Planning Proposal Attachment A

Economic and Housing Assessment prepared by Hill PDA for the proponent (June 2010)

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Green Square 301 Botany Road Proposed LEP Amendment - Economic Impact Assessment

PREPARED FOR

John Newell Pty Ltd

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1. INTRODUCTION

Hill PDA has been commissioned by John Newell Pty Ltd to provide an independent Economic and Housing Assessment considering the impacts associated with a proposed amendment to the Local Environment Plan (LEP) for a site at 301 Botany Road, Zetland (hereafter referred to as "the Site").

1.1 The Site

The Site occupies a prominent location within Green Square Town Centre (GSTC), opposite Green Square railway station on the corner of Botany Road and Bourke Street. It measures approximately 5,700m^2 and is currently occupied by a motor dealership that is relocating to 94-98 O'Riordan Street, Alexandria later this year.

Figure 1 - Aerial View of the Site

Source: JBA Planning

The vision for GSTC is that of a new and vibrant centre, a place where people will live and work, a place to shop, for entertainment, restaurants and cultural and community activities. It will be home to approximately 5,500 residents and around 7,000 people are expected to work within the Town Centre itself.

The Town Centre will also house a network of community meeting places, open space corridors, a Civic Plaza, and Neighbourhood Plaza. The Neighbourhood Plaza will include businesses, community facilities, café's and restaurants.

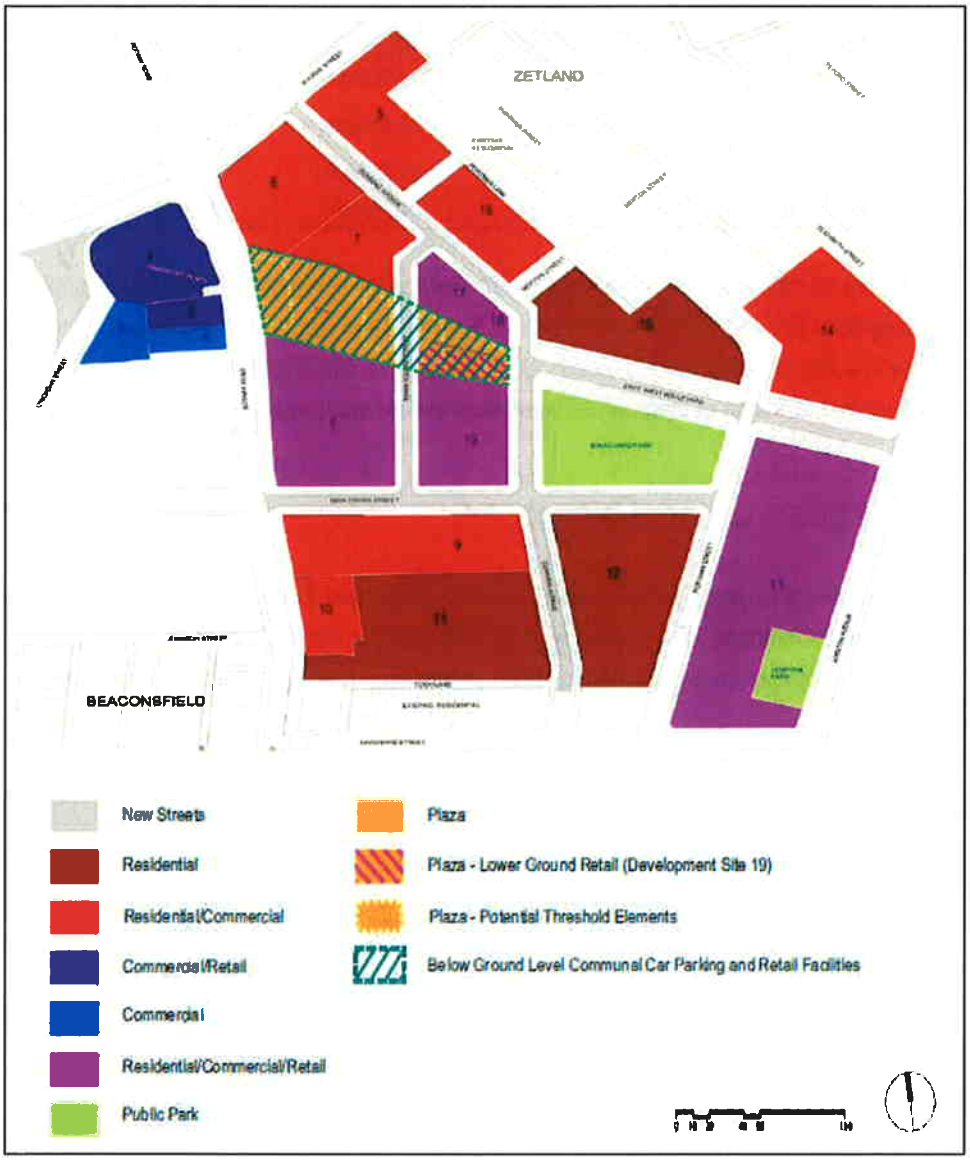
When fully developed the GSTC is expected to provide almost 410,000sqm of mixed use floorspace (GFA), including space for café's, restaurants, retail shops and offices.

1.2 Site Specific Planning Controls

Within Amendment 17 (gazetted in December 2006) to South Sydney LEP 1997 the majority of the Site is zoned 11(a) the GSTC with a small part zoned 11(b) GSTC Public Domain. The Site is also referred to as Development Site 6 in Schedule 5 (refer to Figure 2).

As such, generally the Site is intended to make a positive contribution to the vitality of the GSTC providing a mix of residential, commercial, retail uses (zone 11(a)). More specifically (Schedule 5) it is considered that the site should provide a gross floor area of 35,800sqm, 27.8% (or 9,952sqm) should be commercial floorspace and 72.2% (or 25,848sqm) residential floorspace.

Figure 2 - Land Use Plan



Source: South Sydney Development Control Plan 1997, Amendment Part H: Green Square Town Centre

Some flexibility is provided within Clause 27 KF which allows the amount of commercial and residential floorspace to be varied but limits this to no more than 10% of the total gross floor area specified for the site. As zero area of retail floorspace is stated any element of retail introduced on the site would be capped at 5% of the gross floor area of the development and would need to be offset against the other uses so that the total gross floor area does not exceed 39,380sqm.

1.3 Proposed Amendment to the LEP

The proposed amendment relates to Schedule 5 of the LEP and would change the floor space mix that applies to the Site as summarised in Table 1 below.

Table 1 - Comparison of Proposed Mix to Current Mix of Gross Floor Areas

Permissible Land Uses	Commercial	Residential	Retail	Total
Existing LEP	9,952sqm	25,848sqm	0sqm	**35,800sqm**
Existing LEP (inc 10% Variation)	10,947sqm	28,432sqm	0sqm	**39,380sqm**
Proposed Amendment	0sqm	31,253sqm	4,547sqm	**35,800sqm**
Proposed Amendment (inc 10% Variation)	0sqm	34,379sqm	5,001sqm	**39,380sqm**

In a similar vein to the current planning controls the introduction of commercial floorspace (proposed to be 0sqm) would be capped at 5% and would need to be offset against residential and retail so that the total gross floor area provided on the site does not exceed 39,380sqm. This would provide sufficient flexibility in the controls to provide up to 1,969 sqm of commercial floorspace should sufficient demand arise.

1.4 The Purpose of this Report

The purpose of this report is to present the findings of our independent Economic and Housing Assessment that considers the appropriateness of the proposed amendment to the LEP from a social and economic perspective. The report provides an assessment of each permissible land use, namely retail, commercial and residential.

2. Retail Assessment

Under the existing planning controls the Site could provide just under 2,000sqm of retail floorspace and it is being proposed that this should be increased to around 5,000sqm. The section of the assessment considers whether there is sufficient demand to support this amount of retail and whether its provision on the Site would impact surrounding retail centres.

This assessment makes reference to the findings of the Green Square and Southern Areas Retail Study (hereafter referred to as Retail Study) prepared by Hassell and JLL in September 2008 which indicated there was demand for,

"26,000 sq.m of core retail floor space in GSTC, with likely anchor tenants being a discount department store and a supermarket."

Page 7, Green Square and Southern Areas Retail Study, Hassell and JLL, 2008

2.1 Review of Current Forecast

The forecast of demand for retail space in the Green Square Development Area was considerably underestimated in the Retail Study. The underestimation of demand was based on the accumulation of a number of inaccuracies or assumptions – the main three being:

- the under-estimation of average spend per resident;
- the over-estimation of escape expenditure; and
- the exclusion of spending by workers.

In the first point above the Retail Study forecasted resident expenditure by multiplying existing per capita expenditure ($11,945 in 2006) in the primary trade area (PTA) by forecast population numbers. The report made some allowance for real growth in retail spend (around 1.5% per annum per capita) based on historic trends. However it did not allow for changes in socio-demographics in the area. Public housing tenants have low expenditure levels at around $6,000 to $7,000 per annum whereas new residents have expenditure levels much higher at around $18,000 per annum[1]. As the new wealthier population moves in average income levels will rise significantly. Hence average expenditure per capita will rise.

Note that average per capita expenditure in the PTA has already moved up quite significantly to $15,181[2]. Assuming new residents have similar spending levels to Zetland residents and assuming 1.3% real growth in retail spend per capita[3] we estimate that by 2021 average expenditure per capita in the PTA will be around $18,676 which is 35% higher than forecasted in the Retail Study[4]. Whilst some of this is due to inflation over

[1] Zetland for example is $18,250/ann and parts of Alexandria are more than $18,000 (Marketinfo 2009)

[2] Marketinfo 2009

[3] Note that this is still lower than assumed growth in the Retail Study. Historic trend since 1986 has been around 1.4% per annum based on Hill PDA estimate with data sourced from ABS including Population, consumer price indexes and retail sales figures.

[4] Note that Hill PDA's estimate is in 2009 dollars compared to 2006 dollars in the Retail Study. Nevertheless Hill PDA's estimate is still close to 25% higher than the Retail Study in constant dollars.

the past 3 years the majority of the difference is due to the Retail Study failing to allow for the higher income levels and higher expenditure behaviour of the new residents.

The second point relates to the assumptions in the Retail Study regarding capture rates. For supermarket, specialty food and specialty non-food retailers the capture rates from the primary trade area of 45%, 8% and 11% respectively are too low. Food and grocery shopping and some component of non-food shopping are considered "chore" shopping. Shoppers have a strong reluctance to travel long distances when undertaking chore shopping. Unlike leisure shopping, shoppers generally undertake the majority of their supermarket and other chore shopping (such as newsagency, chemist, butcher, bakery and liquor) close to home or to the closest supermarket based centre to where they live. There is every reason to believe that 80% of chore shopping expenditure generated by primary trade area residents would be captured by retailers within the primary trade area if there was sufficient supply of such retail space. The low capture rates adopted in the Retail Study significantly underestimated demand for retail space.

Finally the Retail Study discussed expenditure generated by the workers in the area, which is forecast to grow from its 2006 annual level of $165m to $215m in 2021. However this expenditure does not seem to have been included in the expenditure tables within the report (Tables 12 to 15) and hence appear to have been excluded from Table 18 in regard to supportable floor space. This is a significant amount of expenditure translating to something in the order of 35,000sqm floor space required by 2021. Some of this space may be satisfied in the household expenditure estimates with residents working locally. Nevertheless there will be a proportion of workers that commute into the area increasing the potential demand for retail space and it would appear that this has not been accounted for in the analysis.

2.2 Forecast Demand for Shop Front Space

Population Growth

For the purpose of this exercise we have adopted the same population forecast as the Retail Study. This is provided in the following table:

Table 2 - Population Forecast by Trade Area 2006-31

	2006	2011	2016	2021
Primary TA	33,520	42,000	51,000	55,500
Secondary TA	41,375	43,900	45,900	46,400
Main TA	**74,895**	**85,900**	**96,900**	**101,900**

Source: Hassell/JLL Green Square and Southern Area Centres Study

Forecast Expenditure

We utilised Marketinfo 2009 estimate for the base year 2009. For new residents added to the PTA and STA we applied higher expenditure levels equivalent to the suburb of Zetland in 2006 based on Marketinfo 2006 data.

We further applied a 1.3% per annum real growth rate to retail spend per capita which is a conservative estimate. This is slightly below the total retail spend in the Retail Study and slightly below the historic long-term linear trend since 1986 (estimated by Hill PDA from ABS Retail Turnover, population and CPI data). The results are provided in the table below.

Table 3 - Average Retail Spend per Annum per Capita in PTA

	2009	2011	2016	2021
Supermarkets	4,076	4,291	4,666	5,014
Other Food	4,385	4,616	5,020	5,394
Bulk Goods	2,172	2,287	2,487	2,673
Other Non-Food	4,548	4,788	5,207	5,595
Total	**15,181**	**15,982**	**17,380**	**18,676**

Source: Estimated by Hill PDA from population forecast and applying a real growth rate at 1.3% per annum.

Total Expenditure generated by the PTA and STA is forecast in the following tables:

Table 4 - Forecast Expenditure by Trade Area by Retail Store Type 2006-31

		2009	2011	2016	2021
PTA	Supermarket	156.8	180.2	238.0	278.3
	Other Food	168.7	193.9	256.0	299.4
	Bulky Goods	83.6	96.1	126.8	148.3
	Other Non-Food	175.0	201.1	265.5	310.5
	Total PTA	584.1	671.2	886.4	1,036.5
STAs	Supermarket	145.3	152.5	170.1	183.5
	Other Food	156.3	164.1	183.0	197.4
	Bulky Goods	77.4	81.3	90.7	97.8
	Other Non-Food	162.1	170.2	189.9	204.7
	Total STAs	541.1	568.2	633.7	683.4
Total PTA & STAs		**1,125.2**	**1,239.4**	**1,520.1**	**1,719.9**

Capture Rates

In the case of "chore" shopping needs we have adopted more appropriate capture rates for the reasons stated above. We have adopted higher capture rates for the PTA and lower capture rates for the STA than the Centres Study, but in doing so we have excluded the existing floor space levels in the STA.

Table 5 - Potential Expenditure Capture Rates for PTA Retailers

	PTA	STA	% of trade from Beyond
Supermarket	80.0%	20.0%	7.0%
Other Food	70.0%	20.0%	7.0%
Other Non-Food	40.0%	15.0%	8.0%

Target Turnover Rates

We applied the following target turnover rates to derive demand for retail floor space:

Table 6 - Target (Indicative or Average) Turnover Levels

Store Type	$/sqm*
Supermarket	10,500
Other Food	7,500
Other Non-Food	5,500

* Note that this is reasonably consistent with other sources including the ABS Retail Survey 1998-99 (indexed to $2009)

Required Occupied Retail Floor Space

Dividing the forecast expenditure figures by the target turnover rates derives the following demand for retail floor space.

Table 7 - Required Retail Floor Space in the PTA

	2009	2011	2016	2021
Supermarket	15,822	17,887	22,980	26,554
Other Food	21,413	24,164	30,944	35,706
Other Non-Food	18,638	20,942	26,620	30,616
Total	**55,873**	**62,993**	**80,543**	**92,876**

Hill PDA estimate by multiplying expenditure in Table 4 with the capture rates in Table 5 and dividing the result by the target turnover rates in Table 6

By applying these higher rates for the PTA demand for non-bulky goods retail space in 2021 will be 93,000sqm – which is more than double the level of supply suggested in Table 16 of the Retail Study. Around 26,500sqm of this demand is in the form of supermarket space – equivalent to about 7 large supermarkets (around one or two supermarkets more than the Retail Study estimate). Already there is sufficient demand for around 4 large supermarkets.

The above table suggests that around 45,000sqm of specialty stores (both food and non-food) will be required by 2011 increasing to 66,000sqm by 2021. Added to this should be further demand for shop front space generated by:

- non-retailers (such banks, real estate agents, travel agents, medical services, etc) – say 10% more;
- a vacancy factor of around 4%; and
- some demand generated by the non-resident workforce – say conservatively 10,000sqm to 12,000sqm.

The estimates are provided in the table below.

Table 8 - Required Retail Floor Space in the PTA (excluding bulky goods) 2011 to 2021

	2011	2016	2021
Retail Space Required (excluding bulky goods)	62,993	80,543	92,876
Add demand from non-resident workers (say 30% of total workers)	7,615	8,769	9,923
Total Retail Floor Space Required (excluding bulky goods)	70,608	89,312	102,799
Less Existing Space (say)*	20,000	20,000	20,000
Additional Retail Floor Space Required	**50,608**	**69,312**	**82,799**

* The best estimate of occupied retail floor space in 2006 (excluding bulky goods and automotive retailing) was 20,000sqm based on Ibecon floor space surveys in 2004 (18,000sqm), Journey to Work data (2006) and Council's floor space survey in 2007.

In addition to retail floorspace there are commercial uses such as banks, real estate agents and travel agents who occupy shop front space within town centres. Allowing for 11 to 12% of specialty stores (around 9,000sqm) plus a further allowance of 3% to 4% for vacancies which is considered a healthy level (around 2,500sqm) would drive total additional demand for shop front space (retail, non-retail shop front commercial uses and vacancies) to around + 94,000sqm by 2021.

Forecast Undersupply of Retail Space

Proposed retail spaces listed in Table 8 in the Centres Study includes the following:

- Discount Department Store based centre at GSTC 26,250
- ACI Site 3,952
- Victoria Park 8,565
- Erskineville Park 5,000
- Total 43,767

Assuming all these centres proceed there would remain an undersupply of non-bulky goods shop front floor space of more than 50,000sqm in 2021.

If we assumed that the additional proposals proceeded including Gazcorp (11,470sqm), the Choker Site (7,025sqm), Sydneygate (2,240sqm) and Bowden Greensky (2,225sqm) the total proposed floor area comes to 66,727sqm. There would still be an undersupply of around 27,000sqm in 2021.

2.3 The Appropriate Size of GSTC

If Green Square is to be the major centre of the southern areas it should have significantly more retail floor area than proposed. As shown in the demand modelling above a centre of around 40,000sqm to 50,000sqm is easily supportable without undermining the retail hierarchy. A larger centre would increase the retail offer considerably, protect its role as the major centre and protect its financial viability from any threats by other centres such as the Gazcorp and Victoria Park sites.

Note that with around 40,000sqm of retail space the GSTC would be around the size of Broadway Shopping Centre, half the size of Westfield Eastgardens and less than half the size Westfield Bondi Junction.

2.4 The Appropriateness of Retail on the Subject Site

Our retail assessment has shown that there is a strong case to support the provision of 27,000sqm additional shop front floorspace within GSTC by 2021. This takes account of developments already planned for. It is therefore considered that increasing the amount of retail floorspace on this Site by such a modest amount (3,000sqm) is entirely appropriate.

Furthermore, the subject site is in an excellent position for ground floor retail uses. It has frontages to Bourke Road, Botany Road and the proposed Town Square Plaza. It is directly across Botany Road from the Green Square Town Centre. Given its prominent location between the railway station and the proposed retail uses in GSTC it is difficult to appreciate any case against having retail on the site. Retail uses on the ground floor would bridge the gap and ensure continuity of active ground floor uses between the station and the retail anchors in the remainder of the town centre.

Finally, the proposed amendment to the LEP provides a certain degree of flexibility, enabling shop front uses that are more commercial in nature (such as banks, travel agents and medical facilities) to occupy the space, helping to ensure GSTC fulfils its role as the core town centre meeting the needs of the increasing population in the area.

3. Commercial Assessment

The commercial assessment looks first at recent trends in the commercial property sector in general then identifies future trends and drivers. We then assess the likely level of demand for small speculative space in the South Sydney market, within which the Site is located.

3.1 Recent Trends across Sydney

The impact of the GFC is evident in the commercial property sector particularly the slowdown in the number of transactions / deals and increased incentives. This is a result of businesses taking a more cautious approach to decisions such as expansion and relocation. Even so, a drive for greater efficiencies has seen a number of businesses moving to cheaper space and / or locations where all operations can be consolidated.

The GFC aside, over the past 30 years the most prevalent trend for the commercial property sector has been office occupiers moving from established centres to business parks in out-of-centre locations. Although a decline in office space in established centres was expected as a result of the oversupply in the 1980's followed by the recession of the early 1990's, the trend has continued through the buoyant period and the more recent GFC, with an increased share of office space development moving to out of centre locations. These out of centre locations have in some cases proved so successful that they have become centres in their own right (for example specialised centres at Macquarie Park and Norwest).

The leakage of office space from established major centres and suburban centres to business parks has been recognised as a real and serious threat to the balance of the established centres as noted in the Metropolitan Strategy: *"Business parks are competing with traditional high density centres such as North Sydney, making it more difficult for centres in rapidly growing sub regions to attract office based jobs".*

Research undertaken by Hill PDA has revealed that many businesses relocated to business parks to lower rental costs, as rents within established centres threatened to grow well above inflation. As well as reducing overheads, which has recently become increasingly important, business parks also provide occupiers with purpose built buildings, a range of amenities and plenty of onsite parking for employees and visitors in an attractive location. Stand alone, purpose built buildings enable major occupiers to achieve a sense of identity that would be difficult and in some cases impossible to achieve in established centres, where buildings tend to have multiple tenancies.

These occupier preferences are clearly visible in successful office parks including Macquarie Park which has resulted in the total amount of office space in North Ryde increasing to 783,257sqm[5] (almost 2 times larger than South Sydney which is estimated to comprise 392,317sqm) and becoming a centre in its own right.

[5] Colliers International Autumn 2010

There are key characteristics common to successful business parks include:

- The dominance of offices with some research and development and warehousing components;
- A-grade space at a relatively cheaper rent provided in purpose built buildings with plentiful onsite parking;
- Flexible footprints, often in excess of 1,000-1,500sqm allowing space to easily adapt to changes in operations such as the restructuring of the business, the increased number of people working from home or integration of warehousing;
- Lower densities with floorspace ratios in the order of 1:1 - 3:1 which enables low cost construction and increased opportunity for single occupation;
- Onsite tenant amenities such as gyms, food and drink outlets and crèches;
- A prestigious and marketable image attracting businesses of a similar calibre delivering efficiencies through agglomeration; and
- Newer buildings that can more easily achieve ESD standards that are becoming increasingly important to occupiers[6] with changes to legislation, rising energy costs and awareness of corporate responsibility.

3.2 Recent Trends in South Sydney

Over the last six months the South Sydney commercial office market has shown signs of recovery with a decline in the level of vacancy from 6% to 5.7%[7] and retail agents noticing a substantial increase in the number of enquiries for space in the area. Of particular importance to this assessment is the agent comment that the majority of enquiries are from tenants already in South Sydney looking to "upgrade and consolidate their space requirements".

Table 9 - Sydney Metropolitan Office Market Indicators - autumn 2010

Region	Stock sqm	Vacancy Rate %	Grade A Net Face Rents $/Sqm
Total	4,742,248	9.4%	
North Sydney	837,750	11.7%	$420 - $570
St Leonards/Crows Nest	367,108	15.2%	$370 - $450
Chatswood	283,900	17.8%	$330 - $395
North Ryde	783,257	12.2%	$300 - $310
Norwest	311,631	11.0%	$330 - $340*
Parramatta	682,557	9.8%	$330 - $385
Sydney Olympic Park/Homebush	101,261	1.6%	$300 - $330
Rhodes	141,467	4.4%	$320 - $340
South Sydney	**392,317**	**5.7%**	**$280 - $330**
CBD Fringe	843,000	2.3	$380 - $450

* Includes car parking costs at a ratio of 1:25
Source: Colliers International Market Indicators Report, Q1 2010

[6] Perspectives on Sustainability, Jones Lang LaSalle, 2009
[7] Colliers International, MIR, Autumn 2010

There are signs of market recovery with rents for Grade A office space in South Sydney remaining stable although we note (refer to table 9) they remain some of the lowest rents in the Metropolitan Area ranging from $280-$330/sqm for Grade A Space. We understand that Alexandria Creative Park, albeit fairly unique being converted heritage buildings, is achieving rents in the order of $400/sqm with minimal incentives (although fit outs are being tailored to meet the tenants needs as a form of incentive), showing that for the right product tenants will pay a premium.

New developments in the area primarily take the form of adaptive reuse of existing buildings. Developments close to the Site include

- 1-3 Mandible Street, Alexandria - 3,000sqm
- 41 Mandible Street, Alexandria - 14,000sqm (the old Alcatel facility)
- 41 - 43 Bourke Road, Alexandria - 17,000sqm (Alexandria Creative Park)

As the market recovery commences, supply of new stock is likely to remain constrained, with only four major developments expected to be completed by the end of 2010 in the South Sydney market. This includes the aforementioned 41 Mandible Street and 41-43 Bourke Road. The other developments at 50 Holt Street and 7-9 Irvine Place are slightly further from the Site. This constrained level of new supply should help to maintain the current low level of vacancies.

Business parks including Alexandria Creative Park, Australian Technology Park (ATP) and Euston Business Park seem to be creating a commercial core for South Sydney close to Green Square train station and north of Bourke Street. At May 2010 all purpose built buildings at ATP were let with the smaller suites within the heritage buildings being the only space available, suggesting a stronger level of demand for the purpose built, larger and more flexible floor-plates.

Anecdotally, based on anticipated modest take up rates, there is growing concern regarding the management of the release of new office space on to the market. Landcom's proposals for Green Square alone could take approximately 5 years for the market to absorb and if not managed holistically could result in the market being flooded with space for which there is limited demand driving vacancies up and rent's down. Reinforcing this concern is the recent marketing of a development opportunity at 330-336 Botany Road. Although zoned for business use (predominantly) enquiries have been predominantly from residential developers. There have been some enquiries from commercial developers looking at the site, albeit as a longer term opportunity.

Of particular importance to this assessment is the strength of the market for office suites provided within a mixed use development (that is a mix of uses that is compliant to the current planning controls).

To inform our assessment we have identified 282-288 Botany Road, Alexandria, as a useful comparable. This development includes an element of commercial floorspace in a predominantly residential building. The office element is on the market for $3,846 / sqm (internal). At seven storeys this is likely to have cost between $2,070 and $2,235[8] / sqm (gross) to build the office space. In buildings more than seven storeys these costs could increase to between $2,915 and $3,145 / sqm (gross). There have been no enquiries from perspective purchasers but at the time of this assessment the space had only been on the market for two weeks.

3.3 Future Trends and Drivers

Looking ahead to the next 10-15 years we consider it unlikely that occupier preferences will alter significantly. We do however forecast that the following factors will become increasingly important and as such influence the nature and location of office developments.

Continued Demand for Commercial Floorspace

Deindustrialisation is a trend that has / is continuing to result in the decline of industrial jobs. This trend is a global trend owing to the greater efficiencies of technology and mechanisation. Conversely, the increasing affluence of Sydney's population and growth of the New Economy (otherwise referred to as a knowledge and ideas based economy) is expected to strengthen demand for commercial floorspace.

Barkham (2002) notes that *"Service sector organisations, both public and private sector, are the main users of office space."* The key long term trend in office development has therefore been the growth in the service and knowledge sectors. These sectors relate to civil service and public sector administration; banking insurance and finance; private sector administration (corporate headquarters etc); business services (law, accountancy and consultancy) and consumer services (health, education, media etc).

In the 1970's there were predictions that with technological advances, a much larger proportion of people within the service and knowledge sectors would work from home, reducing employers overheads and demand for office floorspace. This phenomenon has not been realised, with technology increasing the amount of out of hours work taking place at home but more than 80%[9] of the persons employed across Australia still work in business premises. Rather than a move away from businesses premises, technological advances have contributed towards a greater choice of locations and higher densities of employment within offices with wireless networks and the like facilitating initiatives such as "hot-desking".

Sustainable Communities

With rising fuel prices and the introduction of mandatory energy efficiency disclosure for large commercial buildings (>2,000sqm) by the Federal Government in the second half of 2010 sustainability will become an increasingly important driver of price and demand[10]. Sustainability is already a key driver, with the Jones Lang LaSalle survey (2009) finding that whilst only 37% of corporate occupiers were willing to pay rental premiums of between 1-10% for sustainable floor space but almost 90% considered green building certification when selecting premises.

[8] Rawlinsons Australian Construction Handbook, 2010

[9] ABS Locations of Work Survey 2005

[10] The Jones Lang La Salle 2009 global survey on Corporate Real Estate and sustainability indicates that an increasing number of corporate executives consider sustainability to be a critical business issue.

The Jones Lang LaSalle Survey confirms our own view that energy efficient buildings are becoming the norm and moving forward sustainability will need to go further. This may result in the more efficient use of brownfield land through higher density development and the integration of employment opportunities across a broader range of centres in Sydney to minimise the need to travel between home and places of work.

Furthermore, with strategic planning policies (global and regional) focussed on the delivery of sustainable communities, the ability to deliver new business parks in out-of-centre locations is becoming difficult. As a result, there is evidence that investors and developers are beginning to revisit traditional centres which offer a greater variety and choice of shops and services together with higher levels of accessibility by sustainable modes of transport.

Public Sector Investment

A shortage of available development sites and fragmented site ownership significantly increases the challenge for established centres to deliver, modern, low density buildings with the large footprints that are desirable to modern occupiers. Where however opportunities arise or can be manufactured through effective partnerships between the public and private sectors, the potential for commercial growth can have a greater chance of successful delivery. Local examples within Sydney include Green Square and Pyrmont where the Public and Private sectors have come together to regenerate the area with new development.

Public sector investment in infrastructure projects can act as a catalyst for development by increasing the amount of confidence in a location. Hill PDA's own research has found that the provision of adequate local infrastructure is a key determining factor for a developer or business seeking to locate in a region.

Work Life Balance / Lifestyle Choices

An increase in the number of working hours per household has resulted in time pressures for the workforce. Linked to this is the impact of a greater proportion of dual earning households that means less time for family responsibilities. The employment rate for women in Australia has steadily increased from 29% in 1954 to 47% in 1980 to 61% in 2000[11] with almost half of these having dependent children. In addition a large number of workers are responsible for caring for an ageing population (population aged 65 years and over projected to rise from 12.2% in 1999 to 22% in 2030 and 26% in 2050[12]).

As a result work places that enable workers to conveniently combine paid work, leisure and family responsibilities are becoming increasingly attractive. Some business parks, Norwest and Macquarie Park included, have endeavoured to emulate these features to some degree but do not provide the scale and mix to compete with a vibrant CBD location. Emerging designs for Barangaroo embrace this concept encouraging a vibrant mix of uses including shops, parks and retail that are attractive to both residents and office workers who are increasingly time poor.

It is considered that the need for offices to be conveniently located to a vibrant mix will become increasingly important to office workers and as a result tenant occupiers. As such, work places that enable workers to conveniently combine paid work, leisure and family responsibilities are likely to be more successful.

[11] ABS 2004

[12] ABS 2000

Maintaining a Critical Mass

It is appropriate to consider the issue of maintaining a "critical mass" of office floorspace, particularly in office locations outside of the CBD core. We have identified the following as key indicators of an appropriate critical mass:

- A recognisable commercial centre in its own right;
- Businesses deriving efficiencies from being able to support services / industries essential to the operation of the business such as a printing services, meeting catering or water cooler supplier; and
- The ability to attract tenant services such as food and drink outlets, gyms and child care facilities that make a significant contribution towards creating an attractive workplace.

3.4 The Appropriateness of Commercial Floorspace on the Site

Based on the trends identified above, whilst the Site has certain characteristics that make it a potential location for offices we do not consider it appropriate.

The Site does lie within a small but known office market (South Sydney), it has good transport accessibility with Green Square train station providing quick and easy access to the CBD and the airport and it is visually prominent. As mentioned above, office tenants look for a vibrant mix of services to meet their own and their employee's needs. Such uses are beginning to appear in the area and this will improve as the GSTC develops over the coming years. The market indicators suggest that this is a fairly robust commercial market offering a good quality and range of office space at affordable prices.

Notwithstanding these merits it is essential to recognise the serious implications associated with flooding the market with new office space. If not well managed high vacancies and low rents will occur making any commercial development within GSTC difficult to deliver viably. A single land owner and developer, such as the consortium led by Landcom are well placed to manage this effectively.

The recent trend of occupiers preferring purpose built space in business park locations that offer competitive rates, efficiently designed buildings and car parking is also a key consideration. Currently, it is the smaller office suites and in particular those located in mixed use buildings which are proving difficult to let and as such are likely to be most impacted when new space, in a format suited to modern occupier requirements comes on line.

Furthermore, the end sales values for office space within a mixed use building are unlikely to be sufficient to cover construction costs and allow for the risks associated with lengthy leasing voids.

In summary, we consider there is demand for good quality office floorspace in the area but not in the format proposed within the current planning controls for the Site. Such space is likely to negatively impact the viability of a development and lie vacant for substantial periods of time making no positive social or economic contribution.

It is considered more appropriate to construct purpose built office buildings that meet occupier requirements. The new standalone (where possible) commercial office buildings should be located in the same part of the GSTC, creating a cluster or office precinct rather than being disseminated throughout the GSTC. This precinct should be close to the shops and services proposed within the GSTC to create a pleasant and convenient work environment for employees.

4. Housing Assessment

4.1 Population Forecasts

The ABS conservatively forecasts that the Sydney Metropolitan Area will gain an additional 1.5 million residents by 2036 thus raising concerns as to how and where Sydney could grow to accommodate this growth. The higher end of the forecast is 1.9 million additional residents by 2036.

The NSW Department of Planning (DoP) is using the midpoint of these forecasts (1.7m) for the aforementioned review of the Metropolitan Plan and the subsequent review of the dwelling targets.

The most recent population forecasts being used by the DoP were released in April 2010 and project the population of the City of Sydney will reach 264,800 by 2036, representing a growth of 99,200 people between 2006 and 2036.

These forecasts appear to have been based on data from the Transport Data Centre which usefully provides data for much smaller areas referred to as travel zones. The Site lies within Travel Zone 284 – Green Square North.

Figure 3 - Travel Zone Boundary – Green Square North (#284)

Source: Transport Data Centre, NSW Government

TDC estimates significant growth with the resident population of "Green Square North" reaching 6,602 by 2036, representing on average 196 additional residents each year. It is useful to note that we usually consider annual growth between 1-1.5% as strong.

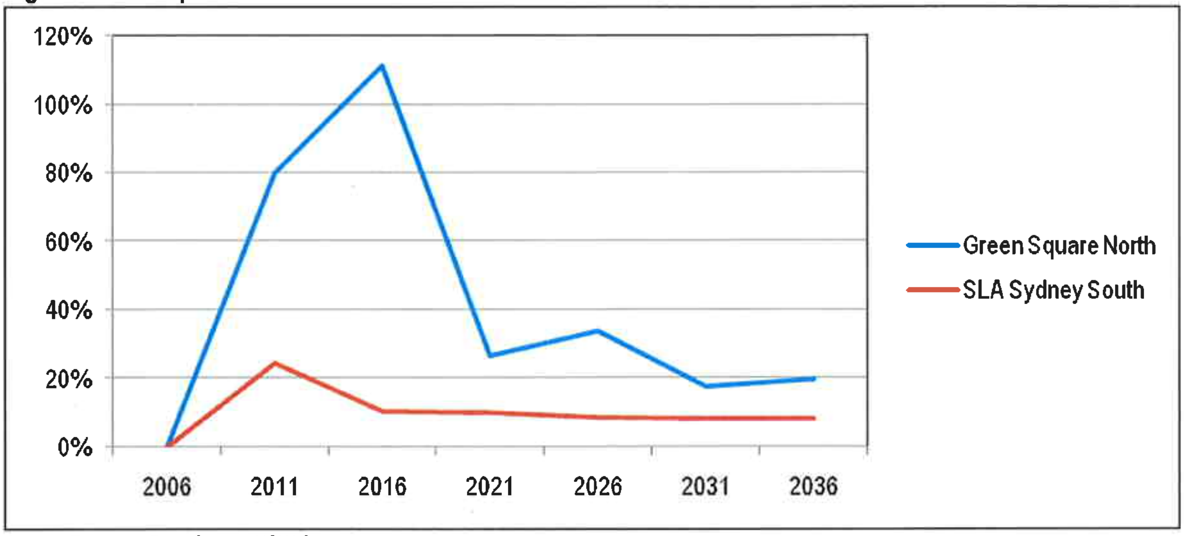
Figure 4 - Estimated Resident Population Forecasts

	2006	2011	2016	2021	2026	2031	2036	Growth 2006-2036	% Annual Growth*
Green Square North	727	1,309	2,767	3,500	4,690	5,517	6,602	5,875	7.63%
SLA Sydney South	52,420	65,311	72,175	79,559	86,545	93,819	101,472	49,052	2.23%

*Compound

Source: Transport Data Centre, NSW Government

Figure 5 - Comparison of Growth Rates



Source: Transport Data Centre, NSW Government

Comparing these figures to those for the broader Statistical Local Area (SLA) of Sydney South reinforces that this represents an exceptional rate of growth that is usually only associated with strategic regeneration or growth areas. Over the same period the resident population of Sydney South is expected to almost double whereas the population of Green Square North will increase almost tenfold.

4.2 Strategic Housing Targets

Based on these forecasts and to achieve Governments strategic objectives, challenging targets are being set in the emerging policies that will guide future developments.

Sydney Towards 2036

The scheduled five yearly review of the Metropolitan Strategy – City of Cities commenced in March 2010 with the release of the discussion paper Sydney Towards 2036. The paper brings to light a number of strategies to enable the Greater Metropolitan Region to respond to new challenges including revised population targets, housing affordability, the Global Financial Crisis and climate change.

The targets contained within the current Metropolitan Strategy and the period it covers has been realigned with those set out in the recent Metropolitan Transport Plan (see below). Together these two plans will guide the Subregional Strategies which also will be progressively revised, albeit they have not yet been adopted.

Figure 6 - Forecast Population growth in Sydney's subregions

SUBREGION	2006 POPULATION	2036 PROJECTED POPULATION	2006-2036 POPULATION INCREASE	CHANGE
	'000	'000	'000	%
SOUTH WEST	410.5	874.8	464.3	113.1
SYDNEY CITY	165.6	264.8	99.2	59.9
NORTH WEST	761.1	1,155.6	394.5	57.8
INNER WEST	227.4	307.0	79.6	35.0
WEST CENTRAL	679.6	896.6	217.0	31.9
INNER NORTH	302.9	378.9	76.0	25.1
NORTH	261.9	321.2	59.3	22.6
NORTH EAST	235.0	277.0	42.0	17.9
EAST	281.8	334.0	52.2	18.5
SOUTH	651.4	747.6	96.2	14.8
CENTRAL COAST	304.7	424.7	120.0	39.4
SYDNEY	4,282.0	5,982.1	1,700.1	40%

Source: Historical Data – Australian Bureau of Statistics; Projections – Department of Planning

The discussion paper identifies population increases in the order of 1.7m across Sydney and 99,200 in the City of Sydney. Sydney Towards 2036 establishes targets 770,000 more homes by 2036 and recognises that development should take place in the right locations, specifically existing urban areas with good access to public transport.

> *"Current policy is that at least 80% of new homes Sydney needs by 2036 should be located in existing or new centres—from Regional Cities to neighborhood centres — with good access to public transport."*
>
> NSW Department of Planning, Sydney towards 2036

The paper sets out a number of proposed directions and questions to be considered by stakeholders and the community. Of particular relevance are directions to improve the capacity of Sydney to accommodate:

- More housing, particularly within existing urban areas (Direction 6). Specific consideration is given to understanding how the planning system can support investment in new and existing Centres and determining those elements that are considered essential to a vibrant Centre;
- Increasing the supply of housing is an important part of managing the key issue of housing affordability across Sydney; and
- Changing housing needs (Direction 7). The Paper refers to an Australian trend towards smaller average household sizes (2.51 in 2031) meaning a greater number of dwellings are needed and that smaller one and two bed dwellings should be planned for.

The Metropolitan Transport Plan

The Metropolitan Transport Plan, Connecting the City of Cities, sets out a 25 year vision for Sydney's transport planning and is supported by a 10 year funded package of transport infrastructure. The Plan is intended to be read in conjunction with the Metropolitan Strategy. Together they provide a holistic strategy for the Sydney Metropolitan Region.

By integrating the two plans, the future approach to land use planning is based on a policy of concentrating development and supporting transport services in Sydney's centres.

Key to this Study is the vision that, *"Much of Sydney's growth challenge will be met by making the most of the city's existing urban areas. New housing, workplaces, public spaces and improved transport will be integrated to achieve genuine renewal.'*

The Metropolitan Transport Plan uses the Department of Planning's (DoP) latest employment and dwelling targets for the Sydney Metropolitan Region over the period 2006-2036.

Under the Plan, Sydney is expected to accommodate the development of 699,800 dwellings by 2036. It is envisaged that between 2006 and 2036 the City of Sydney will need an additional 63,000 dwellings.

While these targets differ from those set in the NSW Metropolitan Strategy and their respective subregional strategies (as discussed below), it should be noted that the DoP is expected to recognise these as their official dwelling targets.

Figure 7 - Required New Dwellings 2006 - 2036

SUBREGION	ADDITIONAL DWELLINGS
East	25,800
North East	20,400
Inner North	39,400
North	26,600
South	52,900
South West	179,200
North West	163,700
West Central	91,500
Inner West	37,300
City of Sydney	63,000
	699,800

Source: NSW Department of Planning

4.3 Residential Market Analysis

Our analysis above confirms that there should be strong demand for residential accommodation to meet the needs of the growing population but in addition to this it is essential to consider the market demand for residential accommodation and emerging supply.

This section compares key indicators such as the change in median prices, rental rates, the market response to recent development projects and market feedback. These factors are important as they provide an understanding of the strength of the existing market and its desirability to prospective occupiers and developers.

To inform this research we have drawn on past Hill PDA studies, sales and leasing databases (such as Red Square and RP Data), Market Indicator Reports, analysis of current listings, development databases such as Cordell Connect, discussions with local agents in addition to general desktop market research conducted by Hill PDA.

Recent Trends across Sydney

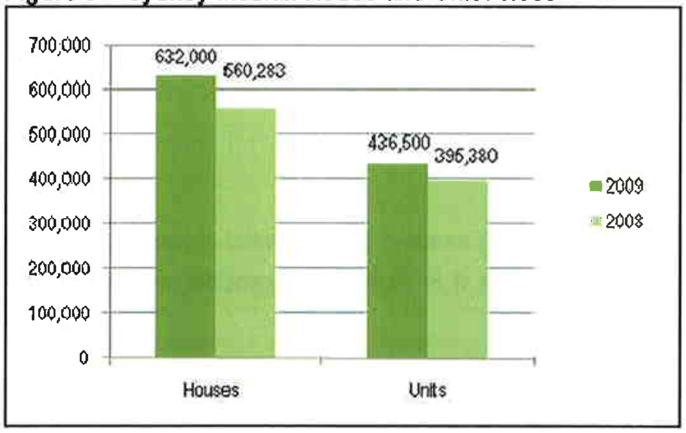
The NSW residential property market has commenced its recovery from the Global Financial Crisis. Government stimulus handouts, the increase in the first home owners grant and lower interest rates assisted in the resurgence of the residential property market in NSW.

The combination of low interest rates and the First Home Owners Grant proved significant in 2009 supporting sales volumes in both houses and units, particularly in the sub $500,000 price bracket. This growth in demand subsequently increased the median house and unit values in this price range. The proportion of first home buyers entering the market has noticeably fallen since late 2009 when the boost to the grant ceased. This trend is expected to continue as interest rates continue to increase during 2010.

According to Residex, there were 45,832 house sales and 46,917 unit sales in Sydney throughout 2009. This represents an increase from 2008 of 21.9% for houses and 25.6% for units. These are the highest annual sales volume figures since 2003 when the market was peaking. Much of these sales are attributable to first home buyers.

With regard to values, in December 2009 Residex recorded the median house value for Sydney as $632,000. This represented a growth of 12.8% from December 2008. By comparison, house values declined by 4.2% in the previous year to December 2008. Unit values experienced similar growth in the year to December 2009 with a 10.4% increase to reach a median of $436,500. Similarly, this growth was the greatest increase since 2003.

Figure 8 - Sydney Median House and Unit Prices



Source: Residex, Hill PDA 2010

Data from Housing NSW indicates that the rental market has performed well with rental growth for both houses and units in 2009. As at the December quarter 2009, a typical one bed unit achieved $375/week (an annual increase of 4.2%) and a typical two bed unit achieved $400/week. This remained unchanged from December 2008. Similarly, both two and three bed houses recorded rental growth of 7.9% and 5.7% respectively in the year to December 2009.

Vacancy rates are a good indicator when assessing the strength of the rental market. According to the Real Estate Institute of NSW (REINSW), the overall Sydney rental vacancy rate as at November 2009 was 1.6%. This was slightly higher than the June 2009 figure of 1.3% but is still representative of a tightly held market[13].

Despite the rapidly growing demand for housing in NSW, the provision of housing in recent years has been low with the NSW Government recognising that the housing market hit a downturn last year[14]. Some sources report that Sydney is experiencing its lowest rate of housing growth in 50 years[15] with the gap between housing demand and supply becoming ever worse. In fact Access Economics states that NSW has slumped from contributing more than an third of new houses in Australia to less than a fifth in a single decade, with little indication that this will change in the short term. To exemplify this point, between 2007 and 2008 only 15,000 additional dwellings were built in the Sydney SD in comparison to 32,000 between 1999 and 2000[16].

According to a report by the Federal Government's National Housing Supply Council as Australia's strong population growth continues to accelerate the combined housing shortfall could nationally reach 500,000 homes and apartments by 2029. Meanwhile research by the Chief Economist for ANZ, Saul Eslake has revealed that last year there were just 333 dwellings completed across Australia for every 1,000 increase in population – less than half the rate of ten years ago. Furthermore despite Sydney having the greatest share of Australia's population, housing starts in Sydney have been outstripped by Adelaide and Melbourne.

The impact of low housing supply in comparison to high demand will be to drive the cost of housing upwards exacerbating concerns regarding housing affordability. Sydney's residential property values have a long history of being the most expensive in Australia, but in recent years other cities experienced stronger growth. Since about 2004 Sydney's property growth has underperformed the Australian average.

Generally it is recognised that values around Australia are being capped by affordability ceilings that have not previously limited price growth. This constraint has impacted on the most expensive markets first, and partially explains Sydney's recent underperformance. As other cities close on Sydney prices they are also reaching affordability ceilings.

The affordability problem has already resulted in a growing gap between real and effective demand for property:

- Real demand is based on the relationship between household growth and dwelling supply and it has been steadily increasing; and
- Effective demand is household capacity to pay for real estate and is limited by income growth and debt servicing costs.

Generally, effective demand has stalled due to the confluence of several factors including property values, indebtedness, household structure and interest rates. It is difficult for real demand to effect price growth in the absence of effective demand unless the community is willing to accept an overall drop in general standard of living.

[13] A tightly held market is deemed to have a vacancy level of less than 3-4%

[14] Minister Keneally, NSW Government Press Release April 2009

[15] Rents to soar as housing crisis worsens, Daily Telegraph March 25, 2009

[16] Metropolitan Strategy Review, Sydney Towards 2036

Local Trends

Our analysis has confirmed that across Sydney there is strong demand and limited supply of housing which together exacerbate issues around housing affordability. This section looks more locally at the area around GSTC to identify local trends.

Sales and revenue data can be difficult to source at such a local level and hence our findings are heavily reliant on discussions with local agents.

As you would expect there are a number of new residential developments in the vicinity of the Site the main ones being:

- Garland "77", 19 Gadigal Avenue - Garland 204 Pty Limited; and
- Prominence, 1 and 202 Grandstand Parade – Austcorp.

In addition, with their developments at Crown Square in nearby Moore Park selling well Meriton is promoting a new development of apartments at Victoria Square. We understand a good proportion of the units are selling off the plan to a mix of owners and investors.

Austcorp's Prominence development is sold out and achieved in excess of $650,000 for most two bed units. Similarly sales for Garland 77 are strong with 30 of the 71 units being sold off plan at the end of 2009 and completion not expected until 2011. All these prices exceed the Sydney LGA average of $525,000 for a strata dwelling[17] and the afore mentioned figure for units within Sydney of $436,500[18]

4.4 The Appropriateness of Residential Floorspace on the Site

Taking account of the above, in our view it is more appropriate to provide much needed residential floorspace on the Site, in place of compromised commercial space for which there is unlikely to be demand (refer to Section 3).

Our assessment has shown strong demand in the area for high density residential developments, in the form of units. Not only is there market demand but also a strategic need for additional housing if the State is to achieve its growth targets and avoid a major housing affordability crisis.

The Site is extremely well located in terms of proximity to Green Square train station. Additionally, when GSTC is fully developed there will be a variety of shops, services and employment opportunities in the immediate vicinity, reducing the need for the residents to travel.

This is in complete accordance with State objectives for:

- 80% of the new homes in Sydney to be located in existing or new centres by 2036; and
- Accommodating needed growth by making the most of the city's existing urban areas. Integrating housing, workplaces, public spaces and improved transport is seen as key to the delivery of genuine urban renewal.

[17] Housing NSW, Report No. 91, December 2009

[18] Residex

5. Conclusion

The findings of this Economic and Housing Assessment support the proposed amendments to the planning controls to facilitate a higher proportion of retail floorspace and remove the requirement for commercial office floorspace (residential is to remain the dominant use) for the following reasons:

5.1 Retail

- There is significant growth in population and households in the Green Square area in the suburbs of Waterloo, Zetland, Alexandria and Rosebery;
- There is currently a lack of retail space in the proposal's primary trade area;
- The indoor shopping centres within 5km radius of the proposed development are all trading well above industry benchmarks;
- Demand in the primary and secondary trade areas will be sufficient by 2011, 2016 and 2021 to support all existing and proposed retail space;
- The proposed development will not affect the viability of the GSTC, instead reinforcing the retail hierarchy; and
- The relatively modest increase in retail floorspace on the Site (+3,000sqm) will have a positive impact on the vitality of GSTC, providing floorspace for which there is a proven demand and importantly ensuring a continuous retail frontage from the train station to the heart of the proposed GSTC.

5.2 Commercial

- Modern occupiers look for the prestige and benefits associated with agglomeration, derived by locating close to other offices, in a cluster or business park type environment;
- Occupiers prefer large, flexible floor-plates and ample car parking, preferably in office only buildings that can readily accommodate the growth and contraction (if required) of their operations with minimal disruption;
- Demand for office floorspace above retail premises in a predominantly residential building is likely to be poor, with associated low levels of rent and substantial vacancy periods likely;
- In high density developments constructions costs can be in the order of $3,000 / sqm (gross), capital values around $3,800/sqm (internal). Rents that can be achieved in mixed use buildings are often sub $250 sqm / pa. This makes the viability of the commercial element marginal at best;
- Offices provided in a business park or cluster, closely tailored to meet occupiers preferences are likely to achieve a better return and be more viable; and
- Provision of offices in a cluster increases the likelihood of a single or limited number of land owners/interests and hence offers more control over the release of space on to the market in line with demand.

5.3 Residential

- Strong market demand is evidenced in the number of new developments and the sales prices being achieved in the area exceeding the averages for Sydney;
- Provision of additional dwellings in locations such as this, well served by public transport and close to town centre amenities and employment opportunities is entirely consistent with the State Government objectives for growth; and
- Accommodation for new residents within the GSTC, will make a major contribution towards creating a vibrant precinct and will help to support local businesses with residents spending a large proportion of their income close to home of shops and services.

5.4 Overall Conclusion

Based on the findings summarised above Hill PDA considers the proposed amendments to the planning controls are entirely appropriate from a social and economic perspective. For the subject site retail is a proven market with considerable undersupply. Retail on the subject site would strongly benefit ultimately from the redevelopment of the remaining GSTC and the existing public transport network. Residential also is a strong proven market that would integrate reasonably successfully with ground floor retail. Commercial offices on the other hand have considerably higher risks both in terms of market demand and in its integration with the residential components. Commercial uses also places increased risks on the residential components in terms of marketing and property management.

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