EMPLOYMENT ASSESSMENT

617 - 621 PACIFIC HIGHWAY, ST LEONARDS

1 JUNE 2017
FINAL
PREPARED FOR ANSON GROUP

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EXECUTIVE SUMMARY

The purpose of this report is to provide an employment assessment to support the planning proposal for 617-621 Pacific Highway, St Leonards to allow for shop top housing as an additional permitted use, establish site specific height controls and a minimum non-residential Floor Space Ratio (FSR).

The proposal seeks to enable high density mixed-use development on the site:

- A six storey podium comprised of:
  - Lower ground floor and ground floor retail tenancies
  - Community facilities at Level 1 and Level 2
  - Commercial (offices) tenancies on Level 3, Level 4 and Level 5
  - A sky garden for residents on the top of the podium (Level 6).
- A 43 level tower accommodating 195 apartments.

Our analysis finds that the above planning proposal should be supported:

1. **The existing commercial building is approaching the end of its economic life.**

The 617-621 Pacific Highway property was built in 1974 making it 43 years old, is rated as a C grade building, and is currently 60% occupied.

C grade space within the St Leonards office market has a high vacancy rate of 9.6%, and has seen a net reduction of 7,222 sq.m occupied office space between June-16 and Jan-17.

Floorplates across both buildings are smaller than the average being offered by new stock in other markets such as Macquarie Park / North Ryde, negatively impacting its capacity to attract corporate tenants. The buildings as they currently stand are not competitive compared to product offered in other markets.

2. **The proposed mixed use development will deliver a superior employment outcome than the existing development approval and commercial building.**

The proposed concept includes 2,840 sq.m of commercial office space (across 3 levels), 1,830 sq.m of community / art centre (across 2 levels) and 610 sq.m of retail space.

The proposed development at 617-621 Pacific Highway will result in a number of direct economic benefits, during the construction stage and during ongoing operations. These include:

- A total of 86 direct and 206 indirect construction jobs, which equate to 292 one-year equivalent construction jobs
- Ongoing employment will be around 472 total jobs, including 252 direct and 220 indirect
- The economic benefits associated with an additional 452 new residents on the subject site, are:
  - Potential to improve turnover performance of existing retail precincts near the subject site
  - Scope to sustain additional retail floorspace around 1,280 sq.m (for a total retail spend of $9.0 million per annum), based on an average turnover per sq.m rate of $7,000 per sq.m, creating an additional 78 retail jobs.

The estimated 252 ongoing jobs is a superior employment outcome to the existing approval, which has an estimated 35 ongoing jobs.

The sub-optimal occupancy of the existing buildings results in an estimated 179 jobs onsite. A lower GFA / job benchmark has been used, given the existing property is a C-Grade office building and less likely to be as efficient as a modern commercial building.

The 15 sq.m GFA / job benchmark used for the new commercial office space is reflective of better efficiency and design. The new scheme therefore is expected to result in a superior job outcome, with an estimated 252 direct jobs.

3. **There is insufficient demand from corporate tenants to support the development of tradition office building on the subject site.**

Once a suburban hub for ‘corporate’ tenants, the market for commercial space in St Leonards has experienced several challenges over the past 10 to 15 years. A net withdrawal of office floorspace in the St Leonards office market over the past 16 years (-872 sq.m per annum since January 2000), indicates that many larger corporate tenants prefer higher grade office floorspace with large open floorplates.

Today, for a variety of reasons, the neighbouring Office markets of North Sydney, Macquarie Park and Chatswood are now deemed more attractive for traditional office occupiers. The following market evidence indicates that this trend is likely to continue for the foreseeable future:

- A lack of investment, office developments or major refurbishments in the St Leonards / Crows Nest office market is clearly reflected in the high proportion of C-Grade stock relative to other major office markets.
- C-Grade stock in the St Leonards submarket is, however, being withdrawn from the market, either for refurbishment or conversion to residential, reflecting low market demand for C and D-Grade office space in the area.
- Continuing a long-term trend, other competing office markets had lower vacancy rates at January 2017 than the St Leonards/Crows Nest market (10.5%), namely North Sydney (7.1%), North Ryde/Macquarie (7.5%) and Chatswood (7.7%).
- The higher vacancy rate in St Leonards reflects its inferior competitive positioning compared to other centres, which can largely be attributed to several characteristics:
  - Smaller floorplates compared to North Ryde / Macquarie Park, which have can produce larger office floorplates and better rated stock, due the centre having larger consolidated development sites (North Ryde / Macquarie Park floorplates average 1,800 sq.m).
  - St Leonards Forum offers some food and beverage retail and a single Coles supermarket. This offer is relatively limited in comparison to the amenity provided at major retail centres such as Macquarie Centre at Macquarie Park and Westfield at Chatswood.
  - More affordable rents elsewhere (North Ryde / Macquarie Park and Chatswood are both more affordable than St Leonards; See Table 2.1 on Page 14).
  - There is currently an observable trend for larger organisations to occupy space in larger floor plate formats in A or Premium Grade office developments, in office precincts within Sydney. This trend is driven by the efficiency and connectivity gains associated with consolidating staff/employees and physical resources, rather than being disbursed across different floors and locations.
  - The fragmented nature of land ownership and the shortage of potential development sites in St Leonards, constrain its ability to offer consolidated floor plate products to larger tenants in the area.
  - Looking ahead, a growing demand for commercial space in the health care and social services sector will occur with the redevelopment of the Royal North Shore Hospital. This trend may not translate into increased demand for commercial space at St Leonards because of parking availability, rents and vacancy.

This analysis does not preclude new demand for commercial space within St Leonards. Employment growth in the Health and Social Services sector between 2006 and 2011 identified it as the burgeoning sector in St Leonards.

Future commercial office demand is likely to be driven by the presence of Health-related occupations that benefit from a strong connection with the $1 billion redevelopment of Royal North Shore Hospital. This will support a market for smaller scale medical-related suites, often with the ability to be strata-titled across multiple floors.

4. **There is sufficient proposed and vacant office development to support employment growth within the St Leonards Strategic Centre.**

With significant proposed supply of office floorspace at Gore Hill Technology Park (46,000 sq.m) and RNSH (34,700 sq.m), the forecast demand for new office floorspace can be sufficiently accommodated within the existing vacant floorspace and proposed supply.

- Between 2016 and 2031 employment is projected to grow by around 8,000 additional jobs within the St Leonards Centre. Based on Bureau of Transport Statistics (BTS) forecasts, Urbis estimates that approximately 2,822 of these jobs will be office-based, requiring office floor space.
- Urbis estimates that office floorspace employment density is between 15 and 20 sq.m per employee and forecasts continued office floorspace rationalisation amongst office tenants. This indicates that there will be new employment in St Leonards for approximately 42,336 to 56,448 sq.m by 2036.
- There is a projected surplus of office floorspace between 80,663 sq.m by 2036 within the St Leonards Centre.
- Office accommodation that is directed to the Healthcare and Social services sector will support the underlying economic base of St Leonards. Future commercial office demand will be driven by medical tenants or businesses that will benefit from synergies with RNSH and its redevelopment. These businesses require smaller-scale suites.
- The proposed development will deliver 2,840 sq.m of commercial floorspace as part of a mixed use scheme in a format that is compatible with demand in the area.

5. **The proposed scheme will contribute to the public infrastructure and amenity within the St Leonards' Centre.**

The proposed scheme will deliver 1,830 sq.m 2-storey arts centre within the buildings podium, which will include:

- Photography studio
- Artist studios
- Gallery / exhibition space
- Performance art space
- Workshop space
- Music rehearsal
- Music recording studio.

There will be a number of improvements to the public realm, namely:

- Approximately 75% of the street edge is active by retail business or commercial/residential lobbies
- Only approximately 11% of the street edge is a continuous non-active edge and it is treated as a feature wall
- A north-south pedestrian link is provided through a retail shop on the Ground Floor
- The visibility to the proposed active frontage is maximised from Sergeant Lane, which is a direct link to the railway station – improving passive surveillance of the street frontage.

Inactive surfaces are minimised and broken down to small components to mitigate their impacts.

INTRODUCTION

Urbis has been appointed to undertake an economic assessment of the proposed redevelopment of the commercial offices at 617-621 Pacific Highway, St Leonards (the subject site) to a mixed use residential project that includes residential, office, community and retail.

The rest of the report is structured as follows:

- **Section 1** provides an overview of the study area and local context, identifying the key land use drivers , amenity and relevant local / state government policy
- **Section 2** provides an overview of the North Shore office market, specifically focusing on the performance of and investment in the St Leonards office market over the last decade, identifying the quantum of new supply of floorspace that will provide employment capacity within the St Leonards CBD
- **Section 3** conducts an analysis of historic, existing and future employment within St Leonards and North Sydney LGA that underpin ongoing demand for office floorspace, estimating future commercial floorspace demand compared to the identified pipeline for commercial property projects
- **Section 4** identifies the direct and indirect economic benefits associated with the proposed development.

1. STUDY BACKGROUND

The purpose of this report is to provide an employment assessment of the planning proposal for 617-621 Pacific Highway, St Leonards to allow for top shop housing as an additional permitted use, establish site specific height controls and a minimum non-residential Floor Space Ratio (FSR).

The proposal seeks to enable high density mixed-use development on the site:

- A six storey podium comprised of:
  - Lower ground floor and ground floor retail tenancies
  - Community facilities at Level 1 and Level 2
  - Commercial (offices) tenancies on Level 3, Level 4 and Level 5
  - A sky garden for residents on the top of the podium (Level 6).
- A 43 level tower form accommodating:
  - 41 levels of residential apartments (Levels 7-23 and 25-48)
  - Two levels of plant (Levels 24 & 49).

1.1. SUBJECT SITE

The subject site is located at 617-621 Pacific Highway, St Leonards within the North Sydney LGA. The subject site covers an area of 1,042 sq.m and fronts Christie Street, Atchison Street and Pacific Highway, as shown in Maps 1.1 and 1.2. The subject site is close to key locations within the St Leonards Centre, namely:

- The St Leonards Forum retail, 90 metres north-west
- The St Leonards railway station, 140 metres north-west
- The proposed Crows Nest Metro Station, 580 metres south-east
- The proposed Artarmon Metro Station, 450 metres north-west
- Royal North Shore Hospital, 230 metres north-west (access on Herbert Street)
- Willoughby Road / Crows Nest 490 metres north-east
- North Sydney TAFE, 860 metres north-west along the Pacific Highway.

The subject site is fully developed, accommodating two separate commercial office buildings with approximately 5,356 sq.m of office Net Floor Area (NFA). The site area and land use are summarised in Table 1 below.

Figure 1 – Subject site, 617-621 Pacific Highway, St Leonards

Picture 1 – 621 Pacific Highway

Picture 2 – 617-619 Pacific Highway

Table 1 – Subject site description

Address	Site Area	NLA	Building Grade	Existing Land Use
617-619 Pacific Highway	478 sq.m	2,206 sq.m	C	7 storey commercial building
621 Pacific Highway	564 sq.m	3,150 sq.m	C	10 storey commercial building

Source: Anson Group; CityScope; Urbis

Subject site - 617-621 Pacific Highway, St Leonards Map 1.1

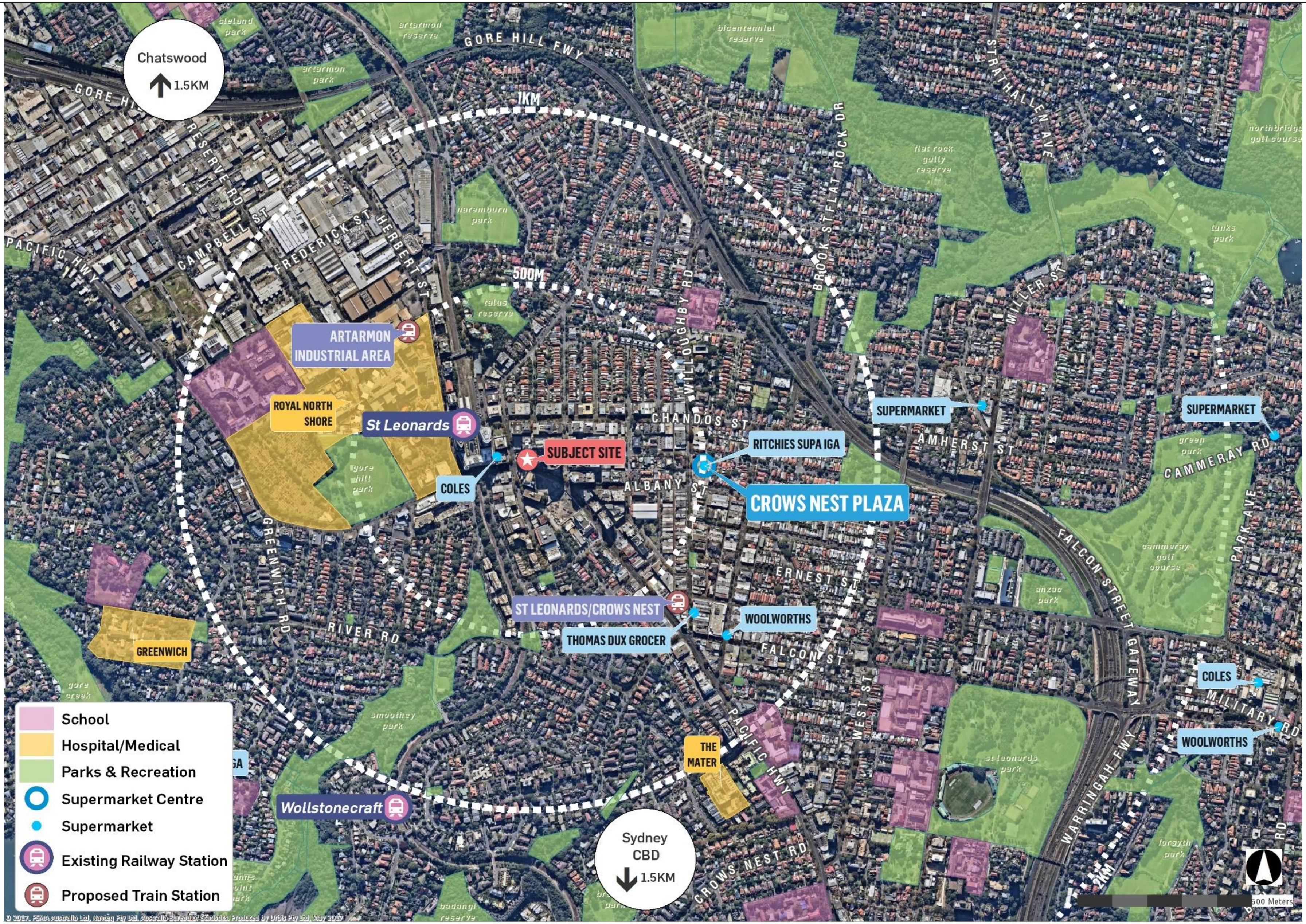
While positioned in close proximity to the station and other amenity, the subject property's older commercial stock is reflected in its elevated vacancy of approximately 40% across buildings.

The result of the elevated vacancy in the existing building is a sub-optimal use of the site. The inability to tenant out this stock will likely continue, given the age and lower grade rating of the site, resulting in a continued sub-optimal employment outcome on the subject site.

The existing buildings have reached the end of their economic life and the land owner is seeking opportunities to redevelop the site. The site benefits from two recent (separate and unrelated) development consents for mixed used development as follows:

- 619 Pacific Highway: Demolish existing building and construct 16 storey mixed use building comprising retail, 21 serviced apartments, 48 residential apartments and basement parking.
- 621 Pacific Highway: Demolish existing building and construct 18 storey mixed use building comprising 36 serviced apartments, 72 residential apartments and ground floor retail with basement parking.

Of note, the DAs were lodged pursuant to the North Sydney LEP 2001 (repealed in September 2013 following the gazettal of NSLEP 2013) which permitted residential development within the site.


Chatswood
1.5KM
GORE HILL FWY
1KM
500M
PACIFIC HWY
CAMPBELL ST
FREDERICK ST
HERBERT ST
RESERVE RD
ARTARMON INDUSTRIAL AREA
ROYAL NORTH SHORE
St Leonards
COLES
SUBJECT SITE
CHANDOS ST
ALBANY ST
WILLOUGHBY RD
RITCHIES SUPA IGA
CROWS NEST PLAZA
SUPERMARKET
AMHERST ST
SUPERMARKET
CAMMERAY RD
BROOK ST
FLAT ROCK DR
STRATHALLEN AVE
MILLER ST
ERNEST ST
ST LEONARDS/CROWS NEST
THOMAS DUX GROCER
WOOLWORTHS
FALCON ST
FALCON STREET GATEWAY
GREENWICH RD
RIVER RD
GREENWICH
COLES
MILITARY RD
WOOLWORTHS
WEST ST
PACIFIC HWY
THE MATER
WARRINGAH FWY
PARK AVE
Wollstonecraft
Sydney CBD
1.5KM
CROWS NEST RD
School
Hospital/Medical
Parks & Recreation
Supermarket Centre
Supermarket
Existing Railway Station
Proposed Train Station

1.2. PROPOSED SCHEME

Urbis has been provided with a preliminary scheme for the redevelopment of 617-621 Pacific Highway.

The redevelopment will involve the demolition of the existing two commercial building, aggregating to a site area of 1,048 sq.m.

Based on the concept plan the site is proposed to be developed into a 50 storey building to comprise of residential apartments, commercial office space, arts centre/community space and ground floor retail.

The non-residential uses will be contained in a six level podium, with a "Sky Garden" on the roof of the podium that includes public seating, recreational space, BBQ and dining space.

The mix of different uses on site is broken down as follows:

Table 2 – Project Summary - 617-621 Pacific Highway, St Leonards

Floorspace Type	Floors	Gross Floor Area (GFA)
Residential	Levels 7-41	21,860 sq.m (195 apartments)
Office	Levels 3-6 (podium)	2,840 sq.m
Art Centre	Levels 1-2 (podium)	1,830 sq.m
Retail	Ground Floor (podium)	610 sq.m
Total		**27,140 sq.m**

Source: Anson Group

1.3. RELEVANT PLANNING POLICY

St Leonards is identified as a Strategic Centre in "A Plan for Growing Sydney" ("the Plan"), and is defined in the Bureau of Transport Statistics (BTS) Journey to Work Summary at a Travel Zone level. This is shown in Map 1.3 overleaf.

The St Leonards Strategic Centre will form the Study Area for this assessment. This report will identify the economic impact of the proposed development on this area.

A Plan for Growing Sydney

The following priorities have been identified for the St Leonards Strategic Centre under the Plan:

- Retain a commercial core in St Leonards for long-term employment growth
- Provide capacity for a mixed-use development in St Leonards including offices, health, retail, services and housing
- Support health-related land uses and infrastructure around Royal North Shore Hospital
- Investigate potential future employment and housing opportunities associated with a Sydney Rapid Transit train station at St Leonards / Crows Nest.

St Leonards and Crows Nest Planning Study – Precinct 2 and 3

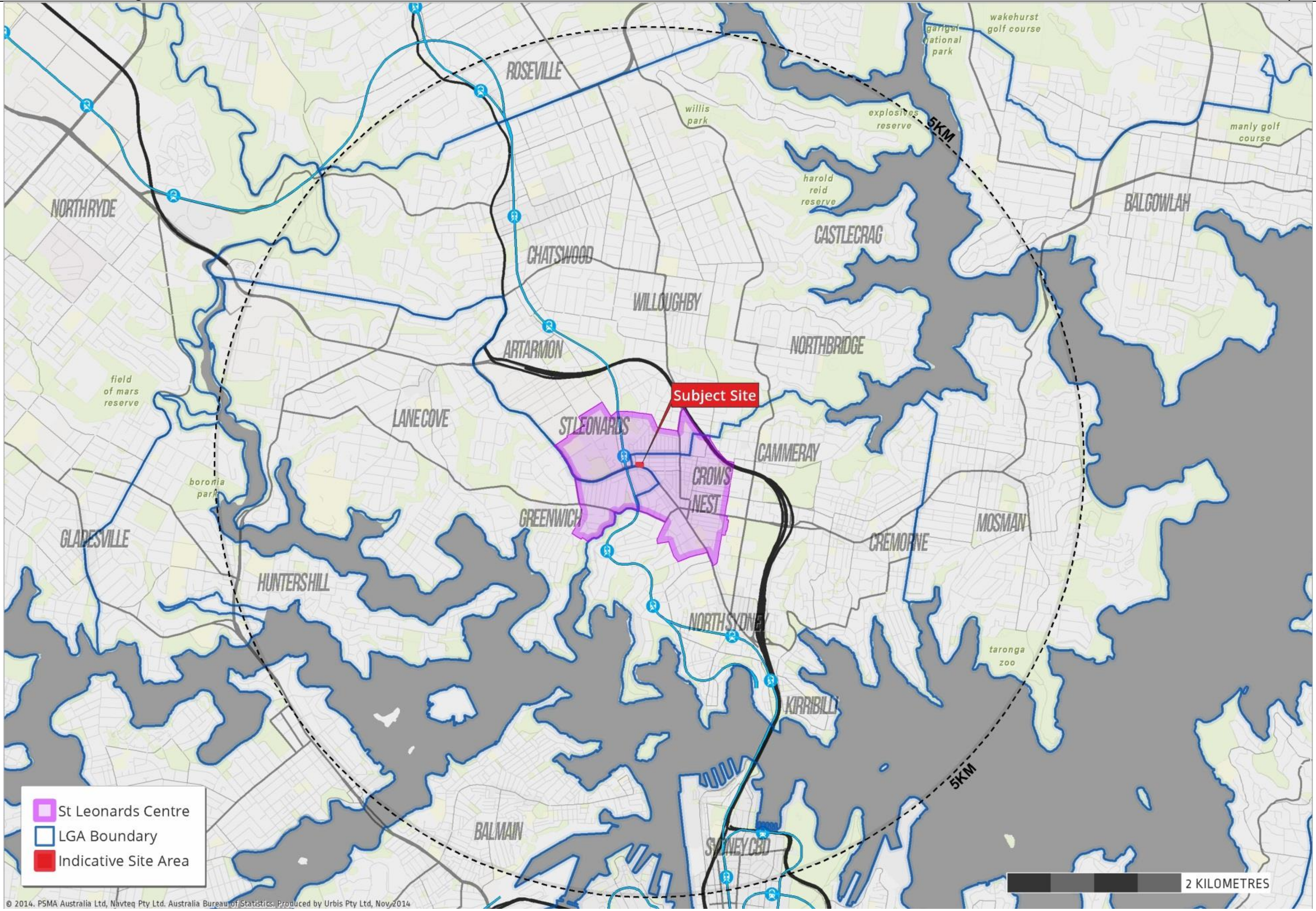
On 29 November 2010 North Sydney Council resolved to undertake a Planning Study of the St Leonards / Crows Nest area with the following objectives:

- New open space in St Leonards / Crows Nest
- Increased investment in St Leonards and decreased commercial vacancy rates, with particular focus on the rejuvenation of the Pacific Highway between St Leonards train station and the intersection of Pacific Highway and Willoughby Road
- Improved connectivity, particularly between St Leonards / Pacific Highway and Willoughby Road

- Improved urban design and street level amenity particularly in St Leonards and along the Pacific Highway
- Improved building design and residential amenity in St Leonards.

The subject site is located within Precinct 2 as shown below.

St Leonards / Crows Nest Planning Study – Precinct Plans Map 1.3


ROSEVILLE
wakehurst golf course
garigal national park
willis park
explosives reserve
5KM
manly golf course
harold reid reserve
NORTH RYDE
BALGOWLAH
CASTLECRAG
CHATSWOOD
WILLOUGHBY
NORTHBRIDGE
ARTARMON
Subject Site
field of mars reserve
LANE COVE
ST LEONARDS
CAMMERAY
CROWS NEST
boronia park
GREENWICH
MOSMAN
GLADESVILLE
CREMORNE
HUNTERS HILL
NORTH SYDNEY
taronga zoo
KIRRIBILLI
5KM
St Leonards Centre
LGA Boundary
Indicative Site Area
BALMAIN
SYDNEY CBD
2 KILOMETRES
© 2014. PSMA Australia Ltd, Navteq Pty Ltd. Australia Bureau of Statistics. Produced by Urbis Pty Ltd, Nov 2014

2. OFFICE MARKET REVIEW

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

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

This section will highlight the number of challenges that are facing the St Leonards office market and the relevant implications for the subject site.

2.1. SYDNEY OFFICE MARKETS – SIZE AND POSITION

The St Leonards Centre is located around 5 km north of the Sydney CBD, between the North Sydney, Chatswood and Macquarie Park office markets (Map 2.1). As at January 2017, St Leonards had a total of 315,500 sq.m of office space, making it smaller than the North Sydney (822,500 sq.m) and Macquarie Park (879,000 sq.m) office markets, but larger than Chatswood (278,900 sq.m).

Compared to these markets, St Leonards has the highest vacancy rate at 10.5% despite older office accommodation being withdrawn from the market over the past four years. It has an average net face rent of $503 per sq.m, placing it behind North Sydney ($623 per sq.m) but ahead of Chatswood ($457 per sq.m) and Macquarie Park ($359 per sq.m).

Sydney Metropolitan Office Markets | Map 2.1

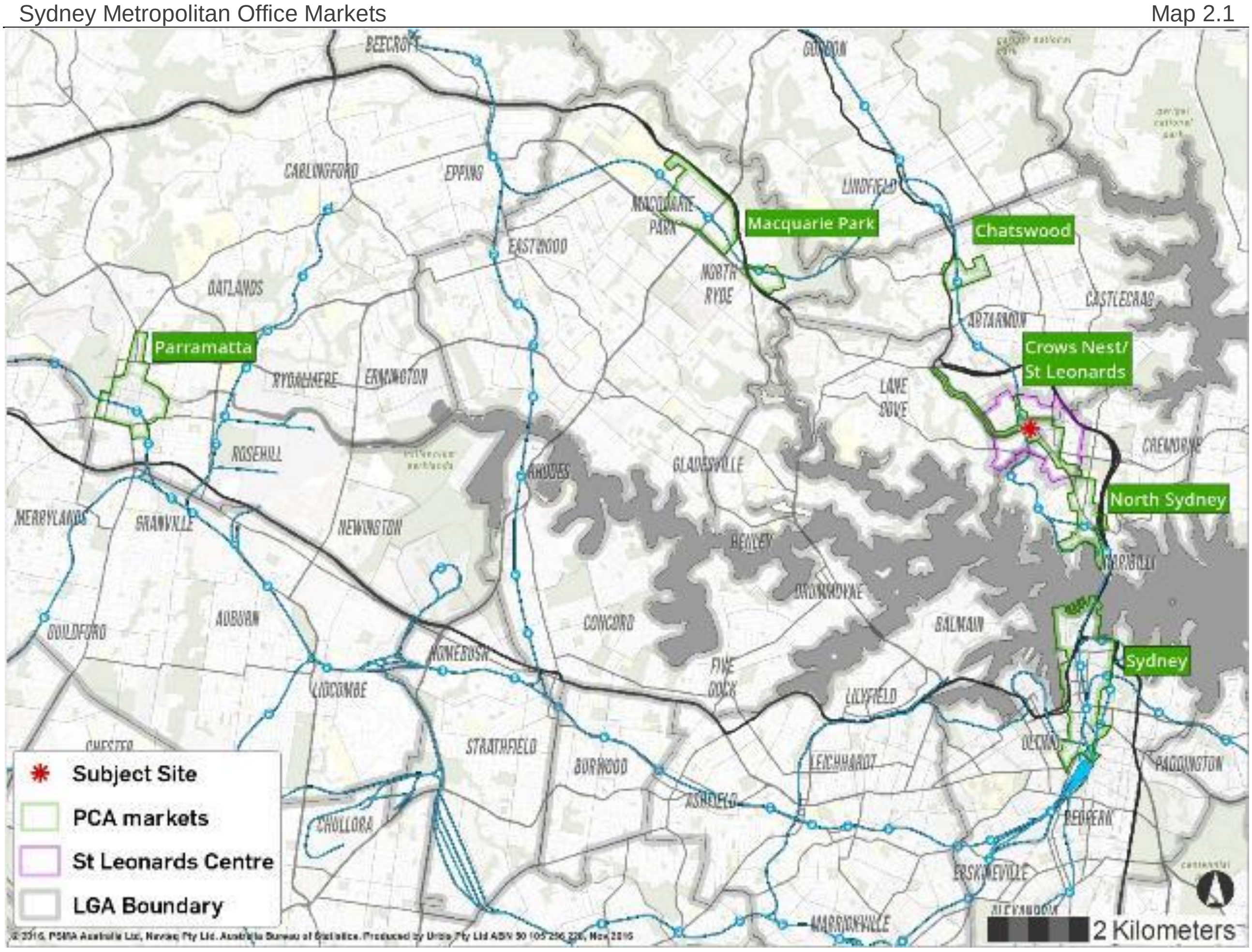


Chart 2.1 illustrates the total quantum of office stock within the St Leonards / Crows Nest market, and the shift in grade since 2000. As at January 2017, approximately 47% of office stock in St Leonards / Crows Nest was classified as C or D Grade.

C and D grade office space has historically accounted for approximately a third of total office stock in the St Leonards / Crows Nest market, however has increased since July 2009. The increase was due to a large proportion of the St Leonards office stock being re-rated against the Property Council of Australia (Guide to Office Quality) from B to C grade stock.

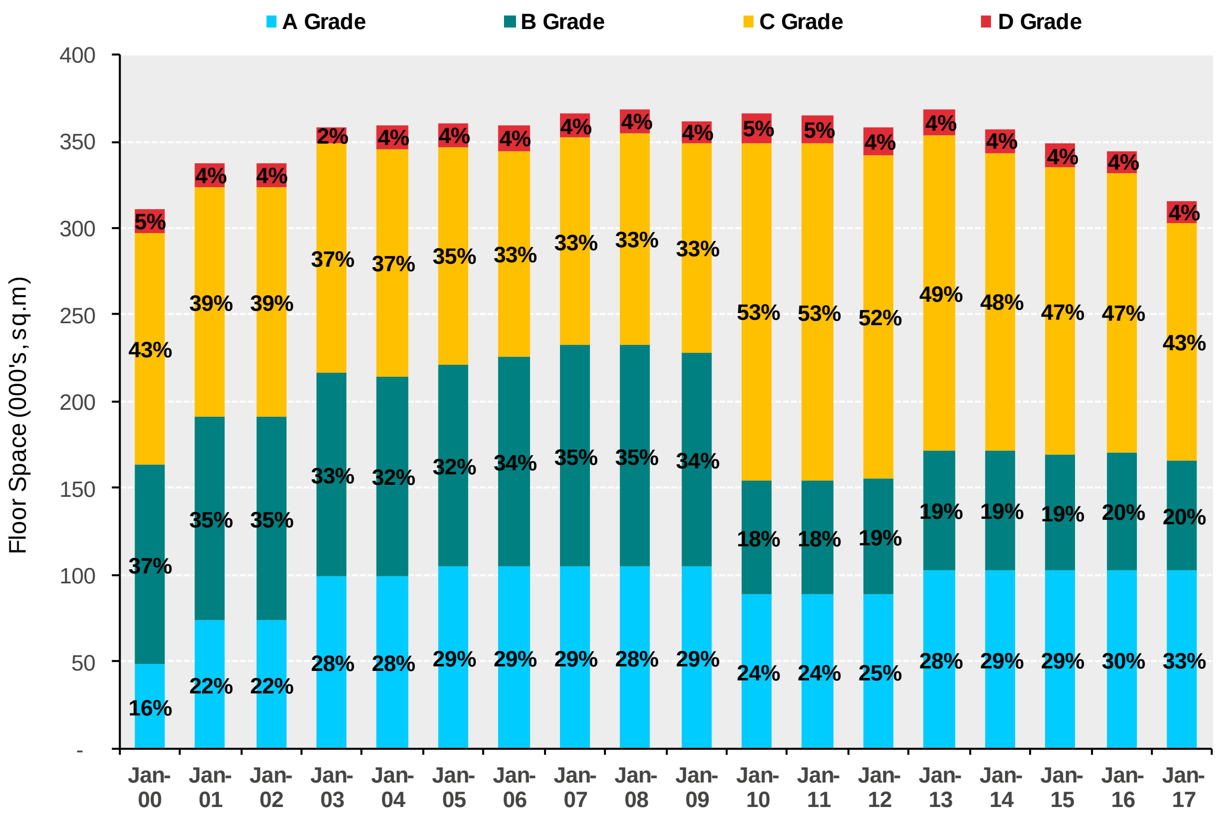
Notable shifts in the supply of office stock in St Leonards / Crows Nest since January 2010 include:

- A gradual decline in total office stock in St Leonards / Crows Nest. The total office stock has decreased by a total of -50,700 sq.m, from 366,200 sq.m in January 2010 to 315,500 sq.m in January 2017.
- The most significant decline occurred in 2016, with total office stock falling by 29,300 sq.m (8%) in the year to January 2017.
- The reduction in total office stock was due to the withdrawal of C Grade office stock from the St Leonards / Crows Nest sub market.
- Consequently, the proportion of lower grade stock in St Leonards / Crows Nest has declined from 58% in January 2010 to 47% in January 2017.

It is noted that the subject site currently contributes 5,118 sq.m of net lettable office space that would be measured in the Property Council of Australia Survey as C grade quality.

Office Stock

Crows Nest / St Leonards — Chart 2.1



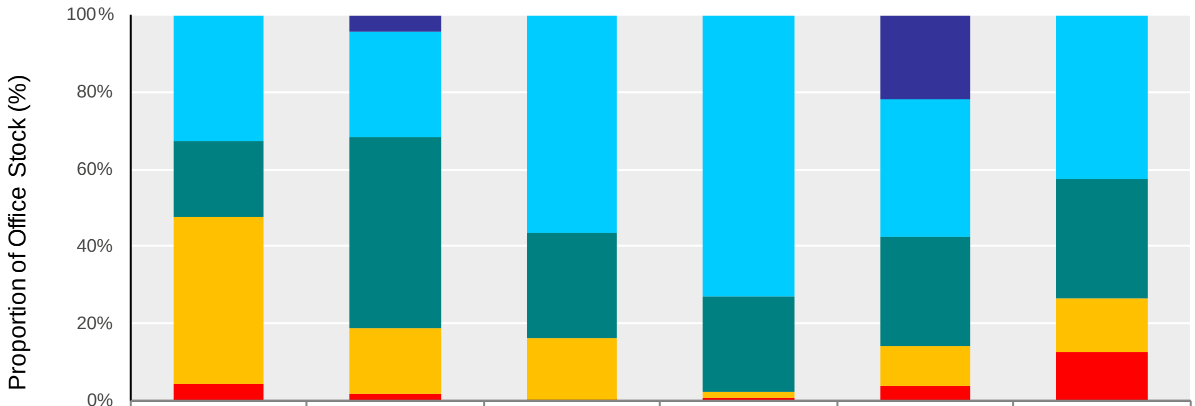
Source : Urbis; PCA Office Market Report Jan-17

Chart 2.2 shows the distribution of St Leonards / Crows Nest's office stock quality compared to other major commercial centres. It illustrates that:

- C-Grade stock accounts for 43% of the stock in St Leonards / Crows Nest, significantly higher than all other major commercial centres
- Sydney CBD has the highest proportion of premium grade office stock at 22%
- Chatswood and North Ryde/Macquarie Park have large proportions of A-Grade stock
- North Sydney has the highest percentage of B-Grade stock at 50%
- Parramatta has a relatively high proportion of D-Grade stock compared to other major commercial centres.

Grade of Office Space

Sydney Office Market, as at January 2017 — Chart 2.2



	St Leonards/Crows Nest	North Sydney	Chatswood	North Ryde/Mac Park	Sydney CBD	Parramatta
Premium	0	36,500	0	0	1,118,972	0
A Grade	102,699	224,307	157,412	640,620	1,809,622	299,617
B Grade	63,377	410,504	76,046	220,224	1,439,949	219,303
C Grade	136,897	138,253	45,007	15,385	525,730	100,373
D Grade	12,569	12,932	454	2,721	185,626	87,806

Source : Urbis; PCA Office Market Report Jan-17

The absence of Premium Grade office space and limited A Grade office space in St Leonards / Crows Nest reflects the lack of investment, office developments or major refurbishments in the St Leonards / Crows Nest office market. This has detracted from the appeal of St Leonards to the office tenant market to corporate tenants, compared to other centres that have attracted a higher level of investment in new higher grade stock.

2.2. NET ABSORPTION AND VACANCY

Since January 2000, there has been a net absorption of -14,827 sq.m of new office floorspace in St Leonards / Crows Nest, equating to a negative take-up rate of -872 sq.m per annum. In the six months to January 2017, net absorption fell by -22,878 sq.m due to several planned commercial conversions. As a result, the vacancy rate also increased from 8.5% to 10.5% over the same period.

In St Leonards / Crows Nest, there has been an increase in vacancy across A and B-Grade stock and a decrease in vacancy in C and D-Grade stock during the last six months. The reason for such changes vary as they are driven by a range of factors, given that they service different tenant markets:

- The vacancy rate of A-Grade stock in St Leonards / Crows Nest increased from 2.9% in July 2016 to 7.0% in January 2017. This observed change and the negative net absorption of -4,154 sq.m of A-Grade stock over the same period indicates that tenants seeking higher quality office space are moving to other markets. It is unlikely that the subject site would be able to access the A-Grade commercial tenant market given its C-grade rating.
- The vacancy rate of B-Grade stock in St Leonards / Crows Nest saw the largest increase of all office stock grades in the six months to January 2017, increasing from 6.3% to 17.8%. This was likely linked to the significant negative net absorption of -11,818 sq.m of B-Grade stock in the same period.
- The vacancy rate of C-Grade stock reduced from 12.4% to 9.6%, however over the same period occupied C-Grade stock also reduced by -7,222 sq.m. This suggests the reduction in vacancy was due to the withdrawal of vacant C-Grade stock.
- The vacancy rate of D-Grade stock fell from 14.6% to 12.1%, despite this decline the vacancy rate remains the second highest of all office stock grades.

Chart 2.3 shows the declining vacancy rate of office stock in St Leonards / Crows Nest between 2014 and 2016, and the clear reversal of this trend in the six months to January 2017. Chart 2.4 details the vacancy rates of each grade of stock in the St Leonards / Crows Nest office market from January 2000, including the trends of each grade in the last six months as described above.

B and C-Grade stock is the focus of withdrawal from the market as office buildings were demolished for residential construction. The decline in vacancy rate of C-Grade stock suggests that this withdrawal was of vacant C-Grade stock, which is reflective of low market acceptance of lower-quality office space in the St Leonards market. Conversely, the steep increase in vacancy rate of B-Grade stock indicates that tenants in the demolished offices chose to relocate to other office markets.

If the historical office market net absorption rate of -872 sq.m per year in St Leonards is maintained, it will result in approximately 17,440 sq.m of total stock being withdrawn by 2037 (20 years from 2017). Based on this level of absorption, there is not likely to be demand for commercial space at the subject site.

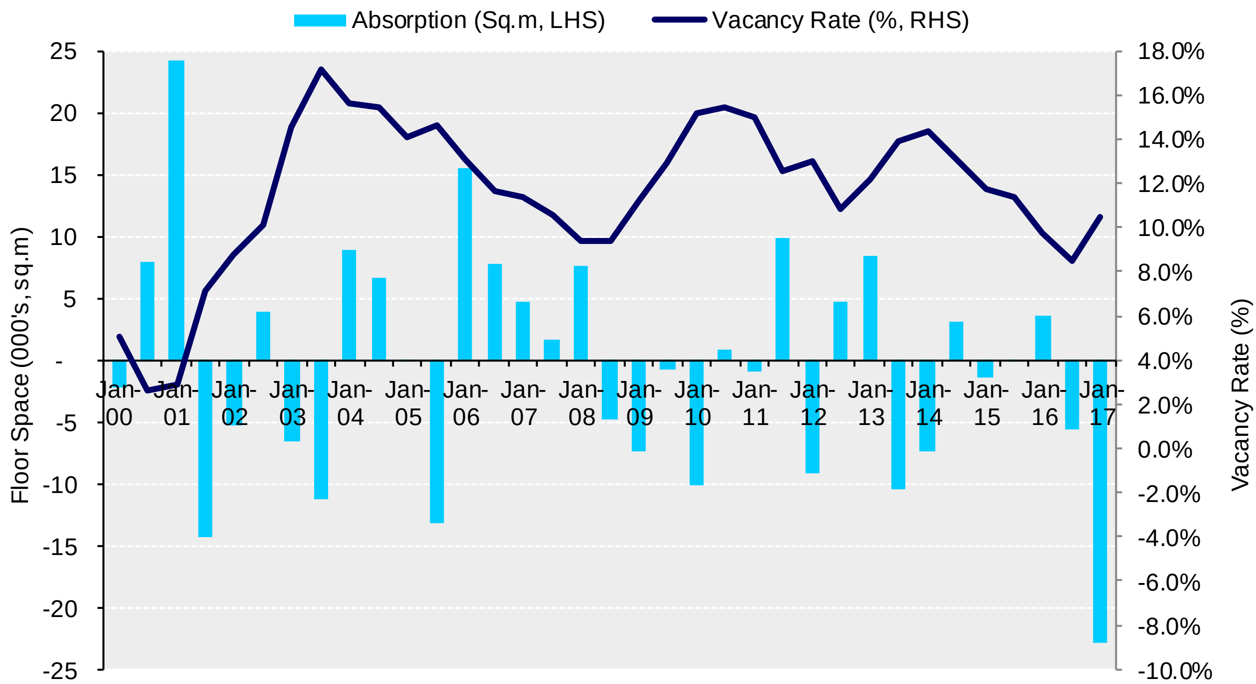
This conclusion is supported by recent tenancy changes in other office buildings in St Leonards and Gore Hill:

- In 2013, IBM announced a partial relocation of staff to its Pennant Hills campus, while Leightons relocated its headquarters to a new office in North Sydney.
- Winten Property Group were unable to secure an anchor tenant pre-commitment for its site at 88 Christie St, after seeking an anchor tenant for over three years. The development has since converted to mixed use.
- In 2016, Jacobs and CIMIC re-located from their offices in St Leonards to a new A-Grade office tower at 177 Pacific Highway in North Sydney.

Such evidence further indicates that a large scale commercial development at the subject site will struggle to achieve pre-commitments from an anchor tenant.

Net Absorption and Vacancy Rate

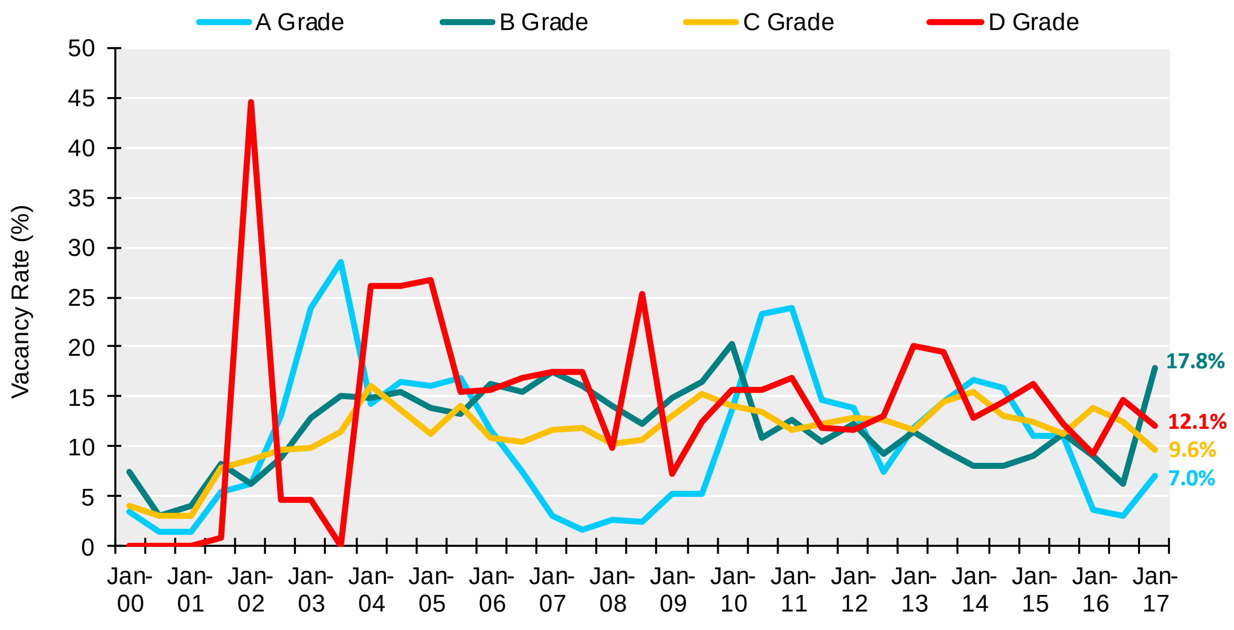
St Leonards / Crows Nest, January 2000 to January 2017 Chart 2.3



Source : Urbis; PCA Office Market Report Jan-17

Office Vacancy, by Grade

St Leonards / Crows Nest, January 2000 to July 2016 Chart 2.4



Source : Urbis; PCA Office Market Report Jan-17

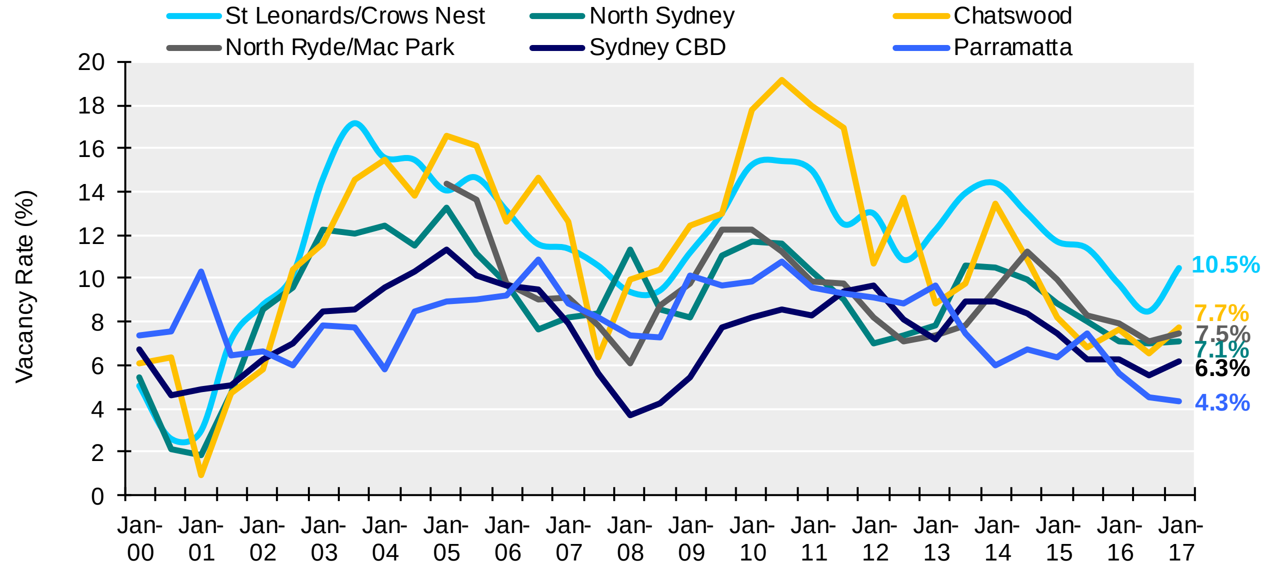
Chart 2.5 provides a comparison of office market vacancy amongst Sydney office markets from January 2000 to January 2017 and an indication of market demand for commercial office floorspace across Metropolitan Sydney's CBDs and Centres. As Chart 2.5 shows, St Leonards has consistently displayed high vacancy compared with the major office markets across Sydney. This has persisted as an obvious pattern over 17 years since 2000. In January 2017, St Leonards / Crows Nest had the highest vacancy rate at 10.5% compared to other Metropolitan Sydney's CBDs and Centres.

Historically, St Leonards and Chatswood have displayed the weakest office markets, reflecting higher cost compared to the Macquarie Park/North Ryde and other suburban locations. This is due, in part, to the comparative lack of amenity St Leonards to other office sub-markets. Macquarie Park has major retail amenity at Macquarie Centre, while North Sydney has proximity to the Sydney CBD and a full line supermarket centre. Chatswood also has two major retail centres, including a Westfield. By comparison, St Leonards has a limited of food and beverage offer within St Leonards Forum, one Coles express, and no discretionary retail.

Overall, across Metropolitan Sydney's CBDs and Centres, there has been a decline in office market vacancy since January 2014, reflecting a turn in the market as businesses increase demand for office floorspace.

Office Space Vacancy Rate

By Market, January 2000 to July 2016 — Chart 2.5



Source : Urbis; PCA Office Market Report Jan-17

2.3. RENTS

Table 2.1 compares the January 2017 Average Net Face Rents of different CBD locations within Sydney. The rental data illustrates that St Leonards needs to achieve higher average rents compared to Chatswood and North Ryde / Macquarie Park.

Construction, development and acquisition costs are the main reason for this. The offering is also different in outer suburban locations such as North Ryde / Macquarie Park, where demand is for larger consolidated floor plates in larger campus style buildings, at generally lower rents (see Table 2.1 below). The higher cost in St Leonards does not allow for this. Higher yields are required to justify this higher cost in St Leonards, and higher rent is therefore sought for office space.

Overall this market dynamic illustrates that the St Leonards / Crows Nest office market has a higher rental cost compared to outer locations, without being able to offer the locational amenity of more central locations such as North Sydney and the Sydney CBD. We also note that the smaller office floorplates and tenancies in St Leonards are generally less efficient for larger uses. This reduces the proportion of a building that rent can be levied on, further reducing the return to the owner.

Market Rents

A and B Grade Stock, January 2017 — Table 2.1

	Average Net Face Rent (Per Sq.m)	
Grade of Stock	**A-Grade**	**B-Grade**
St Leonards / Crows Nest	$542	$485
North Sydney	$721	$578
Chatswood	$484	$421
North Ryde / Macquarie Park	$372	$322
Parramatta[1]	$580	$485

1. Average Gross Face Rent
Source: Knight Frank; Urbis

2.4. NEW SUPPLY

In addition to the existing supply of office accommodation within St Leonards, there are eight proposed office developments that have development approval within 1 kilometre of the subject site. These are summarised in Table 2.2.

The total commercial floorspace (NLA) expected to be offered into this submarket is 95,086 sq.m.

The progression of new developments in the St Leonards area is dependent on tenant pre-commitments.

Given the competition from other North Sydney developments, in our view it is unlikely that any new developments will occur in the short-term in St Leonards.

Proposed Office Developments

St Leonards, as at May 2017 — Table 2.2

Project	Address	Stage	Average Office Floor Plate (sq.m)	Office Levels	Owner	Office NLA
1. Gore Hill Technology Park - Building D1	219-247 Pacific Highway	DA Approved	2,000	8	Lindsay Bennelong Development	16,000
2. Gore Hill Technology Park - Building D2	219-247 Pacific Highway	DA Approved	2,000	6	Lindsay Bennelong Development	15,000
3. Gore Hill Technology Park - Buildings D3	219-247 Pacific Highway	DA Approved	2,000	7	Lindsay Bennelong Development	15,000
4. Electroboard	18-20 Atchison Street	DA Approved	-	3	Electroboard	2,300
5. St Leonards Square	472-486 Pacific Highway	Construction	1,300	3	Mirvac	4,600
6. Royal North Shore Hospital	Reserve Road & Herbert Street	DA Approved	-	-	NSW Government	34,700
7. 88 Christie Street Mixed Use	88 Christie Street	DA Approved	1,770	16	Winten Property Group	4,661
8. The Landmark	496-520 Pacific Highway	DA Approved	-	3	New Hope VIMG	2,825
Total						**95,086**

Source: PCA Office Market Report Jul-16; Cordell Connect; Urbis

2.5. SUMMARY AND IMPLICATIONS

Our key findings for the St Leonards office market are as follows:

- A lack of investment, office developments or major refurbishments in the St Leonards / Crows Nest office market is clearly reflected in the high proportion of C-Grade stock relative to other major office markets (See Chart 2.2 on Page 10).
- C-Grade stock in the St Leonards submarket is, however, being withdrawn from the market, either for refurbishment or conversion to residential, reflecting low market demand for C and D-Grade office space in the area.
- A net withdrawal of office floorspace in the St Leonards office market over the past 16 years (-872 sq.m per annum since January 2000), indicates that many larger corporate tenants prefer higher grade office floorspace with large open floorplates.
- The subject site is constrained by its small floorplate, which does not meet the A-Grade criteria of having floorplates larger than 1,000 sq.m.
- Net absorption in St Leonards / Crows Nest fell by -22,878 sq.m over the six months to January 2017, and the vacancy rate increased from 8.5% to 10.5%. This was largely driven by a number of office demolitions in this period, particularly of B and C-Grade office stock. The vacancy rate of B-Grade stock saw the largest increase, to 17.8% in January 2017, indicating that tenants of the demolished offices preferred to relocate to other office markets. The decline in vacancy rate of C-Grade stock suggests that there was significant demolition of vacant C-Grade office stock.
- Continuing a long-term trend, other competing office markets had lower vacancy rates at January 2017 than the St Leonards/Crows Nest market (10.5%), namely North Sydney (7.1%), North Ryde/Macquarie (7.5%) and Chatswood (7.7%). This lower vacancy reflects stronger market interest, which can largely be attributed to several characteristics that are attractive to potential tenants that are lacking in St Leonards, namely:
  - Larger office floorplates and superior quality of office stock, due to the ability to have larger consolidated development sites (North Ryde / Macquarie Park floorplates average 1,800 sq.m).
  - St Leonards Forum offers some food and beverage retail and a single Coles supermarket. This is relatively limited in comparison to the amenity provided at major retail centres such as Macquarie Centre at Macquarie Park and Westfield at Chatswood.
  - More affordable rents (North Ryde / Macquarie Park and Chatswood are both more affordable than St Leonards; See Table 2.1 on Page 14).
  - Superior location (North Sydney) with respect to Sydney CBD.
  - There is currently an observable trend for larger organisations to occupy space in larger floor plate formats in A or Premium Grade office developments, in office precincts within Sydney. This trend is driven by the efficiency and connectivity gains associated with consolidating staff/employees and physical resources, rather than being disbursed across different floors and locations.
  - The fragmented nature of land ownership and the shortage of potential development sites in St Leonards, constrain its ability to offer consolidated floor plate products to larger tenants in the area.
  - Looking ahead, a growing demand for commercial space in the health care and social services sector will occur with the redevelopment of the Royal North Shore Hospital. This may not translate into increased demand for commercial space at St Leonards because of parking availability, rents and vacancy.

3. EMPLOYMENT ANALYSIS

This section analyses existing and future employment within the St Leonards Centre and the North Sydney LGA, and assesses the population employment drivers and outcomes that could foreseeably impact future demand for office floor area within the North Sydney LGA.

The analysis considers changes in workforce and resident workforce to ascertain patterns in the growth of employment and subsequent future demand for office floorspace in the St Leonards Centre.

This will consist of an analysis of both residents and local workers, and will include:

- The size and profile of the study area's resident workforce, in terms of industry sector and occupation
- The size and profile of the study area's employment base, including industry sector and occupation
- Employment projections and the office floorspace required to support this
- Comparison between the projected jobs and proposed office development, to identify a +surplus / -deficit.

3.1. JOBS AND RESIDENT WORKFORCE

According to NSW Bureau of Transport Statistics Journey to Work data, the St Leonards Centre accommodated 8,433 employed residents in 2011.

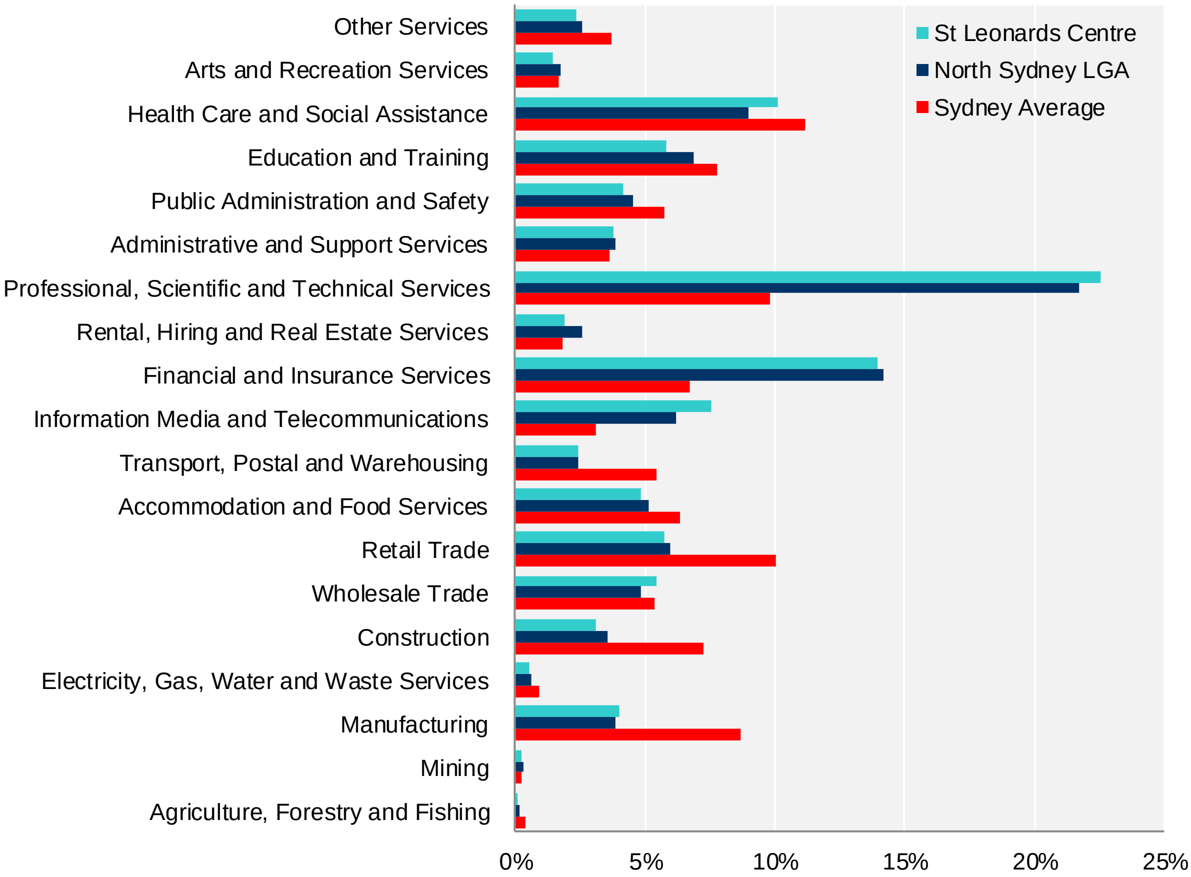
Chart 3.1 illustrates the industry make-up of local resident workers by industry sector in the St Leonards Centre, the North Sydney LGA and the Sydney Average. This represents the "job demand" by the St Leonards local workforce across different industry sectors.

The chart shows that:

- St Leonards has a resident employment profile typical of the North Sydney LGA, with a slightly higher proportion of local workers in the following industries compared to the LGA:
  - Information Media and Telecommunications (+1.4%)
  - Health Care and Social Assistance (+1.1%)
  - Professional, Scientific and Technical Services (+0.8%).
- The St Leonards Centre has a much higher proportion of professional and scientific (+13%), financial and insurance (+7%), and I.T workers (+4%) than the Metropolitan Sydney average.
- There is a lower proportion of St Leonards Centre residents working in industrial sectors such as manufacturing (-5%), construction (-4%), and transport, postal and warehousing (-3%) compared with the broader Sydney distribution.

Proportion of Resident Workers by Industry

St Leonards Centre and Lane Cove LGA, 2011 Chart 3.1



Source: ABS Census 2011

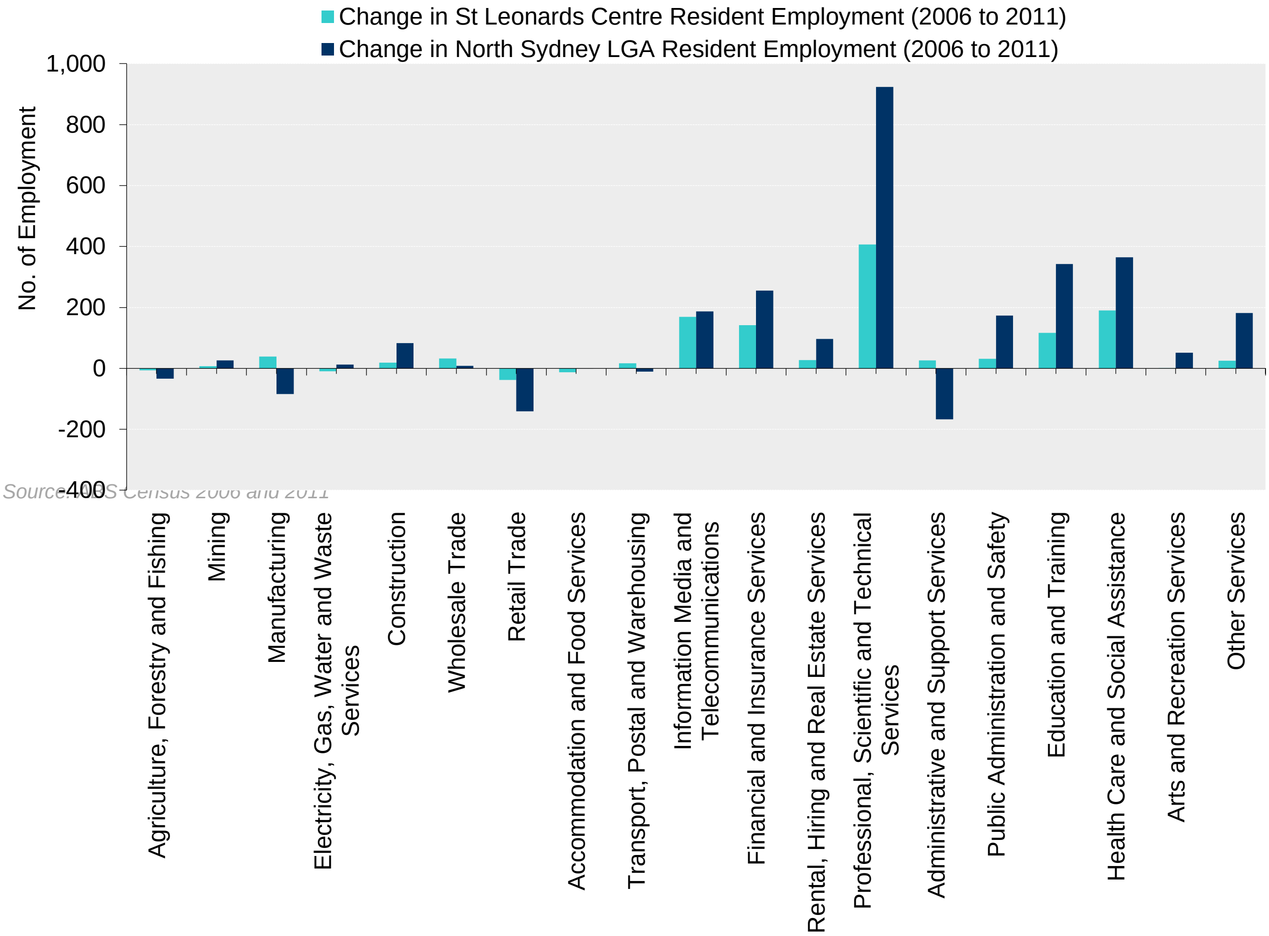
Chart 3.2 shows the changes in resident employment by industry in the St Leonards Centre and the North Sydney LGA between 2006 and 2011. The graph demonstrates that the largest resident employment growth sectors in St Leonards was in:

- Professional, Scientific and Technical Services
- Health Care and Social Assistance
- Information, Media and Telecommunications.

The growth in employment in these sectors reflects an important trend that has strong implications for demand for commercial space in St Leonards and the North Sydney LGA.

Change in Resident Workers by Industry

St Leonards Centre and North Sydney LGA, 2006 to 2011 — Chart 3.2



Source: ABS Census 2006 and 2011

Table 3.1 overleaf shows the job gaps by industry in the North Sydney LGA as at 2011. These are deduced by comparing the number of resident workers and the number of jobs provided in the LGA by industry in 2011. As at 2011, the number of North Sydney LGA jobs exceeded the number of resident workers by 37,012, as outlined in Table 3.1 below.

The industry sectors that have a higher number of jobs relative to the number of local resident workers are typically 'white collar' dominated sectors. These industry sectors are:

- Professional, scientific and technical services (+12,629)
- Financial and insurance services (+4,027)
- Administrative and support services (+2,411)
- Information media and telecommunications (+2,122).

In each of these industries, the number of North Sydney LGA jobs significantly exceeds the number of local resident workers employed in these industries.

These statistics indicate that in many of the industry sectors accommodated in office based employment, job supply currently exceeds demand for such jobs arising from local residents. Jobs growth in the aforementioned sectors may not necessarily match the local skill-set of resident workers, requiring businesses in these sectors to 'import' labour from other areas of Sydney. A contraction in sectors where there is a surplus of jobs is unlikely to negatively affect local workers.

Jobs Gap (+Surplus / -Deficit)

North Sydney LGA Table 3.1

Industry	Resident Workers	Jobs[1]	Jobs Gap
Agriculture, Forestry and Fishing	65	75	10
Mining	129	291	162
Manufacturing	1,473	2,539	1,066
Electricity, Gas, Water and Waste Services	224	445	221
Construction	1,349	3,089	1,740
Wholesale Trade	1,864	2,733	869
Retail Trade	2,282	3,475	1,193
Accommodation and Food Services	1,973	3,751	1,778
Transport, Postal and Warehousing	923	1,418	495
Information Media and Telecommunications	2,375	4,497	2,122
Financial and Insurance Services	5,412	9,439	4,027
Rental, Hiring and Real Estate Services	979	1,668	689
Professional, Scientific and Technical Services	8,317	20,946	12,629
Administrative and Support Services	1,472	3,883	2,411
Public Administration and Safety	1,739	3,087	1,348
Education and Training	2,624	4,161	1,537
Health Care and Social Assistance	3,421	4,596	1,175
Arts and Recreation Services	656	1,007	351
Other Services / Unclassified	974	4,162	3,188
Total	**38,250**	**75,262**	**37,012**

1 BTS 2014 Release Data has been used for greater accuracy, which differs slightly to data released in 2011

Source: ABS Census 2011; BTS 2014 Release; Urbis

The surplus of jobs compared to resident workers in the North Sydney LGA, presented in Table 3.1 above, indicates there is demand for dwellings close to St Leonards to house workers. Such demand is particularly likely to come from workers in St Leonards in white-collar, professional industries. The current B3 zoning of the subject site would not address this undersupply of dwellings for workers. Alternatively, a mixed-use zone at the subject site would deliver a combination of housing and jobs, supporting the growth of St Leonards' professional resident workforce.

3.2. PROJECTED EMPLOYMENT ST LEONARDS (2016 – 2036)

Table 3.2 overleaf illustrates the projected employment for the St Leonards Centre between 2016 and 2036 and its distribution across different industry sectors using BTS data. It shows that employment within the Centre is projected to increase by 8,025 jobs between 2016 and 2036 (around 400 jobs per annum). Urbis estimates that approximately 2,822 of these jobs will require office floorspace.

The following industries are expected to experience large employment growth in St Leonards between 2016 and 2036:

1. Health Care and Social Assistance (+3,379 new jobs, +37%)
2. Professional, Scientific and Technical Services (+1,685 new jobs, +19%)
3. Manufacturing (+484 new jobs, +39%)
4. Education & Training (+444 new jobs, +31%)
5. Construction (+424 new jobs, +31%).

The industry sectors listed above have implication for future land use.

These forecasts indicate that health care will drive future employment, likely driven by the RNSH. Professional, scientific and technical services will underpin some demand for office space, however this is also likely to be driven by proximity to the RNSH.

Projected Jobs by Industry

St Leonards Centre, 2016 to 2036

Table 3.2

Industry Sector	2016 No.	2016 %	2021 No.	2021 %	2026 No.	2026 %	2031 No.	2031 %	2036 No.	2036 %	2016-36 Total Change	2016-36 Annual Growth %	2016-36 Annual Growth (No.)
Health Care & Social Assistance	9,115	26%	10,089	27%	10,892	28%	11,677	28%	12,494	29%	3,379	1.6%	169
Professional, Scientific & Technical Services	8,719	25%	8,974	24%	9,375	24%	9,891	24%	10,404	24%	1,685	0.9%	84
Manufacturing	1,250	4%	1,370	4%	1,487	4%	1,606	4%	1,734	4%	484	1.6%	24
Education & Training	1,436	4%	1,538	4%	1,652	4%	1,766	4%	1,880	4%	444	1.4%	22
Construction	1,360	4%	1,462	4%	1,567	4%	1,676	4%	1,784	4%	424	1.4%	21
Accommodation & Food Services	1,443	4%	1,519	4%	1,597	4%	1,678	4%	1,769	4%	326	1.0%	16
Retail Trade	1,476	4%	1,564	4%	1,638	4%	1,709	4%	1,785	4%	309	1.0%	15
Financial & Insurance Services	2,050	6%	2,051	6%	2,105	5%	2,158	5%	2,220	5%	170	0.4%	9
Administrative & Support Services	1,097	3%	1,129	3%	1,159	3%	1,201	3%	1,248	3%	151	0.6%	8
Information Media & Telecommunications	2,025	6%	2,051	6%	2,084	5%	2,124	5%	2,173	5%	148	0.4%	7
Other Services	853	2%	878	2%	911	2%	948	2%	985	2%	132	0.7%	7
Rental, Hiring & Real Estate Services	633	2%	659	2%	688	2%	719	2%	755	2%	122	0.9%	6
Unclassified	984	3%	1,000	3%	1,020	3%	1,034	3%	1,050	2%	66	0.3%	3
Arts & Recreation Services	374	1%	376	1%	391	1%	407	1%	422	1%	48	0.6%	2
Transport, Postal & Warehousing	882	2%	866	2%	879	2%	900	2%	929	2%	47	0.3%	2
Public Administration & Safety	385	1%	395	1%	406	1%	417	1%	427	1%	42	0.5%	2
Mining	36	0%	40	0%	43	0%	47	0%	51	0%	15	1.8%	1
Electricity, Gas, Water & Waste Services	88	0%	91	0%	95	0%	99	0%	103	0%	15	0.8%	1
Wholesale Trade	1,114	3%	1,104	3%	1,105	3%	1,113	3%	1,125	3%	11	0.0%	1
Agriculture, Forestry & Fishing	26	0%	28	0%	30	0%	32	0%	33	0%	7	1.2%	0
Total Employment	**35,346**	**100%**	**37,184**	**100%**	**39,124**	**100%**	**41,202**	**100%**	**43,371**	**100%**	**8,025**	**1.0%**	401

Source: BTS 2014 Release; Urbis

Chart 3.3 below displays the projected split of new jobs by property type between 2016 and 2036 in the St Leonards Centre. Table 3.3 overleaf further details this split of projected employment growth by property type and industry sector. This analysis is based on benchmarks that Urbis have derived, looking at land use proportions by different categories of employment. The chart and table indicate that the employment split by sector is likely to be as follows:

- **Office sector:** to account for around 35% of total employment growth for the St Leonards Centre, equal to around 2,822 additional jobs between 2016 and 2036 (around 140 jobs per annum). Includes office components of sectors where majority of employment is accommodated in 'non-office' floorspace. Examples include education and training; health; arts and recreational services; and industrial sectors such as construction and urban services. These sectors may be better suited to co-locating office-based employment with their complementary non-office based operations. This is because there are the functional benefits of collocating such businesses with their core business hence producing an amenity and productivity outcome greater than that associated with having a CBD location.

- **Health sector:** to account for around 38% of employment growth, equal to around 3,041 additional jobs between 2016 and 2036 (around 150 jobs per annum).

- **Retail sector:** to account for around 5% of employment growth, equal to around 362 additional jobs between 2016 and 2036 (around 18 jobs per annum). Includes retail components of accommodation, food services, and wholesale trade.

- **Education sector:** to account for around 5% of employment growth, equal to around 422 additional jobs between 2016 and 2036 (around 20 jobs per annum).

- **Off site employment:** to account for around 4% of employment growth, equal to around 322 additional jobs between 2016 and 2036 (around 16 jobs per annum).

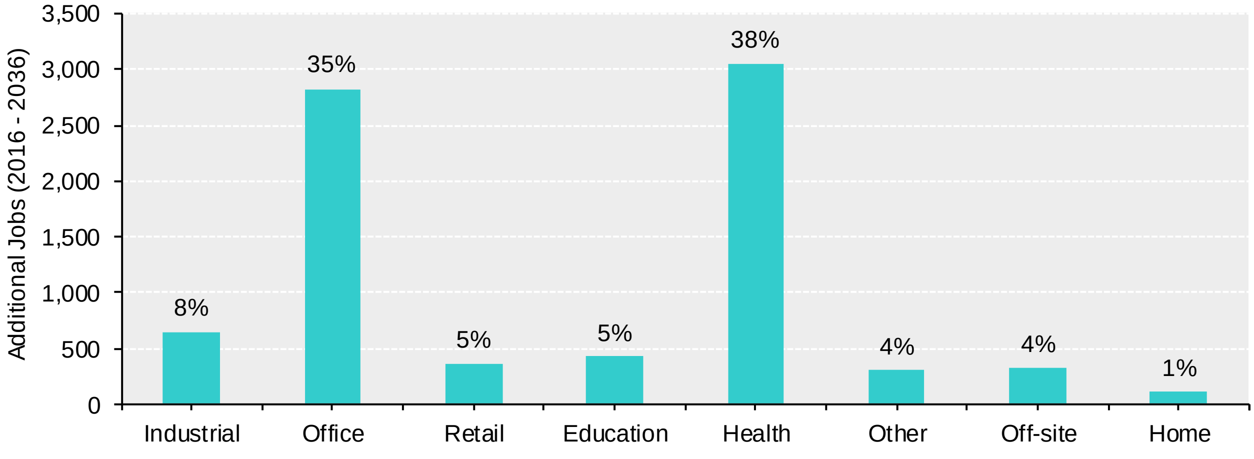
- **Industrial sector:** to account for around 8% of employment growth, equal to around 648 additional jobs between 2016 and 2036 (around 30 jobs per annum). The clear majority of this growth would be driven by the transport, postal and warehousing sector linked to warehousing and distribution. Components of 'non-industrial' sectors such as retail, wholesale trade and information technology is also included.

- **Home-based employment:** to account for around 1% of employment growth, equal to 108 additional jobs between 2016 and 2036 (around 5 jobs per annum).

These projections indicate that, moving forward, new jobs in St Leonards in the next 20 years will require property mostly related to the health sector, closely followed by office space. Demand for both property types will need to be supported, however this finding reflects the growth of the health services specialty in St Leonards as a result of the RNSH's redevelopment. The high demand for future health sector property not only implies a lower requirement for office space to service employment, but reflects a greater need for additional housing to support a growing jobs base from health workers.

Employment Growth Split by Property Type St Leonards

St Leonards Centre, 2016 to 2036 — Chart 3.3



Source: BTS 2014 Release; Urbis

Employment Growth Split by Property Type and Industry Sector

St Leonards Centre, 2016 to 2036 | Table 3.3

Industry Sector	Job Change 2016-36	Job Split by Property Type: Industrial		Office		Retail		Education		Health		Other		Off-site		Home		Total	
Health Care and Social Assistance	3,379			10%	338					90%	3,041							100%	3,379
Education and Training	444			5%	22			95%	422									100%	444
Retail Trade	309	10%	31			90%	278											100%	309
Construction	424	10%	42	5%	21									70%	297	15%	64	100%	424
Accommodation and Food Services	326					25%	82					75%	245					100%	326
Financial and Insurance Services	170			98%	167											2%	3	100%	170
Public Administration and Safety	42			90%	38							10%	4					100%	42
Professional, Scientific and Technical Services	1,685			98%	1,651											2%	34	100%	1,685
Transport, Postal and Warehousing	47	50%	24											50%	24			100%	47
Other Services	132			95%	125							5%	7					100%	132
Wholesale Trade	11	80%	9			20%	2											100%	11
Administrative and Support Services	151			95%	143							5%	8					100%	151
Rental, Hiring and Real Estate Services	122			98%	120											2%	2	100%	122
Unclassified	66			95%	63							5%	3					100%	66
Electricity, Gas, Water and Waste Services	15	90%	14	10%	2													100%	15
Agriculture, Forestry and Fishing	7													30%	2	70%	5	100%	7
Mining	15	100%	15															100%	15
Arts and Recreation Services	48			30%	14							70%	34					100%	48
Information Media and Telecommunications	148	20%	30	80%	118													100%	148
Manufacturing	484	100%	484															100%	484
Total Employment	**8,025**	**8%**	**648**	**35%**	**2,822**	**5%**	**362**	**5%**	**422**	**38%**	**3,041**	**4%**	**300**	**4%**	**322**	**1%**	**108**	**100%**	**8,025**

Source: BTS 2014 Release; Urbis

3.3. LAND USE DEMAND

This section considers the necessity of retaining the commercial use on the subject site.

To identify demand for commercial floorspace, it is necessary to consider the nature of future employment within the St Leonards Centre as identified by the Bureau of Transport Statistics at an industry level and the extent to which it will require additional commercial floorspace to facilitate additional employment / economic growth. Floorspace / employment benchmark ratios are applied to the industry employment forecast to provide an estimate of future floorspace demand by business creation / tenants.

This involves the following:

6. Using the BTS employment growth projections at the individual industry level (as presented in Section 3.2).
7. Converting jobs growth per industry into jobs growth by land use (as presented in Section 3.2).
8. Converting projected jobs growth by land use into floorspace demand.

Employment Growth

Different industry sectors have different needs when it comes to the type of floorspace required to operate their respective businesses. The industry employment projections presented in Section 3.2 are summarised in Table 3.4 below outlining the total jobs by land use.

Jobs by Land

St Leonards — Table 3.4

Land Use	Jobs Growth (2016 to 2031)
Industrial Includes industrial components of 'non-industrial' sectors such as retail, wholesale trade and information technology.	+ 648
Office Includes office components of sectors where majority of employment is accommodated in 'non-office' floorspace, such as education and training, health and arts and recreational services and industrial industries such as construction and urban services.	+ 2,822
Retail Includes retail components of accommodation and food services and wholesale trade.	+ 362
Education Does not include office based education services.	+ 422
Health Does not include office based health services.	+ 3,041
Other	+ 300
Off-Site	+ 322
Home	+ 108
Total	+ 8,025

Source: Urbis.

Floorspace Demand

To determine the floorspace requirement that will arise from the additional jobs targeted for the St Leonards Centre, Urbis have derived employment floorspace densities, based on the typical sq.m per employee by land use. These floorspace densities are shown in Table 3.5 below.

The analysis derived from the data in Table 3.5 considers differing floorspace requirements for industry sectors and business types.

Office floorspace employment density is expected to be 15 sq.m per job. This reflects the observed trend for office tenants to rationalise leased floorspace, coming in the form of greater use of open plan workplaces to reduce costs. As such, Table 3.5 shows that approximately 42,336 sq.m of office floorspace will be required to accommodate the targeted employment growth outlined in the BTS employment projection in St Leonards by 2036.

Urbis notes that the St Leonards office market since January 2000 has seen 14,827 sq.m of net office space withdrawn from the market, equating to 872 sq.m withdrawn per annum.

Based on Urbis employment-to-floorspace benchmarks, this is estimated to have equated to a loss of 58 jobs per annum, aggregating to 988 office jobs since January 2000.

Floorspace Demand

St Leonards Centre, 2016 to 2036 — Table 3.5

Land Use	Sq.m / Job	Floorspace (sq.m)
Industrial	150	97,155
Office	15	42,336
Retail	25	9,045
Education	25	10,545
Health	10	30,411
Other	10	2,998

Source: BTS September 2014 Release; Urbis

3.4. COMMERCIAL SUPPLY / DEMAND – ST LEONARDS STRATEGIC CENTRE

Table 4.3 below presents the calculations used for deducing the projected floorspace capacity in the St Leonards Centre by 2036.

According to the PCA Office Market Report January 2017, there is currently 33,031 sq.m of vacant office space in the St Leonards Centre (row A) and a development pipeline of 95,086 sq.m office floorspace in the St Leonards Centre market (row B). Given that there will be a withdrawal of 5,118 sq.m of office floorspace on the subject site from supply (row C), combined with the total demand for office floorspace based on 15 sq.m per employee (row E), the result is a surplus of office floorspace capacity (row F) by 2036 of 80,663 sq.m.

Surplus / Deficit of Office Floorspace St Leonards (2016 – 2036)

St Leonards Centre, 2016 to 2036 — Table 3.6

	St Leonards Centre	Office Floorspace (sq.m)
A	Vacant Existing Floorspace	33,031
B	Proposed Commercial Developments	95,086
C	Withdrawal of Existing Property on Subject Site	5,118
D	Existing and Proposed Supply (A+B-C)	122,999
E	Total Office Floorspace Demand (i.e. 2,822 jobs)	42,336
F	**+Surplus / -Deficit Office Floorspace Capacity (D-E)**	+80,663

Source: BTS September 2014 Release; PCA Office Market Report Jan-2017; Urbis

3.5. SUMMARY AND IMPLICATIONS

The key findings of the employment analysis within the St Leonards Centre are as follows:

- The resident workforce in the St Leonards centre is characterised by higher proportions of professional and scientific, and financial and insurance workers than the Sydney average. Despite this, in 2011, the surplus of jobs in the St Leonards centre was most pronounced in these areas.
- Employment growth in the health and social services sector between 2006 and 2011 reflects a broader trend in employment in a growing health sector within the St Leonards Centre.
- In 2016, the health care and social services sector is estimated to have become the largest industry sector in the St Leonards Centre, providing 26% of employment. This is forecast to grow to almost 30% of the Centre's jobs by 2036 (jobs growth of 3,379 between 2016 and 2036).
- The subject site is well placed to accommodate smaller office occupiers such as medical services and specialist suites. Health-related services may also be highly suited to this location. However, these uses typically do not pay premium rates for office accommodation and are likely to only be accommodated if the costs of the office accommodation can be maintained at more affordable levels. In this context, a mixed-use development on the subject site involving residential uses that can offset higher development costs may make a smaller scale and targeted office development aimed at medical uses more likely.
- Between 2016 and 2031 employment is projected to grow by around 8,000 additional jobs within the St Leonards Centre. Based on Bureau of Transport Statistics (BTS) forecasts, Urbis estimates that approximately 2,822 of these jobs will be office-based, requiring office floor space.

- Urbis estimates that office floorspace employment density is between 15 and 20 sq.m per employee and forecasts continued office floorspace rationalisation amongst office tenants. This indicates that there will be new employment in St Leonards for approximately 42,336 to 56,448 sq.m by 2036.
- As a large proportion of future jobs are projected to come from industries that do not require office space, particularly the health care industry, take-up rates of office floorspace are not expected to grow to meet these employment targets.
- With significant proposed supply of office floorspace at Gore Hill Technology Park and RNSH as outlined in Section 2.4, the forecast demand for new office floorspace can be sufficiently accommodated within the existing vacant floorspace and proposed supply.
- The Supply/Demand gap analysis presented in this section forecasts a surplus of office floorspace by 2036 of 80,663 sq.m (assuming all commercial office developments in the pipeline are developed).
- A forecast of excess supply of office floorspace mitigates the economic impact of the planning proposal, which will support a range of retail, community and business/medical tenant.

4. ECONOMIC BENEFITS

This section identifies the potential employment and economic generation potential associated with the proposed development on the subject site. Specifically, this section addresses the following points:

- Potential employment and economic benefits generated during the construction of the proposed development
- Potential employment and economic benefits generated in the ongoing operation of the proposed development
- Qualitative assessment of additional economic benefits.

Modelling included in this report uses REMPLAN to assess current and potential economic impacts. REMPLAN is an Input-Output model that captures inter-industry relationships within an economy. It can assess the area-specific direct and flow-on implications across industry sectors in terms of employment, wages and salaries, output and value-added (Gross Regional Product). A region can be defined at a national, state or Local Government Area level.

REMPLAN base data is drawn from the Australian Bureau of Statistics and other government agencies. It provides highly reliable, up-to-date, and defensible economic modelling across any state or region in Australia.

Previous modelling of economic impacts has used ABS Input-Output tables from 1996-97. The multipliers are close to 20 years old and are less accurate in estimating impacts on the economy, particularly due to:

- Productivity changes throughout the economy over the past 20 years
- The changing industry make-up of the Australian economy since 1997 – for example the decline in manufacturing and the rise in financial services.

4.1. CONSTRUCTION JOBS

Construction of a mixed-use development would require substantial capital investment which would sustain significant employment in the construction industry through the development period. Construction industry activity also has multiplier effects that are felt through the local economy.

As an indicative estimate for modelling purposes, construction costs associated with the proposed development were provided by Anson. It is estimated that total construction cost could be in the order of $110.53 million over 2.5 years (30 months), equating to an annual construction cost of $44.21 million. A summary of the construction cost is included in the following table.

Estimated Construction Costs for Proposed Development

Subject Site — Table 4.1

	Capital Cost (indicative)
Construction	$ 110,530,000

Source: Anson ; Urbis

The construction of the development at the subject site is estimated to have the potential to generate $13.0 million in direct Gross Value Added (GVA) per year, and $33.7 million in indirect GVA. Employment represents total number of employees without any conversions to full-time equivalence. The construction project is forecast to generate an estimated 86 direct jobs and 206 indirect jobs each year of the project.

Annual Economic Activity – Construction

Subject Site Table 4.2

Heading	Direct Effect	Indirect Effect	Total
Jobs	86	206	292
Economic Generation GVA p.a. ($M)	$ 13.0	$ 33.7	$ 46.7

Source: REMPLAN Economy ; Urbis

4.2. ONGOING JOBS

In addition to the construction phase of the proposed development, the ongoing operations of the non-residential components of the development will also create jobs and generate economic activity (in GVA).

The number of direct jobs for the proposed development was estimated using industry benchmarks on jobs per net lettable area. Direct jobs are entered into REMPLAN to produce an estimate of indirect jobs, and direct and indirect GVA.

The proposed development on the subject site will include space for retail, commercial office, and community facilities which are estimated to generate some 252 total jobs from ongoing operations as shown in Table 4.3. The direct and indirect impacts from economic activity forecast to occur from the proposed development are detailed in Table 4.4.

Proposed Non-Residential Gross Floor Area and Employment

Subject Site Table 4.3

	GFA (sq.m)	GFA (sq.m) per job	Ongoing Jobs
Retail	610	16	37
Community / Art Centre	1,830	71	26
Commercial Office	2,840	15	189
Total	**5,280**		**252**

Source: Urbis

Annual Economic Activity – Ongoing Operations

Subject Site Table 4.4

	Direct Effect	Indirect Effect	Total
Jobs	252	220	472
Economic Generation GVA p.a ($M)	$30.5	$41.5	$72.0

Source: REMPLAN Economy; Urbis

In response to Council's request for a commitment to deliver contemporary office space with enhanced employment efficiency, Table 4.5 overleaf identifies additional employment gained from including non-residential space that have a higher job density as opposed to serviced apartments.

As shown in the table overleaf, the reduction of serviced apartments, inclusion of the Art Centre and Commercial space as well as an addition on retail component, the overall ongoing employment opportunities have increased from 35 to 252.

The sub-optimal occupancy of the existing buildings results in an estimated 179 jobs. A lower GFA / job benchmark has been used, given the existing property is a C-Grade office building. The 15 sq.m GFA / job benchmark used for the new commercial office space is reflective of better efficiency and design.

Employment comparison

Original and Updated proposal Table 4.5

Existing Development Approval	Rooms	Jobs per room	Ongoing Jobs
Serviced Apartments	57	0.61	35
Current Building	**Occupied GFA (sq.m)**	**GFA (sq.m) per job**	**Ongoing Jobs**
C-Grade Commercial Office	3,570[1]	20	179
Updated proposal	**GFA (sq.m)**	**GFA (sq.m) per job**	**Ongoing Jobs**
Retail	610	16	37
Community / Art Centre	1,830	71	26
Commercial Office	2,840	15	189
Total	**5,280**		**252**

Source: Urbis

1Estimated based on 90% to Net Lettable Area and current 60% occupancy of building

4.3. RETAIL EXPENDITURE

For the purpose of estimating additional retail expenditure as a result of new housing in the proposed development, we consider a Market Catchment from where new residents or potential purchasers are likely to be drawn.

The subject site sits on the border of the St Leonards – Naremburn SA2 and the Crows Nest – Waverton SA2. As such, migration into the combined geography of these two SA2s has been used to determine the subject site's Market Catchment.

Migration analysis finds that new residents in St Leonards as at 2011 were migrating from a local Lower North Shore catchment, predominantly contained in the Mosman, North Sydney, Lane Cove and Willoughby LGAs. The combination of these LGAs has thus been identified as the main catchment area for the proposed development, and the Market Catchment for this retail expenditure assessment.

Based on the proposed development of 195 residential dwellings and the average household size of apartments in the Market Catchment (i.e. 2.3), the indicative number of residents to be accommodated across the subject site is 452 people.

Based on the current spending profile of the Market Catchment, an average spend per capita of $19,820 in 2017 has been sourced from MarketInfo 2012. Therefore, additional population in the proposed development could generate $9.0 million in retail expenditure (in $2017), as illustrated in Table 4.5.

Resident Spending by Product Category

Subject Site, based on 527 additional residents ($million $2017) Table 4.6

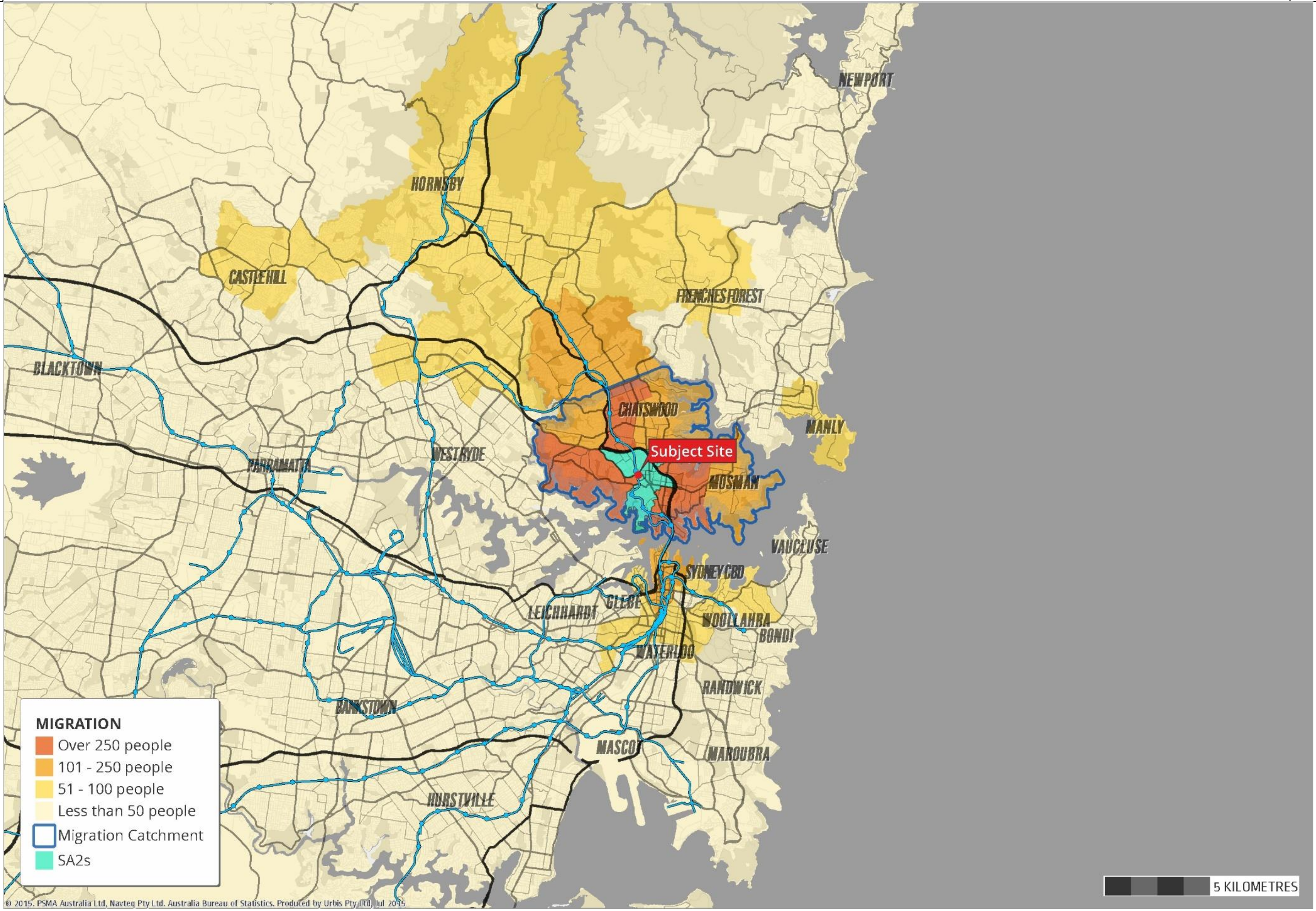
Number of Residents	Year	Food Retail	Food Catering	Apparel	Home-wares	Bulky Goods	Leisure/ General	Retail Services	Total Retail[1]
452 Residents	**2020**	3.0	1.7	1.1	0.8	0.9	1.0	0.4	**9.0**

1 Spend per annum

Source: ABS; MarketInfo 2012; Urbis

The economic benefits associated with this additional spending growth can be expressed as follows:

- Potential to improve turnover performance of existing retail precincts near the subject site
- Scope to sustain additional retail floorspace around 1,280 sq.m (for a total retail spend of $9.0 million per annum), based on an average turnover per sq.m rate of $7,000 per sq.m.
- Creation of additional full-time, part-time and casual retail jobs in the range of around 78 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16.5 sq.m).


NEWPORT
HORNSBY
CASTLE HILL
FRENCHES FOREST
BLACKTOWN
CHATSWOOD
MANLY
Subject Site
WEST RYDE
PARRAMATTA
MOSMAN
VAUCLUSE
SYDNEY CBD
LEICHHARDT
GLEBE
WOOLLAHRA
BONDI
WATERLOO
RANDWICK
BANKSTOWN
MASCOT
MAROUBRA
HURSTVILLE
MIGRATION
Over 250 people
101 - 250 people
51 - 100 people
Less than 50 people
Migration Catchment
SA2s
5 KILOMETRES
© 2015. PSMA Australia Ltd, Navteq Pty Ltd. Australia Bureau of Statistics. Produced by Urbis Pty Ltd, Jul 2015

4.4. OTHER BENEFITS

Additional to the economic benefits derived from construction, ongoing employment and retail expenditure, the proposed development provides a community arts centre and increased street activation.

Arts Centre

The proposed development features an extensive community arts facilities available to the public. Additional to the estimated 26 ongoing employment opportunities, the arts centre will provide artists and organisations to partner, present, collaborate, deliver and produce innovative arts projects, industry professional development and community engaged programs.

The Arts Centre is designed to encompass two levels of the development and includes amenities listed in Table 4.6 below.

Amenities included in Arts Centre

Subject Site — Table 4.7

Amenity	Floor space
Art Gallery/Exhibition Space	300 sq.m
Shared Artist Studio	175 sq.m
Photography Studio	180 sq.m
Artist Studio	25 sq.m
Meeting Rooms	90 sq.m
Breakout/Lounge Areas	50 sq.m
Workshop Space	315 sq.m
Music Recording Studio	50 sq.m
Music Rehearsal Studio	105 sq.m
Theatre/Dance Rehearsal Space	200 sq.m

Source: Kannafinch

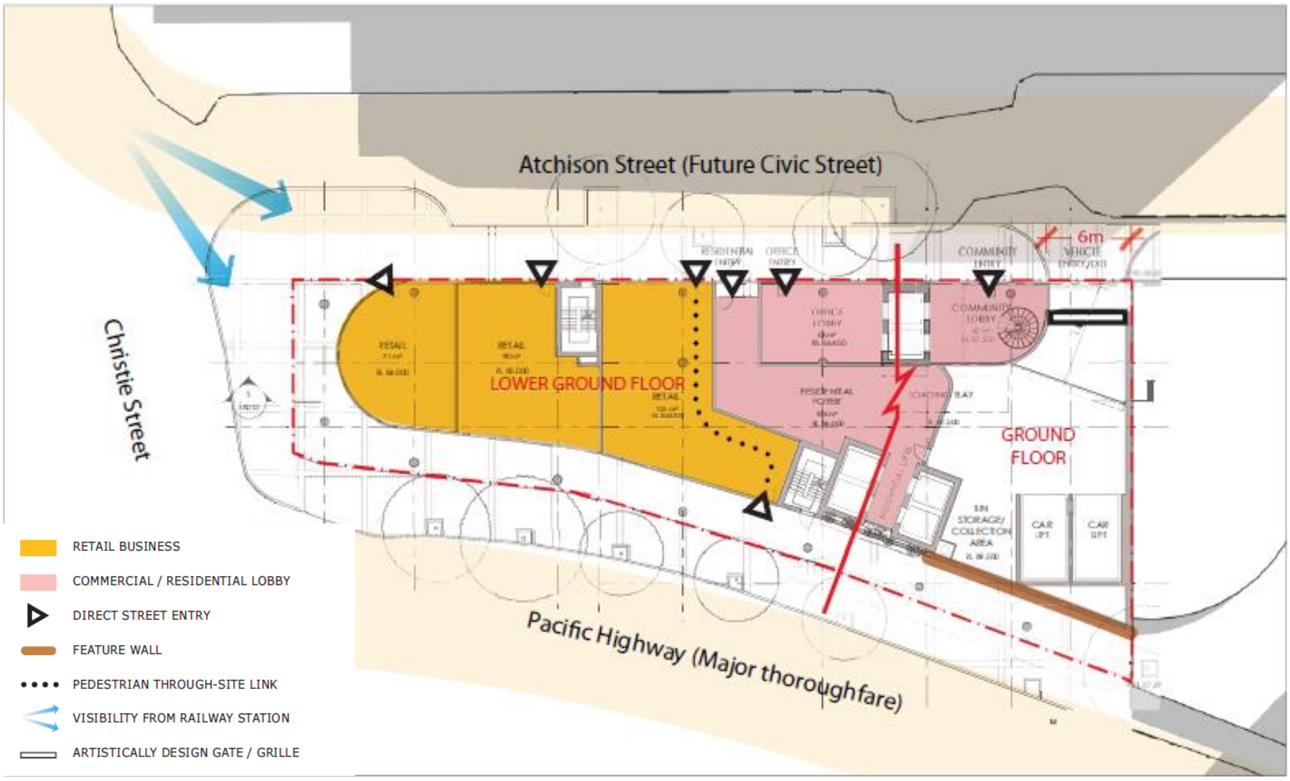
Ground Floor Retail Activation

As illustrated in Figure 2 below, urban designers GMU have proposed the following measures for street activation surround the subject site:

- Approximately 75% of the street edge is active by retail business or commercial/residential lobbies
- Only approximately 11% of the street edge is a continuous non-active edge and it is treated as a feature wall
- A total of seven pedestrian entry points are created to retail shops or commercial/residential lobbies from all street edges
- All retail frontages and lobbies to Atchison Street have level access
- A north-south pedestrian link is provided through a retail shop on the Ground Floor
- The visibility to the proposed active frontage is maximised from Sergeant Lane, which is a direct link to the railway station
- The vehicle entry from Atchison Street is limited to 6m wide at the farthest eastern corner
- Inactive surfaces are minimised and broken down to small components to mitigate their impacts

- An artistically designed gate and adequate lighting are provided.

Figure 2 – Street activation on the Lower Ground and Ground Levels



Source: GMU

Benefits from the proposed measure of street activation listed about include:

- Increase visitation, customer circulation and retail spend
- Increase vibrancy in city streets (commercially and socially) and rejuvenate inactive areas of the precinct
- Maximises linkages to transport infrastructure for easy access, and channelling pedestrian traffic past social and commercial offerings at street level
- Produces a more pedestrian friendly precinct to capitalise on the outdoor experience
- Improve passive surveillance of the along Atchison Street, Christie Street and Pacific Highway.

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