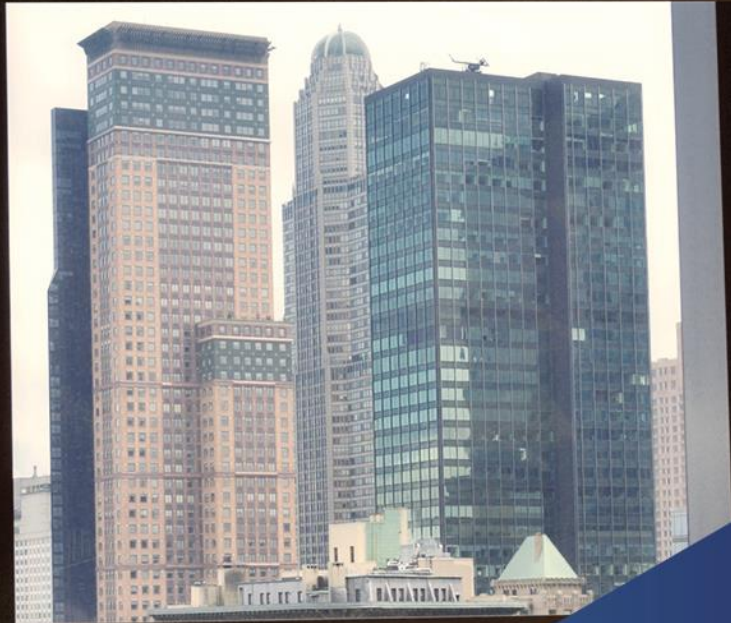

18-40 ANDERSON STREET, PARRAMATTA

ECONOMIC IMPACT ASSESSMENT

PREPARED FOR LANDREAM
MAY 2017



aecgrouppltd.com

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Job Name: 18-40 Anderson Street Parramatta EIA
Client: Landream
Client Contact: Mark Girgis
Project Manager: Esther Cheong
Email: esther.cheong@aecgrouppltd.com
Telephone: (02) 9283 8400
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EXECUTIVE SUMMARY

BACKGROUND

Landream are preparing a submission (the Submission) to amend the planning controls pertaining to 18-40 Anderson Street, Parramatta ("the Site") which is located in the South Precinct of the Parramatta CBD. It is proposed that the Site be rezoned from its existing B5 Business Development (FSR 4:1) to B4 Mixed Use (FSR 6:1). The City of Parramatta ("Council") is currently progressing the Parramatta CBD Planning Proposal which proposes the Site be rezoned to B3 Commercial Core with an FSR 6:1.

AEC Group (AEC) has been engaged by Landream to prepare an Economic Impact Assessment (EIA) to, firstly consider if the Submission is appropriate for the Site and to, secondly analyse the economic impacts likely to result from the proposed planning control amendments and subsequent redevelopment of the Site.

The Submission seeks to redevelop the existing hotel into an international 5-Star hotel accommodating 250 rooms with conference and events facilities (for 300 persons), carparking for 150 cars, restaurant to cater for 150 seating, gym and swimming pool. The hotel is to be incorporated in a development with 25 serviced apartments and residential units (approximately 318 units).

In order to assess the economic impact of the Submission, a Base Case and Proposal Case are developed.

- **Base Case:** The Site under current planning controls (Parramatta LEP) with existing improvements and use.
- **Proposal Case:** If the Site was redeveloped under the Submission's amended planning controls to incorporate a mix of uses including 5-star hotel, serviced apartments and residential units.

The purpose of the EIA is two-fold:

- 1 To carry out property market research and feasibility modelling to consider the appropriateness of the Submission against that which is proposed by the CBD Planning Proposal. This then concludes the likelihood of new office development occurring under a B3 zone.
- 2 To carry out economic modelling to assess the economic impacts of the Submission.

STRATEGIC CONTEXT

Strategic and Statutory Planning

A Plan for Growing Sydney (DPE, 2014) and draft Central West District Plan (GSC, 2016) both espouse a series of strategic directions and actions to enable Greater Parramatta to accommodate Sydney's Central City.

More specifically, the draft West Central District Plan seeks to drive growth of the Central City:

- To incentivise investment in hotel and short-term accommodation for overnight visitors.
- To invest in more facilities to attract visitors.
- To provide industry support and visitor servicing.
- To develop place making initiatives.

The Site is zoned B5 Business Development with a designated FSR of 4:1 and maximum height of 18m under the Parramatta LEP (2011). Being part of the Auto Alley precinct, the Site has been subject to several proposals.

- The draft Auto Alley Framework was endorsed by Council in 2014 and proposed that the Site retain its B5 zone, however be subject to additional density (FSR 6:1) and height (26m).
- The Parramatta CBD Planning Strategy was adopted by Council in 2015, however proposing a B3 Commercial Core zone (and FSR 6:1 and building height of 26m) for the Site.
- The draft Parramatta CBD Planning Proposal incorporating the recommendations of the Planning Strategy was endorsed by Council in 2016 and forwarded to DPE for Gateway Determination in April 2017.

Suitability of the Site for A-grade Commercial Office

The CBD Planning Proposal acknowledges the difficulties of developing the Site into A-grade office building due to a variety of factors (character of surrounding built form, site constraints, distance from existing CBD and train station). Notwithstanding the challenges, Council expresses a long term aspiration for an A-grade office building to be developed on the Site.

This assessment has examined the suitability of the Site for commercial office uses now and if these challenges can be overcome in the future.

- **Accessibility and Connectivity**

The Site is located on the southern fringe of the South Precinct, surrounded mostly by car showrooms. The distance from the Parramatta train station (700m) is an issue, with Harris Park the closest train station (500m). This has adverse implications for an office building's corporate identity and for tenant amenity.

- **Corporate Image and Identity**

The poor connectivity to the CBD, poor surrounding amenity and dominant residential character collectively undermine the ability of the Site to offer the prestige and corporate image required by A-grade office tenants. These are critical site selection factors that determine the suitability of sites and precincts for A-grade office development.

A decline in corporate prestige can be observed in parts of the southern portion of the Sydney CBD and Chatswood, which are dominated by residential uses. This has thereby limited the rents commercial tenants are prepared to pay. These areas also witness higher than trend vacancy rates and require greater incentives necessary to entice tenants.

- **Tenant Amenity**

Tenant amenity is critical for A-grade office occupiers. Access to a range of retail and commercial services (e.g. shopping, food and beverage options, transport facilities) is a base expectation of A-grade office tenants. The immediate surrounds of the Site lack corporate tenant amenity and is not expected to improve with the development of more residential towers immediately in the vicinity.

- **Economic Rents**

Feasibility modelling demonstrates rents achievable on the Site are far below those needed for an A-grade office building to be a commercial proposition. This is not expected to change in the future without any improvement to amenity, accessibility, connectivity and change to surrounding built form.

This assessment considers that the long term aspiration for A-grade office building is **not** a realistic one. In time, commercial office rents will rise (in the Parramatta CBD and elsewhere). The eventual development of recently approved 5-7 Parkes Street (Dyldam Development) will further exacerbate the residential dominance in the area immediately surrounding the Site. Any rental growth in office rents will likely be modest compared to the heart of the Parramatta CBD where tenant amenity and transport connections are far superior.

Feasibility modelling demonstrates the poor suitability of the Site for A-grade office development. Substantial (and many impossible) changes in surrounding environment are required to overcome the Site's challenges and position it for competitive A-grade commercial office. The amendment of planning controls to B3 Commercial Core will effectively sterilise an otherwise valuable site which could contribute to Parramatta's growth in a meaningful and productive manner.

Hotel Accommodation

Parramatta CBD has traditionally not provided a diversity of short-term accommodation options, with limited representation by international hotel chains. A modest number of 600 rooms is proposed (at various stages in the development pipeline) to be delivered over the 2016-2021 period.

High-quality and 5-star accommodation options are essential for Parramatta to be competitive as a CBD. The Submission will support and strengthen the Central City's tourism industry and increase the depth of short term accommodation product in the local market with the inclusion of a 5-star international brand hotel (250 rooms) with conference and events facilities and 25 serviced apartments.

The draw and significance of a 5-star international brand hotel cannot be over-stated, and will be game-changing for Parramatta. It will elevate Parramatta's profile and standing as an international destination to compete for international visitation and spend. The spin-off benefits for Parramatta's brand and image are significant and without question. The development of artistic and cultural facilities in Parramatta without quality hotel accommodation will undermine Parramatta's growth as the Central City.

ECONOMIC IMPACTS

In order to understand the economic impacts likely to result from development of a 250-room hotel (with associated conference and dining facilities) and 25 serviced apartments, it is necessary to distinguish economic impacts during the construction phase and those economic impacts that will be more permanent in nature following construction completion and operations commencement.

- **Construction Phase**

Construction activity will draw resources from and thereby generate economic activity in Parramatta LGA as well as from outside the LGA. Assumptions are made on the proportion sourced from within and from outside the LGA.

- **Operational Phase**

On completion, the hotel is expected to generate ongoing economic/operational activity through the following:

- Direct turnover generated by hotel operational activities.
- Additional tourism and visitation that would not otherwise occur on the Site, resulting in increased visitor expenditure.

A Base Case and a Proposal Case are examined:

- **Base Case:** the Site in its existing use, accommodating 181 rooms in a 4 star hotel with small scale food and beverage offer.
- **Proposal Case:** the Site is redeveloped per the Submission, to accommodate 250 rooms in a 5 star hotel with conference and events facilities, augmented food and beverage offer and 25 serviced apartments. A residential component in the order of 318 apartments is also incorporated.

Operational Phase

There are two components to the operational phase economic impacts: those resulting from direct hotel turnover and those from induced visitation.

Table ES.1: Annual Economic Activity

Impact	Output (\$M)	Gross Regional Product (\$M)	Incomes (\$M)	Employment (FTEs)
Base Case				
Direct	\$13.0	\$6.3	\$3.3	56
Type I Flow-On	\$7.7	\$3.6	\$2.0	23
Type II Flow-On	\$10.2	\$6.0	\$2.4	31
Total	\$30.9	\$15.9	\$7.7	110
Proposal Case				
Direct	\$24.8	\$12.0	\$6.0	105
Type I Flow-On	\$14.7	\$6.8	\$3.8	43
Type II Flow-On	\$19.5	\$11.5	\$4.6	60
Total	\$59.0	\$30.3	\$14.3	208
Increase in Economic Activity				
Direct	\$11.8	\$5.7	\$2.7	49
Type I Flow-On	\$7.0	\$3.2	\$1.8	20
Type II Flow-On	\$9.3	\$5.5	\$2.2	29
Total	\$28.1	\$14.4	\$6.6	98

Source: AEC

The potential increase in economic activity supported by a new 5 star hotel above the current 4 star establishment is presented in Table ES.1. It should be noted that no allowance for visitation and turnover that would be captured elsewhere in the City of Parramatta LGA (in the absence of the current hotel or proposed development) have been included in this assessment.

Significant industry beneficiaries of the hotel development include:

- Accommodation and food services (GRP \$4.7 million per annum).
- Ownership of dwellings (GRP \$1.4 million per annum).
- Financial and insurance services (GRP \$1.3 million per annum).

The modelling conducted indicates the proposed hotel development will make a significant contribution through its construction phase and the ongoing activities of the hotel operations.

Construction Phase

The construction phase associated with the development is expected to support the following economic activity through direct and flow-on impacts:

- \$318.5 million in output.
- \$128.1 million contribution to Gross Regional Product (GRP).
- \$68.1 million in incomes and salaries paid to households.
- 830 full-time equivalent (FTE) jobs.

Major industry beneficiaries of the construction phase of the development include:

- Construction (GRP of \$29.6 million).
- Professional, scientific and technical services (\$15.0 million).
- Ownership of dwellings (\$14.0 million).

POLICY CONSIDERATIONS

The Proposal Case responds to the draft West Central District Plan, specifically contributing to Productivity Priority 2 which seeks to drive growth of the Central City:

- Incentivise investment in hotel and short term accommodation for overnight visitors.
- Invest in more facilities to attract visitors.
- Provide industry support and visitor servicing.
- Develop place making initiatives.

Even though Council's strategic planning may have aspirations for an A-grade commercial office building on the Site, ultimately whether that vision will eventuate into reality depends on whether such as building can be viably sustained on the Site. The Site's locational context, distance from the core of the CBD, poor transport and tenant amenity are all factors that do not appeal to A-grade tenants. The lack of appeal to A-grade tenants will influence the rents and occupancy rates achievable in the building.

It is an unfortunate reality that, even though a site may have physical characteristics for a certain use, its location is equally critical for it to have market appeal. Council's vision for Auto Alley is commendable, however due to the Site's immediate context and position, a commercial office building will not be sustainable (now or in the future).

Even though the Site is not suitable for an A-grade commercial office building, it should not be precluded from contributing to the growth and prosperity of the Central City. The Submission will strengthen the Central City's tourism industry by providing 5-star short-term accommodation and consequently lift the profile and standing of Parramatta as an international destination.

Through the Parramatta CBD Planning Proposal, Council have a 2036 target of 972,000sqm commercial office floorspace. Pursuant to FSRs proposed under the CBD Planning Proposal for the Parramatta CBD commercial core, an additional 1.8 million sqm to 2.2 million sqm of commercial floorspace will be unlocked. If residential uses are permitted within the commercial core, the lower amount of commercial office floorspace will be unlocked (1.8 million sqm).

At present more than 600,000sqm of commercial floorspace is proposed to be delivered across the Parramatta LGA by 2021, approximately 63% of the aspirational target of 972,000sqm. Together with the additional commercial office floorspace that will be unlocked by new FSR controls (1.8 million - 2.2 million sqm), Parramatta is well placed to achieve (or potentially exceed) its 2036 aspirational target.

Importantly, a change in land use on the Site to facilitate a 5-star hotel, serviced apartments and residential units would not undermine Parramatta's commercial office aspirations and target, yet assist in elevating Parramatta's profile and standing as an international city.

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1. INTRODUCTION

1.1 BACKGROUND AND OVERVIEW

Parramatta is positioned as Sydney's second Central Business District within the metropolitan strategy, A Plan for Growing Sydney 2014 (DPE, 2014). The growth of the Parramatta CBD is a core direction of the Plan with the integration of Westmead, Parramatta North, Camellia and Rydalmere a fundamental component of this vision.

Parramatta is located in the local government area of City of Parramatta, approximately 20km west of the Sydney CBD. As the principal centre of Western Sydney, Parramatta accommodates a wide variety of land uses and serves as the primary administrative, business, cultural and civic centre for Western Sydney.

Parramatta is poised to experience significant growth over the coming 20 years as a result of the strong local economy, excellent public transport and considerable level of government infrastructure investment. Parramatta's population is projected to increase to nearly 400,000 by 2036, an average annual increase of more than 2% over 2011-2036.

While the range of economic benefits associated with population and employment are well documented, the challenges in accommodating such growth within established/infill areas can be challenging.

Many urban centres are transforming from providing purely commercial uses to accommodate a range of uses, i.e. housing, retail, entertainment and leisure uses, etc. Allowing for a mix of uses to occur in the centre allows it to be self-sustaining, i.e. residents who live there have all their day-to-day needs met including employment, shopping, services and recreation needs. Facilitating a mix of residential, entertainment, retail and commercial uses can ensure a critical mass of residents and local jobs to support a vibrant urban centre.

The significance and importance of a CBD is about local workers and residents as much as it is about visitors. The ability for a city to host world-class cultural, artistic and entertainment events is underpinned by its ability to host visitors in overnight accommodation.

Landream are preparing a submission to amend the planning controls pertaining to 18-40 Anderson Street, Parramatta ("the Site"). It is proposed that the Site be rezoned from B5 Business Development (FSR 4:1) to B4 Mixed Use and designated an FSR of 6:1 (referred to as "the Submission" and "the Proposal" interchangeably).

1.2 SCOPE AND PURPOSE

Under the Parramatta Local Environmental Plan (2011) the Site is zoned B5 Business Development with an FSR of 4:1. The Auto Alley Planning Framework proposed retaining the B5 zone with an increased FSR of 6:1. In its CBD Planning Proposal, the City of Parramatta however proposed a B3 Commercial Core zone and an FSR of 6:1 for the Site.

AEC Group (AEC) has been engaged by Landream to prepare an Economic Impact Assessment (EIA) to firstly consider if the Submission is appropriate for the Site and secondly to analyse the economic impacts likely to result from the proposed planning control amendments and subsequent redevelopment of the Site.

In order to assess the economic impact of the Submission, a Base Case and Proposal Case are developed.

- **Base Case:** The Site under current planning controls (Parramatta LEP) with existing improvements and use.
- **Proposal Case:** If the Site was redeveloped under the Submission's amended planning controls to incorporate a mix of uses including 5-star hotel, serviced apartments and residential units.

The purpose of the EIA is two-fold:

- 1 To carry out property market research and feasibility modelling to consider the appropriateness of the Submission, as well as the competitive position of the Site in the context of the CBD Planning Proposal in assessing the likelihood of new development as a commercial proposition.
- 2 To carry out economic modelling to assess the economic impacts of the Submission.

1.3 STRUCTURE OF THE STUDY

The Report has been structured in the following manner:

- **Chapter 1: Introduction**

This Chapter provides an overview and background of the Study, the scope, purpose and overall structure of the report.

- **Chapter 2: The Site and Proposal**

This Chapter reviews the Site, its current context within the Parramatta CBD and describes the Submission as envisaged for future development of the Site.

- **Chapter 3: Policy Review and Analysis**

This Chapter analyses key State and local government policies as are relevant, specifically how the Submission responds.

- **Chapter 4: Potential Land Uses**

This Chapter assesses the potential for the Site in accommodating a range of land uses (specifically those envisaged by a B3 Commercial Core zone and those contemplated by the Submission), considering economic and market trends and the competitive standing of the Site. The land uses investigated are commercial office, hotel and residential uses.

The market suitability of the Site for a commercial office development is considered in the context of a review of Urbis' *Achieving A-Grade Office Space in the Parramatta CBD Economic Review 2015* report, research and critically assessing the competitive market position and suitability of the Site for a commercial office development.

- **Chapter 5: Accommodating Future Growth**

This Chapter investigates the challenges of accommodating growth within brownfield/infill locations and the potential role of the Site in this context, carrying out feasibility modelling to assess the commercial prospects and likelihood of development under a B3 Commercial Core zoning.

- **Chapter 6: Economic Impact Assessment**

This Chapter assesses the economic impacts of future development on the Site by investigating two scenarios:

- Base Case: the economic impacts of the Site in its existing use.
- Proposal Case: the economic impacts of the Site if it was redeveloped under the amended planning controls to incorporate a 5-star hotel, serviced apartments and residential units.

- **Chapter 7: Policy Assessment**

This Chapter reviews and translates the key findings from Chapters 2 to 6 and applies them in the assessment of the Submission against policy considerations.

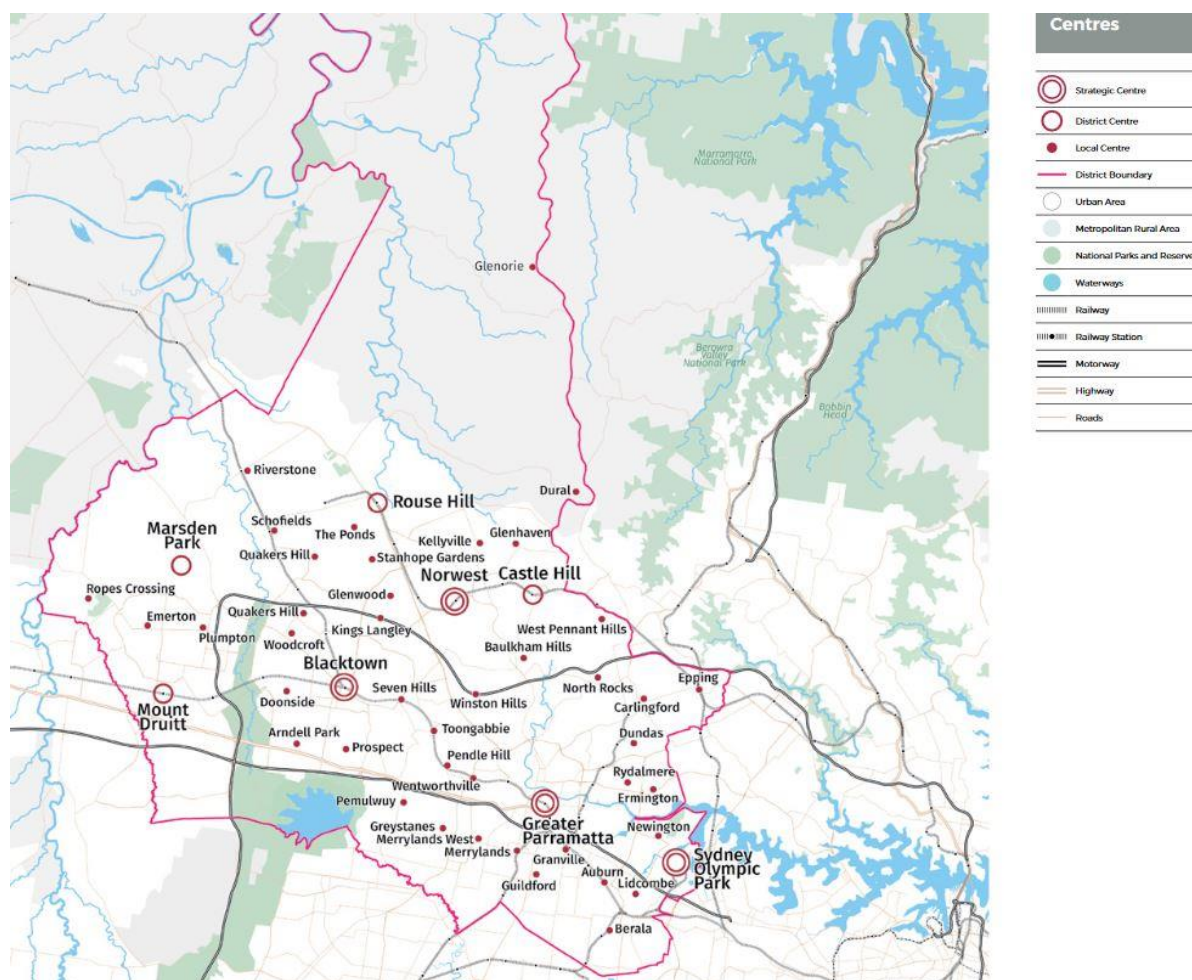
2. THE SITE AND PROPOSAL

2.1 LOCATION

The Site is situated at 18-40 Anderson Street, Parramatta within the local government area of City of Parramatta. The Parramatta CBD and Parramatta train station are located approximately 500m to the north of the Site, with Church Street and the Great Western Highway running adjacent Anderson Street approximately 65m to the west.

Situated on the southern fringe of the Parramatta CBD, the Site is located at the gateway of the automotive precinct along Church Street to the south of Great Western Highway known as Auto Alley. While located within the geographical boundaries of Parramatta, the Site is in close proximity to neighbouring Harris Park with the Harris Park train station and town centre approximately 350m to the south-east.

Figure 2.1: Strategic Context and Location of Parramatta



Source: Greater Sydney Commission (2016)

The Parramatta CBD is a major economic hub within Western Sydney, also serving as the major commercial, civic, educational and retail centre for the Central West District. A mix of uses is observed throughout the CBD with retail, commercial and entertainment uses found directly adjacent high-density residential. Beyond the CBD, residential uses dominate with the exception of commercial and large format retail along Church Street.

Measuring approximately 8,017sqm in site area, the Site is rectangular in shape with frontages to Anderson Street and Jubilee Park. The Site is comprised of a single allotment legally identified as Lot 20 in Deposited Plan 792518; existing improvements occupy the majority of site area.

2.2 ROLE OF THE PARRAMATTA CBD

Parramatta is a focal point of strategic State government planning. Concerted inter-agency planning to position the Parramatta CBD as metropolitan Sydney's second major CBD through growing the existing commercial market while encouraging high-density mixed use and residential land uses was outlined in the strategic planning framework included in *A Plan for Growing Sydney*. This was further supported in Greater Sydney Commission's draft West Central District Plan which espouses Greater Parramatta as the *Central City*.

Greater Parramatta is strategically placed in the centre of metropolitan Sydney, benefitting from an established and growing employment hub, a variety of transport and social infrastructure and proximity to the Westmead Health Precinct. The Parramatta CBD is currently undergoing a major rejuvenation with large capital investment (proposed and commenced) set to transform the CBD and generate large economic, commercial and social benefits:

- **Parramatta Light Rail:** construction of a new light rail network linking the Parramatta CBD with Westmead, Greater Parramatta, Carlingford, Camellia and potentially Sydney Olympic Park.
- **Urban Renewal of Parramatta Square:** major renewal of existing civic centre to accommodate a modern, ecologically sustainable mixed-use precinct with significant public domain additions and improvements.
- **Western Sydney Stadium:** demolition of the existing Parramatta Stadium for construction of a modern sports stadium capable of seating 30,000 patrons.
- **Sydney Metro West:** possible underground metro railway link from Parramatta to the Sydney CBD via the Bays Precinct.
- **Arts and Cultural Precinct (Parramatta City River Strategy):** relocation of the existing Powerhouse Museum in Ultimo as part of the proposed arts and cultural precinct within the Parramatta CBD. Funding has also been provided to upgrade the existing Riverside Theatres.

2.3 SURROUNDING DEVELOPMENT

The Site is immediate surrounded by a mix of commercial and public domain uses. Jubilee Park is located directly east of the Site with car showrooms and the PJ Gallagher's hotel located directly west of the Site. Further car showrooms are observed directly south of the subject property while a vacant development site understood to be owned by Dylam is located directly north of the Site.

Surrounding development to the south and west is predominantly large format showrooms given the proximity of the Site to Auto Alley along Church Street. Commercial office buildings (5-10 storeys) are observed north along Parkes Street with residential flat buildings (10-15 storeys) and mixed use buildings observed east along Cowper Street.

5-7 Parkes Street is located directly north of the Site and is understood to be subject to a Development Application for construction of a 24 storey mixed use building comprising a total of 173 residential apartments. The DA was lodged in August 2016 and was been subsequently approved to the Sydney West Central Planning Panel (SWCPP) on 10 May 2017.

2.4 EXISTING IMPROVEMENTS

The Site is currently improved with a six-storey hotel building originally constructed in 1991 comprising a total 181 rooms, ground floor restaurant and bar, corporate function rooms, gym facilities and heated inground pool and spa. A decked carpark is located adjacent the hotel building along the southern boundary of the Site.

Since commencement of operations the hotel has traded under a series of brands including Ramada, Courtyard by Marriot, Clarion on the Park prior to rebranding as Holiday Inn in 2012.

2.5 LANDREAM'S PROPOSAL

The Site is located within an area zoned B5 Business Development under the Parramatta Local Environment Plan 2011 (PLEP 2011) with a maximum FSR 4:1 and building height of 18m.

The City of Parramatta have submitted a draft Parramatta CBD Planning Proposal (CBD PP) to effect a series of changes recommended by the Parramatta CBD Planning Strategy (2015). The CBD PP is currently pending Gateway Determination by the DPE with a determination expected in 12-18 months.

Under the proposed CBD PP, the Site would be rezoned as B3 Commercial Core subject to maximum FSR 6:1 with a maximum building height of 80m.

The Amendments proposed under the Proposal/Submission include the following:

- The Site is rezoned from B5 Business Development to B4 Mixed Use.
- Density controls are increased from FSR 4:1 to FSR 6:1, excluding any potential FSR bonuses.
- Maximum building heights lifted from 18m to a minimum of 80m.

The Proposal seeks to redevelop the existing hotel into an international 5-Star hotel accommodating 250 rooms with conference and events facilities (for 300 persons), carparking for 150 cars, restaurant to cater for 150 seating, gym and swimming pool. The hotel is to be co-located with 25 serviced apartments and residential units (approximately 318 units).

3. PLANNING POLICY

3.1 A PLAN FOR GROWING SYDNEY

A Plan for Growing Sydney (NSW DPE, 2014) (the Plan) sets the strategic direction for Sydney towards 2031. The overarching vision is that by 2031, Sydney will be “a strong global city, a great place to live”. The Plan is built around four key goals:

- **Goal 1:** A competitive economy with world-class services and transport.
- **Goal 2:** A city of housing choice with homes that meet our needs and lifestyles.
- **Goal 3:** A great place to live with communities that are strong, health and well connected.
- **Goal 4:** A sustainable and resilient city that protects the natural environment and has a balanced approach to the use of land and resources.

Goal 1-3 are relevant to the consideration of economic development of the Site. A number of directions shape the imperative of each goal to support a competitive economy, provide a city of housing choice with vibrant communities.

Goal 1: A Competitive Economy with World-class Services and Transport

- Direction 1.2: Grow Greater Parramatta – Sydney’s Second CBD
 - Action 1.2.1: Grow Parramatta as Sydney’s second CBD by connecting and integrating Parramatta CBD, Westmead, Parramatta North, Rydalmere and Camellia.
- Direction 1.7: Grow Strategic Centres

The need to expand the arts, cultural and entertainment facilities within Parramatta to cement its status as a CBD of metropolitan significance is a major component of Goal 1. As investment reaches a critical mass of residents and workers, cultural, arts and recreational facilities are no less important elements of a vibrant and successful CBD. The provision of the first 5-Star premium hotel facility within the Parramatta CBD attempts to address this Direction.

Goal 2: A City of Housing Choice

- Direction 2.1: Accelerate housing supply across Sydney
 - Action 2.1.1: Accelerate housing supply and local housing choices.
- Direction 2.2: Accelerate urban renewal across Sydney – providing homes closer to jobs
 - Action 2.2.2: Undertaken urban renewal in corridors which are being transformed by investment, and around strategic centres.

The provision of more jobs closer to home to remove “pinch points” in access to strategic centres and transport gateways is also of fundamental importance. As the commercial precinct within the Parramatta CBD continues to grow in years to come, the delivery of more housing through targeted urban renewal around the CBD will be required to provide more homes closer to jobs and boost the vibrancy of the CBD.

The Submission seeks to provide residential accommodation in close proximity to a major commercial working hub and address the underlying supply gap which is the fundamental cause of Sydney’s current affordability issue.

Goal 3: Sydney’s Great Places to Live

- Direction 3.1: Revitalise existing suburbs
- Direction 3.4: Promote Sydney’s heritage, arts and culture

Focusing new housing within Sydney’s established suburbs brings real benefits to communities and makes good social and economic sense. This type of development lowers infrastructure costs; reduces the time people spend commuting to work or travelling between places.

Furthermore, *Direction 3.4: Promote Sydney's heritage, arts and culture* espouses the need to grow the arts and cultural opportunities in Parramatta with plans to work in conjunction with Council to plan an entertainment precinct in Parramatta. With the early construction works of the new Western Sydney Stadium underway, investment into tourism is well underway within the CBD.

The Submission seeks to address a fundamental gap in the current Parramatta hotel market via the introduction of a 5-star hotel facility which would provide a fundamental addition for Parramatta to be elevated to true CBD status.

3.2 WEST CENTRAL DISTRICT PLAN

The draft West Central District Plan positions Parramatta as the *Central City* anchored by Greater Parramatta and the Olympic Peninsula (GPOP) in the West Central District. The Central City is acknowledged as the major source of economic growth and beneficiary of infrastructure investment across metropolitan Sydney over the coming decades.

Productivity Priority 2 seeks to drive the growth of the Central City:

- Incentivise investment in hotel and short-term accommodation for overnight visitors.
- Invest in more facilities to attract visitors.
- Provide industry support and visitor servicing.
- Develop place making initiatives.

Liveability Priority 1 seeks to deliver West Central's five-year housing targets:

- Councils need to liaise with the Commission to provide the five-year target of 21,650 new dwellings within the Parramatta LGA over the 2016-2021 period.

The Submission will support and strengthen the Central City's tourism industry and increase the depth of hotel product within the local market, and also contributing to Parramatta's 2021 dwelling target.

3.3 AUTO ALLEY FRAMEWORK

The draft Auto Alley Framework was endorsed by City of Parramatta in late 2014 as the strategic planning policy for the automotive precinct along Church Street south of the Great Western Highway. The draft Auto Alley Framework proposes a series of changes to zoning, floorspace ratios and building heights along Church Street and numerous other local roads, including Anderson Street.

Figure 3.1: Proposed Planning Controls, Auto Alley Framework (2014)



Source: Parramatta City Council (2014)

Planning controls in the Auto Alley Framework proposed that the Site be subject to additional density from FSR 4:1 to FSR 6:1 and an increase in heights from 18m to 26m whilst retaining the existing B5 Business Development zoning.

The Site is the only commercially zoned site within the Auto Alley Framework that does not benefit from a direct frontage to Church Street. It is understood that flood risk was the primary determinant in this decision; commercial uses acknowledged to present a lower risk of harm to occupants compared to residential uses.

The future rezoning of the Site was ultimately decided to be deferred from the wider Auto Alley Precinct until there was compliance with Section 117 Direction for Flood Prone Land (Mecone, 2017).

3.4 LOCAL PLANNING POLICY

Parramatta Local Environment Plan 2011

The Site is zoned B5 Business Development in accordance with the Parramatta Local Environment Plan 2011 (PLEP 2011).

The objectives of the B5 Business Development zone are:

- To enable a mix of business and warehouse uses, and bulky goods premises that require a large floor area, in locations that are close to, and that support the viability of, centres.
- To maintain the economic strength of centres by limiting retailing activity.
- To enable land uses that provide facilities or services to meet the day to day needs of workers in the area.
- To encourage a range of tourism, recreation, function and entertainment uses in proximity to the Rosehill Racecourse, the Parramatta River and the Western Sydney University.
- To provide for automotive businesses, trades and services to reinforce the existing functions of land within the zone.
- To ensure that development is arranged and carried out in a way that does not intrude on the amenity of adjoining residential areas or detract from the function of commercial development in the commercial core.

The B5 Business Development zone permits the following uses: building identification signs, bulky goods premises, business identification signs, child care centres, food and drink premises, garden centres, hardware and building supplies, kiosks, landscaping material supplies, markets, neighbourhood shops, passenger transport facilities, plant nurseries, respite day care centres, roads, self-storage units, timber yards, vehicle sales and hire premises, warehouse or distribution centres, water recycling facilities.

The floorspace ratio control applicable to the Site is FSR 4:1; maximum building height permitted is 18m.

Sun access clauses are applicable to Site in order to protect the neighbouring Jubilee Park from overshadowing; sun access plane controls are outlined in the Parramatta Development Control Plan 2011.

Parramatta CBD Planning Strategy 2015 and Parramatta CBD Planning Proposal

Adopted in Q2 2015, the Parramatta CBD Planning Strategy (the Strategy) provided a single strategic planning policy for the future development of the Parramatta CBD. The Strategy incorporated the recommendations of the draft Parramatta City Centre Planning Framework Review Study (undertaken by Architectus and SGS Economics and Planning) in addition to those recommended in the Auto Alley Framework (2014).

The Strategy provided strategic planning context and recommendations to support the City of Parramatta's draft Parramatta CBD Planning Proposal.

The Strategy supported the planning controls espoused within the draft Auto Alley Framework (2014) for the Site with FSR 6:1 and building height of 80m however proposed a B3 Commercial Core zone instead of B5 Business Development zone.

The draft Parramatta CBD Planning Proposal (CBD PP) is the culmination of a series of technical studies, including the Parramatta CBD Planning Strategy 2015, into a formal document recommending a set of changes to planning controls applicable to the Parramatta CBD. The CBD PP was formally endorsed by Parramatta City Council in April 2016 and submitted to DPE for Gateway Determination in April 2017.

The Site falls within the CBD catchment subject to the series of proposed changes outlined within the CBD PP. The draft controls that are proposed to apply to the Site under the CBD PP are detailed in Table 3.1 notwithstanding these controls are subject to change pending determination from DPE.

Table 3.1: Proposed Planning Controls as per draft Parramatta CBD Planning Proposal

Clause/Standard	Provisions
Zoning	B3 Commercial Core
Permitted without Consent (Item 2)	Nil
Permitted with Consent (Item 3)	Building identification signs; Business identification signs; Business premises; Car parks; Child care centres; Commercial premises; Community facilities; Educational establishments; Entertainment facilities; Function centres; Hospitals; Hotel or motel accommodation; information and education facilities; Medical centres; Office premises; Passenger transport facilities; Places of public worship; Public administration buildings; Recreation facilities (indoor); Registered clubs; Respite day care centres; Restricted premises; Roads; Tourist and visitor accommodation.
Prohibited (Item 4)	Any development not specified in Item 2 or 3 (including residential accommodation).
Floorspace Ratio	FSR 6:1
Height of Building	Maximum building height of 80m and part 0m (0m portion reflective of planned park) Note: Further restrictions apply under the Sun Access Plane provisions.
Sun Access Protection	The land to which this clause applies (shown purple on Sun Access Protection Map) must not cause any additional overshadowing to Jubilee Park between 12pm and 2pm at mid-winter.

Source: Mecone (2017)

3.5 IMPLICATIONS FOR THE PROPOSAL

A Plan for Growing Sydney (2014) sets the strategic direction for metropolitan Sydney, specifically the strengthening of Greater Parramatta to accommodate Sydney's second CBD. This strategic goal is further affirmed in the draft Central West District Plan which espouses a series of strategic directions and actions in order for this primary goal to be realised.

The Submission has regard to and is consistent with the goals, directions and actions of state strategic planning objectives, through various proposed elements.

- Deliver a premium 5-star hotel destination within the Parramatta CBD to support and strengthen the current accommodation offer within Parramatta and accommodate the future growth in tourism activity planned for the region.
- Encourage the growth and consolidation of further art, cultural and tourist attractions within Parramatta increase the prominence of the Parramatta CBD by providing premium accommodation options.
- Facilitate the achievement of the Parramatta LGA's five-year housing targets (2016-2021).
- Provision of additional residential housing in close proximity to employment areas and transport nodes to bring people closer to the work and achieve the '30 minute city' outcome.

Furthermore, the Submission is consistent with the underlying land use strategy for Auto Alley through the provision of mixed uses around the flanks of the commercial spine along Church Street. A mixed use zone would represent a logical land use pattern given the land to the immediate north and south is proposed for B4 Mixed Use, and a 26 storey mixed use residential building already approved to the direct north of the Site.

Ultimately, future land use and development on the Site is subject to market acceptance and market willingness to pay for the space developed, which collectively underpin the type of development that is a commercial proposition.

The next chapter investigates the need for various land uses as well as the Site's competitive position to viably accommodate those uses.

4. POTENTIAL LAND USES

This Chapter investigates a range of land uses that could be developed on the Site - commercial office as envisaged in the Parramatta CBD Planning Proposal, as well as a mix of hotel, serviced apartments and residential uses as contemplated in the Submission.

4.1 COMMERCIAL OFFICE USES

This section outlines the key macro and micro trends that are influencing the demand and supply of commercial floorspace in Parramatta, analyses current market conditions and performance indicators, reviews the current development pipeline and forms a view on the likelihood of office development occurring on the Site as envisaged in the CBD PP.

4.1.1 Economic and Market Trends

As the fourth largest suburban office market in Australia (current total of 701,000sqm of commercial office floorspace), Parramatta is a key market at both a state and national level. With a rapidly growing population and strong economic growth backed by large-scale government infrastructure spending, the outlook for the Parramatta metropolitan economy is positive.

Strong population and economic growth has created positive economic conditions for the local commercial office market. A low interest environment has further provided sound economic conditions for the growth of the Parramatta CBD; record levels of commercial and residential development occurring over the past five years. Developers and investors alike are observed keen to take advantage of the availability of cheap credit and invest in the Parramatta region on the back of strong economic and population growth forecasts in addition to the significant state and local government expenditure on infrastructure.

In line with the above economic trends, a series of market factors are also observed to be influencing investment conditions within the Parramatta CBD:

- **Whole-of-government Focus on Parramatta CBD**
A concerted, whole-of-government focus on the future direction of Western Sydney, particularly Parramatta, has raised the profile and status of the Parramatta CBD significantly. The shift contemplated in the *A Plan for Growing Sydney 2014* and affirmed through the Greater Sydney Commission's District Plans towards focusing on Parramatta as "Sydney's second CBD" and "Central City", has catalysed private investment into the Parramatta CBD with commercial occupiers and residents alike showing keen interest locating within the area.
- **Significant Infrastructure Investment**
As a result of the significant forecasted population and economic growth, government at all levels have focused a significant amount of capital investment into the Parramatta CBD and Western Sydney more broadly. Projects such as the Western Sydney Airport, WestConnex, Parramatta Light Rail, Sydney Metro West, Western Sydney Stadium, Parramatta Square and Parramatta Arts and Cultural Precinct have provided the private sector confidence that the realignment of metropolitan Sydney towards Parramatta is well underway, spurring significant private capital investment.
- **Rise in Sydney CBD and City Fringe Commercial Rents**
Strong demand for commercial floorspace within the Sydney CBD coupled with a reduction in supply as a result of residential conversions and acquisitions required for the new Metro line have resulted in a sharp rise in commercial office rents over the past 12 months with many tenants relocating to suburban office markets. The Parramatta CBD is understood to have accommodated a number of such occupiers over the 2016-17 period.
- **Anticipated Change to Local Planning Controls (FSR and Height)**
The Parramatta CBD Planning Proposal intends on lifting density and building height controls across the Parramatta CBD to encourage and facilitate high-rise, mixed use development across the area. Intention of these changes have been well-known by the developer community since early 2014 when Parramatta Council originally tabled a proposal to remove building height limits.

- **Strong Local and Offshore Developer Interest**

Demand from both domestic and offshore developers for commercial assets and/or development opportunities is pronounced. The strength of the apartment market within the Parramatta CBD has spurred continued interest residential developers keen to take advantage of current market conditions. Given the lack of investment grade assets being brought to market in the Sydney CBD, unlisted funds and syndicates in addition to offshore groups are increasingly seeking opportunities in suburban commercial markets such as Parramatta to satisfy investment mandates.

- **Strong Demand for Large Floor Plates**

The policy of decentralisation within state government over the past decade has increasingly seen large government departments relocating from the Sydney CBD to suburban commercial markets. Numerous agencies (Dept of Education, Water NSW, Dept of Planning and Environment, Dept Of Finance) have secured or are seeking accommodation within the Parramatta CBD. Numerous large private firms have also increasingly sought premises in the Parramatta CBD; NAB recently pre-committing 43,000sqm of commercial floorspace for Stage 3 Parramatta Square to commence in 2020.

The above economic and market trends have spurred unprecedented levels of activity for commercial floorspace within the Parramatta CBD. The commercial supply pipeline is analysed in the next section.

4.1.2 Development Pipeline

The volume of commercial supply within Parramatta is at historic highs with major projects such as Parramatta Square set to transform the CBD commercial office landscape. Commercial floorspace observed in the pipeline ranges from small, ground floor commercial suites at the base of largely residential mixed-use developments to premium and A-Grade commercial office tower developments in the heart of the CBD. This distinction is important given premium/A-Grade, secondary and mixed-use type commercial floorspace attract a set of different occupiers and price points.

Table 4.1: Commercial Development Pipeline, Parramatta 2017-2021

Type	Projects	Total GFA (sqm)
Commercial Office*	20	236,489
Commercial Office (Mixed Use, >4,500sqm)	9	352,912
Commercial Office (Mixed Use, 1,000sqm-4,500sqm)	8	19,640
Commercial Office (Mixed Use, 300sqm-1,000sqm)	8	4,211
Commercial Office (Mixed Use, <300sqm)	6	620
Total	51	613,872

*Excludes commercial floorspace included in mixed use developments.
Source: Cordell Connect, DPE

As observed from Table 4.1 the potential quantum of commercial floorspace to be delivered within Parramatta over the 2017-2021 period is more than 600,000sqm GFA, *assuming all projects are delivered*. Further analysis of the development pipeline suggests that of the total supply proposed, a minimum of 531,179sqm (or 84%) would be at least A-Grade commercial space.

Target Demand for Commercial Floorspace

The Parramatta CBD Planning Strategy identifies a target of 27,000 additional jobs by 2036. The Parramatta CBD Planning Proposal states a target of 972,000sqm of additional commercial floorspace to meet this jobs target.

As observed from Table 4.1, more than 600,000sqm of commercial floorspace is proposed to be delivered across the Parramatta LGA by 2021, approximately 63% of the aspirational target of 972,000sqm.

A detailed list of the projects comprising the commercial development pipeline is attached as Appendix C.

4.1.3 Requirements for Development of A-Grade Office Buildings

The existing built environment strongly influences the attractiveness and appeal for certain types of employment floorspace within an area. While the aesthetic presentation of industrial space is arguably less a consideration as functionality, such issues are fundamental for commercial space to have market appeal. A wide variety of factors influence the demand for, and viability of, commercial office space.

The Parramatta office market is mainly focused between the T1 Western rail line and the Parramatta River; the CBD's major office buildings heavily clustered along George Street, Macquarie Street, Smith Street and Darcy Street. Furthermore, the vast majority of new office development proposed is observed to be along the abovementioned streets.

Figure 4.1 identifies the various precincts within the Parramatta CBD office market (PCA) with the location of the Site included for context.

Figure 4.1: Parramatta Office Market Precincts



Source: AEC, PCA (2017)

Economic Review – Achieving A-Grade Office Development

The *Achieving A-Grade Office Space in the Parramatta CBD: Economic Review October 2015* (the Review) prepared by Urbis was commissioned by City of Parramatta to assess the requirements for attracting additional A-Grade commercial floorspace within the Parramatta CBD and provide a set of planning recommendations to achieve such investment.

The Review identified the general requirements to attract A-Grade investment and tenants, specifically:

- **Provision of large floorplates (minimum of 1,300sqm)** given the appeal of large, contiguous floors to major tenants in order to improve circulation and interaction.
- **Flexible floorplate options** with efficient workplace design, often via the reduction of central/side cores.
- **High ceiling heights** circa 2.7m which generally appeal to workers and tenants.
- **Good lift service** of high quality and frequency to support the efficient circulation of staff for a positive impression to be generated.
- **End-of-trip facilities** including bike storage, change rooms and lockers to improve tenant amenity.
- **High amenity areas** with access to transport, retail, food, recreation and other services whilst located in areas of strong commercial character.
- **Strong environment ratings** with minimum 4 Star Green Star Design Rating and 4.5 Star NABERS Office Energy rating.

These location-specific and property-specific requirements have implications for the cost of construction and therefore development will only occur where achievable rents justify the development. Recommendations made to stimulate development of A-Grade commercial office floorspace within the Parramatta are detailed in Table 4.2.

Table 4.2: Recommendations for A-Grade Office Development

No	Recommendation	Description
1	Office as predominant use in Commercial Core	Reaffirm office development as the predominant use in the Commercial Core though allow residential apartment development under certain circumstances (see recommendation below). It is recommended that controls promote A-Grade office buildings of at least 20,000 sqm and be informed by planning, design and heritage considerations.
2	Subject to planning, design, and heritage considerations, potentially allow horizontal mixed use development in the Commercial Core subject to net additional A-Grade office space of over 20,000sqm on the site	Allow a separate residential apartment building to be built on a site where there is the net additional development of A-Grade office space of over 20,000 sqm. Potential of the strategy be informed by planning, design and heritage considerations to determine the number of sites that can accommodate such development.
3	Subject to an adequate number of suitable sites being identified in the Commercial Core for horizontal mixed use development, consider implementing a residential development cap	Implementing a cap on the amount of residential floorspace that can be developed in the Commercial Core (subject to adequate sites in the Commercial Core being identified for horizontal mixed-use development).
4	Remove maximum FSR and height controls for office development	Remove maximum FSRs for commercial office development in the Commercial Core and be more flexible on allowable building heights for commercial development.
5	Maximum FSR for small lots	Only allow FSRs greater than 3:1 for those sites over 2,000sqm to promote site amalgamation.
6	Complementary design code for residential uses	Develop built form controls so that any residential development in the Commercial Core (if permitted) is of a 'commercial aesthetic'.
7	Expansion of Commercial Core	Expand the Commercial Core to create a more cohesive commercial precinct and integrate key commercial nodes. Includes connecting the existing core to the Justice Precinct and Westfield Parramatta.
8	Auto Alley Precinct	Continue to encourage non-residential, employment generating land uses in the Auto Alley Precinct.

Source: Urbis (2015)

Of particular relevance to the Site are Recommendations 6-8 by Urbis:

- **Recommendation 6: Complementary Design for Residential Uses**
It is well accepted that if not managed appropriately, land use conflicts between commercial uses and residential uses can undermine the prestige and overall market appeal of a commercial building, resulting in poor marketability. Recommendation 6 seeks to address this risk within the Parramatta CBD via an additional residential design code to ensure residential and mixed-use developments do not detract from the commercial character of an area which can reduce the attractiveness of an area as an office precinct.

Application to the Site

Numerous existing residential towers are located within the vicinity of the Site, particularly along Cowper Street to the east which is identified as a point of concern within the Review (page 75). Residential flat buildings and towers along Cowper Street are observed to range from 7 to 17 storeys and are distinctly residential in design, overall detracting from the commercial character of the area.

With the approval of the residential development at 5-7 Parkes Street directly north of the Site, the commercial character of the immediate area surrounding the Site is likely to be further diminished.

- **Recommendation 7: Expansion of Commercial Core**

The expansion of the Commercial Core is a key recommendation of the Review to ensure Council's 2036 target for commercial floorspace is achieved, highlighting the potential of the Westfields Parramatta site and the eastern portion of Parramatta Square as having significant potential to accommodate future supply of A-Grade office space.

Importantly, the Review acknowledges the benefit of pursuing a single contiguous core, citing key areas such as the Church Street dining precinct as areas to be quarantined from additional commercial development.

Application to the Site

The Site is located south of Parkes Street and is heavily constrained by the Great Western Highway bisection given its location within the Auto Alley Precinct with walkability and connection to the primary Parramatta CBD and train station limited.

Given the site constraints, an expansion of the Commercial Core towards Auto Alley (and the Site) is not viable or desirable for commercial developers, with substantial changes to the built environment and circulation patterns required to address the current disconnectedness from the rest of the CBD and supporting amenity.

- **Recommendation 8: Auto Alley Precinct**

In order to economically acquire and develop land, a proposed use must translate into a higher value than an existing use including any improvements on it. With regard to commercial office development, the rents achievable (or economic rents) on a site will directly influence the viability of pursuing commercial development thereon.

The Review acknowledges that Auto Alley Precinct is unlikely to attract A-Grade office development in the short to medium term due to a variety of factors (character of surrounding built form, site constraints, distance from existing CBD and train station). Rather, the Site is considered to have long term potential.

Application to the Site

The long-term outlook for the Auto Alley Precinct to accommodate A-Grade office development is considered unrealistic, this requiring substantial changes to the existing surrounding land uses, including circulation patterns and access to the CBD. The high proportion of strata residential to the east along Cowper Street significantly prevents a forming of any commercial character or prestige to the area.

4.1.4 Suitability of the Site

The Site is located at the southern edge of the South Precinct of the Parramatta CBD office market which effectively traverses into the northern boundary of the Auto Alley Precinct. Existing office developments within the South Precinct include Macquarie Tower at 10 Valentine Avenue (13,609sqm NLA), 20 O'Connell Street (53,824 NLA) and 2 Wentworth Street (10,941sqm NLA), all of which are in the north of the precinct toward the train station.

Notably, no new commercial developments are observed to be progressed near the Site; the vast majority occurring in the Mid-City and East Precincts. The Westfields Parramatta office development (in the north of the South precinct) is the only new A-Grade office being progressed within the South Precinct; approximately 35,000sqm of

commercial GFA being proposed to date with completion expected Q1 2021. Closer to the Site, mixed-use developments at 87 Church Street and 6 Great Western Highway are proposing a total of 3,300sqm of commercial GFA co-located with 570 residential units.

There is a distinct lack of amenity on the southern fringe of the South Precinct, surrounded mostly by car showrooms. The distance from the Parramatta train station is an issue, with Harris Park (rather than Parramatta) the closest train station. The surrounding commercial built environment markedly inferior to that enjoyed by office buildings within the Mid-City Precinct.

Even though there is demonstrated strong demand for good quality and contemporary office floorspace, not all sites lend themselves to development of A-grade office buildings. The Site is one of these sites.

The poor connectivity to the CBD, poor surrounding amenity and dominant residential character collectively undermine the ability of the Site to offer the prestige and corporate image required by A-grade office tenants. These are critical site selection factors that determine the suitability of sites and precincts for A-grade office development. The dynamics of these factors have played out in, and can be observed in Chatswood and the southern portion of the Sydney CBD, where a dominance of residential uses have served to lower the corporate image of the area, thereby limiting the rents commercial tenants will be prepared to pay. This issue is considered in greater detail in Chapter 0.

4.2 HOTEL LAND USES

4.2.1 Western Sydney Visitor Profile

This section analyses both the Western Sydney tourism market and the City of Parramatta (which has been adjusted from the former Parramatta LGA boundaries).

Tourism is an important component of the Parramatta economy attracting numerous visitors from rest of NSW, interstate and other countries each year. Parramatta forms a major component of the broader Western Sydney tourism market which includes the Auburn, Bankstown, Blacktown, Camden, Campbelltown, Fairfield, Hawkesbury, Holroyd, Liverpool, Penrith, The Hills and Wollondilly LGAs.

Day-trippers and domestic overnight visitors comprise the majority of visitors (73% and 23%, respectively), with international visitors comprising a small proportion of visitation, circa 4%. However, given the higher average length of stay of international visitors (12.5 nights) compared to domestic visitors (5.6 nights), despite comprising a smaller proportion of the visitation market international visitors account for a larger proportion of visitor nights.

Table 4.3: Key Visitor Data, Western Sydney, YE June 2016

Statistic	International Visitors	Domestic Overnight Visitors	Domestic Day Visitors	Total
<i>Visitors ('000)</i>	374.8	2,140.6	6,968.7	9,484.1
<i>Nights (million)</i>	12.5	5.6	-	18.1
<i>Average stay (nights)</i>	33	3	-	-
<i>Spend (\$ billion)</i>	1.4	1.6	0.7	3.7
Average spend per trip (\$)	\$3,743	\$738	\$104	-
Average spend per night (\$)	\$112	\$283	-	-
Purpose of Visit				
<i>Reason (%)</i>				
Holiday	30.2%	16.2%	36.7%	
Visiting friends or relatives (VFR)	53.6%	54.1%	39.0%	
Business	9.1%	22.6%	12.3%	
Other	9.1%	7.6%	12.0%	
Activities and Demographics				
<i>Activities (%)</i>				
Culture and heritage	67.6%	12.0%	8.3%	
Shopping and retail	81.0%	19.4%	13.2%	
Food and wine	88.5%	48.7%	40.5%	

Statistic	International Visitors	Domestic Overnight Visitors	Domestic Day Visitors	Total
Nature based	47.0%	-	-	
Travel Party Type (%)				
Unaccompanied	55.1%	43.1%	-	
Adult couple	20.9%	22.5%	-	
Family group	11.8%	18.7%	-	
Friends/relatives travelling together	9.1%	10.4%	-	
Other	3.1%	5.3%	-	
Age Group (%)				
15-29	25.4%	29.0%	22.5%	
30-39	18.0%	11.9%	15.0%	
40-49	17.2%	17.2%	16.9%	
50-59	18.9%	18.6%	17.7%	
60+	20.4%	23.4%	28.0%	
Origin				
Top 3 Markets	New Zealand (18.7%)	Sydney (16.0%)	Sydney (69.8%)	
	China (11.0%)	Hunter (9.3%)	South Coast (6.9%)	
	South Korea (10.8%)	Melbourne (9.0%)	Blue Mountains (6.5%)	

Source: TRA summarised by DNSW (2016)

Expenditure

Tourism expenditure in the Western Sydney region grew 43.2% over the period between June 2012 and June 2016, which was fueled by a combination of increased visitation and increased average spend per visitor. Conversely, average spend per night decreased to \$205 from \$227, equivalent to a decrease of 9.7%.

Table 4.4 identifies the total expenditure and average spends by visitors to the Western Sydney region over the four years from 2012 to 2016. This is a useful proxy for understanding general trends within Western Sydney LGAs, including Parramatta.

Table 4.4: Expenditure and Average Spend per Visitor, Western Sydney (2012-2016)

Measure	Total	Domestic Day Trips	Domestic Overnight Visitors	International Overnight Visitors
June 2012				
Spend	\$2.6 billion	\$0.7 billion	\$1.2 billion	\$0.6 billion
Spend per visitor	\$308	\$112	\$760	\$3,170
Spend per night	\$227	-	\$248	\$98
June 2016				
Spend	\$3.7 billion	\$0.7 billion	\$1.6 billion	\$1.4 billion
Spend per visitor	\$391	\$104	\$738	\$3,743
Spend per night	\$205	-	\$283	\$112

Source: TRA summarised by DNSW (2016)

4.2.2 Parramatta Visitor Profile

A total of approximately 1.299 million visitors visited Parramatta in 2016, with average growth in visitation of approximately 2.4% per year over the 2011-2016 period. Daytrip visitation fluctuated annually however a nominal decline is observed since a peak in 2012. The number of domestic overnight visitors increased from 2011 onwards until a drop in 2016.

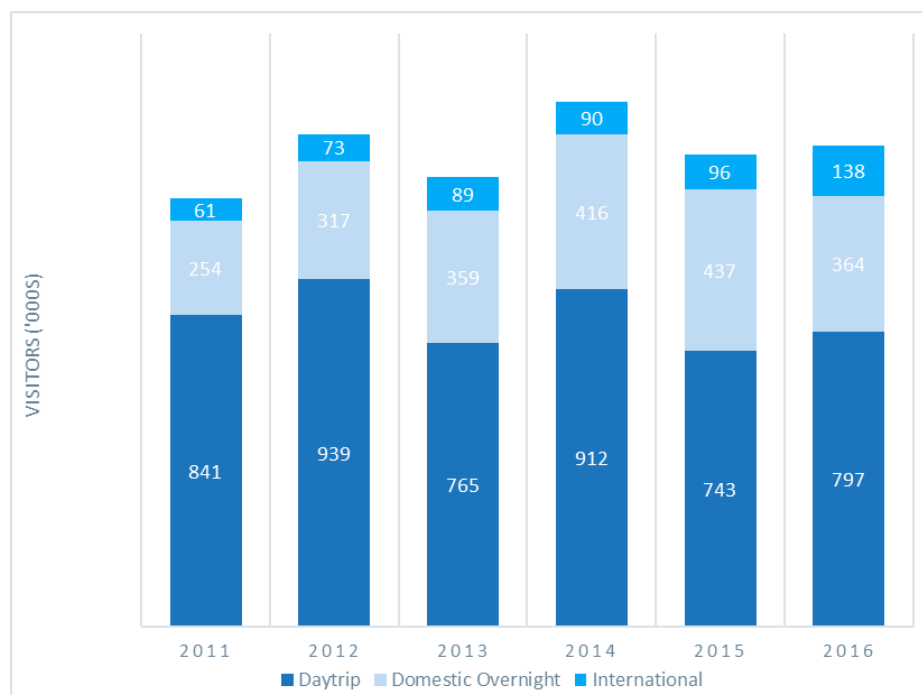
Figure 4.2 represents total visitation to June 2016 while Figure 4.3 illustrates this as a trend analysis. Figure 4.2 highlights the fluctuating nature of daytrip visitation growth since 2011, with steady increase in international visitors observed.

In contrast to the larger Western Sydney visitor profile, international visitors comprised a larger proportion of total visitors to Parramatta - 10.6% compared to 4% in Western Sydney. A larger proportion of domestic overnight visitors are also observed in Parramatta (28%) compared to Western Sydney (23%).

The steady growth in visitor numbers over the 2011-2016 period at an average growth rate of 2.6% per annum has direct implications on tourism expenditure and demand for services across various sectors of the local economy. As total visitor numbers continue rise, visitor oriented services such as cafes, restaurants, and key visitor attractions are likely to experience large positive effects.

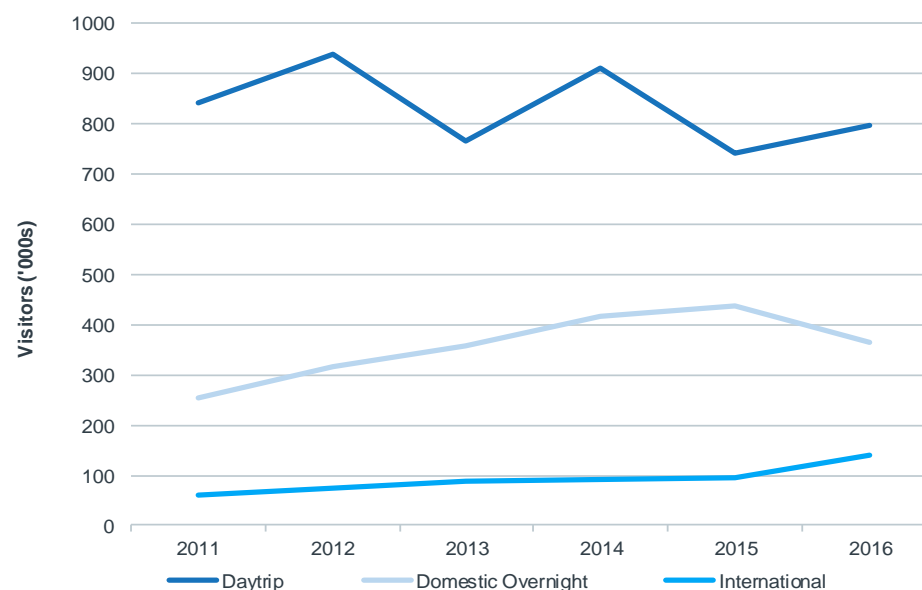
Increasing visitor numbers also impact on overall expenditure across other sectors, i.e. non-food retailers (clothing and footwear), transportation and entertainment, thereby impacting the associated industries and markets. This is especially relevant to a growing international visitor market who spend on average more than four times per visit compared to domestic overnight visitors.

Figure 4.2: Visitor Numbers, Parramatta



Source: TRA (2017a,b)

Figure 4.3: Visitor Numbers (Trend), Parramatta



Source: TRA (2017a,b)

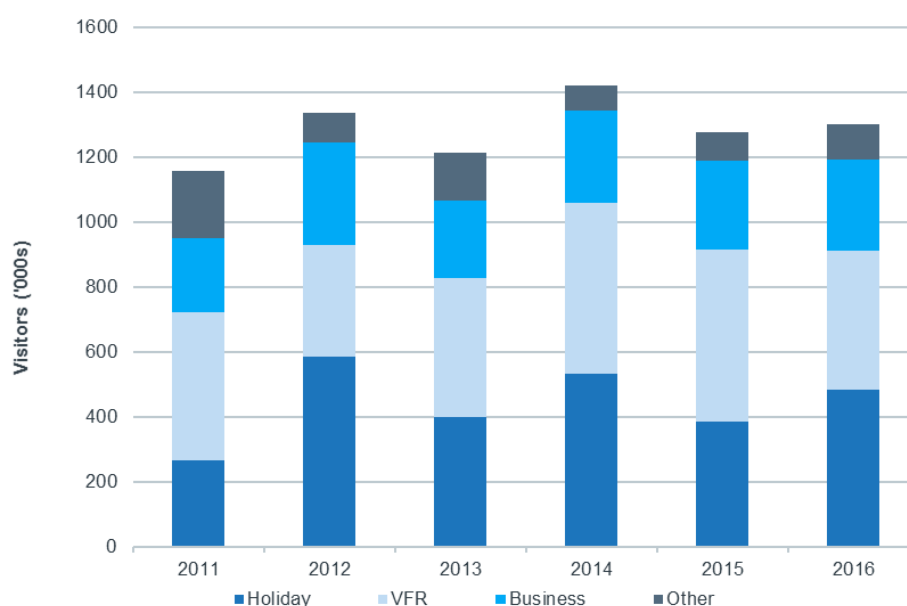
Reasons for Travel

Holiday and VFR (visiting friends and relatives) travelers comprise the greatest proportion of total visitors to Parramatta over the 2011-2016 period, accounting for approximately 34.1% and 35.3% of total visitors, respectively. As at June 2016, holiday travelers accounted for 37.1% of all visitors whilst VFR visitors accounted for 32.9%. Visitors for business reasons are observed to have dropped in 2013 and have steadily recovered since that time; accounting for 21.7% of all visitors within Parramatta in 2016.

Figure 4.4 represents total reasons for travel over the 2011-2016 period while Figure 4.5 illustrates this as a trend analysis.

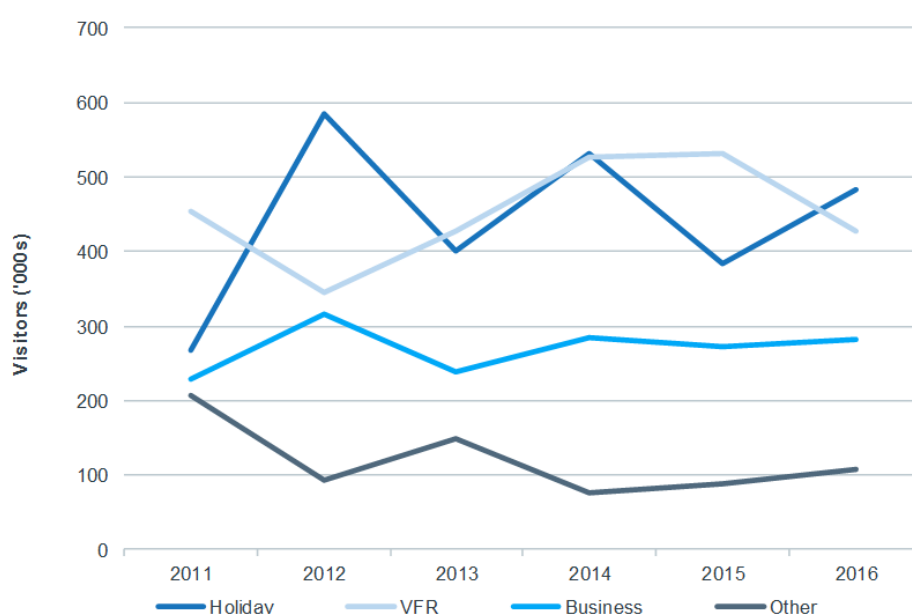
Reasons for travel have direct implications on the type and quality of accommodation likely to be demanded, i.e. international visitors and business visitors generally favour mid to high-end hotel accommodation whereas overnight domestic visitors typically seek lower-cost, lower amenity style accommodation (serviced apartments).

Figure 4.4: Reason for Travel, Parramatta



Source: TRA (2017a,b)

Figure 4.5: Reason for Travel (Trend), Parramatta



Source: TRA (2017a, b)

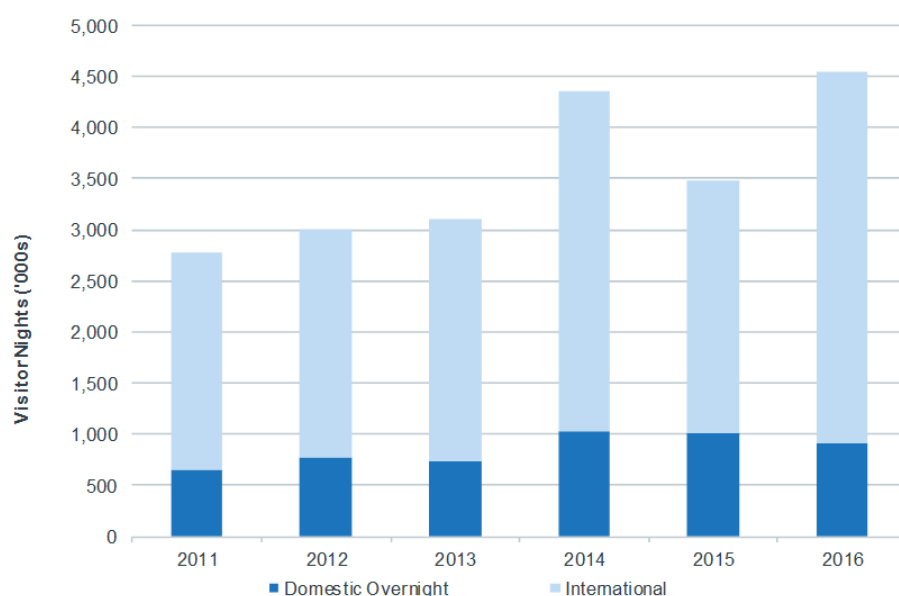
Visitor Nights

The number of overnight visits to Parramatta is approximately 4.5 million in 2016, representing an increase of 30.5% over the previous year and an average increase of 10.3% per year over the last five years. The international market accounted for around 80% of visitor nights (3.645 million visitor nights) to Parramatta in 2016, whilst the domestic market comprised approximately 20% (0.906 million visitor nights).

The number of domestic visitor nights has increased on average since 2011, but its market share has decreased over time. Conversely, international visitor nights have increased by 11.3% on average, whilst its market share has also increased.

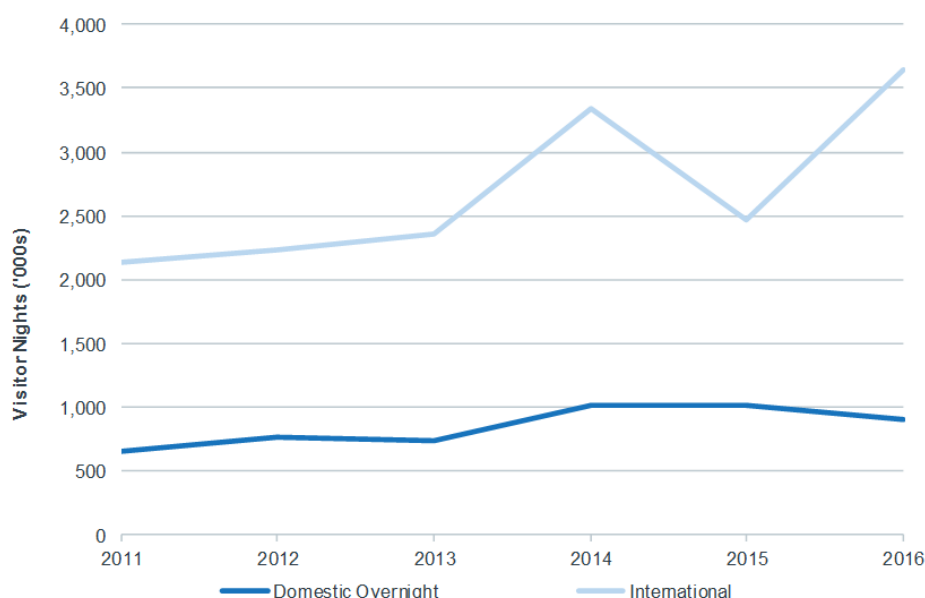
Figure 4.6 represents total visitation from June 2011 to June 2016 while Figure 4.7 illustrates this as a trend analysis.

Figure 4.6: Visitor Nights, Parramatta



Source: TRA (2017a, b)

Figure 4.7: Visitor Nights (Trend), Parramatta



Source: TRA (2017a, b)

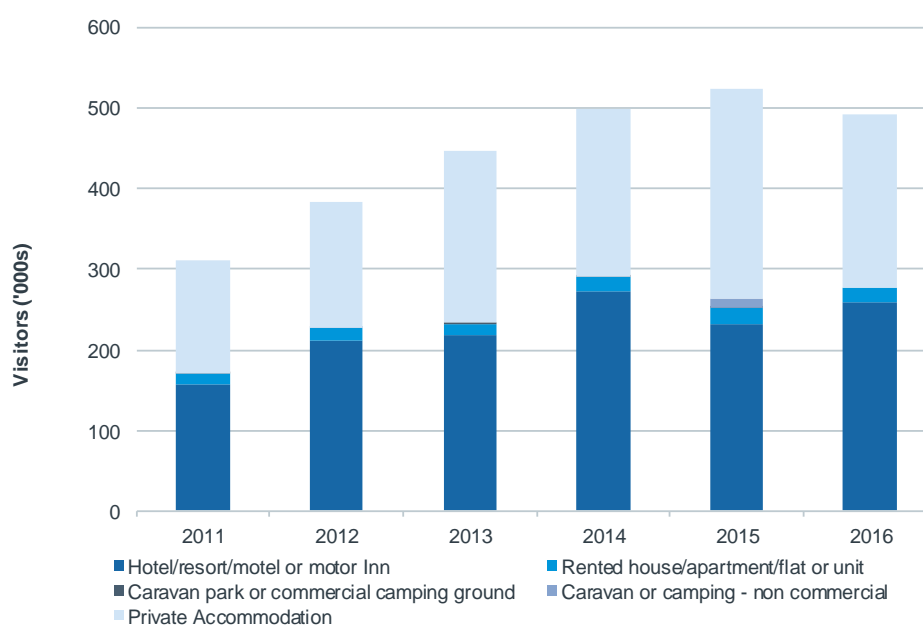
Type of Accommodation

The hotel/resort/motel or motor inn accommodation typology is observed as the most popular type of accommodation frequented by visitors in Parramatta, accounting for approximately 50% market share over the 2011-2016 period. Private accommodation is also heavily favoured, accounting for approximately 44.2% over the same time period.

Demand for backpacker or hostel accommodation is observed to have fluctuated over the 2011-2016 period, capturing 1.4% and 1.2% of total visitors in 2012 and 2014, respectively, whilst other recent years saw negligible levels of uptake.

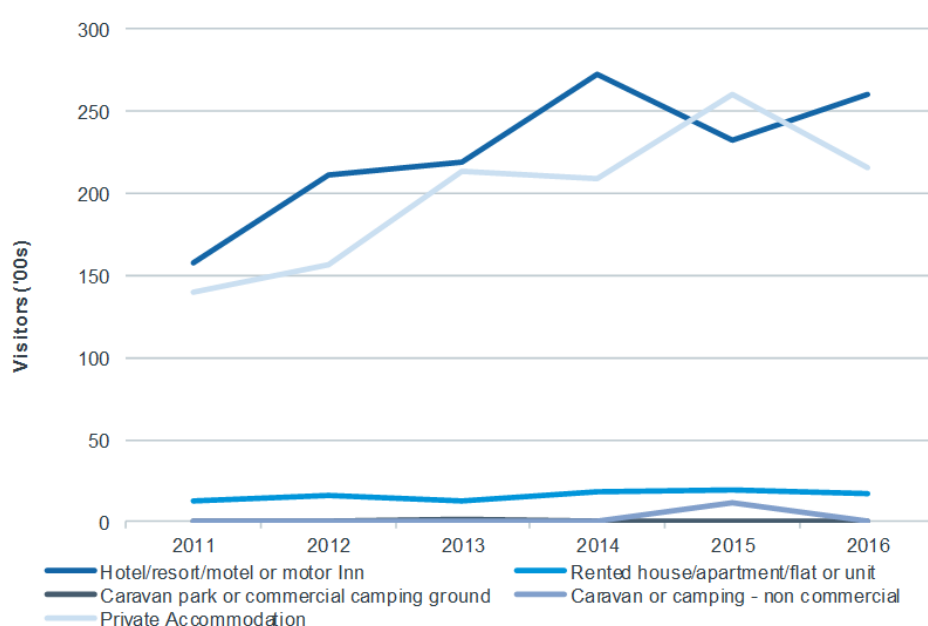
Figure 4.8 identifies the quantum of overnight visitors within Parramatta by accommodation type while Figure 4.9 illustrates this as a trend analysis.

Figure 4.8: Overnight Visitors by Accommodation Type, Parramatta



Source: TRA (2017a, b)

Figure 4.9: Overnight Visitors by Accommodation Type (Trend), Parramatta



Source: TRA (2017a, b)

4.2.3 Parramatta Hotel Market

The ABS publishes quarterly data on short-term accommodation supply and demand (establishments with more than 15 rooms comprising hotels and resorts, motels, private hotels and guest houses, serviced apartments). There are a total of 9 visitor accommodation establishments within the Parramatta-Rosehill SA2 providing a total of approximately 1,318 rooms.

Market enquiries indicate that the majority of hotels operating are based within the Parramatta CBD with accommodation providers mostly mid-scale hotels and/or serviced apartments. There are various well known chains across the market including Holiday Inn (on the Site), Mantra, Parkroyal, Rydges and Mercure.

Development Pipeline

Development interest in the Parramatta tourism sector is strongly buoyed by recent government initiatives such as the Western Sydney Stadium, Parramatta River Strategy and planned Arts and Cultural Precinct which will act as a catalyst for future growth in tourism and leisure within the CBD.

The pipeline demonstrates a growing market depth. The current hotel pipeline within the Parramatta CBD proposes an additional 600+ new rooms over the 2016-2021 period via a total of six projects:

- **Parkroyal Parramatta Hotel, 30 Phillip Street**
Redevelopment and refurbishment of the existing 4.5 star Parkroyal Hotel including construction of a 9 storey addition comprising 90 hotel rooms, increasing to 286 rooms (additional 196 rooms). Further additions include a club lounge, gymnasium and various event and function rooms. Works were completed in late 2016.
- **Parramatta Eels Entertainment Precinct, 11-13 O'Connell Street**
A Masterplan for the staged development of an entertainment precinct between the existing Parramatta Leagues Club and Pirtek Stadium received Concept and Stage 1 approval in December 2016. The development includes the demolition of the existing Pirtek Stadium and Parramatta Swimming Centre for construction of a 35,000 seat Western Sydney Stadium, 6 level carpark, fitness and aquatic centre, retail precinct, refurbishment of the Parramatta Leagues Club and construction of a 6 storey hotel (200 rooms). It is understood construction of the hotel facility is scheduled for Stage 5 (estimated start date unknown) of the Masterplan.
- **Great Western Highway Hotel, 41 Great Western Highway**
Heritage listed, single storey former residence currently used for commercial purposes proposed to be retained and a 5 storey boutique hotel comprising 34 rooms. Hotel construction is scheduled for completion in November 2017.
- **Sky Hotel Suites, 134-140 Marsden Street**
Mixed-use development comprising 27 storeys with 367 residential apartments and 72 hotel suites operated as Sky Hotel Suites. Construction commenced in mid-2013 and was completed in late 2016.
- **QT Hotel, 8 Phillip Street**
Currently under construction, the mixed use development comprises a 55 storey mixed use tower with a vertically integrated hotel comprising 252 rooms to be operated by boutique hotel operator QT Hotels and Resorts. Hotel will be arranged over 14 levels below the 35 levels of residential apartments above. Construction is scheduled for completion in 2021.

While not considered a traditional hotel product, the mixed-use development at 330 Church Street by Meriton incorporates a 27 storey standalone tower comprising 266 serviced apartments in addition to a separate residential tower to accommodate 378 residential apartments. This demonstrates the growing depth of development activity in response to the need for greater short term accommodation offer.

4.2.4 Market Outlook

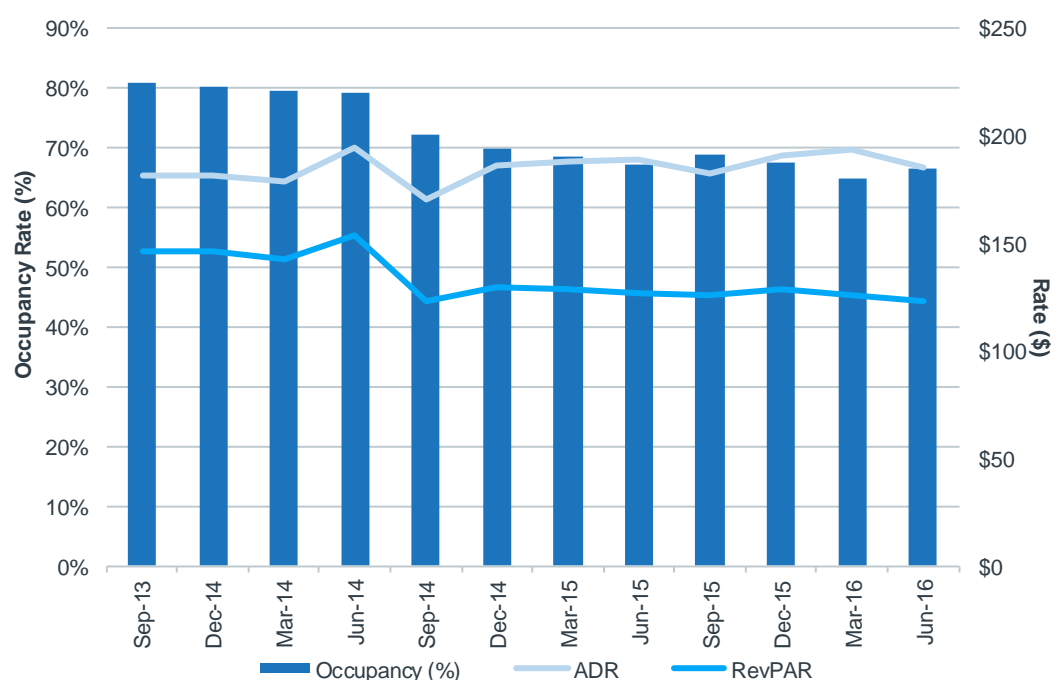
Parramatta's hotels have traditionally not offered an accommodation experience comparable to that which is available in Sydney CBD. While there are national and international chains represented in the Parramatta CBD, these hotels generally offer a mid-scale accommodation experience.

The performance of a hotel market is self-perpetuating. Average quality hotels will not attract large scale visitation, which consequently affect hotels' ability to generate revenue (whether from rooms, functions and events, food and beverage). Average hotel performance in turn does not provide incentive for new hotels to develop or existing hotels to embark on refurbishment programmes or reinvest in their facilities.

The historical performance of the market is illustrated in Figure 4.10 (ABS):

- Room occupancy rates have range from 70% to 80% for the past few years within Parramatta; average occupancy rates for YEJ 2014, YEJ 2015 and YEJ 2016 were 80%, 69.4% and 66.9% respectively, equating to an average of 72.1%.
- Demand for room nights is observed to have been greatest in the Q3 2013 and has gradually declined since that time. ADR and RevPAR experienced sharp falls in Q2 2014 but have gradually recovered since.
- ADR (average daily rate) currently averages \$188 in YEJ 2016, a 2.7% increase over the previous year.

Figure 4.10: Historic Accommodation Statistics, Parramatta



Source: ABS (2014, 2015, 2016)

Notwithstanding a fall in performance in mid-2014, development pipeline activity indicates market anticipation of an uptick in demand, but also a broadening of demand that requires good quality hotel accommodation. Future demand is expected to be driven by a number of key factors.

- **Visitation Growth**

Forecast increase in visitor nights commensurate with population growth across the region is expected to be one of the key drivers for growth in accommodation demand.

- **Increasing Range of Visitor Attractions**

Upgrades to major sporting venues (Western Sydney Stadium, Rosehill Racecourse), establishment of an Arts and Cultural Precinct (to be anchored by the relocated of the Powerhouse Museum) and the hosting of more unique events, festivals and experiences (Tropfest, Flickerfest) will attract additional visitation, and in turn drive demand for a diverse range of accommodation types.

- **Government and Business Demand**

The increasing profile of Parramatta as Sydney's second CBD and growth in large government and private sector occupiers will influence demand for high quality hotel space for business and corporate events. Importantly, this demand is not influenced by tourism seasonality.

- **New Transport Infrastructure**

Major transport infrastructure projects (Parramatta Light Rail, WestConnex, Sydney Metro West) will strengthen the connectivity between the Parramatta CBD and key Sydney tourism hubs, particularly Sydney Olympic Park and the Sydney CBD. The reduced travel time generated from these infrastructure improvements is expected to result in greater demand for hotel accommodation within the Parramatta CBD.

The development of a range of good quality short-term accommodation options is needed to positively influence and lift the profile of Parramatta CBD as a tourist and business destination. If there are insufficient suitable accommodation options available for a particular visitor group, they may elect to stay elsewhere, thereby resulting in a foregone opportunity for Parramatta to capture visitation and tourist spend.

4.2.5 Suitability of the Site

The Site has accommodated a hotel facility since the early 1990's. Successive hotel brands have traded on the Site with the Holiday Inn operating in-site since 2012.

The location of the Site at the fringe of the CBD is easily accessible by road, which together with the draw of brand loyalty has made it a viable trading location for a hotel. Additionally, the large site dimensions enable it the flexibility to incorporate a range of supporting infrastructure to the hotel (e.g. conference and events facilities, restaurants and bars, guest and visitor parking, etc.).

4.3 RESIDENTIAL LAND USES

4.3.1 Trends and Drivers

The long-term outlook for the Parramatta residential market is positive, underpinned by strong fundamentals including:

- Steady population growth.
- Low interest rates.
- Low unemployment rates.
- Local, State and Federal funded infrastructure projects.
- Changing household demographics and lifestyle preferences.

These core fundamentals ultimately form the core drivers to demand. Discussions with local real estate agents identify that owner occupiers, interstate and local investors are equally prominent and active in the Parramatta CBD market.

4.3.2 Parramatta Residential Market

The Parramatta residential market has experienced considerable growth over the past 12-18 months in line with many other metropolitan markets with strong demand and sale prices observed for both low-density housing and high-density apartment product. Median house prices are understood to have risen 27.6% over the December 2014-15 period with this contracting slightly by 6.7% over the December 2015-16 period, likely a result of lower sales volumes (Corelogic RP Data, 2017). Unit median prices also rose sharply albeit at lower rates compared to housing, growing 16.22% over the December 2014-15 period while also experiencing a moderate fall of 6.7% over December 2015-16.

Market signals are a useful indicator of the supply and demand equilibrium in a market. Steady growth and strong market interest as identified from discussions with local agents active in the CBD market suggest the outlook for the Parramatta CBD residential market is positive.

Off-the-Plan Market Activity

The Parramatta market has performed strongly over the past 12-18 months; numerous projects marketing off-the-plan being met with exceptional demand with high take-up rates and strong sale prices as a result.

Demand for new high-rise residential product transcends the market; marketing agents noting a variety of purchasers including young first home buyers (FHBs) couples and families, mature families with older children and downsizers are actively seeking accommodation. Many buyers are drawn from within the Parramatta LGA as well as nearby municipalities including The Hills, Blacktown, Inner West and Bankstown. Investor interest is also buoyant, many domestic investors seeking to capitalise on the strong rental market given the proximity of the CBD to major transport nodes and tertiary education institutions.

There are numerous developments at various stages within the Parramatta CBD. Development activity has been gathering momentum over the past 12 months, with several large unit developments (300+ units) recently completed or currently being progressed.

- **West Village, 100 Church Street**

A 39 storey mixed use development comprising retail and commercial floorspace within a 6 storey podium on which a residential tower comprising 398 apartments sits above. Initially released to market in August 2015 and is 95% sold (average of 18 sales per month).

Buyers have been predominantly owner occupiers (65%-70%) with a large proportion of these being young first home buyer couples and families relocating from areas such as Harris Park, Granville, Lidcombe and Bankstown. Of the investors, approximately 50% have been foreign investors from Asia.

- **Altitude, 330 Church Street**

A mixed used development comprising retail and commercial floorspace within a 4storey podium on which two towers sit; one 36 storey tower comprising 266 serviced and apartments and a 53 storey tower comprising 378 residential apartments.

Participation from a large number of investors (mainly international Chinese) was observed initially however this trend has flattened with total purchasers approximately 50/50 owner occupiers and investors. Owner occupiers are mostly young professional couples and families relocating from within the Parramatta LGA, while significant numbers of FHBs and downsizers are also seen.

- **Promenade, 2 Morton Street**

Staged mixed use development on the northern bank of the Parramatta River comprising a seven RFBs with a total of 782 apartments. Stage 1 (277 apartments) was initially released in mid-2014 and sold out by in early 2015. Final stage (200 apartments) was released to market in late 2015 and is approximately 90% sold.

Buyers have been overwhelmingly owner occupiers, with a variety of buyers comprising young FHB couples and families, older established families relocating from the Hills and Inner West as well as downsizers from similar areas and the Blue Mountains.

4.3.3 Development Pipeline

The Parramatta CBD is a hive of new high-density residential activity. A total of 210 residential and mixed use projects are observed in the current development pipeline with potential delivery of approximately 17,536 new dwellings over the coming 4 years (assuming all projects eventuate into delivery). This does not consider the 1,200 additional dwellings proposed within the Riverbank project.

High-density units and apartments account for the overwhelming majority of new proposed dwellings within the Parramatta LGA. Table 4.5 identifies the major private developments being progressed within the CBD to date, excluding major urban renewal projects such as Parramatta North.

Table 4.5: Major Developments, Parramatta CBD

Address	Type	Status	Estimated Completion Date	Dwellings
142-154 Macquarie St	Mixed Use	Planning Proposal	2021	964
57, 63 & 83 Church St & 44 Early St	Mixed Use	Development Application	2020	779
180 George St	Mixed Use	Planning Proposal	2020	750
87 Church St & 6 Great Western Hwy	Mixed Use	Planning Proposal	2021	570
2 Morton Street (Stage 2 and 3)	Mixed Use	Contract let	2018	505

Source: Cordell Connect

Major urban renewal projects such as UrbanGrowth's Parramatta North precinct and City of Parramatta's Riverbank precinct are further expected to deliver a total of 6,000 and 1,200 new dwellings over the coming 5-7 years pending formal approvals.

4.3.4 Suitability of the Site

The outlook for the residential market in Parramatta CBD is good, particularly as a growing amenity-rich environment which serves to unlock the benefits of city living. The refurbishment, upgrade and development of major retail facilities, cultural and sporting facilities together with improved connectivity to the rest of metropolitan Sydney cumulatively impact Parramatta's desirability as a place to live.

4.4 IMPLICATIONS FOR THE PROPOSAL

4.4.1 Commercial Office

Even though there is demand for A-grade office space in Parramatta CBD, the location of a site is key.

The Site's specific locational characteristics, specifically lacking corporate image and prestige make it difficult for A-grade office development to be marketable. Additionally, the Site's distance from public transport and amenity make any future commercial development on the Site as envisaged in the B3 Commercial Core zone contemplated by the CBD Planning Proposal unlikely to eventuate.

Even though a B3 zone preserves land for non-residential uses, the level of market rents needed is such that new office development on the Site is unlikely to be viable. If however the Site were located in the Mid-City of East precinct, the prospects for commercial office development would be positive.

Council's strategic planning vision takes a long-term approach to future commercial development on the Site. This study considers this to be an unrealistic aspiration given a lack of corporate identity and surrounding built form character that is essential for a commercial precinct that is attractive to A-grade office occupiers. Unless there is a major change in land uses along neighbouring Church Street, Marion Street and Cowper Street (currently dominated by residential strata), the immediate area of the Site is **not** attractive to A-Grade tenants.

Where an area is dominated by residential uses, its prestige as a commercial office precinct declines. This can be witnessed in Chatswood and parts of the Sydney CBD (south of Market Street) where residential uses dominate. The recent approval of 5-7 Parkes Street will exacerbate this situation.

Once the overall character of an area is residential in nature, the area will struggle to compete with other areas that offer prestige and corporate identity. These are critical location selection factors for commercial tenants in search of prime grade office space.

4.4.2 Hotel Uses

Parramatta CBD has traditionally not provided a diversity of short-term accommodation options, with limited representation by national and international hotel chains. More than 600 rooms are however proposed (at various stages in the development pipeline), to be delivered over the 2016-2021 period. This is relatively modest compared to the 8,000+ rooms proposed in the pipeline in Sydney CBD.

A strong market anticipation of growing demand for short term accommodation options in Parramatta underpins the current hotel supply pipeline. Ongoing visitor growth forecast over the next few decades will contribute to significant additional demand for accommodation as Parramatta fulfils its role as Sydney's Central City.

High-quality and 5-star accommodation options are essential for Parramatta to be competitive as a CBD. The Site currently accommodates the Holiday Inn. There is however, opportunity to improve utilisation of the Site and optimise its accommodation offer.

The Submission will facilitate development that will leverage the Site's suitable locational characteristics and contribute to augmenting Parramatta's short term accommodation offer with the inclusion of a 5-star hotel (250 rooms) with conference and events facilities and 25 serviced apartments.

4.4.3 Residential Uses

Strong market conditions and sustained price growth underlies a robust residential property market in Parramatta. Strong supply has been met with commensurate demand amid an increasing appeal of high-density apartment living in an amenity-rich environment to first-home buyers, established families and downsizers alike.

In light of robust market conditions and keen market activity, the proposed residential offer on the Site will contribute to the transformation/revitalisation of the Auto Alley precinct and complement surrounding land uses.

Keen market and development activity in the immediate area signifies market acceptance of high density residential product on the Site.

5. FEASIBILITY ANALYSIS

5.1 INTRODUCTION

In order to understand the appropriateness and viability of the planning controls proposed by the CBD planning proposal, it is useful to consider the capacity of the Site as B3 zoned land to accommodate new development. This capacity can be thought of as two-fold: planning capacity and market capacity.

- **Planning capacity** (or theoretical capacity) refers to the physical ability of land to be developed, taking into account permissibility under the planning framework, environmental and infrastructure constraints.
- **Market capacity** refers to issues of commercial viability whether pricing levels, development costs, existing buildings, etc. make development a commercial proposition, i.e. if development is financially feasible.

Even though there may be planning (or theoretical) capacity for development for a new commercial office building on the Site, development will only occur if it represents a commercial proposition. In some instances constraints to new development could be as a result of market capacity, relating to market and economic factors, in which case those impediments are beyond the control of planning authorities.

This chapter assesses the 'market capacity' of the Site to accommodate a new A-grade commercial office building (as facilitated by B3 Commercial Core and FSR 6:1).

The Hypothetical Development or Residual Land Value (RLV) approach has been adopted as the method of assessment, utilising development feasibility software Estate Master. The RLV approach involves assessing the value of the end product of the development, allowing for development costs, and making a further deduction for the profit and risk that a developer would require to take on the project.

The Residual Land Value (RLV) can be defined to be the maximum price a developer would be prepared to pay for a site in exchange for the opportunity to develop the site, whilst achieving target hurdle rates for profit and project return. This approach involves assessing the value of the completed product, making a deduction for development costs and further deduction for profit and risk whilst ensuring the development achieves the target project margin and return.

A key metric for development feasibility is land value, which is a 'residual' after all costs and revenues are taken into account. The figure must be of a sufficient amount to encourage the owner to sell and/or displace the current use. In order for development of a site to be feasible, the Residual Land Value must exceed the 'as is' value of the land, i.e. the value of the land in its existing use including all improvements.

AEC understands the value of the Site in its existing use is in the order of \$45m. A new development would need to result in an RLV greater than \$45m for it to be a commercially feasible proposition. Otherwise there is no incentive for the new development to displace the existing use.

5.2 FACTORS AFFECTING THE FEASIBILITY OF DEVELOPMENT

There are a considerable number of factors that affect the feasibility of individual sites for redevelopment and rarely is a single factor the only cause of poor development feasibility. Urban land is subject to pressures for redevelopment which directly affect their land values and the feasibility of developing into higher and better uses.

The following are a selection of common factors that affect the feasibility of development.

Land Value and Site Assembly

In order to economically acquire and develop land, the proposed use must translate into a higher value than the existing use including any improvements on it (or 'existing-use value').

Existing-use values (or 'As Is' values) do not always bear a direct relationship with planning and FSR controls. Where improvements are obsolete and at the end of their economic useful life, the site will consequently be ripe for redevelopment, in which case property values directly respond to FSR and planning controls.

Development will only occur if the proposed use is valuable enough to displace existing uses. While existing improvements may be dated and due for replacement, in many instances they may still be providing a good level of functional utility and thereby still be relatively valuable.

In the case of the Site, a proposed use that results in an RLV greater than \$45m will be feasible to undertake.

Effective Demand

Commercial markets are diverse. There is distinctly a two-tier market observable in every major office market (CBD and suburban), prime (premium and A-grade) commercial floorspace command not only higher rents and values but enjoy lower vacancies and. It also enjoys shorter letting up periods compared to secondary (B, C, D grade) floorspace.

Pricing and demand for office space in various office markets demonstrate that businesses see the benefit of not only being located close to public transport options, but also in an environment where there is associated amenity and there is a critical mass of other commercial tenants.

The Parramatta CBD offers a diverse range of accommodation options, various locations appealing to organisations with different budgets including those who seek cheaper alternatives. Nevertheless, these locations should still feature access to good public transport links, staff amenity (e.g. restaurants, cafés and shops) as well as being accessible to key customer markets.

Construction Costs

The cost of construction can increase substantially as buildings become taller. Service requirements will dictate that more lifts will be required so that vertical transportation times are not compromised. Service shafts and fire escapes are correspondingly wider too.

In deciding the amount of capital to apply to a site, i.e. how intensely the site should be developed and to how many storeys, developer capital will be applied to the point where incremental revenue is equal to incremental cost. In precincts where commercial rents and prices are more modest, there is low likelihood of commercial towers being developed.

Table 5.1 outlines the potential cost differential as buildings become taller.

Table 5.1: Indicative Building Construction Cost by Level

Number of Levels	Premium Quality		Investment Quality	
	Low	High	Low	High
Up to 10 levels	\$2,510	\$2,930	\$1,990	\$2,360
10-25 levels	\$2,980	\$3,300	\$2,190	\$2,830
25-40 levels	\$3,140	\$3,620	\$2,510	\$3,200

Source: RLB (2017)

Towers will only be developed in locations where developers can expect to offset the increased cost of construction risk (taller buildings and more basement levels) with higher revenue levels.

In the Parramatta CBD, sites in vantage locations that offers sweeping views and good tenant amenity are better positioned to develop commercial towers than those where price levels are modest and do not justify the higher cost of construction.

Planning/Development Controls

Planning and development controls have the ability to affect feasibility through changes in land use zoning and densities but also through the costs associated with design requirements and securing planning approvals.

Codes for parking, open space, sustainability, etc. all have the ability to influence the cost of development. As an example of the influence of development controls, an increase in density will increase height and cost of construction but may also impact on code-based requirements such as car parking areas.

The cost of code compliance could have a disproportionate impact on cost, e.g. where additional basement parking is required, and could severely undermine the economics/ feasibility of development.

Summary

In established urban areas in close proximity to transport networks and major centres, site amalgamation and assembly is arguably the largest challenge for development and renewal. In some instances redevelopment into higher densities is sufficient to displace existing uses and facilitate site assembly for development, however landowner objectives are not always financial in nature and do not always align to enable development.

There is considerable development activity ongoing in Parramatta CBD. Large A-grade commercial office developments are confined to large sites in the City Core under the control of single or a few landowners. Many large scale mixed use developments are undertaken on the fringe of the CBD, including the South Precinct where the Site is located.

A-grade commercial office tenants are discerning. Critical factors for location and building selection will determine effective demand, i.e. which office buildings are considered and how much tenants are willing to pay for the space. In locations that are less prestigious or desirable to A-grade tenants, it would not make commercial sense for developers to build a prime grade office building (meeting 5 star green star design and 5 star NABERS) as the market willingness to pay prime rents is not present.

5.3 HYPOTHETICAL A-GRADE OFFICE BUILDING

This section examines the financial feasibility of developing a new commercial office building to FSR 6:1 (as contemplated by the CBD Planning Proposal for the Site).

A notional development scheme premised on FSR 6:1 is developed and tested through financial modelling.

Development Yield

Hypothetical development yield is calculated by multiplying the site area of the Site (8,017sqm) with FSR 6:1, to arrive at 48,102sqm GFA. Generic efficiency factors are applied to floor and buildings areas:

- Gross Floor Area (GFA): Gross Building Area (GBA) at 100%: 120%.
- Gross Floor Area (GFA): Net Lettable Area (NLA) at 100%: 94%.

Pre-commitments (50%) are assumed to be secured prior to building construction with the remainder of space leased on completion.

Cost and Revenue Assumptions

Broadly, headline revenue and rent assumptions are as follows (marginally lower than rates achieved in Parramatta CBD):

- Commercial office - \$450/sqm (net), capitalised at 6.5%.
- Retail - \$700/sqm (net), capitalised at 6.0%.
- Parking - \$300 per calendar month or \$3,600 per annum per space, capitalised at 6.5%.

The existing-use value of the Site (\$45m) is inputted as land purchase cost.

More detailed revenue and cost assumptions are contained in Appendix A.

Performance Criteria

A target project discount rate of 20% nominal is adopted on the cashflow which includes financing costs but excludes interest.

Additionally, a target developers margin of 20% on total development costs (including selling costs) has been assumed both reflecting the size of the development and the level of associated risk.

If the project results in performance indicators (project IRR and development margin) that equal or exceed the target hurdle rates, the development is considered financially feasible.

Results of Feasibility Modelling

Table 5.2 shows the results of the feasibility modelling, addressing the question if a new commercial office building could be economically sustained on the Site.

Table 5.2: Feasibility Modeling Results

	Commercial Office
Revenue	
Gross Sales Revenue	\$341,320,595
Less: Selling Costs	(\$6,570,421)
Net Sales Revenue	\$334,750,173
Gross Rental Income	\$18,461,548
Less: Outgoings & Vacancies	(\$1,846,155)
Less: Letting Fees	(\$3,582,207)
Less: Incentives	(\$8,583,194)
Net Rental Income	\$4,449,991
Total Revenue (net of GST)	\$339,200,165
Costs	
Land Purchase Cost	\$45,000,000
Land Acquisition Costs	\$3,337,990
Construction (including Contingency)	\$214,639,392
Professional Fees	\$23,610,333
Statutory Fees	\$9,658,668
Soft Infrastructure Costs	\$1,322,805
Stormwater Overflow Mitigation Works	\$2,750,000
Land Holding Costs	\$2,813,036
Interest Expense	\$42,572,522
Total Costs (before GST reclaimed)	\$345,704,747
Less: GST reclaimed	(\$22,649,132)
Total Costs (after GST reclaimed)	\$323,055,615
Performance Indicators	
Net Development Profit ¹	\$16,144,550
Development Margin ²	4.9%
Project Internal Rate of Return ³	9.77%
Residual Land Value (NPV) ⁴	\$12,538,254

Notes:

1 - Net Development Profit: Total revenue less total cost including interest paid and received, after distribution of profit share (if applicable)

2 - Development Margin: Profit divided by total costs (including selling costs)

3 - Project Internal Rate of Return (IRR): Discount rate where the NPV equals zero

4 - Residual Land Value (NPV): Purchase price for the land to achieve a zero NPV

Source: AEC

The feasibility modelling results indicate that commercial office development discloses a residual land value (RLV) of \$12.5m which is significantly lower than the existing-use value of \$45m, thereby resulting in a project IRR of less than 10% and development margin of less than 5%. This indicates that market rents are *below* economic rents required for feasible development.

Sensitivity testing shows that economic face rents would need to be 30% higher than the assumed market face rents, i.e. \$600/sqm (net) for commercial office, \$800/sqm (net) for retail and \$360 per calendar month for parking spaces. These rates are far greater than those achieved in brand new prime grade buildings in the heart of the Parramatta CBD, demonstrating that even in the long term the Site is unlikely to offer a feasible office development opportunity.

The difference in land use dynamics on the Site compared to other commercial precincts closer to the heart of the Parramatta CBD is in large part due to the existing built form, lack of connectedness to the CBD and public transport, and focus of the precinct which incorporates a dominant proportion of residential uses.

The combination of residential and other non-office commercial uses positions the area as a mixed use precinct and less of a prime commercial precinct which consequently results in lower price levels of commercial office floorspace.

5.4 IMPLICATIONS FOR THE SITE

The findings of this chapter affirm the conclusion of Chapter 4 that commercial office uses (as facilitated in a B3 Commercial Core zone) are not suitable or sustainable on the Site.

Even though there is demonstrated strong demand for good quality and contemporary office floorspace, not all sites lend themselves to development of A-grade office buildings. The market analysis and feasibility modelling have shown that the Site is one such site that is not attractive for viable commercial office development.

The poor connectivity to the CBD, poor surrounding amenity and dominant residential character collectively undermine the ability of the Site to offer the prestige and corporate image required by A-grade office tenants. These are critical site selection factors that determine the suitability of sites and precincts for A-grade office development. The working dynamics of these factors can be observed in Chatswood and the southern portion of the Sydney CBD, where a dominance of residential uses have served to lower the corporate image of the area, thereby limiting the rents commercial tenants are prepared to pay. These areas also witness higher than trend vacancy rates and require greater incentives necessary to entice tenants.

While acknowledging the challenges of developing the Site into A-grade commercial office, the CBD Planning Proposal (by virtue of Urbis review) nevertheless expresses a long term aspiration for the Site.

This assessment considers that this long term aspiration is **not** a realistic one, considering the objective evidence. In time, commercial office rents will rise (in the Parramatta CBD and elsewhere). However, given the less desirable location of the Site for A-grade commercial office, the rate of rental growth will likely be modest compared to the heart of the Parramatta CBD where tenant amenity and transport connections are only expected to improve over time.

Analysis demonstrates the poor suitability of the Site for A-grade office development. Substantial (and many impossible) changes in surrounding environment are required to position the Site as a competitive A-grade commercial office development. The amendment of planning controls to B3 Commercial Core will effectively sterilise an otherwise valuable site which could contribute to Parramatta's growth in a meaningful and productive manner.

6. ECONOMIC IMPACT ASSESSMENT

6.1 INTRODUCTION AND APPROACH

The following sections examine the estimated economic activity supported through construction and the operational phases of the current hotel and proposed developments. The economic impacts have been assessed at the City of Parramatta Local Government Area (LGA) level. An Input-Output model, including the development of a series of specific regional Input- Output transaction tables, was developed to reflect the economic structure of the Parramatta LGA (refer to Appendix B). Input-Output modelling describes economic activity through the examination of four types of impacts which are defined and described in the table below.

Table 6.1: Economic Indicators

Indicator	Description
Output	Refers to the gross value of goods and services transacted, including the costs of goods and services used in the development and provision of the final product. Output typically overstates the economic impacts as it counts all goods and services used in one stage of production as an input to later stages of production, hence counting their contribution more than once.
Gross Product	Refers to the value of output after deducting the cost of goods and services inputs in the production process. Gross product (e.g., Gross Regional Product) defines a true net economic contribution and is subsequently the preferred measure for assessing economic impacts.
Income	Measures the level of wages and salaries paid to employees of the industry under consideration and to other industries benefiting from the Project.
Employment	Refers to the part-time and full-time employment positions generated by the economic shock, both directly and indirectly through flow on activity, and is expressed in terms of Full-Time Equivalent (FTE) positions. One FTE job is defined as one person working full time for a period of one year.

Source: AEC

Input-Output multipliers can be derived from open (Type I) Input-Output models or closed (Type II) models. Open models show the direct effects of spending in a particular industry as well as the indirect or flow on (industrial support) effects of additional activities undertaken by industries increasing their activity in response to the direct spending. Closed models re-circulate the labour income earned as a result of the initial spending through other industry and commodity groups to estimate consumption induced effects (or impacts from increased household consumption).

The following estimates consider both Type I and Type II flow on impacts though it should be noted that Type II impacts are commonly considered to overstate economic activity.

6.2 DRIVERS OF ECONOMIC ACTIVITY

In order to understand the economic impacts likely to result from development of a 250-room hotel and 25 serviced apartments, it is necessary to distinguish economic impacts during the construction phase and those economic impacts that will be more permanent in nature following construction completion and operations commencement.

- **Construction Phase**

Construction activity will draw resources from and thereby generate economic activity in Parramatta LGA as well as from outside the LGA. Assumptions are made on the proportion sourced from within and from outside the LGA.

- **Operational Phase**

On completion, the hotel is expected to generate ongoing economic/operational activity through the following:

- Direct turnover generated by hotel operational activities.
- Additional tourism and visitation that would not otherwise occur on the Site, resulting in increased visitor expenditure.

6.2.1 Construction Phase

For modelling purposes, construction costs (including contingency) were broken down into their respective Australian and New Zealand Standard Industrial Classification (ANZSIC) industries. This breakdown was developed based on assumptions by AEC regarding the most appropriate ANZSIC industries for each activity.

Table 6.2: Construction Costs Allocation (Incl. Contingency)

Component	\$M	ANZSIC
Residential	\$128.0	Residential Building Construction (100%)
Serviced Apartments	\$9.7	Non-Residential Building Construction (100%)
FF+E	\$1.0	Construction Services (33.3%), Furniture Manufacturing (33.3%), Electrical Equipment Manufacturing (33.3%)
Hotel	\$90.1	Non-Residential Building Construction (100%)
Professional Fees	\$28.8	Professional, Scientific and Technical Services (100%)
Total	\$257.6	

Source: AEC

Only the construction activity expected to be undertaken within the Parramatta LGA has been included in the economic impact assessment. For the purposes of this assessment it was assumed:

- Approximately 50% of the direct expenditure on construction activity would be sourced from local businesses and labour (including construction and professional services activity).
- Approximately 25% of purchases on goods and services (supply chain related activity) made by construction-related businesses sourced from outside the Parramatta LGA would be spent within the local economy (i.e., 25% of the Type I flow on activity associated with non-local construction companies is assumed to represent additional local activity in Parramatta LGA).
- Approximately 5% of wages and salaries paid to construction-related workers sourced from outside the region would be spent on local goods and services, such as food and beverages (i.e., 5% of the Type II flow on activity associated with non-local workers is assumed to represent additional local activity in Parramatta LGA).

6.2.2 Hotel Operations and Economic Activity

A Base Case and a Proposal Case are examined:

- **Base Case:** the Site in its existing use, accommodating 181 rooms in a 4 star hotel with small scale food and beverage offer.
- **Proposal Case:** the Site is redeveloped per the Submission, to accommodate 250 rooms in a 5 star hotel with conference and events facilities, augmented food and beverage offer and 25 serviced apartments. A residential component in the order of 318 apartments is also incorporated.

There are two components to the operational phase economic impacts: those resulting from direct hotel turnover and those from induced visitation.

Direct Hotel Turnover

Assumptions regarding the hotel operation have been developed based on data from the Australian Bureau of Statistics' Tourist Accommodation Survey (ABS, 2016a), Input-Output multipliers (ABS, 2016b) and previous AEC research and expertise in the hotel accommodation market.

The current 4 star, 181 room hotel is indicatively estimated to have an average room occupancy rate of 75% over the course of the year, with an average room rate per night of approximately \$180, in line with average takings per room night for 'up-scale' hotels in NSW according to data from the ABS (2016a). Additional revenue of 25% per room is also assumed for miscellaneous items such as food, beverages, phones, laundry, etc. In total, this provides an estimated revenue for the hotel of approximately \$12.6 million per annum.

The Proposal Case of a 5 star, 250 room (plus 25 serviced apartments) establishment is assumed to maintain an average 80% occupancy with an increased average daily room rate of \$15 per night. The upgraded food and beverage offerings associated with the 5-Star hotel are estimated to support 25 direct FTEs (approximately 30% of total direct employment). From this employment level, turnover estimates were developed using the direct employment to output ratios in the Input-Output transaction tables developed for this project (see Appendix B).

Food and beverage turnover is estimated turnover at the 5 star hotel is estimated to be generated by both the ancillary spend of hotel guests (approximately 65% of turnover) and the broader public (approximately 35% of turnover).

It should be noted that conference/event facilities in the current hotel (7 function rooms) and proposed upgrade (space for 300 persons) have the potential to generate significant additional turnover and induced visitation from weddings, corporate and other events. However, given the limited data available this activity has been excluded from the economic assessment.

Table 6.2: Hotel Turnover Assumptions

Hotel	Existing Hotel (4 Star)	Proposed Hotel (5 Star)
Rooms	181	250 Hotel plus 25 serviced apartments
Occupancy	80%	80%
Average Daily Rate (ADR)	\$190	\$205
Ancillary Spend (25% of ADR) ¹	\$48	\$51
Food and Beverage Spend (\$m) ²	\$1.6	\$3.2
Total Turnover (\$m)	\$12.6	\$21.7
Employment (FTE)	45	85

Note:

1 - Ancillary spend is assumed to be split 50/50 between food and beverage services and additional accommodation spend

2 - Guest plus general public spend.

Source: AEC

Induced Visitation

Estimates for direct visitor spend generated by the current and proposed hotels are developed based on Tourism Research Australia (2017) national and international expenditure data and AEC assumptions.

An estimated 50/50 split has been applied for domestic and international visitors for the current and proposed hotels, though it should be noted that the 5 star facility has the potential to attract a greater share of high paying intentional visitors.

Table 6.3: Visitor Assumptions

Hotel	Current (4 Star)	Proposal (5 Star)
Rooms	181	275 ¹
Occupancy	75%	80%
Avg. People per Room Night	1.3	1.3
% from outside Parramatta	90%	90%
Visitor Nights (Non Local)	61,837	93,951
Domestic Visitors	50%	50%
International Visitors	50%	50%

Note:

1 - 250 hotel rooms plus 25 serviced apartments.

Source: AEC

Allowances were made for expenditure items unlikely to be captured within the Parramatta LGA (some items excluded and other reduced by 50% to account for expenditure elsewhere in Western Sydney) and visitor spend already captured directly by the hotel facility as per Table 6.4.

Table 6.4: Local Expenditure Assumptions

Item	Average Spend Per Visitor Night (Parramatta LGA) ¹
Airfares	Excluded
Tours	\$2.65
Rental vehicles	\$1.40
Petrol	\$4.75
Vehicle maintenance/repairs	\$0.90
Taxi	\$1.50
Other local public transport	\$0.25
Long distance public transport	Excluded
Accommodation	Excluded
Groceries for self-catering	\$2.75
Alcohol, drinks (not already reported)	\$2.75
Takeaways and restaurant meals ²	\$5.00
Shopping	\$7.25
Entertainment	\$1.90
Gambling	\$0.40
Education	Excluded
Convention / Conference / Seminar / Trade Fair / Exhibition registration fees	Excluded
Other expenditure nfd	\$1.25
Total	\$32.75

Notes:

1 - Assumed 50/50 split of domestic and international visitation

2 - Reduced by an additional 50% to allow for expenditure captured by the hotels directly.

Source: TRA (2017c), AEC

Average visitor expenditure is applied to the number of visitors and allocated to relevant industries per Table 6.5.

Table 6.5: Visitor Spend by ANZSIC

Australia New Zealand Standard Industrial Classification (ANZSIC)	Current 4 Star Hotel	Proposal 5 Star Hotel
Water, Pipeline and Other Transport	\$153,626	\$248,970
Rental and Hiring Services (except Real Estate)	\$81,161	\$131,531
Retail Trade	\$1,014,511	\$1,644,143
Automotive Repair and Maintenance	\$52,175	\$84,556
Road Transport	\$101,451	\$164,414
Food and Beverage Services	\$289,860	\$469,755
Heritage, Creative and Performing Arts	\$110,147	\$178,507
Gambling	\$23,189	\$37,580
Personal Services	\$72,465	\$117,439
Total	\$1,898,584	\$3,076,895

Source: AEC

6.3 ECONOMIC ACTIVITY AND IMPACTS

The economic impacts/contribution can be traced through the economic system via:

- **Direct impacts**, which are the first round of effects from direct operational expenditure on goods and services.
- **Indirect Impacts (Flow-on impacts)**, which comprise the second and subsequent round effects of increased purchases by suppliers in response to increased sales. Flow-on impacts can be disaggregated to:
 - **Indirect Impact (Type I)** represents the production induced support activity as a result of additional expenditure by the industry experiencing the stimulus on goods and services in the intermediate usage quadrant, and subsequent round effects of increased purchases by suppliers in response to increased sales.
 - **Indirect Impact (Type II)** represents the consumption induced activity from additional household expenditure on goods and services resulting from additional wages and salaries being paid within the economic system.

The premise behind Type I and Type II indirect impacts applies across both the construction and operational phase, except the impacts on industry will be different. For example, Type I impacts during the construction phase may include professional services (e.g. architects, engineers), manufacturing (steel, construction materials) while examples of Type I impacts during the operational phase may include manufacturing (food and beverage, food related), administrative and support services (e.g. building cleaning, employment services, travel agencies, etc.).

6.3.1 Construction Phase

The construction phase associated with the development is expected to support the following economic activity through direct and flow-on impacts:

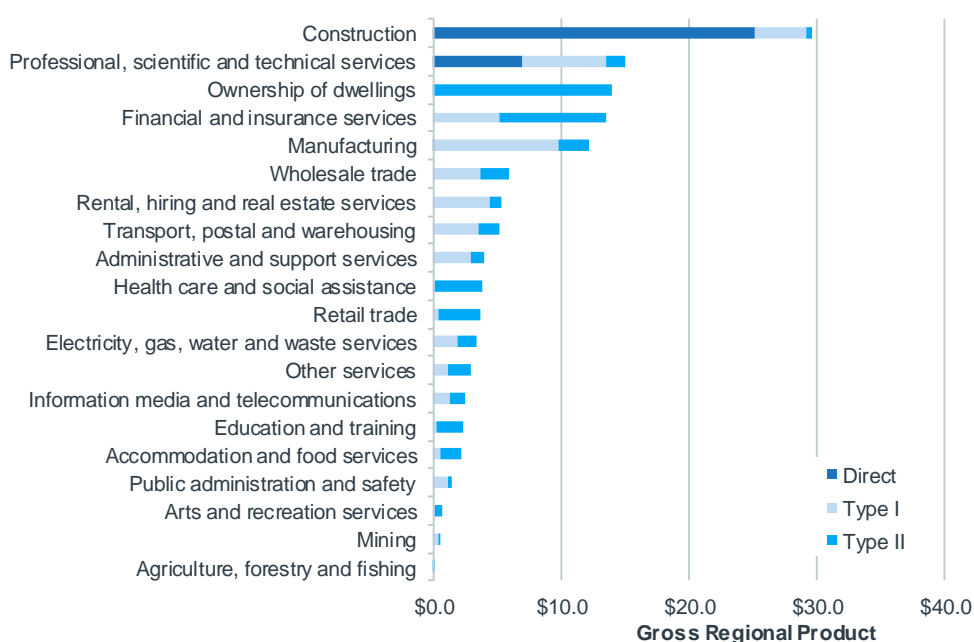
- \$318.5 million in output.
- \$128.1 million contribution to Gross Regional Product (GRP).
- \$68.1 million in incomes and salaries paid to households.
- 830 full-time equivalent (FTE) jobs.

Table 6.6: Construction Impacts

Impact	Output (\$M)	Gross Regional Product (\$M)	Incomes (\$M)	Employment (FTEs)
Direct	\$128.8	\$32.3	\$21.7	263
Type I Flow-On	\$106.8	\$47.0	\$26.8	313
Type II Flow-On	\$82.9	\$48.8	\$19.7	255
Total	\$318.5	\$128.1	\$68.1	830

Source: AEC

Figure 6.1: Gross Regional Product (GRP) Impacts by Industry



Source: AEC

Major industry beneficiaries of the construction phase of the development include:

- Construction (GRP of \$29.6 million).
- Professional, scientific and technical services (\$15.0 million).
- Ownership of dwellings (\$14.0 million).

6.3.2 Operational Phase

Base Case: Existing Hotel

The existing 4 star hotel is estimated to support the following annual economic activity through the direct and flow-on impacts associated with hotel turnover and induced visitation:

- \$34.8 million in output.
- \$17.9 million contribution to Gross Regional Product (GRP).
- \$8.5 million in incomes and salaries paid to households.
- 118 full-time equivalent (FTE) jobs.

Table 6.7: Annual Economic Activity (Base Case)

Impact	Output (\$M)	Gross Regional Product (\$M)	Incomes (\$M)	Employment (FTEs)
Direct	\$13.0	\$6.3	\$3.3	56 ¹
Type I Flow-On	\$7.7	\$3.6	\$2.0	23
Type II Flow-On	\$10.2	\$6.0	\$2.4	31
Total	\$30.9	\$15.9	\$7.7	110

Note:

1 - Includes 45 FTE employed by the hotel and 12 through broader tourism spend.

Source: AEC

Proposal Case: Proposed Hotel

Once developed, the proposed 5 star hotel could potentially support the following annual economic activity through the direct and flow-on impacts associated with hotel turnover and induced visitation:

- \$59.0 million in output.
- A \$30.3 million contribution to Gross Regional Product (GRP).
- \$14.3 million in incomes and salaries paid to households.
- 208 full-time equivalent (FTE) jobs.

Table 6.8: Annual Economic Activity (Proposal Case)

Impact	Output (\$M)	Gross Regional Product (\$M)	Incomes (\$M)	Employment (FTEs)
Direct	\$24.8	\$12.0	\$6.0	105 ¹
Type I Flow-On	\$14.7	\$6.8	\$3.8	43
Type II Flow-On	\$19.5	\$11.5	\$4.6	60
Total	\$59.0	\$30.3	\$14.3	208

Note:

1 - Includes 85 FTE employed by the hotel and 20 through broader tourism spend.

Source: AEC

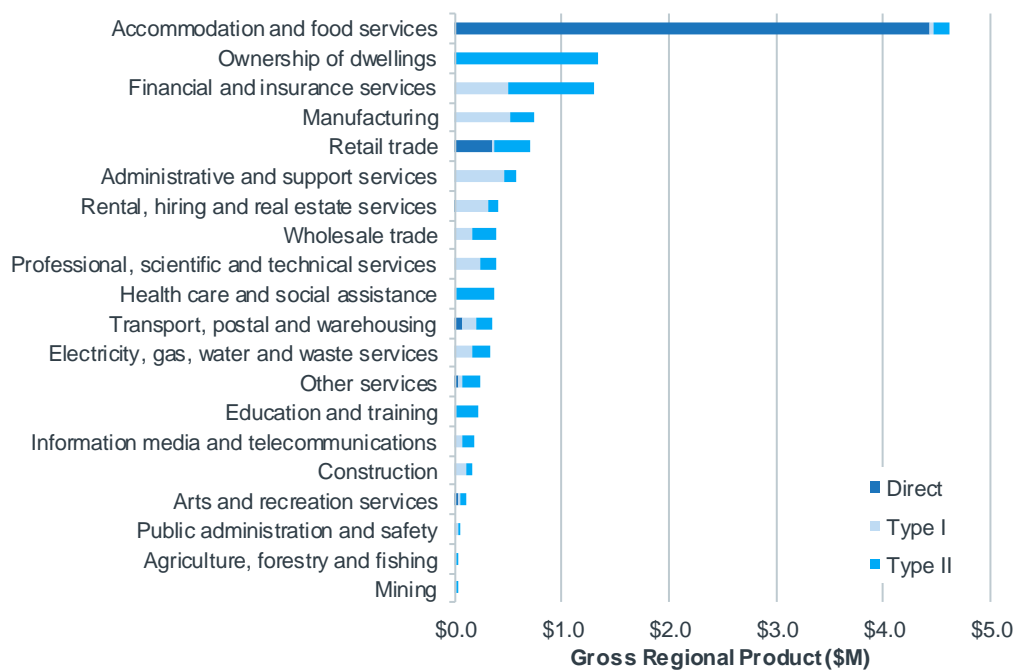
6.3.3 Increase in Economic Activity

The potential increase in economic activity supported by a new 5 star hotel above the current 4 star establishment is presented in Table 6.9. It should be noted that no allowance for visitation and turnover that would be captured elsewhere in the City of Parramatta LGA (in the absence of the current hotel or proposed development) have been included in this assessment.

Table 6.9: Estimated Annual Increase in Hotel Economic Activity Supported

Impact	Output (\$M)	Gross Regional Product (\$M)	Incomes (\$M)	Employment (FTEs)
Direct	\$11.8	\$5.7	\$2.7	49
Type I Flow-On	\$7.0	\$3.2	\$1.8	20
Type II Flow-On	\$9.3	\$5.5	\$2.2	29
Total	\$28.1	\$14.4	\$6.6	98

Source: AEC

Figure 6.2: Gross Regional Product (GRP) by Industry

Source: AEC

Significant industry beneficiaries of the hotel development include:

- Accommodation and food services (GRP \$4.7 million per annum).
- Ownership of dwellings (GRP \$1.4 million per annum).
- Financial and insurance services (GRP \$1.3 million per annum).

The modelling conducted indicates the proposed hotel development will make a significant contribution through its construction phase and the ongoing activities of the hotel operations.

7. POLICY ASSESSMENT

7.1 NET COMMUNITY BENEFIT TEST

To compare the outcome of the Base Case versus the Proposal Case, each of the identified impacts compared to the Base Case are summarised and ranked based on the rating system outlined in **Table 7.1**.

Table 7.1: Economic Impact Rating Matrix

Severity of Impact	Score	Explanation
Strong Positive Impact	+3	The scenario would make a strong positive contribution towards this impact compared to the Base Case
Slight Positive Impact	+1	The scenario would make a slight positive contribution towards this impact compared to the Base Case
Neutral Impact	0	The scenario would make neither positive or a negative contribution towards this impact compared to the Base Case
Slight Negative Impact	-1	The scenario would make a slight negative contribution towards this impact compared to the Base Case
Strong Negative Impact	-3	The scenario would make a strong negative contribution towards this impact compared to the Base Case

Source: AEC

Table 7.2 identifies the economic impacts and derives a total score for Proposal using the Base Case as the starting point of '0'. The higher the positive score the greater the net positive economic impact from a community perspective, the lower the score the greater the adverse economic impact.

Table 7.2: Total Economic Impact of Base Case versus Proposal Case

Impact	Base Case	Rating	Proposal Case	Rating
Employment & Economic Impact				
Output (\$M)	\$34.8	+1	\$59.0	+3
GRP (\$M)	\$17.9	+1	\$30.3	+3
Income (\$M)	\$8.5	+1	\$14.3	+3
Employment (FTE)	118	+1	208	+3
Hotel Demand				
Support Tourism Industry	181 rooms Small scale F+B and recreational facilities	+1	250 rooms 25 serviced apartments Larger scale F+B Conference facilities	+3
Housing Impact				
Housing Supply	n.a.	0	318	+3
Homes Close to Jobs	n.a.	0	Yes	+3
Construction				
Output (\$M)	n.a.	0	\$318.5	+3
GRP (\$M)	n.a.	0	\$128.1	+3
Income (\$M)	n.a.	0	\$68.1	+3
Employment (FTE)			830	+3
Total		5		39

Source: AEC

The Proposal Case would deliver a clear, strong positive economic impact comparative to the Base Case. The Proposal Case has only allowed for the redevelopment of the Site as envisaged under the Submission. As Parramatta grows the economic impact identified in this Assessment would be even greater.

7.2 SECTION 117 DIRECTION

The Section 117(2) direction was previously considered in this Assessment with Section 1.1 Business and Industrial Zones identified as being relevant. The objectives are identified below together with their consideration in the context of the Submission.

Table 7.3: Consistency with Section 117(2) Objectives

No.	Objective	Proposal Case
1	Encourage employment growth in suitable locations	<p>The Site currently contains a 4 star hotel which accommodates approximately 57 jobs.</p> <p>The Proposal Case envisages development of the Site to accommodate: 15,000qm of 5 star hotel floorspace (250 rooms), 2,800sqm of serviced apartments (25 units) and 3,150sqm of residential floorspace (318 units). This floorspace combined will accommodate 105 jobs on Site, representing a net increase of 47 direct jobs.</p> <p>The Proposal Case complies with this objective.</p>
2	Protect employment land in business and industrial zones	<p>The planning amendment sought would lead to an increase in the quantum of land zoned for employment generating land uses in the Parramatta LGA.</p> <p>The total number of jobs generated as a result of the Proposal is estimated at 205 jobs (representing a total increase of 88 jobs).</p> <p>The Proposal Case complies with this Objective.</p>
3	Support the viability of identified strategic centres	<p>The Proposal Case would consolidate new homes, jobs and investment in Parramatta in accordance with <i>A Plan for Growing Sydney</i> which states that Parramatta could grow competitively as Sydney's second CBD to accommodate world-class services.</p> <p>The Proposal Case would increase and improve the accommodation offer in Parramatta by accommodating 250 rooms in a 5 star hotel and 25 serviced apartments. The Proposal will also accommodate substantial conference and events facilities with associated parking, that will enable Parramatta to compete as a credible destination for tourism as well as business and corporate events.</p> <p>For these reasons, the Proposal Case would fulfil this Objective.</p>

Source: AEC

Section 117 Directions set out five requirements for planning authorities to consider when preparing a planning proposal that will affect land within an existing or proposed business or industrial zone. This are considered below in relation to the Proposal Case.

Table 7.4: Planning Authority Considerations

Consideration	Achieved?	Explanation
Give effect to the objectives of this direction	Yes	Table 7.3 has established that the objectives of the direction would be achieved via the Proposal Case.
Retain the areas and locations of existing business and industrial zones	Yes	<p>The land use zone of B4 Mixed Use would seek to augment the existing hotel offer by expanding the quality and services offered. The existing improvements on Site accommodate a 4 star hotel (181 rooms).</p> <p>The Proposal would provide 15,000sqm of commercial floorspace (250 rooms in 5 star hotel with associated conference and dining facilities) and 2,800sqm serviced apartments (25 units) on the Site.</p>
Not reduce the total potential floor space area for employment uses and related public services in business zones	Yes	See above.
Not reduce the total potential floor space area for industrial uses in industrial zones	Yes	N/A
Ensure that proposed new employment areas are in accordance with a strategy that is approved by the Director-General of the Department of Planning		As established in this EIA, the Proposal Case is consistent with State and local government objectives to support jobs, economic development, efficient and effective use of land and accelerate housing supply in suitable locations. It complies with this condition.

Source: AEC

7.3 WEST CENTRAL DISTRICT PLAN

The Proposal Case responds to the draft West Central District Plan in a number of key areas, specifically contributing to Productivity Priority 2 which seeks to drive growth of the Central City:

- Incentivise investment in hotel and short term accommodation for overnight visitors.
- Invest in more facilities to attract visitors.
- Provide industry support and visitor servicing.
- Develop place making initiatives.

Parramatta CBD has traditionally not provided a diversity of short-term accommodation options, with limited representation by national and international hotel chains. More than 600 rooms are however proposed (at various stages in the development pipeline), to be delivered over the 2016-2021 period. This is relatively modest compared to the 8,000+ rooms proposed in the pipeline in Sydney CBD.

High-quality and 5-star accommodation options are essential for Parramatta to be competitive as a CBD. The Proposal will support and strengthen the Central City's tourism industry and increase the depth of short term accommodation product in the local market with the inclusion of a 5-star international brand hotel (250 rooms) with conference and events facilities and 25 serviced apartments.

The draw and significance of a 5-star international brand hotel will be game-changing for Parramatta, elevating its profile and standing as an international destination to compete for international visitation and spend. The spin-off benefits for Parramatta's brand and image are significant and without question. The development of artistic and cultural facilities in Parramatta without quality hotel accommodation will undermine Parramatta's growth as the Central City.

7.4 PARRAMATTA CBD PLANNING PROPOSAL

Through the Parramatta CBD Planning Proposal, Council have a 2036 target of 972,000sqm commercial office floorspace. Pursuant to FSRs proposed under the CBD Planning Proposal for the Parramatta CBD commercial core, an additional 1.8 million sqm to 2.2 million sqm of commercial floorspace will be unlocked. If residential uses are permitted within the commercial core, the lower amount of commercial office floorspace will be unlocked (1.8 million sqm).

At present more than 600,000sqm of commercial floorspace is proposed to be delivered across the Parramatta LGA by 2021, approximately 63% of the aspirational target of 972,000sqm. Together with the additional commercial office floorspace that will be unlocked by new FSR controls (1.8 million - 2.2 million sqm), Parramatta is well placed to achieve (or potentially exceed) its 2036 aspirational target even without including the Site.

Importantly, a change in land use on the Site to facilitate a 5-star hotel, serviced apartments and residential units would not undermine Parramatta's commercial office aspirations and target, yet assist in elevating Parramatta's profile and standing as an international city.

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APPENDIX A: FINANCIAL FEASIBILITY ASSUMPTIONS

Generic feasibility testing adopts the Residual Land Value approach. This involves assessing the value of the end product of a hypothetical development, then deducting all of the development costs (including developer's infrastructure costs, construction costs, consultant fees for design and project management, statutory fees) and making a further deduction for the profit and risk that a developer would require to take on the project.

The land value is the 'residual' that remains, i.e. the amount a developer could afford to pay in exchange for the opportunity to develop the site. If the Residual Land Value exceeds the existing-use value, the development is considered to be financially feasible.

Development Yield

A notional commercial office scheme is developed by multiplying the site area with an FSR of 6:1 to estimate Gross Floor Area (GFA). The following efficiency factors are applied to generic floor and building areas:

- Gross Floor Area: Gross Building Area (100%: 120%).
- Gross Floor Area: Net Lettable Area (100%: 94%).
- Car parking of 962 spaces based on DCP requirements of 1 space per 50sqm GFA.

Revenue Assumptions

- 50% of the space is assumed to be pre-committed prior to construction commencement.
- Leasing assumptions:
 - Commercial rents at \$550/sqm (gross face).
 - Retail rents at \$650/sqm (gross face).
 - Car parking at \$300 per calendar month (\$3,600 per annum) per space.
- Tenancy assumptions:
 - Long term vacancy at: Commercial (10%), Retail (6%), Parking (10%).
 - Outgoings at \$100/sqm of net lettable area.
 - Gross incentives of 25% (commercial) and 3 months rent-free (retail).
 - Letting fee at 12% of gross rent.
 - Nominal income from existing lease assumed at \$400/sqm (gross) for 18 months pre-construction.
 - GST is quoted excluding commercial rents.
- Other revenue assumptions:
 - Revenue was assumed to escalate at 3% per annum.
 - Terminal income capitalised at: Commercial (7%), Retail (6%), Parking (7%).
 - GST is excluded on non-residential sales.
 - Sales commission was included at 1.5% of retail/commercial sales.
 - Marketing costs at 0.25% of gross sales.

Cost Assumptions

- The existing-use value of the Site (\$45m) is inputted as land purchase cost.
- Acquisition costs to be paid at settlement:
 - Legal costs, valuation and due diligence was assumed at 0.5% of land purchase cost.
 - Stamp duty at statutory rates.
- Cost escalation of 3% per annum was assumed to commencement of construction.
- Building construction is assumed at:
 - Commercial - \$2,400/sqm of building area.
 - Retail - \$1,800/sqm of building area.
 - Basement parking at \$40,000 per space (90% of spaces).
 - At-grade parking at \$5,000 per space (10% of spaces).
- A further 5% construction contingency allowance was included.
- Landscaping allowance at \$500/sqm of site area.
- Stormwater overflow mitigation works provisional sum of \$2,500,000.
- Professional fees at 11% of construction costs, 5.5% expensed pre-construction and 4.5% pro-rated with construction.
- Development management fee at 1% of project cost (excluding land and finance).
- DA and CC fees at statutory rates.
- Section 94A contributions at 3% of development cost for development exceeding \$250,000.
- Land holding costs at statutory rates.
- Other cost assumptions include:
 - 100% debt funded with interest capitalised monthly (nominal 7% per annum).
 - Finance establishment costs at 0.35% of peak debt.

Hurdle Rates and Performance Indicators

Target hurdle rates are dependent on the perceived risk associated with a project (planning, market, financial and construction risk). The more risk associated with a project, the higher the hurdle rate. Key performance indicators for this feasibility analysis are:

- Development margin is the profit divided by total development costs (including selling costs).
- Discount Rate refers to the project internal rate of return (IRR) at which the net present values of an investment becomes zero.

Adopted hurdle rates are 20% development margin and 20% discount rate, considered appropriate for a project of this nature.

If the results of the feasibility analysis meet the target hurdles, the project is considered a commercial proposition.

APPENDIX B: INPUT-OUTPUT METHODOLOGY

Input-Output Model Overview

Input-Output analysis demonstrates inter-industry relationships in an economy, depicting how the output of one industry is purchased by other industries, households, the government and external parties (i.e. exports), as well as expenditure on other factors of production such as labour, capital and imports. Input-Output analysis shows the direct and indirect (flow-on) effects of one sector on other sectors and the general economy. As such, Input-Output modelling can be used to demonstrate the economic contribution of a sector on the overall economy and how much the economy relies on this sector or to examine a change in final demand of any one sector and the resultant change in activity of its supporting sectors.

The economic contribution can be traced through the economic system via:

- **Direct impacts**, which are the first round of effects from direct operational expenditure on goods and services.
- **Flow-on impacts**, which comprise the second and subsequent round effects of increased purchases by suppliers in response to increased sales. Flow-on impacts can be disaggregated to:
- **Industry Support Effects (Type I)**, which represent the production induced support activity as a result of additional expenditure by the industry experiencing the stimulus on goods and services in the intermediate usage quadrant, and subsequent round effects of increased purchases by suppliers in response to increased sales.
- **Household Consumption Effects (Type II)**, which represent the consumption induced activity from additional household expenditure on goods and services resulting from additional wages and salaries being paid within the economic system.

These effects can be identified through the examination of four types of impacts:

- **Output:** Refers to the gross value of goods and services transacted, including the costs of goods and services used in the development and provision of the final product. Output typically overstates the economic impacts as it counts all goods and services used in one stage of production as an input to later stages of production, hence counting their contribution more than once.
- **Value added:** Refers to the value of output after deducting the cost of goods and services inputs in the production process. Value added defines the true net contribution and is subsequently the preferred measure for assessing economic impacts.
- **Income:** Measures the level of wages and salaries paid to employees of the industry under consideration and to other industries benefiting from the project.
- **Employment:** Refers to the part-time and full-time employment positions generated by the economic shock, both directly and indirectly through flow-on activity, and is expressed in terms of full-time equivalent (FTE) positions.

Input-Output multipliers can be derived from open (Type I) Input-Output models or closed (Type II) models. Open models show the direct effects of spending in a particular industry as well as the indirect or flow-on (industrial support) effects of additional activities undertaken by industries increasing their activity in response to the direct spending.

Closed models re-circulate the labour income earned as a result of the initial spending through other industry and commodity groups to estimate consumption induced effects (or impacts from increased household consumption).

Model Development

Multipliers used in this assessment are derived from sub-regional transaction tables developed specifically for this project. The process of developing a sub-regional transaction table involves developing regional estimates of gross production and purchasing patterns based on a parent table, in this case, the 2013-14 Australian transaction table (ABS, 2016b).

Estimates of gross production (by industry) in the study area were developed based on the percent contribution to employment (by place of work) of the study area to the Australian economy (ABS, 2012), and applied to Australian gross output identified in the 2013-14 Australian table.

Industry purchasing patterns within the study area were estimated using a process of cross-industry location quotients and demand-supply pool production functions as described in West (1993).

Where appropriate, values were rebased from 2013-14 (as used in the Australian national IO transaction tables) to current values using the Consumer Price Index (ABS, 2017).

Modelling Assumptions

The key assumptions and limitations of Input-Output analysis include:

- **Lack of supply-side constraints:** The most significant limitation of economic impact analysis using Input-Output multipliers is the implicit assumption that the economy has no supply-side constraints, so the supply of each good is perfectly elastic. That is, it is assumed that extra output can be produced in one area without taking resources away from other activities, thus overstating economic impacts. The actual impact is likely to be dependent on the extent to which the economy is operating at or near capacity.
- **Fixed prices:** Constraints on the availability of inputs, such as skilled labour, require prices to act as a rationing device. In assessments using Input-Output multipliers, where factors of production are assumed to be limitless, this rationing response is assumed not to occur. The system is in equilibrium at given prices, and prices are assumed to be unaffected by policy and any crowding out effects are not captured. This is not the case in an economic system subject to external influences.
- **Fixed ratios for intermediate inputs and production (linear production function):** Economic impact analysis using Input-Output multipliers implicitly assumes that there is a fixed input structure in each industry and fixed ratios for production. That is, the input function is generally assumed linear and homogenous of degree one (which implies constant returns to scale and no substitution between inputs). As such, impact analysis using Input-Output multipliers can be seen to describe average effects, not marginal effects. For example, increased demand for a product is assumed to imply an equal increase in production for that product. In reality, however, it may be more efficient to increase imports or divert some exports to local consumption rather than increasing local production by the full amount. Further, it is assumed each commodity (or group of commodities) is supplied by a single industry or sector of production. This implies there is only one method used to produce each commodity and that each sector has only one primary output.
- **No allowance for economies of scope:** The total effect of carrying on several types of production is the sum of the separate effects. This rules out external economies and diseconomies and is known simply as the “additivity assumption”. This generally does not reflect real world operations.
- **No allowance for purchasers’ marginal responses to change:** Economic impact analysis using multipliers assumes that households consume goods and services in exact proportions to their initial budget shares. For example, the household budget share of some goods might increase as household income increases. This equally applies to industrial consumption of intermediate inputs and factors of production.
- **Absence of budget constraints:** Assessments of economic impacts using multipliers that consider consumption induced effects (type two multipliers) implicitly assume that household and government consumption is not subject to budget constraints.

Despite these limitations, Input-Output techniques provide a solid approach for taking account of the inter-relationships between the various sectors of the economy in the short-term and provide useful insight into the quantum of final demand for goods and services, both directly and indirectly, likely to be generated by a project.

In addition to the general limitations of Input-Output Analysis, there are two other factors that need to be considered when assessing the outputs of sub-regional transaction table developed using this approach, namely:

- It is assumed the sub-region has similar technology and demand/ consumption patterns as the parent (Australia) table (e.g. the ratio of employee compensation to employees for each industry is held constant).
- Intra-regional cross-industry purchasing patterns for a given sector vary from the national tables depending on the prominence of the sector in the regional economy compared to its input sectors. Typically, sectors that are more prominent in the region (compared to the national economy) will be assessed as purchasing a higher proportion of imports from input sectors than at the national level, and vice versa.

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BRISBANE

Level 5, 131 Leichhardt Street
Spring Hill QLD 4000
Australia
T: +61 (0)7 3831 0577

MELBOURNE

Level 13, 200 Queen Street
Melbourne VIC 3000
Australia
T: +61 (0)3 8648 6586

SYDNEY

Level 14, 25 Bligh Street,
Sydney NSW 2000
Australia
T: +61 (0) 2 9283 8400

BANGKOK

2024/129-130 Sukhumvit 50
Prakanong Klongtoey,
Bangkok, Thailand 10260
T: +66 2 107 0189

DARWIN

Level 1, 48-50 Smith Street
Darwin NT 0800
Australia
T: 1300 799 343

PERTH

Level 2, 580 Hay Street
Perth WA 6000
Australia
T: +61 (0) 8 6555 4940

TOWNSVILLE

233 Flinders Street East
Townsville QLD 4810
Australia
T: +61 (0)7 4771 5550

SHANGHAI

46F Hongkong New World Tower
300 Huahai Road Central
200021 China
T: +8621 6135 2310

aecgrouppltd.com

OUTCOME DRIVEN