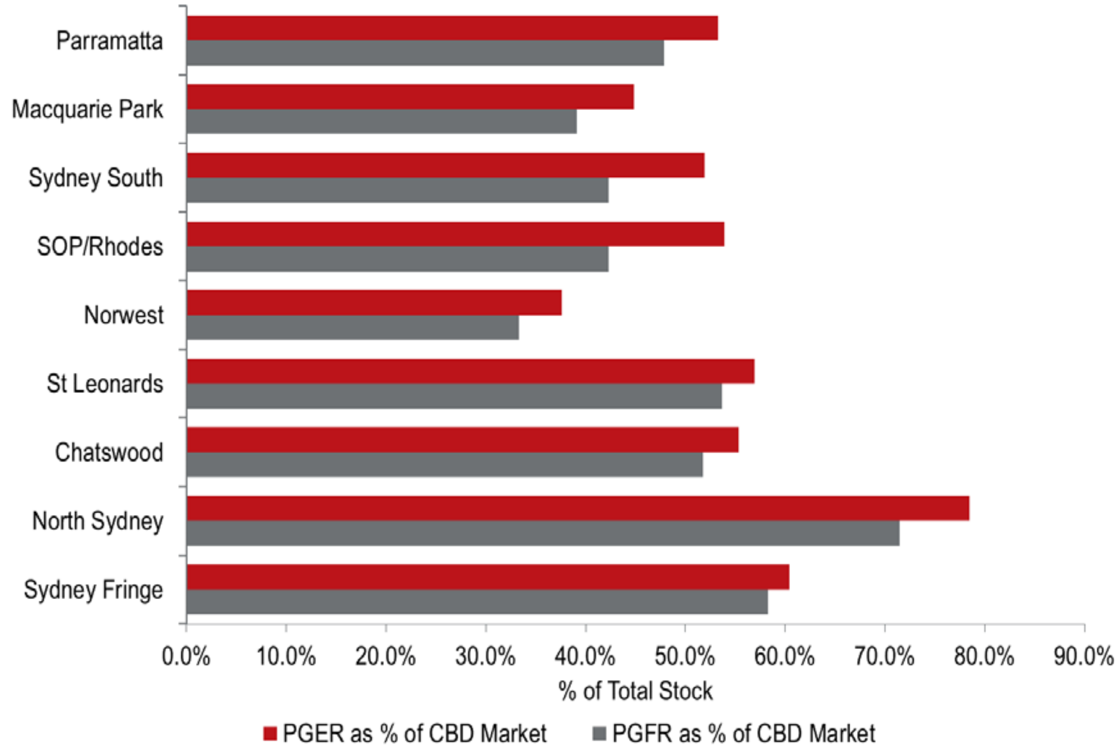
Figure 12: Gross Face Rents Compared to Sydney CBD Market, Q4 2015



Source: JLL Research

However, when incentives are taken into account the proportion of metropolitan to CBD rent increases for all Sydney metropolitan markets. See below.

Figure 13: Gross Face versus Effective Rents Compared to Sydney CBD Market, Q4 2015



Source: JLL Research

As discussed, the resurgence in the Sydney office leasing market resulted in positive growth in prime gross face rents across all markets in the 12 months to Q4 2015, this growth ranged from 6.8% in the Sydney Fringe to moderate growth experienced in Sydney Olympic Park/Rhodes (1.3%), with the market overall averaging growth of around 4%.

Incentives have also, in most instances, fallen with the CBD and five out of nine markets recording greater growth in effective rentals (rents adjusted for incentives). The decline often being significant, as the Sydney CBD, the Sydney Fringe, St Leonards, and Macquarie Park recorded growth in effective rents of almost double the rate than that in face rents.

Table 15: Sydney Office Market Profile Rents, Q4/2015

	Prime Gross Face Rent	Annual Growth % Year to Q4 2015	Prime Gross Effective Rent	Annual Growth % Year to Q4 2015
	$/sqm p.a.	%	$/sqm p.a.	%
CBD Markets				
Sydney CBD	1,055	4.9%	679	9.5%
Metropolitan markets[5]				
Sydney Fringe	615	6.8%	411	12.2%
North Sydney	754	6.7%	533	6.6%
Chatswood	546	4.3%	376	5.5%
St Leonards	566	1.7%	387	3.0%
Norwest	352	3.5%	255	3.0%
SOP/Rhodes	447	1.3%	366	0.4%
Sydney South	447	2.5%	353	-0.4%
Macquarie Park	413	2.8%	305	5.2%
Parramatta	505	6.0%	362	6.6%

[5] Incentives based on 10 year lease deal except Macquarie Park, Sydney Olympic Park/Rhodes, Norwest, Sydney South (5 years)

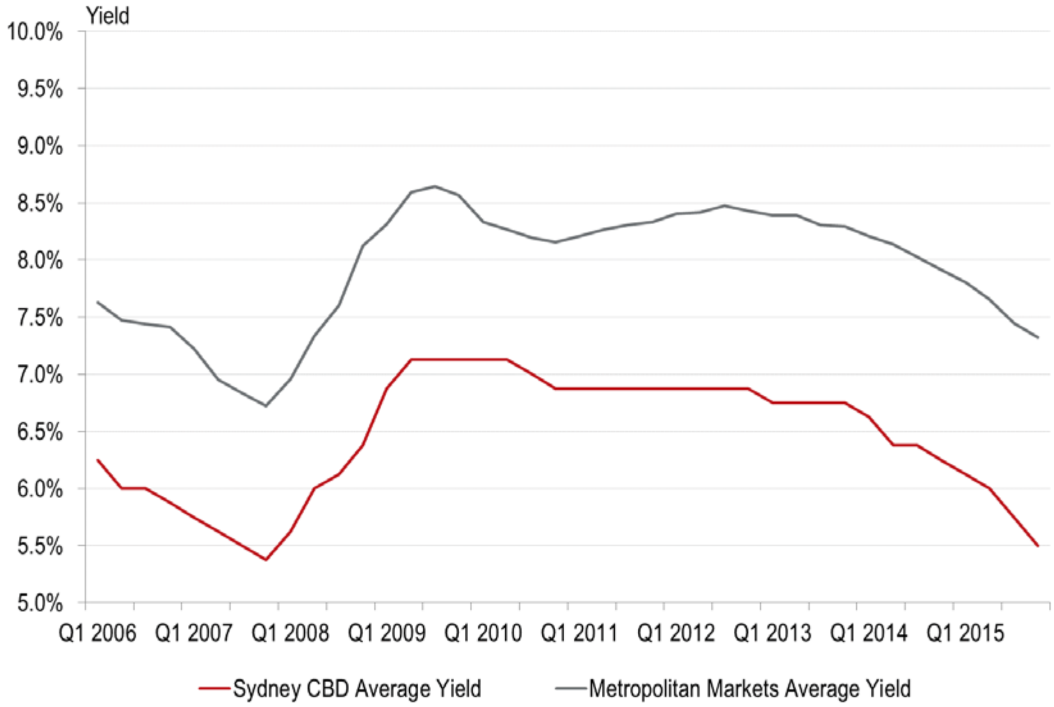
Source: JLL Research

Yields and Capital Values

All Sydney metropolitan markets have experienced at least some yield compression for prime grade assets over the 12 months to Q4/2015, the main standouts during the period being the Chatswood, Macquarie Park and St Leonards markets where both upper and lower yields compressed by at least 75 basis points.

Compared to the Sydney CBD market, yields for metropolitan assets are quite high. The yield spread between average prime yields across the CBD market and average prime metropolitan yields was 182 basis points in Q4/2015. The yield spread is currently at its peak over the last 10 year period, during this time it has historically averaged 149 basis points.

Figure 14: Yield Spread, Sydney CBD and Metropolitan Markets, Q1 2006 to Q4 2015[6]



Source: JLL Research

Specific yield ranges for each of the office markets as at Q4 2015 are provided below.

Table 16: Sydney Office Market Profile, Yields Q4/2015

	Prime Yield as at Q4 2015 %
CBD Markets	
Sydney CBD	5.00 - 6.00
Metropolitan markets	
Sydney Fringe	6.50 - 7.25
North Sydney	6.00 - 6.75
Chatswood	7.25 - 7.75
St Leonards	6.75 - 7.75
Norwest	9.00 - 9.50
SOP/Rhodes	7.00 - 8.50

[6] JLL note that not all Sydney metropolitan market yields were monitored from the start of the above period. The markets which were not monitored include; Norwest (from Q2 2009), Sydney Fringe (from Q3 2007), SOP/Rhodes (from Q4 2009) and Sydney South (from Q1 2010).

Sydney South	6.50 - 7.00
Macquarie Park	6.25 - 7.50
Parramatta	6.25 - 8.25

Source: JLL Research

Development Site Sales

Another important indicator of demand is the rates achieved for commercial development site sales. A selection of evidence has been provided below from a number of sales within the Sydney Metropolitan Market.

Table 17: Sydney Suburban Office Development Site Sales

Property	Date	Sale Price ($ million)	Zoning	Rate $/sqm FSR
89 George Street, Parramatta	Sep-15	$9,515,589	B3 Commercial Core	$703
Lot 6050 Norbrik Drive, Bella Vista (Norwest Business Park)	Sep-13	$8,750,000	B7 Business Park	$362
"Site 4B", Cnr Herb Elliot Avenue & Olympic Boulevard, Sydney Olympic Park	Jan-13	$4,700,000	B7 Business Park	$207
144 Wicks Road, Macquarie Park	Dec-12	$27,850,000	Part B3 Commercial Core and part B7 Business Park	$455*
2-4 Giffnock Avenue, Macquarie Park	Oct-12	$8,300,000	B3 Commercial Core	$368
'Site 46' 3 Figtree Drive, Sydney Olympic Park	Sep-12	$19,400,000	B4 Mixed use	$601
4 Eden Park Drive, Macquarie Park	Apr-11	$10,000,000	B3 Commercial Core	$509
90-100 Mount Street, North Sydney	Dec-10	$48,200,000	Commercial	$1,244
21 Talavera Road, Macquarie Park	Oct-10	$10,200,000	B7 Business Park	$509
63-71 Waterloo Road, Macquarie Park	Mar-10	$15,788,000	B3 Commercial Core	$572
Lot 6054, 'Circa', Norwest Business Park	Nov-10	$3,960,000	Employment Area 10(a) (Business Park)	$495
5-7 Parkes Street, Parramatta	Jun-10	$4,500,000	B4 Mixed Use	$558
45 Macquarie Street, Parramatta	Jul-09	$15,000,000	4B Mixed Use	$511

Source: JLL

Our analysis of this this evidence, with reference to broader demand considerations reflects the following broad range of values for the key suburban office markets:

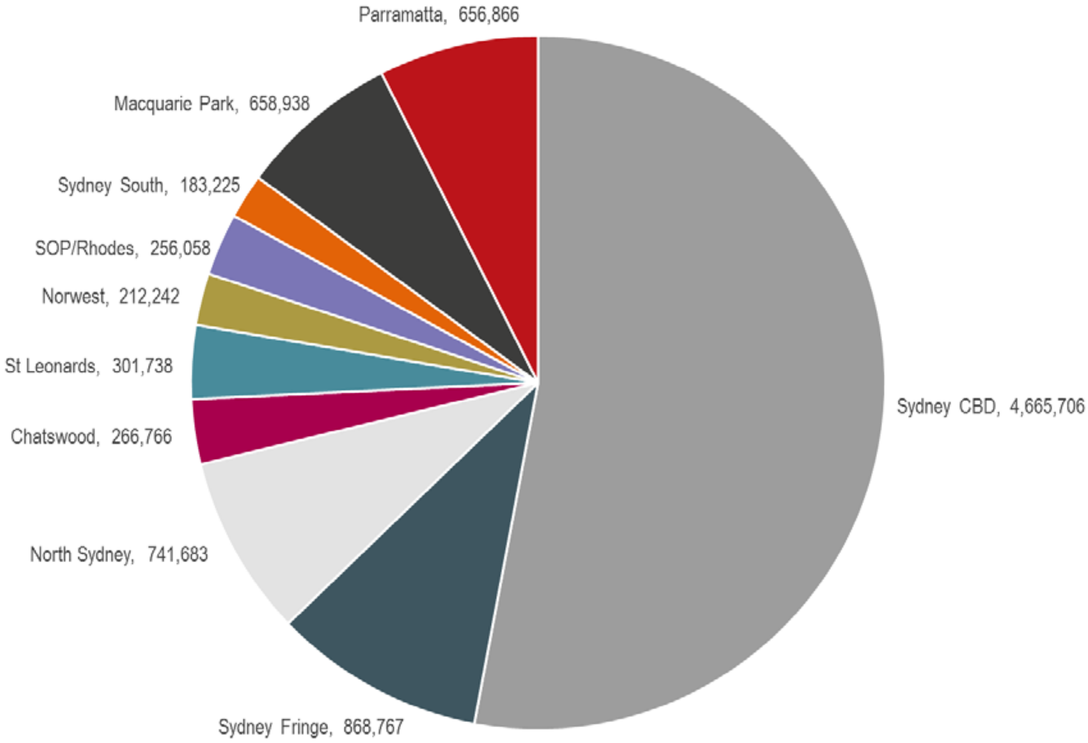
Parramatta:	$500 - $600/ sqm GFA
Sydney Olympic Park	$450 - $550/sqm GFA
Macquarie Park	$450 – 550/sqm GFA
North Sydney	$550 - $700/sqm GFA
Norwest	$300 - $425/sqm GFA

We are not aware of any recent development site sales in Blacktown or Mount Druitt that allow us to derive a $/sqm for office uses. In JLL's view, if any site was to come to the market in these two locations, a significant discount would be applicable even compared to the rates achieved at Norwest. The two exceptions to this would be where (a) a site was sold with a significant lease pre-commitment, at a viable economic rent or (b) where a development has been landbanked.

Growth of the Sydney Office Market

Our starting point for our detailed analysis of Blacktown is to understand the size of the Sydney Office Market. As at Q4/2015 the occupied office space in the markets tracked by JLL totalled 8,811,989 sqm.

Figure 15: Sydney Office Markets – Current Occupied Stock Levels, Q4/2015

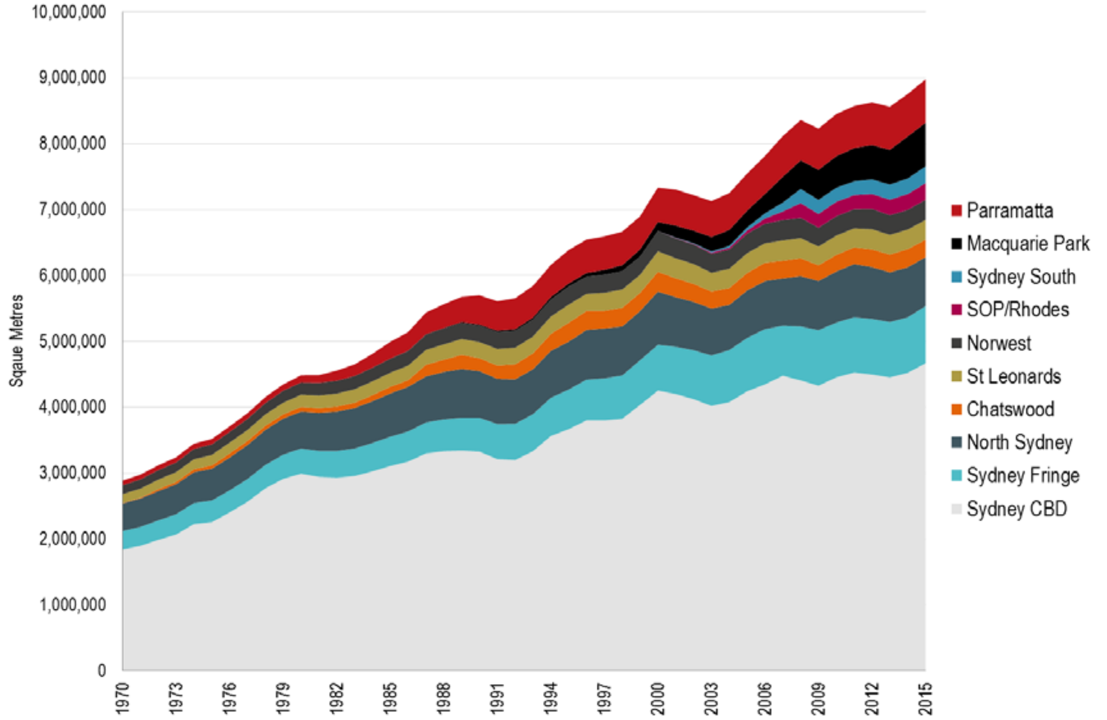


Source: JLL Research

JLL has had reference to its historic occupied stock data to derive historic demand for each of the office precincts in Sydney. In undertaking this exercise JLL has made specific assumptions about historic take up rates beyond our current data records for all markets other than Sydney CBD and Chatswood. Specifically we have assumed:

- Parramatta, Sydney Fringe, North Sydney and St Leonards historically grew at 3.0% p.a. up to the date JLL tracked these markets, which are 1977, 2006, 1998 and 1989 respectively.
- For Norwest, Macquarie Park, Sydney Olympic Park/Rhodes and South Sydney we have assumed 'material' office stock was developed and occupied in 2000, 1986, 2001 and 1997 respectively.

Figure 16: Growth of Sydney Office Markets (with Assumptions), 1970 to 2015

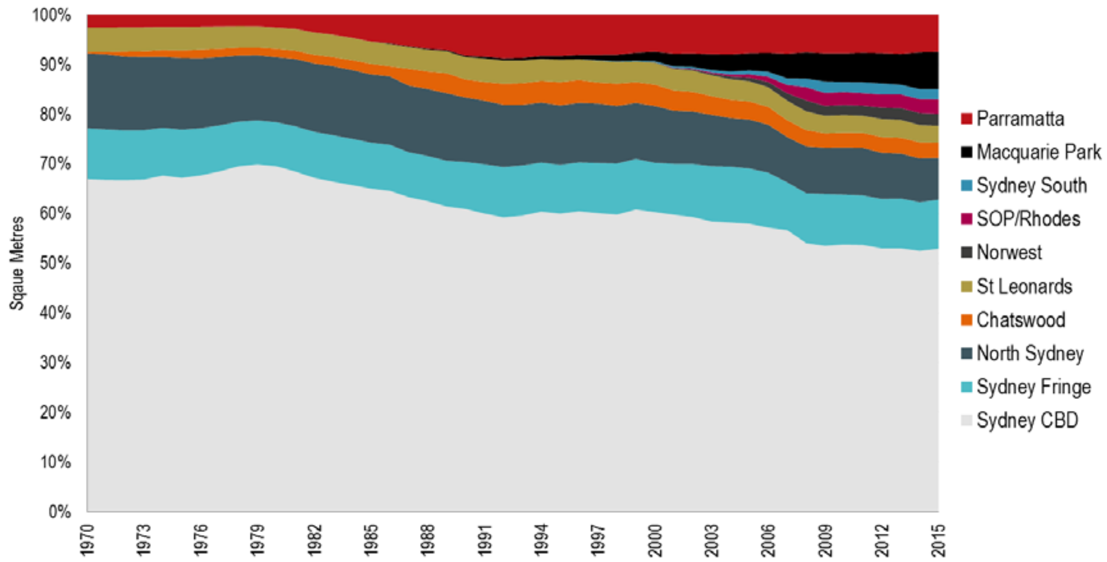


Source: JLL Research

Figure 16 shows the quantum increase of stock in the Sydney office markets. Based on the data above, and after making assumptions regarding the existing stock JLL have shown the relative contribution of each office market to the overall total over time. Of note from this analysis are the following changes in the 1970-2015 periods:

- Sydney CBD has declined from 67% to 53%
- Parramatta started at 3%, rose to 9% and have more recently declined to 7% (i.e. generally holding onto its share
- Macquarie Park which started as a traditional industrial park and now has 7% of market share.
- Sydney Olympic Park / Rhodes which started originally as an industrial location and which now attracts 3% market share.

Figure 17: Sydney Office Market NLA (Proportion), 1970-2015



Source: JLL Research

8.3 Support Office

As defined above, support office generally provide localised services to the community. This type of office shares some characteristics with retail uses, mostly strip retail, particularly as it primarily seeks to service the local population, examples including; medical services, accounts and business services. Support office, by comparison to investment grade office, is typically smaller and often found within ground floor or part of another development (e.g. first floor above retail shops). The users are typically small local businesses.

While this support office plays a vital role within local economies, JLL, like most of the property research houses, don't track this market. Principally this is due to two factors, first is that the demand for research surrounding this office use is limited, as most demand for office research is driven by the investment market, and secondly the difficulty in tracking this market, as it does not cluster, the quantum of offices are large and there is significant variance in the market pricing.

8.4 Opportunities and Challenges

It can be difficult to provide an assessment of the opportunities and challenges associated to office for both Blacktown and Mount Druitt CBDs as, unlike residential, offices are divided into multiple categories. As such, have provided separate rationale in order to understand the opportunities and challenges for both types of office uses considered relevant for the CBDs.

Investment Grade Office

In order to understand the opportunities and challenges within the Blacktown and Mount Druitt CBDs we have attempted to gain an appreciation to the level of demand for investment grade office in each. Key to understanding the demand for investment grade office is an understanding of the considerations occupiers perceive as relevant in their locational assessments. We have provided a table below that reviews each CBD against each attribute. A more detailed explanation of the occupier requirements is provided within the appendices.

Table 18: Occupier Requirement Assessment of Blacktown and Mount Druitt

Attributes	Blacktown CBD	Mount Druitt CBD
Access		
Road infrastructure	Good	Good / Fair
Proximity to Sydney CBD	Fair	Poor
Proximity to suppliers & customers	Fair	Fair
Car parking	Good	Good
Public transport	Excellent	Good
Surrounding Influences		
Proximity to workforce	Good	Good
Strong residential location	Poor	Poor
Surrounding amenity	Poor	Poor
Specific industry drivers	Poor	Poor
Compatible uses	Fair	Fair
Existing Offering		
Clustering	Poor	Poor
Corporate identity	Poor	Poor
Build-ability considerations	Fair	Fair
Affordability (Occupier perspective)	Good	Good

Support Office

We are of the view that from a demand perspective significant medium to long term opportunity should exist for both the Blacktown and Mount Druitt CBDs. This opportunity will be driven by the significant population growth expected for Blacktown LGA. The Blacktown and Mount Druitt CBDs should therefore continue their logical role in supporting the local area through the provision of this support office.

The only likely constraint we envision relates to the potential supply of this support office. Development will inherently be required to enable growth of support office and if the economics of development are not supportive, this development won't occur. However, we believe as Blacktown CBD has significant mixed use development already occurring to the north of the railway line, this shouldn't pose too much of a constraint. We envision the opportunity may be negatively impacted more in the Mount Druitt CBD where currently mixed use development is hindered by a number of factors, outlined in Section 7 above.

8.5 Tools to Forecast Take-up

Similarly to the above, we have explicitly separated our analysis into investment grade and support office.

Investment Grade Office

The table below provides 5 and 10 year (and selective longer term) occupied stock growth trends based on JLL actual data series of a number of investment grade office markets. Some markets do not have a long enough time series to calculate a 5 or 10 year trend.

Table 19: Net Absorption Trends – Sydney Office Markets

	5 Year Average	10 Year Average	Longer Term Averages
	sqm	sqm	sqm
CBD Markets			
Sydney CBD	42,826	42,586	60,237 (40 years)
Metropolitan markets			
Sydney Fringe	7,493	N/A	N/A
North Sydney	-7,354	2,241	835 (27 years)
Chatswood	3,292	7	5,398 (40 years)
St Leonards	1,474	381	2,293 (26 years)
Norwest	9,153	N/A	N/A
SOP/Rhodes	7,915	N/A	N/A
Sydney South	3,346	N/A	N/A
Macquarie Park	36,141	40,350	34,395 (16 years)
Parramatta	3,465	9,443	15,317 (37 years)

Source: JLL Research

As an additional tool, we have had consideration to the forecasted white collar employment growth prepared by Deloitte Access Economics (DAE). DAE forecasts employment growth by both white and blue collar employment, breaking this into three regions; Sydney CBD, Greater Capital City Statistical Area (GCCSA) of Sydney and the whole of NSW. We have had consideration to the GCCSA of Sydney forecast as we view it provides a better reflection of our region, as opposed to the Sydney CBD or whole of NSW forecasts. The DAEs average annual forecast growth to 2025 is 1.7%.

Support Office

As noted above, the primary driver of support office relates to population growth. Therefore, as a tool to forecast we have utilised the rate of population growth forecasted by the NSW Department of Planning & Environment for the Blacktown LGA. This growth can be seen in the table below.

Table 20: Forecasted Population Growth, Blacktown LGA

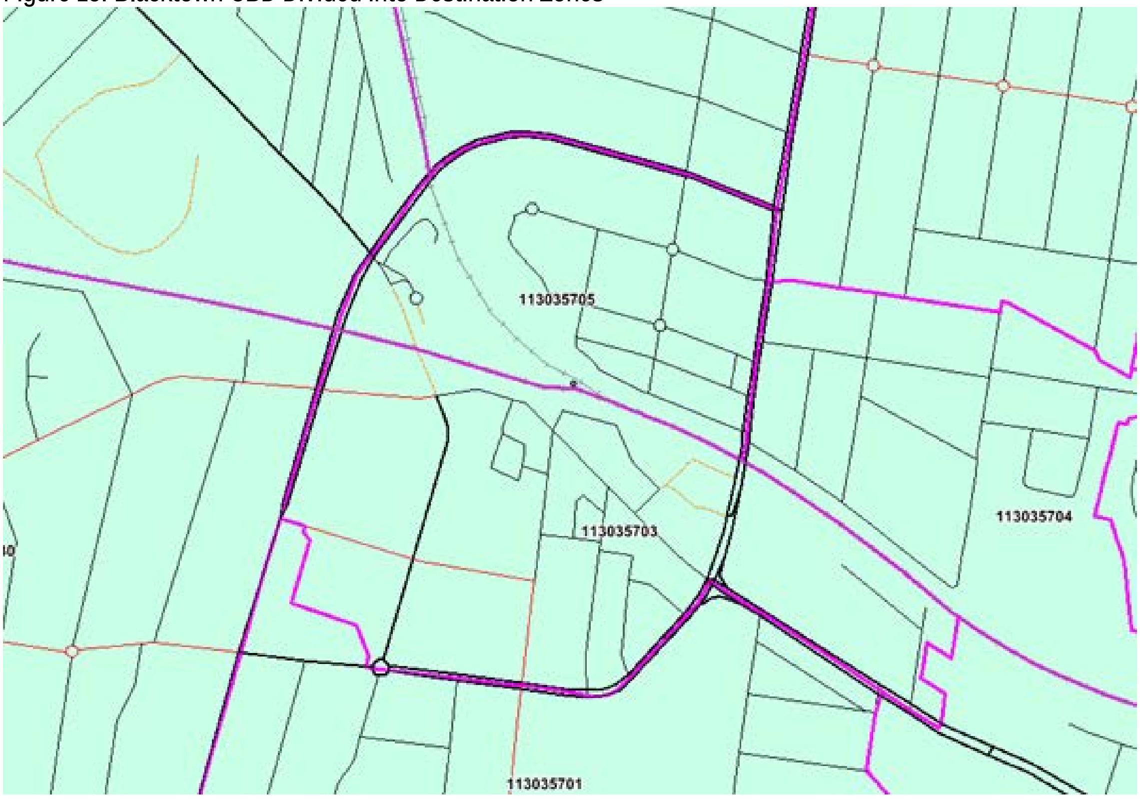
Blacktown LGA	2021	2026	2031
Growth (to Year)	2.2%	2.0%	2.0%

Source: NSW Department of Planning & Environment

8.6 Assessment of Blacktown and Mount Druitt CBDs

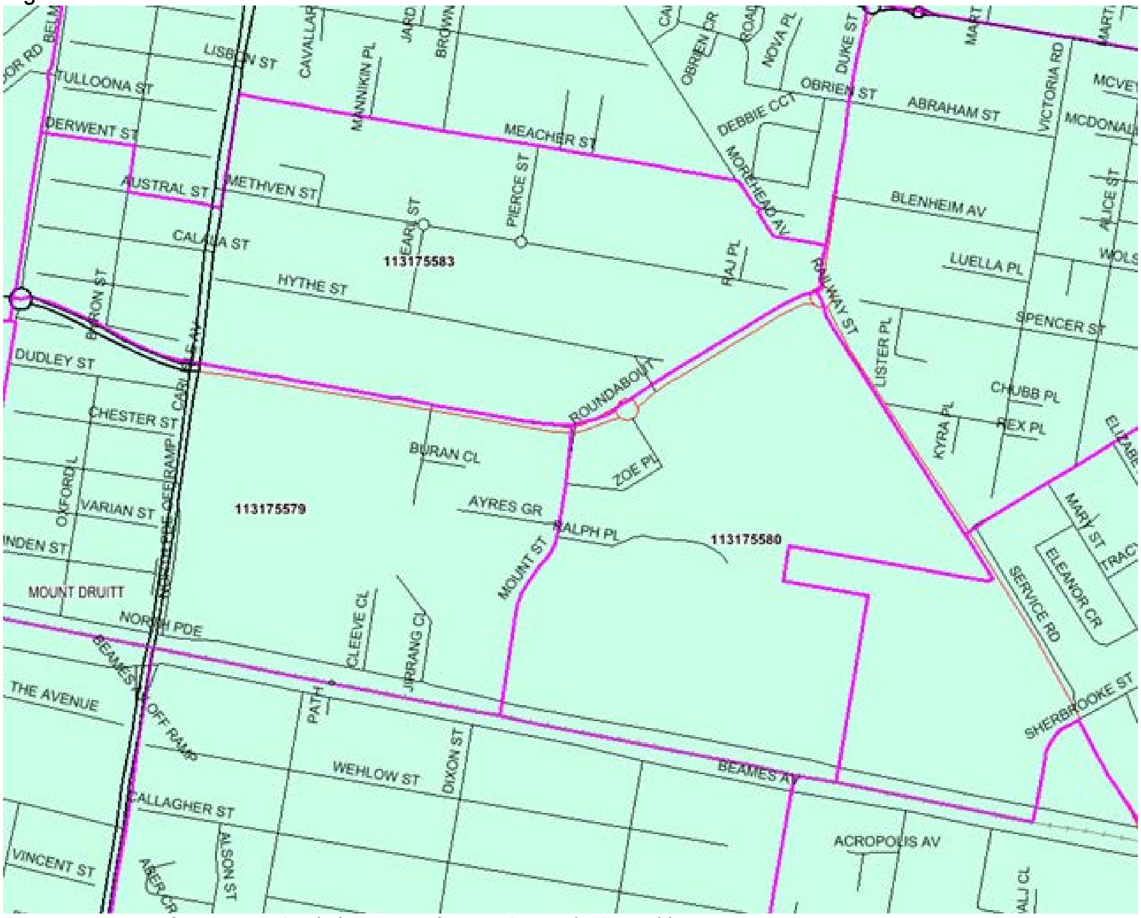
In order to make our assessment of both Blacktown and Mount Druitt CBDs we firstly identified the current level of employment within the centres. To do this we utilised Journey to Work (JTW) data derived from the census by the ABS. We used employment figures from the Destination Zones which most accurately account for the study area, these can be seen in the figures below.

Figure 18: Blacktown CBD Divided into Destination Zones



Source: Bureau of Transport Statistics, MapInfo, JLL Strategic Consulting

Figure 19: Mount Druitt CBD Divided into Destination Zones



Source: Bureau of Transport Statistics, MapInfo, JLL Strategic Consulting

From this data set we obtained the Full-time equivalent (FTE) by ANZIC industry code for both CBDs. We then made some broad assumptions having consideration to the types of employment which exist in the centres and split the employment by property types, these being; office, retail and other. This is summarised in the tables below.

Table 21: Employment within Blacktown CBD Divided by Property Types

CBD	Office Employment	Retail Employment	Other Employment	Total Employment
Blacktown	2,274	2,697	1,543	6,514
Percentage of Total	35%	41%	24%	100%

Source: Bureau of Transport Statistics, JLL Strategic Consulting

Table 22: Employment within Mount Druitt CBD Divided by Property Types

CBD	Office Employment	Retail Employment	Other Employment	Total Employment
Mount Druitt	654	1,282	1,180	3,116
Percentage of Total	21%	41%	38%	100%

Source: Bureau of Transport Statistics, JLL Strategic Consulting

This employment data was then used to derive forecasts for office and retail (retail forecast is provided within Section 9.4 of this report).

Blacktown CBD

In deriving our assessment of take-up for office in Blacktown CBD, we separated the component of office associated to investment grade versus support office. We utilised the office employment derived above and multiplied by a square metre per employee factor of 20[7] to derive the area of

[7] This is based on an adjustment from our understanding of the typical provisions of office space in the CBD market i.e. 12-14 sqm per person for traditional office space or 8-12 sqm for more flexible Activity Based Working approaches.

office within the Blacktown CBD being 45,480sqm. From here we identified the buildings which we would consider investment grade office and through a variety of sources including; valuations, currently listed space for lease and prior sales, we estimated the area associated to these at ~29,400sqm. Following this we classified the difference between the total and investment grade office as support office at ~16,080sqm.

Once we had separated the office types we were then able to make our assessment. Our assessment of investment grade office had reference to the opportunities and challenges as identified above (including the Occupier Requirements) which highlights the issues with the Blacktown CBD market as a destination for office investment.

We undertook our assessment by having reference to the potential of Blacktown CBD to attract a large tenant (most likely government). We have developed a scenario where every five years there is an opportunity to attract a large tenant (5,000sqm), while this is an inherently lumpy opportunity we have averaged this out resulting in 1,000sqm per annum. However, due to the challenges identified above we have risk adjusted this assessment at a rate of 50%, therefore, we have assessed a risk adjusted take-up rate for investment grade office at 500sqm per annum (this results in a risk adjusted take-up of 7,500sqm over the next 15 years). This risk adjusted factor can be seen in the table below, along with sensitivity either side with a 25 basis point adjustment.

Table 23: Risk Adjusted Take-up – Sensitivity Analysis

Scenario	Risk Adjusted Factor	Resulting Take-up p.a.	Take-up over 15 years
Low Sensitivity	25%	250	3,750
Medium (Base)	50%	500	7,500
High Sensitivity	75%	750	11,250

Source: JLL Strategic Consulting

The growth in investment grade office, utilising the medium scenario, can be seen in table below.

Table 24: Forecasted Investment Grade Office, Blacktown CBD – using Take-up

CBD	2016 (existing)	2021	2026	2031
Blacktown (sqm)	29,400	31,900	34,400	36,900

Source: JLL Strategic Consulting

As a check method, we have grown the existing investment grade office by the average annual forecast of white collar employment growth to 2025 from Deloitte Access Economics (DAE), being 1.7%. As noted above, we have utilised the GCCSA of Sydney as opposed to the Sydney CBD or whole of NSW forecasts. The growth is shown in the table below and it is broadly in line with the growth adopted above.

Table 25: Forecasted Investment Grade Office, Blacktown CBD – using White Collar Growth

Blacktown	2016 (existing)	2021	2026	2031	Average Annual Take-up
sqm	29,400	31,985	34,798	37,858	564

Source: Deloitte Access Economics, JLL Strategic Consulting

While these methods are broadly in line, our view is this forecast is a mid-point assessment and in reality this projected growth could be significantly higher through opportunity arising from a major tenant (most likely Government) or effectively zero if what has occurred in recent history for investment grade office continues.

In terms of support office growth, we utilised the quantum of stock derived above and grew it at the rate of population growth forecasted by the NSW Department of Planning & Environment for the Blacktown LGA. This growth can be seen in the table below.

Table 26: Forecasted Support Office, Blacktown CBD – using Population Growth

Blacktown	2016 (existing)	2021	2026	2031
Growth Factor (to Year)		2.2%	2.0%	2.0%

sqm	16,080	17,887	19,751	21,816

Source: NSW Department of Planning & Environment, JLL Strategic Consulting

Mount Druitt CBD

For Mount Druitt CBD we are of the view that no investment grade office exists in the centre. Therefore, our assessment only accounts for support office. As above, we have utilised the stock derived and have grown at the rate of population growth forecasted by the NSW Department of Planning & Environment for the Blacktown LGA. This growth can be seen in the table below.

Table 27: Forecasted Support Office, Mount Druitt CBD – utilising Population Growth

Mount Druitt	2016 (existing)	2021	2026	2031
Growth Factor (to Year)		2.2%	2.0%	2.0%
sqm	13,080	14,550	16,066	17,746

Source: NSW Department of Planning & Environment, JLL Strategic Consulting

Non-CBD Employment

While our analysis has focussed specifically on the opportunity of employment within the study areas, this should not be the only focus for Blacktown City Council as significant employment growth opportunity is provided elsewhere in the Blacktown LGA. By example the Blacktown Hospital redevelopment, located just outside of the study boundary, on completion of Stage 2 will be an investment in excess of $700 million. In addition the Blacktown LGA benefits from having significant employment centres with excellent transport infrastructure.

9 Retail Market in Context

The objective of this section is to provide both a background into the retail sector and to understand the current and future drivers of retail. This background understanding will then assist the more focused analysis and assessment of the Blacktown and Mount Druitt CBDs.

9.1 Overview of Retail Sector

The Australian retail sector is segmented geographically and by format. Enclosed shopping centres across metropolitan areas and regional Australia are categorised as regional, sub-regional and neighbourhood centres according to size and tenancy characteristics. Other formats are bulky goods (big box) retailing, strip shopping precincts and CBD retail centres. CBD centres include a mix of retail outlets at the podium levels of mixed use developments (typically an office or residential tower above the retail) or large multi-storey retail centres.

Institutional investor interest has historically focused on the regional and sub-regional formats, although limited availability of these assets has recently stimulated growing interest in CBD and neighbourhood centres.

Provided below are some broad factors relating to the retail sector in regards to typical lease terms, structure, tenancy mix and unit size, as well as, some observations on the typical employment contributions of different types of retail.

Typical Lease Terms and Structures

Lease terms in Australia tend to be very favourable from an investment perspective when compared with similar terms in other markets. Typically, the length of the lease as well as the annual upwardly revised lease structures give way to a steady cash flow and less vacancy risk.

However, lease structures in Australian shopping centres vary considerably between anchor tenants and specialty retailers. Below sets out the key terms for anchor tenants and specialty retailers with regards to rents, lease terms, rental reviews and occupancy cost.

Table 28: Lease Structures by Tenant Type

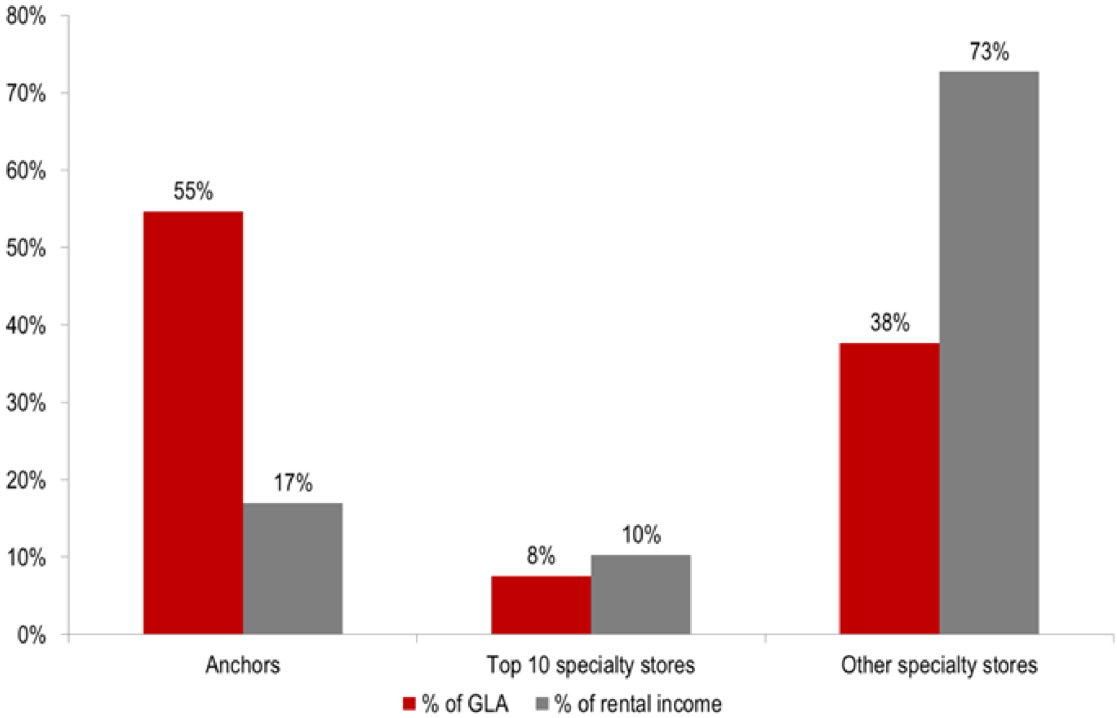
Item	Anchor Tenant	Specialty Retailers
Average Rent per sqm (Regional centre)	$250 - $500	$1,200 - $2,000
Occupancy Cost (%)	3% - 5%	14% - 22%
Typical lease term	15-30 years	5 years
Annual rent review	Minimum threshold + turnover linked[8]	CPI + 1%

Source: JLL Strategic Consulting

Given the disparities in rental rates per square metre, the overall rental income of a centre can vary considerably from the floor space occupied by certain types of tenants. Anchor tenants of course can occupy a large portion of the overall shopping centre; however the vast majority of the rental income will be paid by the specialty shops. The anchor tenants however drive foot traffic through a centre and generally occupy some of the less core space. Anchor tenants are fairly broad in their description but include supermarkets and department stores, as well as discount department stores, cinemas and other large, well-recognised retailers. The below chart highlights the differences between anchor tenants and specialty stores by their share of centre GLA and rental income.

[8] Typically an Anchor tenant will have in the lease a defined minimum rental amount, regardless of turnover or CPI. The rental escalations come via an agreed percentage rent linked to turnover above a certain turnover threshold, as well as a review of the minimum rental payment every 3-5 years.

Figure 20: Centre Occupancy and Income by Tenant Type[9]



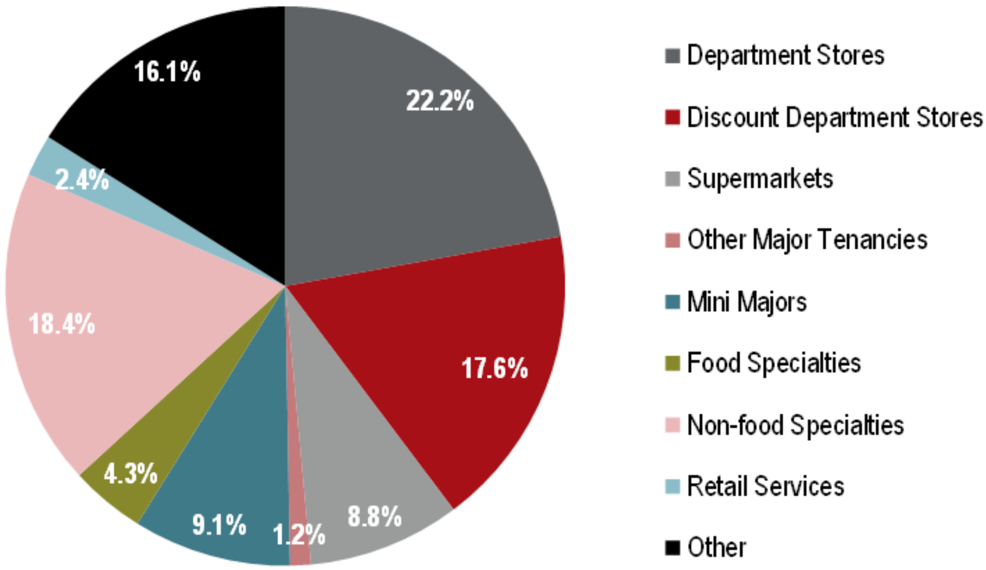
Source: Westfield Shopping Centre Operational Performance Report December 2013

Typical Tenancy Mix and Unit Sizes

Tenancy mix is largely a reflection of the type of shopping centre. For example, regional centres will have a much broader mix of tenants, with the main anchor tenants of department stores, discount department stores and supermarkets making up around 50% of the total floor space.

Non-food specialties comprise around 18% of total floor area with the apparel sector typically accounting for around 60% of all non-food specialty space.

Figure 21: Typical Tenancy Mix for Australian Regional Centres



Source: Urbis Retail Averages, JLL Strategic Consulting

[9] Includes Centres in both Australia and New Zealand.

A supermarket based neighbourhood centre will often have more than 50% of its total floor area in the supermarket tenancy. Relatively small (less than 200sqm) tenants make up the majority of the remaining space, with an emphasis on convenience based retailers (food specialties, cafes & take-away food, pharmacy, newsagent, hairdresser, services). Apparel / fashion retailing tends to be a small part of neighbourhood centre tenancy mix.

Likewise, sub-regional centre floor area is dominated by major tenants, typically a discount department store and supermarket(s) that combined are likely to represent more than 50% of the total floor area. Convenience based retailers are well represented while discretionary retailers including apparel / fashion are reasonably well represented.

The table below highlights typical unit size by store type. Most retail specialty stores are between 80sqm and 150sqm. There are always some exceptions, with fashion retailers, pharmacies, sporting goods, book stores and discount variety stores often occupying stores in excess of 200sqm.

Small tenancies in regional shopping centres are often located in kiosks within the centre of the mall – these will generally be less than 10sqm.

Table 29: Typical Unit Size by Retail Category

Category	Unit Size (sqm)
Department Stores	12,000-18,000
Discount Department Stores	6,500-8,000
Major Supermarkets	3,500-4,500
Mini Majors	400-800
Food Specialties	80-150
Cafes, Take-away food	50-100
Apparel	80-150
Retail Services	40-60

Source: JLL Strategic Consulting

Typical Employment Contribution by Retail Type

As a tool to derive employment or square metres of retail we have reference to the typical employment contributions of different retail types. This is summarised below:

- **Department Store and DDS's typically employ around 20-25 full-time (FT) and part-time (PT) staff per 1,000 sqm.** This typically reflects around 12 staff at a full-time equivalent (FTE).
- **Major supermarket operators employ around 50 FT and PT staff per 1,000 sqm,** which equates to around 25 FTE per 1,000 sqm.
- **Other supermarket operators employ around 40 FT and PT staff per 1,000 sqm,** which equates to around 20 FTE per 1,000 sqm.
- **Bulky Goods operators typically employ around 20 FT and PT staff per 1,000 sqm.** This typically reflects around 10 staff per 1,000 sqm at a FTE.
- **Specialty stores typically employ around 50 FT & PT staff per 1,000 sqm of floorspace,** with higher rates within well trafficked areas and lower rates in poorer performing retail specialty shops. This equates to a FTE equivalent of 25 staff per 1,000 sqm.

9.2 Influences on Future Demand

Demand for retail is influenced by a number of factors, most importantly at a macro level it can be impacted by demographics (e.g. population growth, household income), economic factors (e.g. interest rates) and infrastructure (e.g. provisions of economic or social infrastructure). As these factors have been addressed previously in this report, we have instead focussed on key trends at a micro level which may impact retail demand.

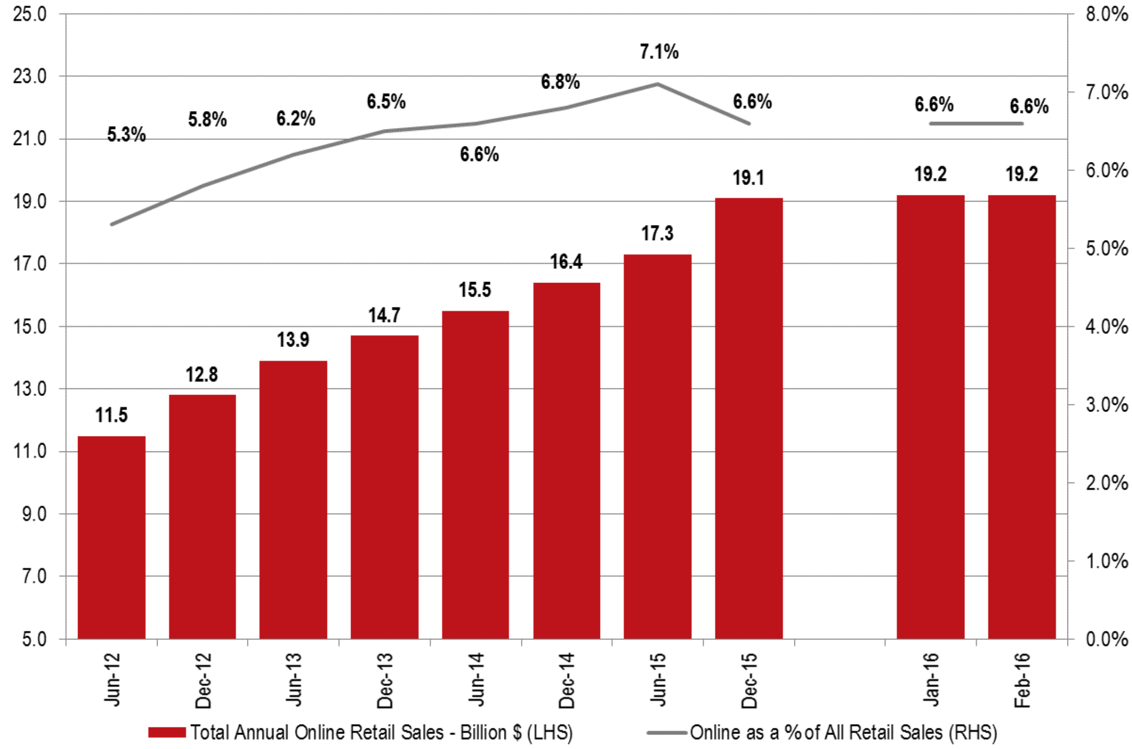
Online Retailing

With the continued advancement of online technology, online retailing continues to grow in both Australia and globally.

National Australia Bank has started tracking online retail sales in recent years as online becomes more of a prominent tool for retail sales.

The figure below shows that online retail sales have grown from $11.5 billion in June 2012 to around $19.2 billion as of February 2016. This growth in sales has outpaced traditional retail sales and, as a result, online retailing continues to account for a larger portion of total retail sales in 2016 (~6.6% at present) as opposed to June 2012 (5.3%). It is largely accepted, within the retail industry, that there will continue to be an increase in the proportion of total retail sales that are transacted online. However, it is believed that the proportion will reach a peak in growth and stabilise at a certain rate. The JLL Consulting house-view is that the rate is expected to stabilise somewhere in the range of 10-15% over the next 5-10 years.

Figure 22: Australian Online Retail Sales (total online sales and % of total retail sales)



Source: NAB Online Retail Sales Index, June 2012-February 2016, JLL Strategic Consulting

Some key things to note about the effects of online retailing are the following:

- The retail sectors expected to be mostly affected are those that present the largest discrepancies between online and in-store prices. At present this includes things such as books, music, DVD's, apparel and cosmetics. Low profit margin products such as groceries, fresh food and small electrical items are less exposed to the impact of online retailing.
- Domestic retailers currently account for 81% (as at December 2015) of total online retail sales, despite perceptions that overseas retailers are capturing Australian consumer spend. This share has increased in recent years, coinciding with the depreciation of the Australian dollar.
- In the 12 months to December 2015 over 55% of online retail sales occurred in three categories, being; homewares and appliances (21%), groceries and liquor (18.2%), and, media (16.1%). Groceries and liquor accounted for a surprisingly high proportion of retail sales, which is typically ordered online and picked-up in store.
- Smaller online retailers continue to grow exponentially with 12.3% growth in the 12 months to December 2015, and now account for 37% of total online sales.

- The largest uptake of online sales (per capita) has been in the smaller bricks and mortar retail markets of WA, ACT and NT. NSW has a slightly higher online spend per capita than the Australian average, particularly in the metro Sydney market.

Impact of International Retailers

In recent years, Sydney, and Australia more broadly, has seen a significant trend in the entrance of international retailers into the market. Shopping centre landlords have used redevelopments and refurbishments as an opportunity to attract new international retailers. This has recently been best exhibited within the major redevelopment of the Macquarie Centre and within the CBD.

In late 2014, AMP completed its significant expansion of Macquarie Centre which increased the centre by over 35,000 sqm of GLAR (Gross Lettable Area Retail) making the centre one of the largest suburban retail centres in Sydney. The significant redevelopment saw a number of international retailers establish a presence in the centre, including; H&M, Zara, Uniqlo and Forever 21.

The recently completed 5 Martin Place has seen the H&M affiliated brand, COS (Collection of Style), and the German luxury luggage retailer opening their first Sydney stores. While, the redevelopment of the Glasshouse on the corner of King and Pitt Street (Pitt Street Mall) saw H&M open a three-level, 5,000 square metre flagship store. The activity has been especially considerable in the Pitt Street Mall strip, where aside from H&M; Uniqlo (within Mid City Centre), Sephora and Forever 21 have opened stores, in addition to the Microsoft store, which is not only its first Australian store but its first stand-alone store opened outside of North America.

The above described Sephora is one of the top performing beauty retailer chains globally, as well as one of the fastest growing brands in parent company, Moet Hennessy-Louis Vuitton's (LVMH) portfolio. LVMH, along with other major retail groups, Richemont, Kering, Prada Group, Labelux, Fast Retailing, Inditex and Hennes & Mauritz, own or manage many retail brands that do not yet have a presence or a standalone store in Australia (some have a presence in department stores). Of the aforementioned retail groups, which own or manage a range of well-known luxury and fast fashion brands, only around 20% of their retail brands (fashion, leather goods, watches and jewellery categories) currently have standalone stores in Australia.

With varying store sizes and expected number of stores within Australia, the total quantum of retail floor space these new entrants could potentially drive varies drastically. However, we are of the view that the recent trend which has existed will likely be continued over the next decade resulting in significant tenant demand, particularly in the more highly populated cities such as Sydney.

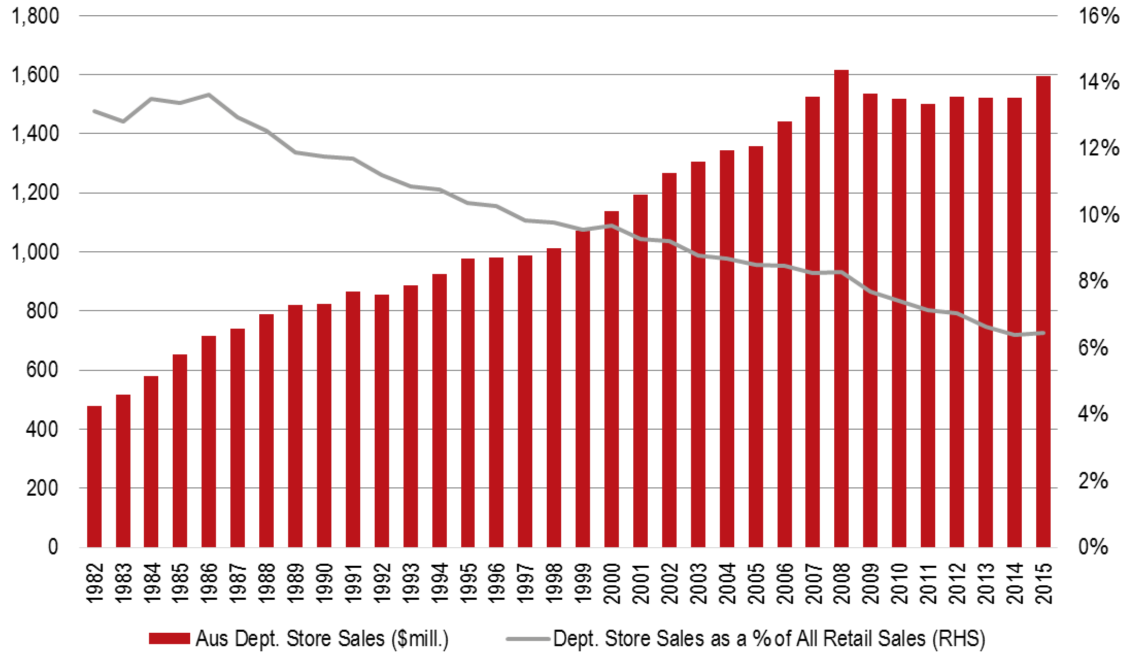
The Role of the Department Store

Continually over the past three decades, the department store has continued to play a less significant role in the context to total retail, with total department store sales previously accounting for: ~13% in the early 1980's, to; ~10% by the mid 1990's, and; currently accounting for 6.4% in 2015.

This diminishing role of department stores has continued to be a focal discussion point for retail experts and shopping centre landlords as it raises the question of the traditional regional shopping centre model of large department stores (previously +20,000 sqm) driving activity within the centre. In recent times, international retailers and mini major retailers are at times achieving similar sales out of a much smaller tenancy, and require much smaller development costs for landlords.

While the discussion around the role of department stores has continued for many years now, department store operators have identified these trends and are constantly looking for ways to adjust the traditional format to serve current day consumers demands. This includes discontinuing and minimizing product offerings (i.e. large furniture) and creating more efficient spaces, with some stores as small as 6,000 sqm and the desired format at around 12,000 sqm, which is much smaller than older formats that use 20,000-30,000 sqm.

Figure 23: Australian Department Store Sales (total sales volumes and % of total retail sales)



Source: ABS Retail Trade, Catalogue 8501, JLL Strategic Consulting

9.3 Blacktown and Mount Druitt CBDs Focus

In order to perform an assessment of the forecasted demand for retail space within the Blacktown and Mount Druitt CBDs we considered the relative opportunities and constraints within each CBD to provide the context to the assessment.

Blacktown CBD

In terms of existing retail provision, the majority of the retail space falls into three broad areas:

- The Major Regional shopping centre at Westpoint;
- The Kmart department store bordered by Alpha Street, Patrick Street and Newtown Road; and,
- The strip retail, being primarily located on Flushcombe Road and Main Street.

We are of the view that from a demand perspective significant medium to long term opportunity should exist. This opportunity being driven by the Blacktown LGAs above average population growth, which we envision the Blacktown CBD continuing to serve a role in supporting.

Counter to the demand opportunity, we see supply as having potential constraints. This relates primarily to the value in existing improvements, as demolition of shops to build new shops is typically unfeasible. However, this is unlikely to be of considerable materiality, as significant mixed use development is already currently occurring and expected to continue, this project should act as an enabler for retail supply.

Mount Druitt CBD

In terms of retail provision, the vast majority of the retail space within the CBD sits within the Major Regional shopping centre at Westfield and Luxford Court shopping centre.

As with the Blacktown CBD, positive demand for retail within the Mount Druitt CBD should be reasonably supported by population growth. Again, similarly to Blacktown, we see the primary constrain related to potential supply. With almost half of the land area within the CBD controlled by a single owner (Westfield), future supply will be dictated to a significant extent by their plans. Additionally, for the reasons outlined in Section 7 above, mixed use development is currently hindered by a number of factors, which will impose a further limit to the future supply opportunity of retail within the CBD.

9.4 Development Projections

In order to make our assessment of both Blacktown and Mount Druitt CBDs we utilised the employment figures as derived above in Section 8.6 this can be seen in the tables below.

Table 30: Employment within Blacktown CBD Divided by Property Types

CBD	Office Employment	Retail Employment	Other Employment	Total Employment
Blacktown	2,274	2,697	1,543	6,514
Percentage of Total	35%	41%	24%	100%

Source: Bureau of Transport Statistics, JLL Strategic Consulting

Table 31: Employment within Mount Druitt CBD Divided by Property Types

CBD	Office Employment	Retail Employment	Other Employment	Total Employment
Mount Druitt	654	1,282	1,180	3,116
Percentage of Total	21%	41%	38%	100%

Source: Bureau of Transport Statistics, JLL Strategic Consulting

This employment data was then used to derive forecasts for retail and office (office forecast is provided within Section 8.6 of this report).

Blacktown CBD

Firstly, we utilised the Property Council of Australia (PCA) Shopping Centre Directory, which provides an extensive shopping centre database including information on centre ownership, management, size, tenancy mix and more, to derive the Gross Lettable Area Retail (GLAR) of the major centre in Blacktown CBD, being the Westpoint. We then separated the GLAR into the retail types identified above as well as the employment contributions by retail type to derive the employment associated to the centre.

Table 32: Retail Employment within Blacktown CBD Major Centre – Westpoint

Westpoint	Department Store and DDs	Major supermarkets	Other supermarkets	Bulky goods	Specialty	Other*	Total
FTE per 1,000 sqm	12	25	20	10	25	12	
Sqm	31,535	8,665	1,592	-	37,355	17,329	96,476
FTE	378	217	32	-	934	208	1,769

Source: PCA Shopping Centre Directory, JLL Strategic Consulting
* Due to the low intensity of the "other" uses specifically within these centres i.e. Hoyts, Playtime, Flip Out, etc. We have applied a relatively low employment provision for these uses (in line with department store/DDs).

Following the above assessment we were then able to determine the square metres of non-major retail in Blacktown CBD using the difference in the employment figure and the retail provisions identified earlier in this report. This can be seen in the table below.

Table 33: Retail Employment within Blacktown CBD – Non-Major

Non-major Retail	Blacktown
FTE per 1,000 sqm*	25
Non-major FTE	928
Non-major sqm	37,132

Source: Bureau of Transport Statistics, JLL Strategic Consulting

Thus we were able to derive the total retail square metres for the Blacktown CBD, which can be seen below.

Table 34: Retail Sqm within Blacktown CBD

Blacktown	Sqm
Major Centre	96,476
Non-Major Centre	37,132
Total	133,608

Source: PCA Shopping Centre Directory, JLL Strategic Consulting

Using the same methodology as support office, we have utilised the stock derived and have grown at the rate of population growth forecasted by the NSW Department of Planning & Environment for the Blacktown LGA. This growth can be seen in the table below.

Table 35: Forecasted Retail within Blacktown CBD – utilising Population Growth

Blacktown	2016 (existng)	2021	2026	2031
Growth Factor (to Year)		2.2%	2.0%	2.0%
Sqm	133,608	148,621	164,113	181,271

Source: JLL Strategic Consulting

Mount Druitt CBD

As above, we firstly utilised the Property Council of Australia (PCA) Shopping Centre Directory to derive the Gross Lettable Area Retail (GLAR) of the major centre in Mount Druitt CBD, being the Westfield. We then separated the GLAR into the retail types identified above as well as the employment contributions by retail type to derive the employment associated to the centre.

Table 36: Retail Employment within Mount Druitt CBD Major Centre – Westfield

Westfield	Department Store and DDs	Major supermarkets	Other supermarkets	Bulky goods	Specialty	Other*	Total
FTE per 1,000 sqm	12	25	20	10	25	12	
Westfield sqm	20,924	7,700	-	-	22,604	8,999	60,227
Westfield FTE	251	193	-	-	565	108	1,117

Source: PCA Shopping Centre Directory, JLL Strategic Consulting
* Due to the low intensity of the "other" uses specifically within these centres i.e. Hoyts, Auto Barn, Woolworths Petro, etc. We have applied a relatively low employment provision for these uses (in line with department store/DDs).

Following the above assessment we were then able to determine the square metres of non-major retail in Mount Druitt CBD using the difference in the employment figure and the retail provisions identified above. This can be seen in the table below.

Table 37: Retail Employment within Mount Druitt CBD – Non-Major

Non-major Retail	Mount Druitt
FTE per 1,000 sqm*	12
FTE	165
Sqm	13,777

Source: Bureau of Transport Statistics, JLL Strategic Consulting

Thus we were able to derive the total retail square metres for the Mount Druitt CBD, which can be seen below.

Table 38: Retail Sqm within Mount Druitt CBD

Mount Druitt	Sqm
Major Centre	60,227
Non-Major Centre	13,777
Total	74,004

Source: PCA Shopping Centre Directory, JLL Strategic Consulting

Using the same methodology as support office, we have utilised the stock derived and have grown at the rate of population growth forecasted by the NSW Department of Planning & Environment for the Blacktown LGA. This growth can be seen in the table below.

Table 39: Forecasted Retail within Mount Druitt CBD – utilising Population Growth

Mount Druitt	2016 (existng)	2021	2026	2031
Growth Factor (to Year)		2.2%	2.0%	2.0%
Sqm	74,004	82,320	90,901	100,404

Source: JLL Strategic Consulting

10 Feasibility Analysis

The purpose of this section is to provide the reader an understanding of the process which has been undertaken in performing the feasibility analysis for the various scenarios. Additionally this section is to provide an explanation of the inputs required and the resulting outputs of the financial analysis. This, ultimately, enabling the reader to have an understanding of the market feasibility of a range of scenarios – inclusive of scenarios with explicit changes to existing planning controls.

10.1 Definitions

We have provided below the key definitions relating to the feasibility analysis.

'In Use' Value

The 'In Use' value does not have regard to the highest and best use or any potential development and assumes that the properties current use will continue. The 'In Use' value makes an assumption about the premium that a developer may have to pay to amalgamate a site from its current owners.

Due to the nature of our assessment i.e. across the CBD, we have not had consideration to the in use value, however, we note this is another potential constraint on viability of redevelopment.

Market Value

'Market' value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.

Development Value

The 'Development' value of the landholdings has been undertaken using both the Residual Land Value and the Direct Comparison method.

1. Residual Land Value (RLV)

   This method measures the price that a developer could afford to pay for the development site after making appropriate allowances for holding charges, development costs, transaction costs, etc. and a reasonable profit on the venture after taking into account the risks involved. This analysis assumes 100% debt financing.

2. Direct Comparison

   Direct comparison, analyses recent sales and compares these to the subject. Adjustments are made for differences such as development certainty, topography, location, size and area to determine the value of the subject. In all cases we have assumed the landholdings do not have development approval.

Viability Assessment

We have assessed the viability of each site by comparing the 'Development' value (from both the Residual Land Value (RLV) and the Direct Comparison Approach) to the site value 'In Use'. Due to the constraint in our assessment, as discussed above, we have assumed an 'In Use' value of zero and note the limitation of this assumption. Where any existing use value is greater than zero it will be a further constraint on viability of redevelopment.

To be viable the RLV must be greater than the 'In Use' value by an amount that compensates the land owner for the risk associated with development. We have allowed for a premium over and above the 'In Use' value to compensate the seller, this is a common occurrence in site amalgamation.

Our feasibility scale is as follows:

Table 40: Feasibility Scale

	Not Viable	Marginal	Viable
Measurement	In Use value exceeds the Development value.	Development value and In Use value are similar.	Development value exceeds the In Use value.
Description	If the development was to be undertaken it would result in a financial loss assuming the landholding could be purchased at the In Use value.	If the development was to be undertaken it shows marginal viability assuming the landholding could be purchased at the In Use value.	If the development was to be undertaken it would result in a risk adjusted profit assuming the landholding could be purchased at the In Use value. This is, however, still risk that the project could make a loss if certain assumptions were to vary.

Extent of Inspections

The properties have not been inspected internally or measured in detail. Therefore we are unable to conclusively determine the impact that the current improvements have on value.

Many of the properties are potentially income producing assets, however, our assumptions are based on a direct comparison of estimated gross floor area (GFA) only.

To assist us in assessing each property as accurately as possible, we have relied on external inspections, photographs and descriptions of property contained within CoreLogic and any field notes ascertained on our inspection. We have also relied on measurements taken from aerial photographs and we cannot guarantee the accuracy of these measurements.

10.2 Methodology

We have provided below the high level methodology of the feasibility analysis as well as some assumptions related to the key inputs.

Residual Land Value (Development Feasibility)

The project team has specifically assumed 100% debt financing and with no price or revenue escalations.

Our assessments of value have been undertaken through a Discounted Cashflow method, utilising Estate Master Software.

Gross Realisation – 'As If Complete'

There are a large number of key variables involved in achieving sale prices into the future. In particular the marketing of the project is vital to its overall success and in this regard issues such as promotion budgets, target markets and timing of the project may prove significant.

Whilst the marketing variable can to some degree be formulated and assessed, external factors such as economic conditions and real estate markets are more difficult to quantify.

In determining our gross realisations we have had particular regard to the type of product to be developed including quality of finish, surrounding competition, as well as market forces which will affect both our potential sale prices and take-up rates.

We have assessed the gross realisations of the 'As If Complete' scenarios based on a number of assumptions (these are specified within each respective scenario description under **Sections 10.3 & 10.4**). The assessment of these scenarios is obviously difficult given that we are working on hypothetical scenarios; however, we have had regard to significant amounts of recent evidence and we advise that our gross realisation assessments herein are GST inclusive for residential and GST exclusive for other property types.

Feasibility Model Inputs

In determining our gross realisation we have used a series of modelling inputs that have been adjusted for each site to allow for individual characteristics (such as location and topography) and include considerations relating to:

- Sale Rate;
- Timing;
- Construction Costs;
- Interest Costs; and
- Selling Costs.

In addition we have allowed for a development profit and financial return that is appropriate for each type.

Profit & Risk Allowance

The profit and risk factor is one of the most subjective elements in feasibility calculations. Effectively it quantifies the risk/return a developer is willing to subject themselves to. In determining a profit margin a developer would expect for the development, we have taken into account the size, nature and status of construction of the development, time frame of construction, and gross realisation calculation.

The determination of the profit margin is a difficult process, especially in the course of providing an objective evaluation of a proposed development. Influences on such rates of return are many and varied, with the pertinent factors summarised as follows:

- The nature of the proposed development including, amongst others, the specific market segment the end-product is targeting, demand and supply trends in that market and the size and scale of the development;
- Degree of confidence in the end-user market which encompasses the pricing of the end-product to meet the market, the timing of the sales on completion and the costs associated with the project;
- The likelihood of potential problems during construction with issues including and not limited to industrial disputation, adverse weather conditions and unforeseen cost blowouts;
- Rates of return currently available on less risky, alternative investments;
- The timing of the development, particularly in relation to development margins, which are not annual returns but represent overall returns over the whole period;
- Level of pre-sales negotiated and remaining proportion of units available for sale;
- The inclusion of adequate contingencies in the development costs which form part of the evaluation;
- The reasonableness of input assumptions made in relation to issues such as construction costs, cost of funds and timing of costs and revenues; and
- The specific financial position and return criteria of the developer. Depending on factors such as the cost structure of the developer, its taxation position, its capacity to negotiate building contracts effectively and its on-site management style which should ensure an efficient development process, the requisite rates of return can vary accordingly.

Our primary method of analysis when determining the residual value has been to benchmark it against a nominated profit and risk.

The following bands provide a guide for different scenarios when determining a hurdle rate for the profit and risk:

- 15% - 17.5%: Usually short-term development considered to be relatively risk free, DA in place, construction costs fixed, presales reasonably certain, construction may be in progress;
- 17.5% - 20%: Generally medium term development with some associated risks such as prolonged development periods, possible lower level of presales; and
- 20% - 25%: Longer-term larger development with more risk be it requirement of approvals, critical milestones to be met, no pre-sales in place and the like.

We have allowed a differing profit and risk dependent on the characteristics of each scenario. Industry standard is typically benched to 20% return on costs of the project with adjustments than made either side for risk. However, it depends greatly on the appetite of specific developers. The currently heated residential market has seen many developers, mainly foreign, lower this standard rate, often a reflection of finance source (local banks typically require testing at 20%).

Direct Comparison

The direct comparison approach has been used to determine the In Use values and as an additional method for assessing development feasibility.

The direct comparison method analyses recent development site sales and compares these to the subject. Adjustments are made for differences such as development certainty, topography, location, size and area to determine the value of the subject. In all cases we have assumed the landholdings do not have development approval.

10.3 Scenarios

In developing our scenarios, we have had reference to the work undertaken in the initial sections of this report, as well as through various consultations with Council staff as to what would be considered appropriate and testable from a feasibility analysis sense. The result is three different scenarios for each CBD. The scenarios are described below.

Blacktown CBD

- A-grade office development;
- A smaller scale office development; and,
- A mixed-use (primarily residential) development.

Mount Druitt CBD

- Smaller scale office development; and,
- A mixed-use (primarily residential) development.

10.4 Key Inputs

We have utilised the following key inputs in undertaking our analysis. We have broken up the inputs into those which refer to office development and those which refer to mixed use development.

Office Inputs (A-Grade and Smaller Scale office development)

The following are inputs we have utilised for our office development scenarios.

Built Form				
Input	Scenarios			Notes/Reference
	Small scale Mount Druitt	Small scale Blacktown	A-grade Blacktown	
Site Area (sqm)	1,000	1,000	2,000	Assumed.
GFA (sqm)	2,000	2,000	8,000	Assumed.
NLA (sqm)	1,700	1,700	7,200	Assumed.
Car Parking	20	20	80	Draft Parking Management Plan.

Development Costs				
Input	Scenarios			Notes/Reference
	Small scale Mount Druitt	Small scale Blacktown	A-grade Blacktown	
Total Development Costs ($ millions)	$6.0m	$6.1m	$29m	Rawlinsons 2016 and reference to prior projects.

Gross Realisations				
Input	Scenarios			Notes/Reference
	Small scale Mount Druitt	Small scale Blacktown	A-grade Blacktown	
Gross Realisations ($ millions)	$3.7m	$4.7m	$23.0m (Spec) to $33.2m (Pre-commit)	Reference to local and broader market evidence.

Statutory Costs				
Input	Scenarios			Notes/Reference
	Small scale Mount Druitt	Small scale Blacktown	A-grade Blacktown	
Total Statutory Costs ($ millions)	$0.02m	$0.5m	$1.3m	Contribution Plans 4 and 19.

In addition to the above, within the feasibility we had made assumptions on the following:

- Development Timing – for the purpose of our assessment we have assumed that planning and development will occur within a 27 month timeframe;
- Interest charges – Interest on development costs and holding charges has been assessed at a rate of 6% per annum inclusive of all costs;
- Profit & Risk Allowance – We have defined 'break even' as a profit and risk of 20%;
- Leasing Expenses – Leasing expenses has been calculated to include agents commission & advertising/promotion and legal costs at 15% of gross realisation;
- Selling Expenses - Selling expenses has been calculated to include agents commission & advertising/promotion and legal costs at 2% of gross realisation;
- Rates and Taxes - We have assumed costs inclusive of land tax, council rates and water rates will be payable over the life of the project. These charges are levied on a diminishing basis as the end product is sold and settled.

Mixed-Use Inputs

The following are inputs we have utilised for our mixed-use development scenarios.

Built Form			
Input	Scenarios		Notes/Reference
	Mixed-Use Mount Druitt	Mixed-Use Blacktown	
Site Area	2,000	2,000	Assumed.
Height	50 metres	50 metres	Assumed.
Storeys	16	16	Reference to height.
GFA	1,800 (retail) and 16,200 (residential)	3,600 (retail & office) and 15,120 (residential)	Assumed.

NLA/NSA/GLAR	1,620 (retail) and 14,580 (residential)	3,150 (retail & office) and 13,608 (residential)	Assumed.
Car Parking	279	262	Draft Parking Management Plan, RTA Guide to Traffic Generating Development and BDCP.

Development Costs			
Input	Scenarios		Notes/Reference
	Mixed-Use Mount Druitt	Mixed-Use Blacktown	
Total Development Costs ($ millions)	$75.6m	$75.1m	Rawlinsons 2016 and reference to prior projects.

Gross Realisations			
Input	Scenarios		Notes/Reference
	Mixed-Use Mount Druitt	Mixed-Use Blacktown	
Gross Realisations ($ millions)	$108.1m	$114.2m	Reference to local and broader market evidence.

Statutory Costs			
Input	Scenarios		Notes/Reference
	Mixed-Use Mount Druitt	Mixed-Use Blacktown	
Total Statutory Costs ($ millions)	$0.8m	$4.0m	Contribution Plans 3, 4 and 19.

In addition to the above, within the feasibility we had made assumptions on the following:

- Development Timing – for the purpose of our assessment we have assumed that planning and development will occur within a 30 month timeframe;
- Interest charges – Interest on development costs and holding charges has been assessed at a rate of 6% per annum inclusive of all costs;
- Profit & Risk Allowance – We have defined 'break even' as a profit and risk of 20%;
- Selling Expenses - Selling expenses has been calculated to include agents commission & advertising/promotion and legal costs at 3% of gross realisation;
- Rates and Taxes - We have assumed costs inclusive of land tax, council rates and water rates will be payable over the life of the project. These charges are levied on a diminishing basis as the end product is sold and settled.

10.5 Feasibility Outputs

Observations and Limitations

Provided below is a selection of 'financial outcomes' reflecting to hypothetical development based scenarios. Notwithstanding,JLL has endeavoured to provide outputs reflective of the market based on our research, we note the potential for variance from our findings based on;

- Differences in each of the individual assumptions, with variables such as construction costs and gross realisations being key determinants in the determination of viability.
- The individual approach of developers and landowners. Specifically, for any given development we note varying attitudes from developers in terms of the opportunity and risk.
- Changes in the broad economic environment that may, over time, either enhance or diminish the development viability.
- Finally, we note that the above analysis is based on a current day only, which primarily informs the short term outlook.

Because of the above limitations JLL suggests the reader takes the findings from this section as an indication of relative viability only – which primarily informs the short term outlook. In looking at the medium term and longer term, JLL considers it more relevant to consider the underlying drivers that will support the land uses.

The following are the key outputs of our feasibility analysis. We have broken up the feasibility outputs into those which refer to office development and those which refer to mixed use development.

Office Feasibility Outputs (A-Grade and Smaller Scale office development)

The results of our Residual Land Value (RLV) assessments are as follows:

- Mount Druitt CBD smaller scale office -$3.2 million
- Blacktown CBD smaller scale office -$2.9 million
- Blacktown CBD A-grade office (spec) -$12.6 million
- Blacktown CBD A-grade office (pre-commit) -$4.8 million

As an alternative check method, we have utilised the direct comparison method with results as follows:

- Mount Druitt CBD smaller scale office $0
- Blacktown CBD smaller scale office $0.4 million
- Blacktown CBD A-grade office (spec) $1.6 million
- Blacktown CBD A-grade office (pre-commit) $1.6 million

However, we identify issues can exist with the direct approach. The reliability of the direct approach is fundamentally driven but the quantity and quality of comparable development sales evidence. In undertaking our analysis we were unable to have reference to comparable sales within or in close proximity to Blacktown or Mount Druitt CBDs, instead having to have reference to sales further afield. In addition to this limitation, JLL notes a key limitation with the direct comparison approach is the inability to adjust for specific cashflow considerations e.g. market rent.

As outlined earlier in this section, the above analysis is intended to provide an observation on the relative viability of varying scenarios, in a current market context, which appears to be unviable. In addition, JLL have also had regard to the underlying drivers, that support the potential for office uses in the medium to longer term, and again we identify significant challenges in achieving this nature of development. On balance, we consider there is material risk that if Council were to maintain the existing commercial core, over the longer term, an unsatisfactory amount of development will occur. Notwithstanding the above, JLL considers merit in keeping a commercial core, albeit a smaller version of the current core.

Mixed-Use Feasibility Outputs

The results of our Residual Land Value (RLV) assessments are as follows:

- Mount Druitt CBD mixed-use -$1.6 million i.e. effectively breakeven
- Blacktown CBD mixed-use -$0.3 million i.e. effectively breakeven

As an alternative check method, we have utilised the direct comparison method with results as follows:

- Mount Druitt CBD mixed-use $9.95 million
- Blacktown CBD mixed-use $15.24 million

The direct comparison approach outlined above suggests a disconnect in the underlying assumptions utilised in the feasibility by JLL and that used by developers. By example, areas where a developer is likely to be more optimistic may include (a) lower construction costs and (b) higher gross realisation, with the potential inclusion by developers of price escalations over time (which JLL have not adopted).

Again, as outlined above, JLL notes the intent of the above analysis is not to provide refined feasibility analysis, but is an analysis which shows the relative opportunity or risk of this nature of development in a current market context. On balance, our view is that mixed use development in Mount Druitt and Blacktown is broadly viable however, risk exists that developments are progressed through the planning stage and stall if/when economic conditions deteriorate – which has been seen previously in both of these locations.

Our assessment has had consideration to the potential planning changes which may improve feasibility for the CBDs. In regards to the Blacktown CBD, one factor first considered was an adjustment in height. Our analysis adopted a 50 metre height limit which is towards the lower end of the majority of the mixed-use land. As such, while we believe an increase in the height would result in incremental improvement in feasibility, having adopted a generally conservative height limit we see an increase as an unrequired change, from a viability perspective, and should only be considered with additional justification e.g. improved design outcome, etc.

One of the key planning related factors which encumbers the viability relates to the first floor non-residential provision (Clause 7.12 of the Blacktown LEP). Revising this clause would improve feasibility, however, this should only be completed subject to Councils strategic requirements to maintain the clause in current form to promote commercial supply.

In terms of potential planning changes for the Mount Druitt CBD, similarly to Blacktown CBD, we adopted a 50 metre height limit, however, this is greater than the 32 metre height limit currently permitted. As our results were still of marginal viability with the increased height, we recommend reviewing these height controls in order to support viability. We note, an adjustment of height does not always improve viability. It requires the gross realisations (sale prices) of apartments at higher heights to exceed the incremental increase in construction costs of a taller building.

Through our undertaking of the feasibility analysis, it was required we gain an understanding of the potential Section 94s payable resulting from a development within the Blacktown and Mount Druitt CBDs. We have concluded that the process, by comparison to some other Councils, to be unnecessarily complex. This was determined as in order to derive the Section 94 liability, in certain instances it was required that we:

1) Determine where the property is located (at a fairly micro catchment area level)
2) Derive each component of Section 94 liability e.g. local road reconstruction, open space, flood mitigation, traffic management, etc.
3) Adjust the bedrooms proposed for the development to the increase in population
4) Derive our frontage to certain streets
5) Adjust different contributions by different CPI rates

This is by comparison to other Councils which typically provide a rate that accounts for the various component, which can then by multiplied by number of units or GFA and grown by a standard CPI.

While this may not necessarily hinder redevelopment, particularly large-scale development which will have significant professional input, it may act as an impediment. We recommend a review of these calculations with the ultimate goal being to simplify the process.

11 Promoting Economic Activation

In order to support the creation of the Blacktown and Mount Druitt CBDs as strong mixed use centres; Council can, and should, take measures to promote economic activation. We have provided within this section a number of measures and actions that can be utilised by local council's in achieving economic activation.

We make the key observation that the list provided below is not meant to be exhaustive, nor do we consider all of the items applicable or appropriate to Blacktown City Council. This section is to provide as many 'potential' options to the Council in the promotion of economic activation for the CBDs.

11.1 Measures and Actions

Land Use Planning Controls and Incentives

- Variation of Floor Space Ratio (FSR).
- Variation in height limits.
- Flexibility in the requirements for ground floor employment uses.
- Provide amalgamation incentives.
- Provision for greater residential yield which (a) increases the resident population and (b) can assist in making viable employment based land uses.
- Provision of flexibility in planning controls to enable businesses the opportunity to be accommodated in the employment lands.
- Implementation of alternate land use zones.
- Provision of flexibility in car parking controls.
- Provision of additional complying development controls to fast track development applications.

Self-Promotion and Economic Development

- Economic development resources to promote the location. May include providing resources that can assist business with developing strategies as well as cross selling local services.
- Self-promotion via various avenues such as advertising.
- Working collaboratively with real estate agents to ensure potential occupiers are presented with all available local area options.
- Collaborate with surrounding local government areas to promote the broader area.
- Provision of incubator spaces for companies to develop.

Attract Government Employment to the Location

- Promote re-location (or preservation) of State or Federal Government employers.

Provision of Parking

- Consider the development of multi deck car parks that allow easier access to the centres of employment e.g. Parramatta City Centre, Cabramatta. Initially, undertake financial analysis on the costs and potential revenues.

Influence Planning, Transport and Social Infrastructure

- Influence NSW Planning and Environment to provide increased exposure for the location.
- Promote and influence the development of:
    - Transport infrastructure (road, rail, light rail, rapid bus etc.) e.g. Parramatta Council role in influencing the Western Sydney Light Rail.

- Social infrastructure such as schools / higher education / hospitals.

Financial Incentives

- Council rate abatement / rate holidays etc.
- Financial contribution to incentivise relocation.
- Provide Council owned land for free / discounted for users that provide greater economic benefits.
- Provide incentives for incubator industries.

Place making

- Ensure the area has vibrancy and is a destination. Ensure area is perceived as being safe and welcoming. Promote a 'café culture' that people want to live and work in.

Clustering

- Provide an understanding of the business community. Utilise employment information sources to provide a better understanding of the business community.
- Promote clustering of like businesses.

11.2 Recommended Approach

The focus of this study is to provide a market appraisal and feasibility of Blacktown and Mount Druitt CBDs and ultimately make recommendations on appropriate planning control changes which further support market feasibility. However, it is not just feasibility which would drive the creation of strong mixed use centres, additionally, some of the initiatives identified above which would assist in promoting economic activation, would also assist in improving market feasibility as they can have an influence on the demand for commercial or residential within the CBDs.

We recommend the above list of initiatives be reviewed by Council to identify ones which align best with the strategic vision of the Blacktown and Mount Druitt CBDs. We also recommend utilising a number of these tools to ensure a multi-pronged approach that achieves the greatest impact.

12 Conclusions and Recommendations

The purpose of this section is to provide the conclusions and recommendations related to the analysis undertaken within the body of this report.

As highlighted within the Executive Summary of this report, Blacktown City Council engaged JLL to provide advice on the current and future residential, commercial and retail market demand and feasibility of development in the Blacktown and Mount Druitt CBDs. The impetus of this advice being that Council recently resolved to support the creation of both CBDs as strong mixed use centres that are vibrant and great places to live and recreate and that are activated by residential, commercial and retail development. As such, we have based our recommendations on assisting to achieve the above outcome which should ensure that any changes to planning controls:

- more accurately reflect government expectations for the centres
- more accurately reflect market expectations
- provide opportunities for growth.

As identified within Section 5 of the report, our interpretation of the NSW Government's vision for Blacktown and Mount Druitt centres, reflected in A Plan for Growing Sydney, is in line with that of Blacktown City Council, that is, the strategy has effectively downgraded the importance of these centres, particularly in relation to employment growth. However, our view is that while this could be of material impact, Council has, as identified above, opted to use this as an opportunity to support the creation of strong mixed use centres.

A significant driver for both Blacktown and Mount Druitt CBDs is the anticipated future population growth within the Blacktown LGA. The Blacktown LGA has been the fasted growing LGA in New South Wales over the last decade and is expected to continue as one of the fastest growing LGAs. This significant growth provides a driver for a number of property types.

The residential market within the CBDs will benefit from the population growth, providing underlying demand for these markets. In addition, the growing desire to locate closer to transport centres will also drive demand. We envision the opportunity being greater within the Blacktown CBD, while the Mount Druitt CBD encounters some issues in the short to medium term.

In undertaking our assessment for office we have divided it into investment grade and support office. We see little opportunity for Mount Druitt CBD in regards to investment grade office, while also seeing limited opportunity for the Blacktown CBD at least for the medium term – this barring any significant intervention i.e. a major government commitment. In line with population growth, we see opportunity for organic growth in support office for both CBDs, as they maintain their role in servicing their local populations.

We see the retail opportunity in the centres akin to that of the support office, with the only major limitation, being for Mount Druitt CBD, were the influence of the current major landowner and retail operator, Westfield, could dictate the future opportunity. This does not necessarily mean opportunity does not exist, however, it limits the potential players in the market and reduces the influence of other parties to increase the retail provision.

Our feasibility analysis has indicated that commercial office development is unviable in both CBDs, while mixed-use is also marginal in Mount Druitt and comparatively viable in Blacktown CBD, as such we believe a rezoning to mixed use should occur to stimulate redevelopment. That said, we believe a portion of the commercial core could and should be maintained within the Blacktown CBD to provide the longer term opportunity. We also identify the potential for consideration of a simplification of Section 94s, and also the requirement for first floor non-residential in mixed use development (Blacktown CBD) as it impacts viability – although this needs to be considered against its potential benefits of providing commercial supply.

Our analysis indicated a range of initiatives at Councils disposal to help promote economic activation, a number of which were not planning related. As such we recommend investigation into the implementation of a number of these initiatives, with a key focus on those which best support the objectives for the Blacktown and Mount Druitt CBDs.

Ultimately, we see a number of opportunities within the CBDs for residential and employment growth, both required to ensure the creation of strong mixed use centres. While we also note a number of hindrances, mostly related to the Mount Druitt CBD, we believe these are mostly short to medium term considerations and will over time maintain a lesser impact.

While risk exists in reducing the area zoned commercial core, on balance, we consider this risk is significantly offset by the potential that comes with a mixed use precinct, with the vibrancy and employment that goes with it, considering:

- As has occurred historically, office development has proved unviable and if this status quo continues the employment opportunity is negligible;
- A mixed use rezoning will likely result in increased development, resulting in employment growth; and,
- There can be unnecessary focus on specific locations for employment growth when the primary opportunity is elsewhere as is the case with the Blacktown LGA. By example the Blacktown Hospital redevelopment, located just outside of the study boundary, on completion of Stage 2 will be an investment in excess of $700 million. In addition the Blacktown LGA benefits from having significant employment centres with excellent transport infrastructure.

Appendices

Occupier Requirements

Table 41: Occupier Requirements

Metropolitan Market Attributes	
Access	
Road infrastructure	• Car is the predominant model of transport for workers to get to work. This is especially true of metropolitan office markets where car is the preferred mode of transport in excess of 80% of the time. • New transport infrastructure provides additional demand. By example the M2 in Sydney has had a positive impact on the demand for Macquarie Park and Norwest.
Proximity to CBD	• Some metropolitan office markets leverage off their close proximity to CBD with more affordable rents. • Locations such as St Leonards also benefit from their relatively close proximity to the CBD with the availability of good transport options to commute to North Sydney and Sydney's CBD.
Proximity to suppliers & customers	• In making decision on where to locate, occupiers take into account the location of their suppliers (which provide inputs) and also their customers.
Car parking	• With the high use of car as the primary mode of transport any office location will need to provide appropriate car parking • Car parking ratios vary significantly between locations. The market has had a strong preference to the more generous car parking ratios.
Public transport	• While public transport has lower patronage compared to car travel, public transport is a strong attractive feature when occupiers are choosing their locational preference.
Surrounding Influences	
Proximity to workforce	• A close proximity to a well-educated workforce supports the demand for office uses. • This partly overlaps with the 'access' issues identified i.e. the ability for workers to get to their employment
Strong residential location	• Strong residential locations are shown to provide support for office uses due to following reasons: - Higher socio-economic locations generally have higher proportions of white collar employees, which require offices - The 'corporate identity' as discussed below generally prefers association with higher priced suburbs - The location of key decision makers (e.g. CEO) within the firm can influence the location decision.
Surrounding amenity	• Primarily driven by retail uses inclusive of food and beverage for lunchtime and after work social events. • Parks, water, sporting facilities and other types of amenity can also add value.
Specific industry drivers	• Specific industries such as hospitals and universities can key materially influence the demand for occupiers. Such occupiers provide the location with 'identity' which encourages clustering.
Compatible uses	• While residential uses are often quoted as bringing 'after hours' activity they can also dilute the 'office' based offering. Comparable uses that provide amenity (see above) support the demand for office uses.
Existing Offering	
Clustering	• Clustering can vary significantly by industry, however, is generally considered an important driver of demand. Medical, pharmaceutical, IT and education are examples of industries that like to cluster.
Corporate identity	• Corporate identify varies significantly by industry, however, unlike some industrial users which are only influenced by access and cost, most office based users care about their corporate identity.

Build-ability considerations	• Small lot sizes, existing strata product, topography, existing buildings and environmental issues are key inhibiting factors to development. Conversely large Greenfield sites which are easy to build provide highly competitive economic rents.
Affordability	• While affordability is a key determining factor in influencing location this generally is used to decide between CBD and non CBD locations. The small (comparatively) difference between metropolitan office markets means that other influences, as discussed above, play a more important role.

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