

Appendix C

Crows Nest South Planning Study, prepared by SGS Economics and Planning

Crows Nest South Planning Study

Final Report

North Sydney Council
November 2014



Independent insight.



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1 INTRODUCTION

1.1 Background

On 28 April 2014, North Sydney Council considered a Planning Proposal for the site known as 200-220 Pacific Highway, Crows Nest. The Planning Proposal sought to amend the minimum non-residential floorspace ratio requirement from 0.5:1 to 0.2:1. This proposed amendment was intended to replace the 6 approved service apartments located at the first floor level with residential accommodation.

As Council did not resolve to make a determination in relation to this Planning Proposal at that time, it was reported back to Council on 19 May 2014 where it resolved in part:

THAT a precinct based Planning Study, similar to that undertaken for Cliff Street, Milsons Point, be undertaken and funded by the applicant.

In order to satisfy the above Resolution, Council and the applicant of the Planning Proposal sought to engage a consultant to prepare a planning study of land zoned B4-Mixed Use under North Sydney Local Environment Plan 2013 (NSLEP 2013). The study area covers both the subject site and southern portion of the Crows Nest Town Centre. The study area is also located at the southern end of Precinct 4 to the St Leonards/Crows Nest Town Centre Planning Study.

1.2 Project aims

According to the Consultant Brief provided by North Sydney Council (p.3), the principle aim of the Crows Nest South Planning Study is to “provide recommendations on the appropriate non-residential floor space ratios, ground level uses and street level amenity of land zoned B4 – Mixed Use located in the southern portion of the Crows Nest Town Centre. The study is to have regard to the current characteristics of the locality and the underlying development trends”.

1.3 Report structure

- Section 1 provides an introduction to the study, including background to the need of the planning study.
- Section 2 contains a strategy and policy review, which provides the necessary context for the planning study of Crows Nest South
- Section 3 provides an assessment of the commercial office, retail and other non-residential property markets in the Crows Nest/St Leonards area.
- Section 4 contains an urban design assessment of the study area’s functionality and amenity, including a review of existing uses and built form, as well as public realm and pedestrian amenity.
- Section 5 contains a feasibility assessment of the minimum non-residential FSR applying to the study area.
- Section 6 distils the key findings of the preceding sections and provides recommendations regarding feasible non-residential FSR for the Study Area and proposed changes to the minimum non-residential FSR that are required for 200-220 Pacific Highway.

1.4 Study area

Figure 1 shows the study area. According to the Consultant Brief provided by North Sydney Council (p.3-4):

The study area principally comprises former retail and commercial properties that front the Pacific Highway. Demand for sole retail and commercial premises along this section of the Pacific Highway has declined due to substantial decreases in passing trade and the trend to locate commercial and retail activities in designated centres.

In response to this, the study area, along with other properties fronting the Pacific Highway in this locality, have slowly been evolving into a mixed use precinct with retail and commercial activities concentrated at the ground and first floor levels with residential apartments above. The rate of change has been slowest at the periphery of the Crows Nest Town Centre (p.3-4).

FIGURE 1. STUDY AREA



Source: North Sydney Council, 2014.

1.5 Current planning controls

North Sydney LEP 2013

Development in the study area is principally governed by provisions of the North Sydney LEP 2013. The 2013 LEP is the principal document for controlling development and guiding planning decisions made by Council. Under the 2013 LEP, the study area is zoned mainly B4: Mixed Use.

The objectives of a B4 Mixed Zone are:

- To provide a mixture of compatible land uses.
- To integrate suitable business, office, residential, retail and other development in accessible locations so as to maximise public transport patronage and encourage walking and cycling.
- To create interesting and vibrant mixed use centres with safe, high quality urban environments with residential amenity.
- To maintain existing commercial space and allow for residential development in mixed use buildings, with non-residential uses on the lower levels and residential uses above those levels.

The key development controls applying to the study area are:

- Maximum building height of 10m on the eastern side of the Pacific Highway, 16m on the western side of the Pacific Highway
- Non-residential FSR of 0.5:1 to 2:1 – Area 6.

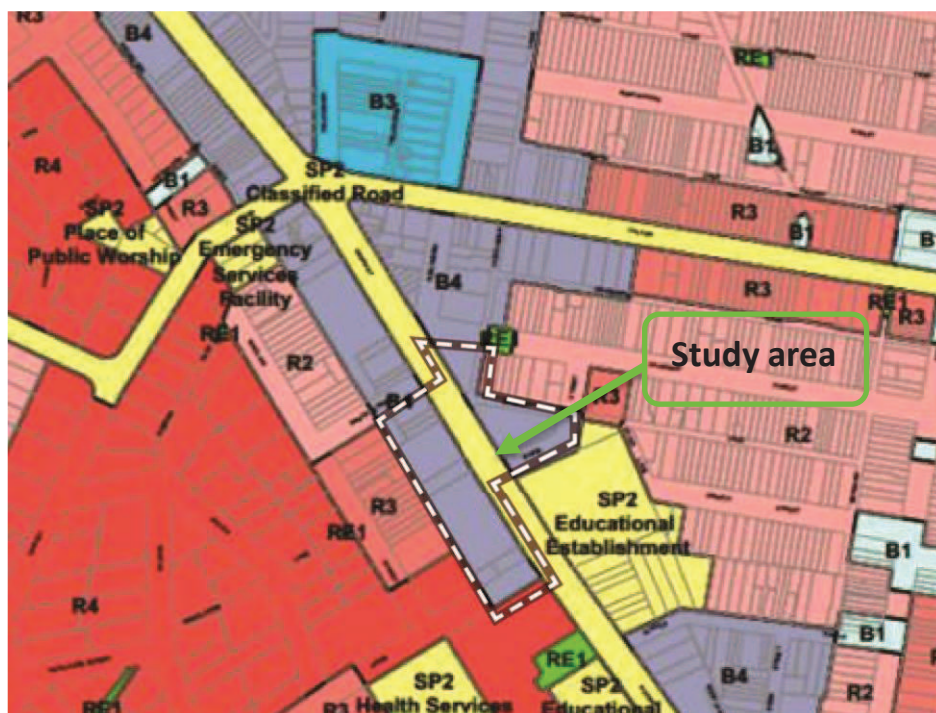
Non-residential FSR

The NSLEP 2013 states that non-residential development comprises all land uses except residential accommodation, car parks and telecommunication facilities. It includes serviced apartments, gyms and child care centres, as well as retail shops and commercial offices.

According to the Consultant Brief (p.4), non-residential FSR controls are intended to:

- ensure that sufficient floor area is provided to meet Metropolitan employment targets;
- allow an appropriate mix of residential and non- residential uses;
- provide a level of flexibility to cater for market demands;
- street frontages are activated; and
- that a suitable level of non-residential floor space is provided to reflect the hierarchy of commercial centres.

FIGURE 2. STUDY AREA ZONING AND CONTEXT



Source: North Sydney LEP 2013.

2 STRATEGY AND POLICY REVIEW

This section contains a strategy and policy review, which provides the necessary context for the planning study of Crows Nest South. It considers the meeting of employment and dwelling targets set by local and state strategies, including:

- North Sydney Community Strategy 2013 – 2023
- St Leonards / Crows Nest Planning Study 2011
- North Sydney Development Control Plan 2013
- St Leonards Strategy 2006
- North Sydney Local Development Strategy 2009
- Crows Nest Retail Study 2007
- North Sydney Residential Development Strategy 2009
- Metropolitan Plan for Sydney 2036
- Draft Metropolitan Strategy for Sydney to 2031
- Draft Inner-North Subregional Strategy 2007

These plans and strategies provide the framework to conceptualise strategic directions specifically relating to the study area.

2.1 Metropolitan strategies

Crows Nest and St Leonards tend to be viewed as a single centre in metropolitan strategies, and therefore separate employment, population and dwelling targets have not been provided for the two centres.

Metropolitan Plan for Sydney to 2036 (2010)

According to the *Metropolitan Plan for Sydney to 2036*, the Study Area is located within the Global Economic Corridor. This arc connects Macquarie Park, Chatswood, St Leonards, North Sydney, Sydney City, Pyrmont-Ultimo, Sydney Airport and Port Botany. This corridor is the preferred location for higher order global and regional corporations.

The Study Area is also in close proximity to the St Leonards specialised centre. The Metropolitan Plan aims to concentrate employment and housing growth in centres, and sets targets for centres across the Sydney metropolitan area. One key aim of the strategy is to allow for mixed use development in key centres, including St Leonards, to retain and increase the number of jobs and dwellings.

Specialised centres “perform vital economic and employment roles across the metropolitan area” and include major airports, ports, hospitals, universities and clusters of research and business activity. They usually have an employment base of at least 8000 jobs (p.67). St Leonards is earmarked for growth of an additional 5000 jobs by 2036, resulting in a total of 39,000 jobs. This is projected from a baseline of 34,000 jobs in 2036. St Leonards is also identified as the site of a health care cluster. This sector is likely to experience growth due to Sydney’s growing and ageing population. Appropriate employment lands must be retained to meet this predicted growth.

The following future directions are identified for St Leonards (p.263):

- Support high intensity office activity
- Redevelop existing building stocks to provide additional capacity for employment growth
- Continue to support clustering of medical enterprises associated with the Royal North Shore Hospital

- Support emerging technology cluster at Gore Hill Park

St Leonards is located in the Inner North subregion, according to the Plan. The net additional dwelling target for this area is 44,000 new dwellings (p.115).

Draft Metropolitan Strategy for Sydney to 2031 (2013)

The draft Strategy is to replace the *Metropolitan Plan for Sydney to 2036* and is anticipated to be replaced by a new Metropolitan Strategy in the coming months. The draft Strategy identifies St Leonards as a specialised office cluster located within the Global Economic Corridor, as per previous recent metropolitan strategies. The study area is located in the Global Economic Corridor.

There is no explicit discussion of Crows Nest, but there are several directions for Crows Nest, which will have an impact on demand for the Crows Nest Town Centre.

Under the draft Strategy, St Leonards is located in the central subregion, which includes the city's major office location, Global Sydney. However, Global Sydney has capacity constraints for commercial development, and the draft Strategy aims to preserve other areas as employment lands. This is reflected in the draft Strategy's overall goal of strengthening centres to create a network city, where strategic centres and specialised precincts that contain business parks/office clusters become the primary location for office space.

St Leonards is identified as a specialised precinct in the draft Strategy, with employment and housing targets. Specialised precincts are employment destinations or location of essential urban services, with:

- Minimum of 8,000 jobs, potential for more than 12,000 jobs
- Potential to become significant locations for concentrated employment growth – potential specialised precincts would need to be located near existing public transport and/or be supported by public transport improvements. They would complement existing specialised precincts and strategic centres.
- High quality public spaces for workers and residents

According to the draft Strategy, protecting and growing the employment function of specialised precincts is paramount. The emergence of other uses in the precincts needs to be managed to make sure the employment function is not compromised. Specialised functions, such as office space or health and education assets must be protected for the long term and residential and other non-specialised but competing uses must not be allowed to override the core employment activities in these precincts. The importance of specialised precincts, including St Leonards, in absorbing jobs is highlighted in the minimum job targets summarised in Table 1.

The Government's priorities for the St Leonards specialised precinct are to:

- Support office-based hub and health education facilities at Royal North Shore Hospital, Royal North Shore Private Hospital, Mater Misericordiae Hospital, Northern Sydney TAFE and the emerging technology cluster at Gore Hill
- Protect industrial lands for urban services
- Provide additional capacity for 8,000 additional jobs to 2031.

These goals will be expanded in the new subregional strategy, but overall reflect the Government's desire to protect and strengthen St Leonards' employment function.

TABLE 1. MINIMUM JOB TARGETS 2011-2031

Specialised precinct	2011	2021	2031	2011-2021	2011-2031
St Leonards	37,000	41,000	45,000	4,000	8,000
North Sydney	48,000	54,000	60,000	6,000	12,000
Total strategic centres and specialised precincts	883,000	1,056,000	1,187,000	173,000	304,000
Total metro jobs	2,173,000	2,512,000	2,798,000	339,000	625,000

Source: NSW Government, 2013, p.42-3.

Draft Inner North Subregion Strategy, 2007

In this sub regional strategy, St Leonards/Crows Nest is part of the Inner North subregion, including North Sydney, Chatswood and Macquarie Park. The subregion has an important economic role in the city, with a highly skilled population, research and development based industries in centre such as Macquarie Park and St Leonards, including clusters of ICT and biomedical businesses. It is also the home of advanced education and healthcare in the north of Sydney.

The draft Strategy describes St Leonard's role as a specialised centre. According to the draft Strategy, St Leonards is the third ranked suburban office market in Sydney, a function which is complemented by the major health and education assets of the Royal North Shore Hospital and North Sydney College. The Centre has experienced an increase in high rise and mixed use development, driven by the benefits of public transport and the amenity of nearby areas, including the Willoughby Road restaurant strip and night time economy at Crows Nest. The strategy identifies an employment capacity target of 8,200 for St Leonards, which has been updated under the new draft Strategy for Sydney.

Key directions from the strategy include:

- Strengthening the Global Economic Corridor from North Sydney to Macquarie Park, including protecting and strengthening the commercial areas of North Sydney, St Leonards, Chatswood and Macquarie Park
- Reinforce the subregion's knowledge assets, both its highly skilled population and knowledge infrastructure including Macquarie University and Royal North Shore Hospital, including promoting St Leonards as a "knowledge city"
- Protect strategic employment lands, which have come under increasing pressure for conversion to higher order employment or residential uses, with significant rezoning over the past two decades
- Improve housing choice and create liveable and sustainable communities to accommodate a diverse workforce and residential population, while ensuring that residential growth supports and revitalises the centres' commercial and retail role.
- Encourage use of public transport
- Protect and promote the harbour setting.

The strategy also describes Crows Nest as a village. This is defined as "a strip of shops and surrounding residential area within a 5 to 10 minute walk contains a small supermarket, hairdresser, take away food shops. Typically they contain between 2,100-5,500 dwellings" (p.11).

2.2 Local strategies

North Sydney Community Strategy 2013-2023

The Community Strategic Plan (CSP) is a strategic document that builds on community agreed priorities, to guide and inform decision making and planning for the next decade. The CSP outlines the following the key challenges and issues facing the North Sydney LGA over the next ten years:

- **Population growth and change.** According to population forecasts, by 2031, the most populous age group in the LGA will be 30-34 year olds. The major driver for this change is the continued attractiveness for the area for young adults looking for inner city accommodation close to employment and entertainment. The large number of new dwellings in St Leonards/Crows Nest will also drive population growth.
- Need for efficient natural resource use and acknowledgement of pressures of **climate change**.
- **Infrastructure upgrades.** Ageing infrastructure will need to be replaced, and population growth will create need for new infrastructure to meet the needs of residents.
- **Reducing car dependence.** Despite good public transport accessibility, the area still has high levels of car use with negative externalities, including congestion and impact on pedestrian amenity.
- **Build on competitive advantage of centres.** Remaining competitive and creating a stronger economy by leveraging assets of the North Sydney and St Leonards commercial centres.
- Need for **safe and connected communities** with healthy lifestyles
- **Housing affordability** challenges, which will prevent low and moderate income earners from entering the property market. For example, younger people may be forced to move to more affordable areas, contributing to the ageing of the LGA.
- Increased demand for sport, recreation and **open space**.
- **Increasing community expectations**, accompanied by constrained funds

The North Sydney CSP outlines a vision for the future of the LGA, including two specific visions that are relevant to the future of the study area. Council's vision for commercial centres highlights the following goals:

- Retain distinct character and strong identity
- Mix of services
- Pedestrian friendly village atmosphere
- Ensure range of activities are available to different groups of people during both day and night
- Pedestrian and cycling paths to link commercial centres and villages – improving access, safety, community connectedness

This vision is linked to the Council's aims for economic vitality. Over the next ten years, the Council wishes to ensure that North Sydney is a premier retail destination and activity hub with a broad range of offerings, including shopping, after hours dining and cultural activities. It is also a tourism destination thanks to its harbour foreshores. This can be achieved, in part, through improved pedestrian path networks and community meeting places.

St Leonards/Crows Nest Planning Study 2011, Addendum 2012

The study, first completed in 2011 and updated in 2012, highlights the current state of different precincts in the St Leonards/Crows Nest planning area (Figure 3). The purpose of the study was to identify opportunities to "increase housing and employment capacity in the area whilst delivering high quality public domain and services to support the current and future community's needs" (North Sydney Council website, 2014). The study divides St Leonards Crows Nest into four precincts, seen in Figure 3.

The study was prepared to assist in delivering:

- *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; and*
- *improved building design and residential amenity in St Leonards* (North Sydney Council website, 2014).

FIGURE 3. ST LEONARDS/CROWS NEST PLANNING STUDY PRECINCTS



Source: North Sydney Council, 2014.

Detailed planning controls have been developed for Precinct 1 (October 2012), and work is underway on developing guidelines for Precincts 2 and 3. Precinct 4, where the study area is located, has not yet been studied.

St Leonards/Crows Nest suffers from a lack of local open space with high amenity. There are also underutilised sites in some areas with low quality buildings and a rundown atmosphere.

There has been a surge of relatively recent mixed use development, which was approved under existing controls but there have been concerns from Council staff about design and residential amenity outcomes. The study identifies detailed redevelopment guidelines for Precinct 1.

The Precinct 1 study argues that a number of goals for Precinct 1 could be achieved through appropriate redevelopment of certain precincts of St Leonards/Crows Nest, including increased open space and amenity for workers and residents, decreased vacancy rates and increased investment in the area. The study highlights the following opportunities for achieving these goals:

- Development feasibility through increased building height
- Improved pedestrian circulation and amenity
- New open space.

The main constraints on redevelopment are identified as:

- Observing the “stepping down” principle, which is needed to protect the amenity of surrounding areas from the intrusion of tall buildings while also shaping an attractive skyline for the area
- Maintaining views and solar access while increasing density
- Maintaining the local traffic network and supply of parking, which constrains the conversion of particular areas into usable public space
- Fragmented ownership makes it difficult to achieve substantial amalgamations

North Sydney Development Control Plan 2013

The North Sydney DCP includes a statement identifying the existing character and desired outcomes for development in the St Leonards/Crows Nest area. St Leonards Town Centre Locality Area, which is predominantly mixed commercial and residential development, with the following standout elements in the urban structure: the Forum development and plaza, St Leonards, and the Pacific Highway.

The major elements of the Crows Nest Town Centre are:

- *Predominantly mixed commercial and residential development.*
- *Public parking facilities.*
- *Community facilities.*
- *Medium density residential accommodation.*

The Council's future vision for the Crows Nest Town Centre is:

- Diversity of activities, facilities, opportunities and services
 - Willoughby Road, between Falcon Street and Albany Street, and Pacific Highway, between Shirley Road and Hume Street, two storey parapet shopfront with shops at ground level, non-residential or residential above, with additional height set back above 2 storey parapet.
 - Remainder of the Centre medium rise, mixed use development, boundary to boundary, with setbacks at laneway, public spaces and above podium - shops at ground level, non-residential/residential on first floor, residential above.
 - Medium density residential development along Falcon Street.
- Accessibility and permeability
 - Pedestrian access from Willoughby Road to through to Alexander and Hume Streets, improves access to the Council car parks.
- Public spaces and facilities
 - Ernest Place is a focus for the Town Centre.

St Leonards Strategy, 2006

The development of the 2006 St Leonards Strategy was guided by a steering committee with representatives from the three councils in the area, and the NSW Department of Planning, as well as community and industry stakeholders. The aims of the St Leonards Strategy were to:

- Inform the content of a new LEP, as part of the NSW Planning Reform Program
- Identify how the economic role of the centre can be strengthened
- Identify how sustainability, amenity and a sense of place in the centre can be strengthened
- Establish a coordinated planning approach from the three councils.

The St Leonards Centre, east of the station and north of the Pacific Highway has experienced a surge of high rise developments and development applications for commercial space at lower levels and residential accommodation above, principally on former industrial lands. The redevelopment and consolidation of scattered sites of the Royal North Shore Hospital will create opportunities for redevelopment and release land to be developed as commercial lands. Increased employment and residential in the area will increase demand and market support for a broader range of community services and facilities, such as local shops, bars and restaurants.

The Strategy identifies that Crows Nest Village, located just outside the core study area, provides a key destination for shopping and dining for St Leonards residents and workers. The Strategy's vision stresses the importance of linking St Leonards' office precinct with the shops and cafes of Crows Nest to "capitalise on their value as an attraction for workers and residents" (p.29). The Strategy also notes that "in general, better linkages are required throughout the centre along with an improved public transport hub to maximise the convenience of public transport, shops and services provided in the core of the centre" (p.29).

The study area is also located nearby to the "Eastern Gateway" precinct of the study area, located on both sides of the Pacific Highway, east of the railway line. The Strategy envisions "a mixed retail and

office precinct, with the potential for hotels. In particular, this precinct will provide for the continuation of small-medium scale showrooms for household goods at ground floor level with offices above, or hotels, capitalising on the high profile location” (p.31).

The Strategy outlines constraints on St Leonards’ continued development as a centre and its ability to attract workers and residents:

- The highway and rail line divide up the precinct, and reduce pedestrian connectivity
- Segregation of the hospital and TAFE from the centre of St Leonards
- Ageing building stock that contributes to a poor image and amenity issues, and needs to be addressed through redevelopment
- Poor condition of the public domain in some areas.

North Sydney Local Development Strategy 2009

The North Sydney Local Development Strategy (LDS) was formally adopted in June 2011. The purpose of the LDS is to translate the strategic vision for North Sydney LGA in the metropolitan and subregional strategies into a local strategy. This will inform the development of new LEP by “identifying appropriate planning policies to manage the future natural, cultural, economic and built environment of North Sydney” (p.3).

The LDS contains directions to achieve the overarching vision for the North Sydney LGA:

North Sydney is a vibrant community with a major and unique commercial centre surrounded by related villages and neighbourhood centres. We celebrate community harmony, respect and diversity and we are recognised for our excellence in innovation, business and ecological sustainability.

Ours is a place where residents and businesses are proud to belong and we welcome students and others who work in, visit and enjoy the area. Our community supports social, economic and environmental wellbeing through local and practical solutions (p.3).

The LDS identifies Crows Nest as an “active and vibrant retail centre” (alongside Neutral Bay, Cremorne, Cammeray and Kirribilli). The mixed use areas of Neutral Bay, Cremorne and Crows Nest are identified as having potential to provide some extra employment capacity, although the bulk of projected jobs will be in St Leonards and North Sydney CBD (p.15)

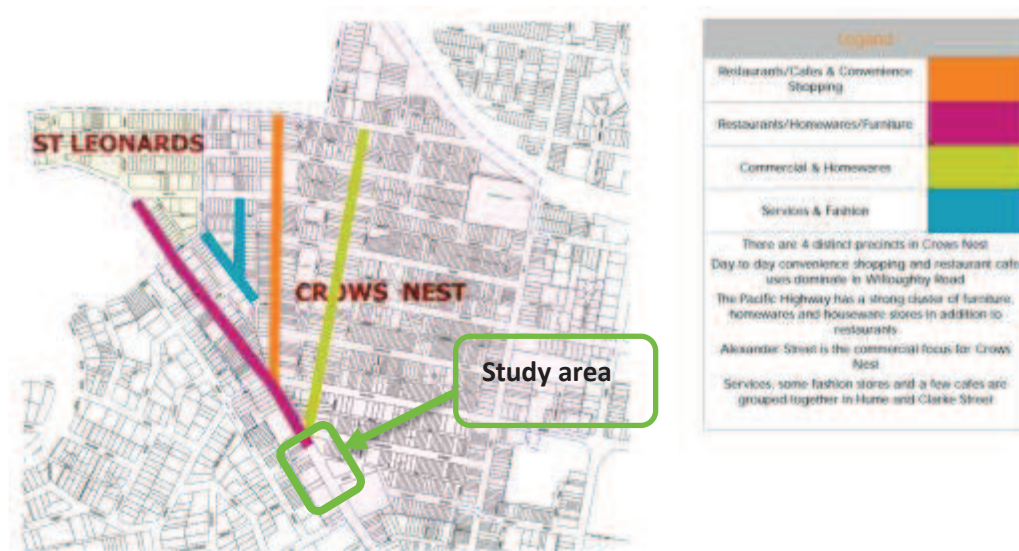
The LDS notes that Crows Nest is characterised by small, predominantly retail businesses, which are local employment generators and provide local services. Between 2001 and 2009, North Sydney Council approved 677 additional dwellings in St Leonards and 192 additional dwellings in Crows Nest (p.32). Over 98% of these approvals have been in areas zoned for high density apartments and within walking distance of most services. The LDS recommends rezoning some sites on Christie and Chandos Street in Crows Nest from mixed use to commercial, to accommodate commercial growth and because the sites lack the amenity to attract residential development

Crows Nest Retail Study, 2007

The Crows Nest Retail Study identified Crows Nest as a retail precinct, known for its lively café and restaurant district. In 2007, there were 361 retail stores, and the area is characterised by narrow building allotments and fragmented ownership (p.4). To achieve a suitable footprint for larger scale development would require lot amalgamation (p.5).

The Study divides Crows Nest into four distinct precincts, seen in Figure 4. Crows Nest has a strong restaurants and café precinct, which according to other studies, is a major destination for workers in St Leonards.

FIGURE 4. CROWS NEST RETAIL PRECINCTS



Source: People place & partnership & city marketing, 2007, p.29.

The Study concluded that in order for Crows Nest to remain a successful centre, it would have to promote “the Crows Nest experience” against its main competitors. This competitive advantage is based on the strengths of Crows Nest’s restaurant/café experience and its homewares and household goods stores which are major attractions to the area. However, the study also notes that over-clustering of individual business types can affect trade. Crows Nest’s main competitors are identified as Mosman and Lane Cove.

The Study makes several planning recommendations to:

- Consider the implications of formally realigning the Crows Nest Boundary to include the Fiat/Sleep City block.
- Consider the planning and traffic implications of encouraging higher order retail uses, which require a minimum footprint of 400 square metres.
- Consider the merit of communicating to property owners the potential benefits of site amalgamation to encourage through links from Pacific Highway to Willoughby Road.
- Work with nearby and adjacent councils to discourage bulky goods development.

North Sydney Residential Development Strategy 2009

The North Sydney Residential Development Strategy (RDS) provides a strategic framework for housing in the LGA to 2031. The RDS forms the basis for residential zoning and development standards under the new LEP.

The aim of the RDS is to strengthen North Sydney’s centres, towns, villages and neighbourhoods. This will be achieved by ensuring the bulk of new residential development is within walking distance to most amenities, including retail, office, health, education, transport, leisure, entertainment and community and personal services. Measures will be taken to minimise the impact of new development on local character, amenity, environment and heritage. The strategy also aims to deliver housing choice for a range of socio-economic groups to meet the needs of existing and future residents (p.2).

The RDS demonstrates that Council has already planned for sufficient zoned land to accommodate housing targets as stated in the draft subregional strategy.

The RDS outlines potential capacity in the study area. The RDS anticipated between 27 and 32 new dwellings (approximately) in the study area. This calculation is based on the potential redevelopment of 222, 238, 240, 242 and 385-389 Pacific Highway and 1 Bruce Street.

The RDS reflects growing demand for smaller households, concentrated around centres and in close proximity to services, as North Sydney's population is growing and ageing. This will drive need for one and two bedroom apartments (p.2).

2.3 Summary

The strategy and policy review for St Leonards/Crows Nest revealed the following insights about the centre's performance as a commercial core and its role as a centre in the North Sydney LGA and Sydney's Greater metropolitan region. These insights provide a framework to conceptualise strategic directions relating to the study area:

- In some strategies, St Leonards and Crows Nest are considered together. However, Crows Nest is predominantly a retail centre that supports the St Leonards commercial centre and the local residential population.
- The RDS predicts a potential increase in residential capacity within the Study Area of between 27 and 32 additional dwellings. This is based on the redevelopment of certain sites within the Study Area.
- St Leonards / Crows Nest has been earmarked in metropolitan strategies for significant employment and residential growth to support its role in the metropolitan fabric as a "specialised centre" with significant knowledge infrastructure.
- Crows Nest is identified in several strategies as an "active and vibrant retail centre" (alongside Neutral Bay, Cremorne, Cammeray and Kirribilli). The mixed use areas of Neutral Bay, Cremorne and Crows Nest are identified as having potential to provide some extra employment capacity, although the bulk of projected jobs will be in St Leonards and North Sydney CBD
- There are several distinct precincts within Crows Nest, which have historically performed differently. Willoughby Road and Alexander Street tend to be the location of high value retail shops, supported by pedestrian amenity and relatively high quality urban design. In contrast, the retail strip along the Pacific Highway is performing relatively poorly, with high vacancy rates and low value tenants. This is where the study area is located.
- Crows Nest's competitive advantage is based on the strengths of the centre's restaurant/café experience and its homewares and household goods stores which are major attractions to the area. These shops tend to be located along Willoughby Road, not the Pacific Highway.
- Crows Nest needs to be better linked to St Leonards station/office precinct – there is poor walking links and amenity even though Crows Nest is a major retail location for St Leonards workers.
- There is a need to rejuvenate the local retail precinct along the Pacific Highway, which has recently suffered high vacancy rates and has low pedestrian amenity.

3 COMMERCIAL MARKET ASSESSMENT

This section provides an assessment of the commercial office, retail and other non-residential property markets in the Crows Nest/St Leonards area. It includes an examination of local market dynamics, including an audit of vacancy rates, examination of sales data and development activity, and consideration of demand for different kinds of floorspace, including non-residential development (serviced apartments, childcare centres) that does not necessarily fit with the definition of “commercial premises” under the NSLEP 2013.

3.1 Commercial analysis

Vacancy rates

Crows Nest/St Leonards reported a decrease in vacancy rates from 13.8% in June 2013 to 12.9% in June 2014. These high vacancy rates reflect a lack of demand for office space in the area, which has “translated into prime rents tracking sideways for the past year, with net face rents remaining unchanged at \$466 [per square metre]” (Knight Frank 2014, p.4).

TABLE 2. NORTH SHORE VACANCY RATES, JUNE 2014

	Stock (square metres)	Vacancy (square metres)	Vacancy rate (June 2014)	Vacancy rate (June 2013)
North Sydney	839,507	85,604	10.2%	10.6%
Crows Nest/St Leonards	355,305	45,865	12.9%	13.8%
Chatswood	285,245	30,910	10.8%	9.8%
North Ryde	866,961	97,337	11.3%	7.8%
Total North Shore	2,347,018	259,716	11.1%	10.0%

Source: Savills, August 2014, p.7.

As seen in Figure 5, Crows Nest/St Leonards is experiencing higher vacancy rates than competitor locations on the North Shore due to weak demand. Knight Frank (2014) notes that anecdotally, tenant enquiry levels have remained soft, resulting in “prime rental growth is likely to remain relatively subdued over the balance of the year with growth forecast to average a sub-CPI 2% over the next two years with incentives holding steady” (p.4).

However, due to a lack of forthcoming supply and a number of new buildings in the area being approved for principally residential uses, the overall stock in the area is forecast to shrink over the short to medium term (Savills 2014, p.10). The vacancy rate is forecast to decrease from 13.9% in June 2014 to 11.0% by the end of 2015 (Knight Frank, 2014, p.4).

FIGURE 5. OFFICE PROPERTY MARKET, NORTH SHORE

Key market indicators, North Shore (by locale)

Locale	Vacancy, Jan 14 (%)	Vacancy, Jul 13 (%)	Net absorption, 6 months to Jan 14 (sq m)	Net absorption, 12 months to Jan 14 (sq m)
North Sydney	10.5	10.6	-9,847	-34,620
Crows Nest / St Leonards	14.3	13.8	-7,405	-17,841
Chatswood	13.5	9.8	-9,007	-12,989

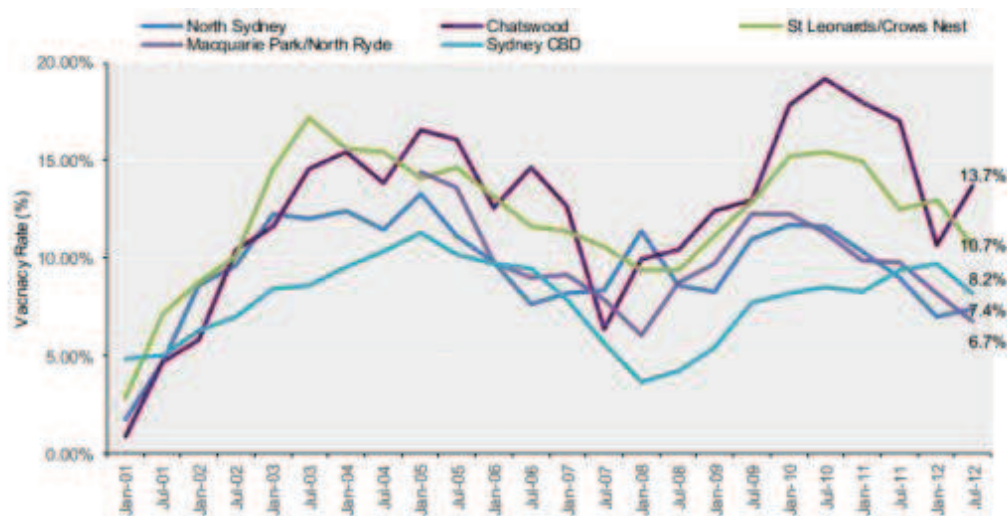
Future supply, North Shore (by locale)

Locale	Future supply by year (sq m)			
	2014	2015	2016+	Mooted
North Sydney	2,472	0	79,483	45,720
Crows Nest / St Leonards	0	0	0	73,873
Chatswood	4,400	0	0	0
Total North Shore	6,872	0	79,483	119,593

Source: PCA, January 2014, <http://www.propertyoz.com.au/Article/NewsDetail.aspx?p=16&id=8909>

Figure 6 offers a comparison of office market vacancy between different Sydney CBDs between 2001 and 2012. Macquarie Park and North Sydney CBD have the lowest vacancy rates, while Chatswood and St Leonards/Crows Nest are the weakest commercial centres in the region.

FIGURE 6. OFFICE MARKET VACANCY, JULY 2012



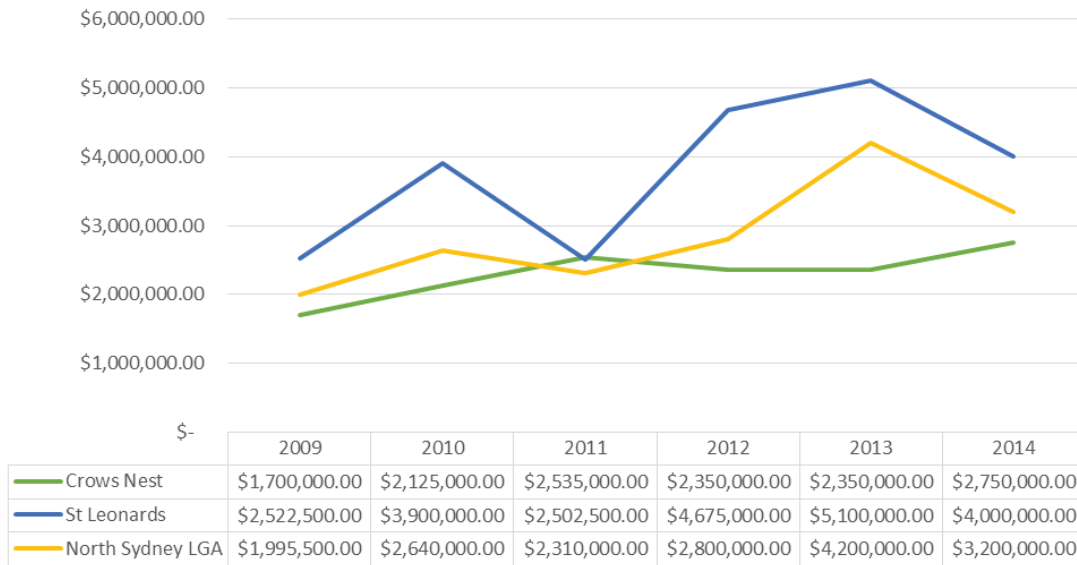
Source: PCA, Urbis, 2013.

Sales data analysis

General commercial

Median sales prices for general commercial properties in Crows Nest are lower than those in St Leonards and the North Sydney LGA (Figure 7). However, this may be due to the differing sizes of commercial floorplates across the area, rather than indicative of weak demand.

FIGURE 7. GENERAL COMMERCIAL, MEDIAN SALES PRICES

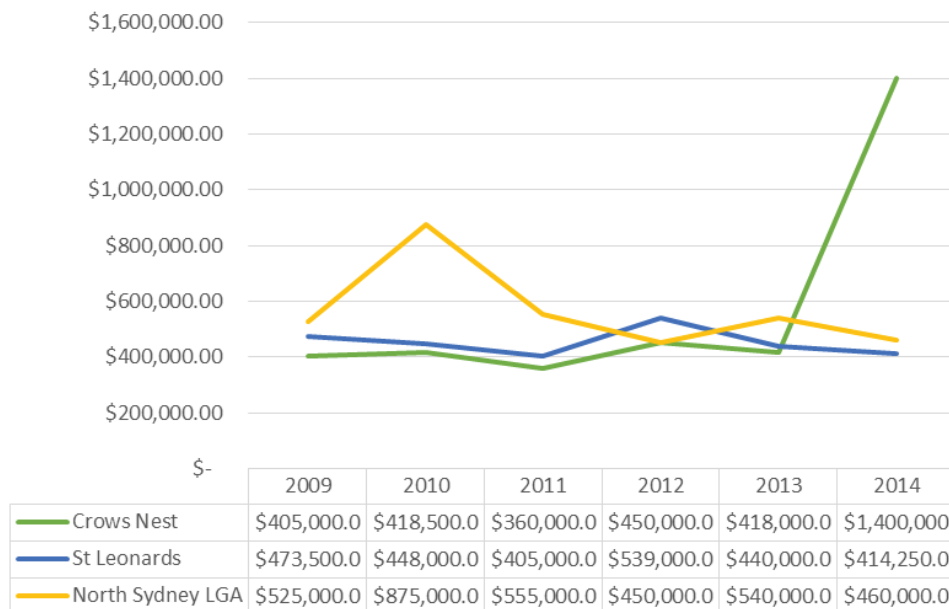


Source: RP Data, 2014.

Commercial strata units

Figure 8 demonstrates the median sale prices for commercial strata units, however, due to the small sample size of properties within both St Leonards and Crows Nest, it is difficult to compare these suburbs to North Sydney LGA as a whole. For example, the data relating to Crows Nest's average median sales price in 2014 is based on a sample size of three properties, and may therefore not be indicative.

FIGURE 8. COMMERCIAL STRATA UNITS, MEDIAN PRICES



Source: RP Data, 2014.

Rental values

Sales data reveals little about the performance of St Leonards/Crows Nest as a commercial centre, due to the low volume of sales. Instead, rental prices indicate more about the current and past performance of St Leonards/Crows Nest and its role in the office market of the North Sydney LGA. Figure 9 provides a

summary of the office market indicators in the North Shore/North Ryde office market, as of April 2014. St Leonards/Crows Nest earns an average rent of \$418 per square metre, which is slightly higher than Chatswood (\$395) and significantly higher than North Ryde/Macquarie Park (\$322). However, St Leonards/Crows Nest also has the highest vacancy rates of any of the centres, at 14.3% compared with 9.5% at North Ryde/Macquarie Park and 10.5% in North Sydney, indicating weak demand for office space in St Leonards/Crows Nest.

Knight Frank's report (2014) uses the following indicators to analyse the state of the office market on the North Shore:

- Vacancy rates – these measure the vacancy of both existing and new stock on the market
- Annual net absorption – this is an absorption rate for existing stock only, and does not take into account the new supply that has been taken up. When the annual net absorption is negative, which is the case for all North Shore office markets, it indicates that the existing tenants are leaving or the size of the rented space is contracting in that year.
- Average net face rent – this is the difference between the Net Gross Rent and outgoings
- Average incentive – this is a discount over the term of the lease, usually form the Gross Face Rent. The exception below is Macquarie Park, where the incentive applies to the net rent.
- Core Market Yield – this is the ratio of the adjusted rent over the capital value of the office development. This is useful to compare the return generated to the owner of the office building and has been adjusted to account for vacancies, capital expenditures, outgoings, incentives, etc.

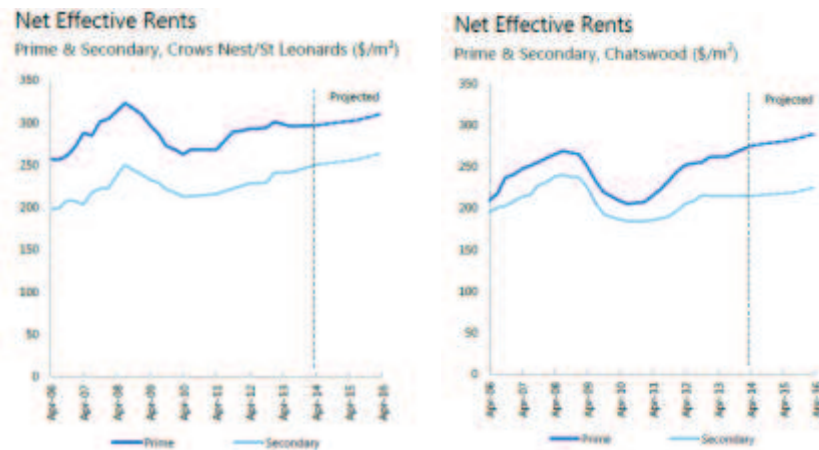
FIGURE 9. NORTH SHORE/NORTH RYDE OFFICE MARKET INDICATORS (APRIL, 2014)

Market	Grade	Total Stock (m ²) ^a	Vacancy Rate (%) ^a	Annual Net Absorption (m ²) ^a	Avg Net Face Rent (\$/m ²)	Outgoings (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
North Sydney	Prime	222,796	5.1	-816	628	120	27.0*	6.75 - 7.50
North Sydney	Secondary	625,809	12.4	-33,804	504	115	29.6*	8.00 - 8.75
North Sydney	Total Market	848,605	10.5	-34,620	537	115	28.9*	6.75 - 8.75
Crows Nest/St Leonards	Prime	102,699	16.6	-4,811	466	108	29.5*	7.75 - 8.50
Crows Nest/St Leonards	Secondary	254,634	13.3	-13,030	399	97	30.0*	8.50 - 9.00
Crows Nest/St Leonards	Total Market	357,333	14.3	-17,841	418	100	29.9*	7.75 - 9.00
Chatswood	Prime	157,412	15.6	-10,058	429	112	28.5*	8.00 - 8.75
Chatswood	Secondary	123,433	10.8	-2,931	351	95	30.5*	8.75 - 9.50
Chatswood	Total Market	280,845	13.5	-12,989	395	105	29.4*	8.00 - 9.50
North Shore	Total Market	1,486,783	12.0	-65,450	481	109	29.2*	6.75 - 9.50
North Ryde/Macquarie Park	Prime	589,721	8.1	-12,979	340	80	27.5 [†]	7.50 - 8.00
North Ryde/Macquarie Park	Secondary	264,530	12.5	7,959	283	95	30.0 [†]	9.00 - 9.50
North Ryde/Macquarie Park	Total Market	854,251	9.5	-5,020	322	92	28.3[†]	7.50 - 9.50
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).								
Grade: Prime includes modern and A-Grade stock whilst Secondary includes B, C and D quality Grade.								
Source: Knight Frank Research/PCA. ^a as at January 2014. * Incentives on a Gross basis. [†] Incentives are on a Net basis. NB: Average data is on a weighted basis. Yield ranges reflect the average lower and average upper yields for a select basket of office assets in each market and Grade.								

Source: Knight Frank, 2013.

According to Knight Frank (November 2013), rental growth in Crows Nest/St Leonards stalled after growth in late 2011 and early 2012. However, completion of commercial developments in North Sydney in the next couple of years may result in relocations out of Crows Nest/St Leonards and into North Sydney as greater prime office space opportunities emerge.

FIGURE 10. NET EFFECTIVE RENTS, CROWS NEST/ST LEONARDS AND CHATSWOOD



Source: Knight Frank, 2014.

Savills (2014) note that “there is strong investor interest in the North Sydney market, with the highest level of sales over the last decade being recorded in the last 12 months” (p.10). Savills suggests this interest is from local and overseas developers looking for commercial assets with “residential or hotel upside” (p.10).

On the market

Table 3 provides a summary of commercial and retail properties currently on the market within Crows Nest and surrounding areas. The majority of vacant retail properties in Crows Nest are located on the Pacific Highway. The properties have a variety of different sizes, but tend to be around 150 square metres. Consultation with property market agents was used to gain further insight into these trends, and findings have been discussed in the following section.

TABLE 3. SNAPSHOT OF RETAIL/COMMERCIAL PROPERTIES ON THE MARKET

Suburb	Property Address	Type	Size (net sqm)	Car spaces
Crows Nest	121 Alexander Street	Office	693	9
Crows Nest	6-8 Clarke Street	Office	127	1
Crows Nest	186-188 Willoughby Road	Office/Retail	524	-
Crows Nest	L2, 39 Hume Street	Office	235	2
Crows Nest	10-12 Clarke Street	Office	196	3
Crows Nest	407 Pacific Highway	Office/Retail	652	5
Crows Nest	L1, 24-26 Falcon Street	Office	616	5
Crows Nest	6-8 Clarke Street	Office	27	-
Crows Nest	Shop 1 & 2, 460 Pacific Highway	Retail	453	11
Crows Nest	Shop 3 & 4, 360 Pacific Highway	Retail	274	2
Crows Nest	1/360 Pacific Highway	Retail	92	-
Crows Nest	Willoughby Road	Retail	139	2
Crows Nest	310 Pacific Highway	Retail	106	1
Crows Nest	4/200 Pacific Highway	Retail	178	-
St Leonards	1/599 Pacific Highway	Retail/Office	540	3
St Leonards	1/36 Albany Street	Retail/Bulky Goods	335	2
St Leonards	72-76 Chandos Street	Retail/Office	62	-
St Leonards	6/1-5 Albany Street	Retail/Office	85	2
St Leonards	1/48 Chandos Street	Office	366	8
St Leonards	105/118 Christie Street	Office	140	4
St Leonards	2/1-5 Albany Street	Office	58	1
St Leonards	31B & 32/66 Pacific Highway	Office	73	1
St Leonards	460 Pacific Highway	Office	57	2
St Leonards	Studio 1, Forum West, 205 Pacific Highway	Office	261	4

Source: realcommercial.com.au, September 2014.

Panorama, 200-220 Pacific Highway, Crows Nest

The Panorama building in the study area contains over 200 apartments, with ground level retail facing the Pacific Highway. Advertising the retail spaces on realcommercial.com.au, the agent (Pharos Retail) suggests the spaces would suit a variety of uses, including cafes, restaurants (a deck for alfresco dining is provided), bars, services, chemists, small supermarkets, medical or personal gyms.

Summary of consultation

Supply of office space is tightening in St Leonards/Crows Nest, as commercial buildings are withdrawn for redevelopment...

Crows Nest as an office market is generally combined with St Leonards in market research. As at January this year the vacancy was 14.3% and has reduced to 12.9% as at 1 July. The main reason for this is however not due to net absorption but more due to the withdrawal of office buildings for redevelopment mainly in the St Leonards areas of Atchison and Chandos Street. It is our opinion that the Crows Nest office market is deemed healthy with well presented stock being leased.

Crows Nest mainly attracts small local and creative businesses in need of office space...

Crows Nest does not have large floor plates capable of supporting large businesses, which are more likely to be attracted to nearby centres at St Leonards or North Sydney. Instead, small businesses such as accounting firms, solicitors and financial planners are attracted to Crows Nest. These businesses often require floor space with street frontages, and therefore are less likely to be attracted to first or second floor office space.

Crows Nest was also seen as a “creative industry environment”.

One agent noted that, “Crows Nest is and has been for many years an area that creative groups being in either I.T, Marketing, Design etc. like to secure space within. These strips include mainly Alexander Street, Hume Street, Clarke Street and the bottom end of Willoughby Road. The offering of Willoughby Rd retail, cafes and eateries combined with the low height buildings providing good natural light and open park areas seem to be the main driving factors.”

St Leonards/Crows Nest fails to offer the high grade office space currently in demand in the commercial property market...

The biggest issue we see from leasing office space is the older style non-refurbished buildings. Tenants in today’s market are prepared to pay for better quality spaces and therefore older style office space is recording extensive vacancy periods.

One agent noted that due to the lack of good quality office offerings in Crows Nest, some occupants have relocated from Crows Nest to fringe North Sydney and St Leonards buildings that better meet their needs.

There is little interest in other forms of non-residential development in the area, including serviced apartments...

Real estate agents consulted noted that there was little interest in serviced apartments in Crows Nest. It was suggested that serviced apartments might be more viable in commercial cores such as St Leonards and North Sydney, where there are more likely to be business travellers.

However, this may be because real estate agents in the area have little knowledge of or exposure to serviced apartments.

Commercial floorspace for small businesses, such as architects and accountants, may be interested in the spaces as the market continues to improve.

There was some interest in providing a gym in Crows Nest, as there are already several nearby in St Leonards, including the Anytime Fitness and Fitness First chains.

One agent also noted that there has been increased interest in medical uses locating in Crows Nest in the past six months. This may be due to the expansion of both the Mater and Royal North Shore Hospitals which are in the vicinity of the Study Area.

...However, there is unmet demand for a childcare centre in the area...

Childcare centres are in demand. One real estate agent could think of five or six developers who would be interested in an appropriate site. However, it is difficult to find an appropriate site in the area, as there is limited parking. Childcare centres have had to move to industrial areas such as Artarmon and Chatswood to find premises. To attract childcare centres to the area, rents need to remain realistic, and adequate parking must be provided.

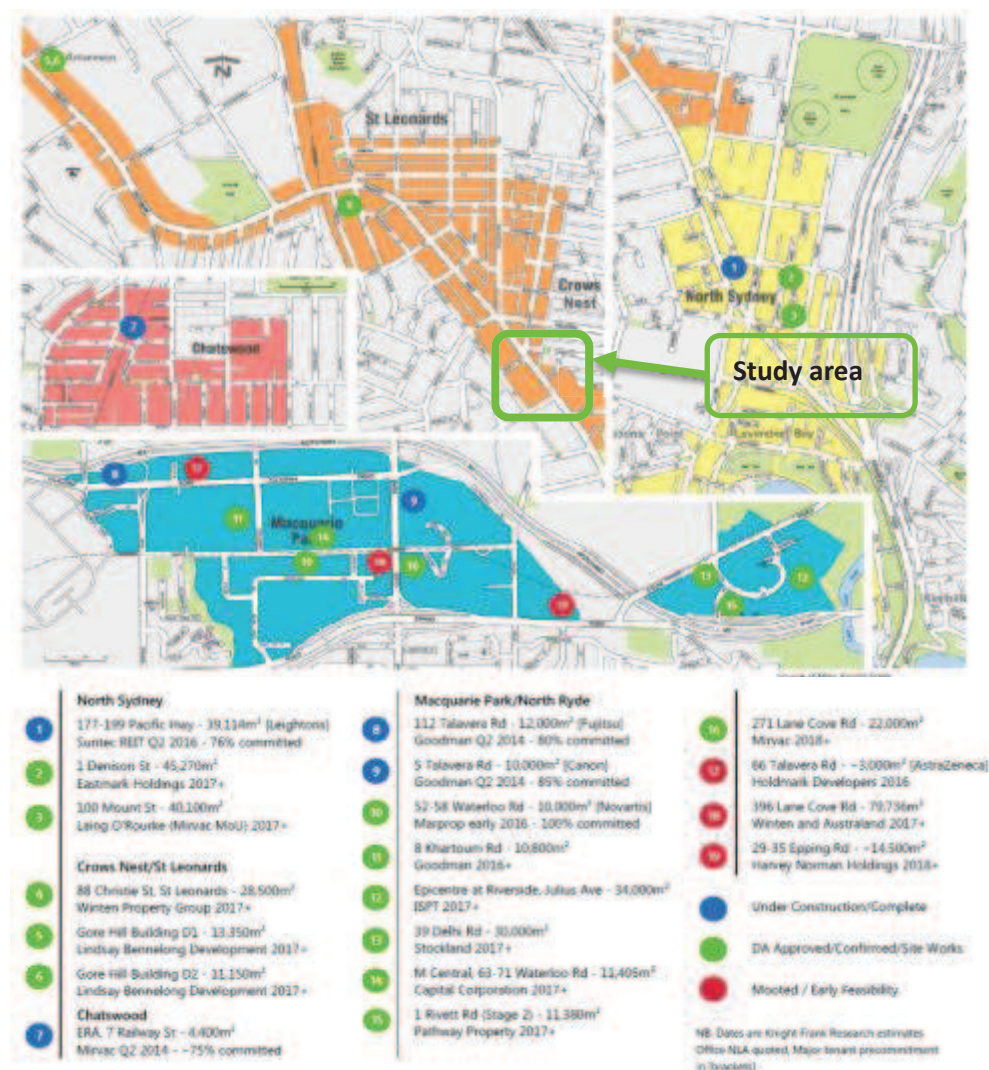
Childcare centres also require suitable outdoor play spaces, which can be difficult to provide in a mixed use or commercial business which occupies an entire site. The barriers to development of a childcare centre on the site are further discussed in section 3.4.

Development in the pipeline

According to Knight Frank’s June 2014 office market review, development in St Leonards/Crows Nest is expected to remain relatively dormant for the next few years. This lack of supply of office space will have

For example, a DA approved site at 88 Christie Street in November 2013, had no pre-lease tenants and lacked the 50% pre-commitment to the 28,500 square metre commercial tower to trigger construction. Due to competition from North Sydney developments, there is unlikely to be any new developments in the short term. Knight Frank's November 2013 report notes there is also still space available in Growthpoint's Fox Sport occupied property at nearby Gore Hill and it is not expected that further office property will be advanced in the Lindsay Bennelong development in the short term. The report also notes that strong residential market will increase pressure on commercial uses where zoning permits.

FIGURE 11. MAJOR OFFICE SUPPLY, NORTH SHORE



Crows Nest South Planning Study 20

As can be seen in Table 4, in the medium term there are no projects currently under construction for the combined North Shore market. New developments in Crows Nest/St Leonards are DA approved, but may require significant pre-commitment to trigger construction. For example, Knight Frank (2014) notes that development at 88 Christie Street will require over 50% pre-commitment to start construction, and has not yet achieved any pre-lease tenants (p.4). According to Knight Frank, it has been suggested “that the asset could instead be converted to a new residential building” (p.4).

TABLE 4. CURRENT DEVELOPMENT ACTIVITY, NORTH SHORE

Property	Precinct	NLA (sq m)	Type	Status	Completion	Major Tenant(s)
177-199 Pacific Hwy	North Sydney	39,249	New	Site Works	2016	Leighton Holdings
100 Mount St	North Sydney	40,100	New	DA Approved	2016+	
1 Thomas Holt Dr	North Ryde	11,500	New	Site Works	2016+	
52-54 Waterloo Rd	North Ryde	10,000	New	Site Works	2016+	
1 Derison	North Sydney	46,500	New	DA Approved	2017	
63-71 Waterloo Rd	North Ryde	40,030	New	DA Approved	Mooted	
Lot 8 & 9 Julius Ave	North Ryde	34,194	New	DA Approved	Mooted	
68 Christie St	Crows Nest/St Leonards	26,500	New	DA Approved	Mooted	
Bldg D1, 219-247 Pacific Hwy	Crows Nest/St Leonards	16,000	New	DA Approved	Mooted	
Bldg D2, 219-247 Pacific Hwy	Crows Nest/St Leonards	15,000	New	DA Approved	Mooted	
Bldg D3, 219-247 Pacific Hwy	Crows Nest/St Leonards	15,000	New	DA Approved	Mooted	
31-35 Epping Rd	North Ryde	14,477	New	DA Applied	Mooted	
1 Rivett Rd (Stage 2)	North Ryde	11,380	New	DA Approved	Mooted	

Source: PCA / Savills Research

Source: Savills, August 2014, p.3.

Supply-demand analysis

Employment forecasts for the North Sydney LGA (BTS, 2012) show projected growth of around 4,890 jobs every 5 years through to 2036 (around 978 jobs per year). Employment by ANZSIC category has been converted to land use type (e.g. ‘office’, ‘industrial unit’, etc.) using a conversion matrix. The relationship between ANZSIC codes and land use type in the conversion matrix has been determined based on the floorspace audit data across Sydney Metropolitan LGAs, with adjustments to reflect the predominance of office land use in North Sydney LGA.

Applying this conversion matrix to the forecast job growth by industry translates to an average of 4,350 office jobs every 5 years (around 870 jobs per year). In terms of office floorspace, this translates to 108,752 square metres every 5 years (21,750 square metres per year) over the period 2011-2031.

TABLE 5. NORTH SYDNEY LGA EMPLOYMENT FORECAST

	Total employment	5 year change
2011	76,037	
2016	80,584	4,547
2021	86,101	5,517
2026	90,963	4,862
2031	95,597	4,634
2036	76,037	4,547

Source: BTS, 2012

Current office floorspace data has been sourced from the Knight Frank’s report. There is currently 1,206,000 square metres of office floorspace in North Sydney and St Leonards/Crows Nest Centres. Of

this, around 140,000 square metres are vacant. Added to this, a number of developments are in the pipeline (see Table 6). This gives a total future supply figure of around 289,000 square metres.

Note that the Winton Property development at 88 Christie Street has not been included as part of the supply pipeline, since this development was approved a long time ago but there has been no indication of when it will be built. Further, the site is located in the Lane Cove Council portion of St Leonards, which seems likely to become a mixed use area.

TABLE 6. OFFICE FLOORSPACE SUPPLY PIPELINE IN NORTH SYDNEY LGA

Development	Location	Centre	Floorspace (Sqm)	Completion
Suntec REIT Q2	177-199 Pacific Hwy	North Sydney	39,114	2016
Eastmark Holdings	1 Denison St	North Sydney	45,270	2017+
Laing O'Rourke (Mivas MoU)	100 Mount St	North Sydney	40,100	2017+
Lindsay Bennelong Development	Gore Hill Building D1	Crows Nest/St Leonards	13,350	2017+
Lindsay Bennelong Development	Gore Hill Building D2	Crows Nest/St Leonards	11,150	2017+
Total Floor Space (In the Pipeline)			148,984	

Source: Knight Frank 2014

Total office floorspace supply is compared against the demand forecast in Table 7. On the supply side, the amount of current vacant floorspace is included as the 2011 figure, with all the pipeline supply added from 2016. A base year of 2011 has been used to measure the total floorspace demand, however the additional demand has been calculated from 2014. This analysis shows that there is around 12 years' worth of supply in the LGA given the demand forecast.

TABLE 7. SUPPLY-DEMAND GAP ANALYSIS

Gap using supply pipeline plus current vacancy				
Year	Floorspace demand [sqm]	Current vacancy plus pipeline [sqm]	Five-yearly additional demand [sqm]	Gap (supply less demand) [sqm]
2011	1,087,323	140,000		140,000
2016	1,187,158	148,984	39,934*	249,050
2021	1,314,034		126,876	122,174
2026	1,426,049		112,015	10,159
2031	1,522,330		96,282	-86,123

Source: SGS calculations based on BTS employment forecasts and current vacancy and pipeline supply from Knight Frank, 2014

* This is additional floorspace demand from 2014-2016.

The following table displays the supply-demand gap, should the vacancy remain at the current level. This shows that the pipeline supply would be exhausted by 2021 and there would be a deficit of around 226,000 square metres in office floorspace by 2031 to meet the forecast demand.

TABLE 8. SUPPLY-DEMAND GAP ANALYSIS, USING PIPELINE SUPPLY ONLY

Gap using supply pipeline only				
Year	Floorspace demand [sqm]	Pipeline supply [sqm]	Five-yearly additional demand [sqm]	Gap (supply less demand) [sqm]
2011	1,087,323			
2016	1,187,158	148,984	39,934*	109,050
2021	1,314,034		126,876	-17,826
2026	1,426,049		112,015	-129,841
2031	1,522,330		96,282	-226,123

Source: SGS calculations based on BTS employment forecasts and current vacancy and pipeline supply from Knight Frank, 2014

* This is additional floorspace demand from 2014-2016.

3.2 Retail analysis

Summary of consultation

After several slow months, the retail property market in Crows Nest is experiencing an upturn...

Agents noted that the retail property market, despite many visible vacancies, has improved significantly in comparison with 12 – 24 months ago. This upturn is comparable with other suburban retail strips in Sydney.

Due to the recent poor performance of retail, rents have lowered slightly, and commercial businesses looking for street exposure (e.g. architects, accountants) have moved into some of the existing retail businesses.

Retail spaces between 50 and 100 square metres are in high demand, while spaces over 100 square metres and above are harder to rent.

Crows Nest has two distinct retail precincts, which are performing very differently...

The retail precinct on Willoughby Road is primarily characterised by restaurants and cafes, and is performing strongly. Price points range between \$1000 and \$1300 per square metre for smaller properties, and \$800 to \$1000 per square metre for larger properties on Willoughby Road. Properties sized between 50 and 100 square metres are in high demand, while properties larger than 100 square metres are harder to lease.

In comparison, the retail strip on the Pacific Highway, where the study area is located, is not performing well. This area has a high number of vacant properties, and comparatively low rents, ranging between \$400 and \$500 per square metre, depending on the size and quality of the property. The retail stock in this area tends to be more run down, with secondary tenants, such as nail salons and massage parlours. The area has a “mish mash” of differently sized spaces, few of which are appropriate for bigger retailers. There is a higher turnover of tenants in the area, and little visual appeal or car parking. Table 9 provides a summary of rents and sales values from consultation.

TABLE 9. RENTS AND SALES VALUES FROM CONSULTATION

Type of floorspace	Rent per sqm	Sales per sqm
Commercial, Crows Nest	\$280 - \$400 gross, with outgoings from \$60 - \$100	\$2500 - \$4500
Retail, Willoughby Road	\$800 - \$1300, depending on size of property	Up to \$9000 gross for prime spaces on Willoughby Road
Retail, Pacific Highway	\$400 - \$500	\$3500

Source: SGS, 2014.

One agent noted that properties on the Pacific Highway are being held onto very tightly, as there is the chance the properties may be redeveloped as mixed use or residential. They are also encouraging low value, short term leases. This tendency is creating vacancies, which harms the image of Crows Nest as a centre and has an impact on remaining businesses.

Crows Nest suffers from a number of impediments to development...

The most commonly cited issue is lack of access to parking, which limits access to retail and commercial developments in Crows Nest.

There are also a high number of vacancies in Crows Nest, especially along the Pacific Highway, which contribute to a poor image of the area. Many of the properties, including the supermarkets, need a “revamp”.

In January 2014, a new Woolworths and retail complex was announced in Crows Nest, involving the redevelopment of the existing supermarket and adjacent car park. The redevelopment will cost \$40 million and provide 3900 square metres of floorspace. The redevelopment is forecast to open in mid to late 2015 (Woolworths Ltd, 2014).

However, agents note that this redevelopment has caused a lull in the market, as people are having to do their shopping elsewhere, and the redevelopment of the car park has placed pressure on the remaining car spaces available. However, it is recognised that this redevelopment will attract people to the area in the longer term.

One agent also noted that DAs can take up to three months to be processed, which deters tenants from locating in the area, as they don’t want to start paying rent until they know Council will approve their fit outs and so on. However, anecdotally, this is becoming less of a problem due to the Exempt and Complying Development Codes SEPP. This SEPP enables people to change a use within a building as complying development.

Many lots on the Pacific Highway also need amalgamating, as this area has tired, older stock, and parking is an issue as well.

Crows Nest’s main competitor is Neutral Bay...

Neutral Bay is Crows Nest’s main competitor. It has a similar range and scale of retail to Crows Nest, as well as a similar catchment demographic, and is only 1.5 km from Crows Nest. Neutral Bay enjoys the advantage of well-designed and maintained streetscape, with a large plaza area near the Woolworths, eat streets located off Military Road and newer developments.

For large shopping trips, agents suggested that Chatswood was Crows Nest’s main competitor.

Retail floorspace demand

A retail demand assessment for the Crows Nest Town Centre has been completed by projecting the growth in retail expenditure in its main trade area, allocating this growth to the Crows Nest and converting the allocated expenditure into floorspace demand. These steps are detailed below.

Retail expenditure in the main trade area

In a retailer survey undertaken for the 2007 Crows Nest Retail Study, more than half of the business respondents reported that their customers were mainly locals from the suburbs of Crows Nest, St Leonards, Kirribilli and North Sydney. Based on this, Crows Nest has a main trade area, comprising around 19,350 residents in 2011. By 2031, the trade area population is forecast to increase by 36 percent or to 26,460 people, according to the 2012 Bureau of Transport Statistics Population Projection.

To derive a per capita expenditure estimate at the local level, the national average from the ABS Household Expenditure Survey data has been adjusted using the income profile of households in the trade area. The average expenditure at the national level is then compared to the average of the derived expenditure at the local level. This forms the basis for the variation in expenditure between Australia and the local area.

Next, using time series data in the ABS Retail Turnover quarterly release, the national per-capita retail expenditure has been extrapolated to derive projected national forecasts from 2011 to 2031. The

average variation in expenditure between Australia and the trade area is then applied to the national retail forecast to derive local level projections.

As shown in Table 10, each future resident of the trade area is estimated to spend \$15,154 on retail commodities in 2031. This is 25 percent higher than the projected average spending nationally.

The total retail expenditure in the trade area is estimated by applying the per-capita expenditure projection to the resident population. Table 10 shows that the total retail expenditure in the trade area is estimated to be around \$400 million by 2031, which is \$148 million higher than the estimated retail expenditure available in 2011.

TABLE 10. TOTAL RETAIL EXPENDITURE IN MAIN TRADE AREA, IN 2014 DOLLARS

Year	Population	Per capita expenditure in the catchment	Total retail expenditure in main trade area
	A	B	A*B
2011	19,349	\$13,051	\$252,523,799
2031	26,463	\$15,154	\$401,020,302
<i>Increase</i>	7,114	\$2,103	\$148,496,503

Source: SGS estimates, 2014

Expenditure captured by Crows Nest Town Centre

However, not all of this increase in retail expenditure will be captured by Crows Nest. Some will escape to higher order centres, such as Chatswood. According to the retailer survey conducted in 2007, 43 percent of the businesses considered Chatswood to be Crows Nest's biggest competitor, compared with Neutral Bay (13 percent).

From previous retail research, we have found that in general around 50 percent of the retail expenditure is captured by town and lower order centres. Considering the direct competition from Chatswood and Neutral Bay, we suggest that Crows Nest Town Centre could retain around 40 percent of the expenditure growth in its trade area. This amounts to an additional retail turnover of \$59 million.

Additional floorspace demand

Using an average retail turnover density of \$5500 per square metre, the increase in retail expenditure would support additional 10,800 square metres of retail floorspace in Crows Nest to 2031.

3.3 Serviced apartments

An assessment of the market for serviced apartments has been undertaken including a review of literature, data analysis and consultation. The North Sydney LEP 2013 defines "serviced apartments" as:

"a building (or part of a building) providing self-contained accommodation to tourists or visitors on a commercial basis and that is regularly serviced or cleaned by the owner or manager of the building or part of the building or the owner's or manager's agents."

Serviced apartments are classified in the North Sydney LEP 2013 as a form of tourist and visitor accommodation, meaning "a building or place that provides temporary or short-term accommodation on a commercial basis". Traditionally, serviced apartments have been concentrated within a single complex. However, they are now more commonly provided as part of mixed use developments. There is no obvious requirement in this definition that serviced apartments be concentrated in a single complex.

Serviced apartments as approved by Council are different to residential accommodation that is leased on a short term basis. Consultation revealed that many apartments that are advertised as “serviced apartments” are actually residential flats that are being leased on a short term basis through agencies.

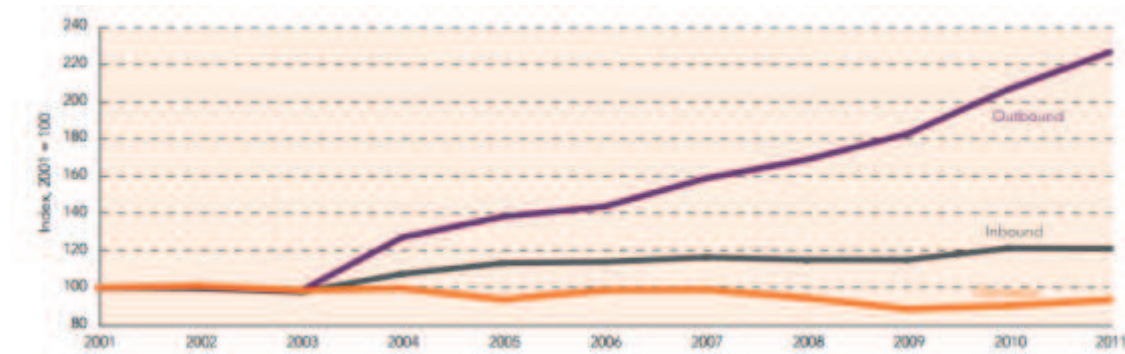
Broad tourism trends

Inbound overnight visitor numbers to Australia have remained relatively stable over the past decade...

The global financial crisis has had an impact on the Australian Tourism industry due to subdued economic growth and the high Australian dollar, influencing trends in both international visitors and the travel patterns of Australian residents. The high value of the Australian dollar places international visitation to Australia at a competitive disadvantage, particularly for the more price-sensitive segments such as low priced leisure package travel, however it also provides a price advantage for Australians travelling overseas for leisure rather than travelling domestically.

The chart below highlights that domestic tourism has been declining steadily, whilst inbound international visitors have remained steady and short term outbound Australian residents has been increasing significantly between 2001 and 2011.

FIGURE 12. INBOUND, OUTBOUND AND DOMESTIC OVERNIGHT VISITORS, 2001-11

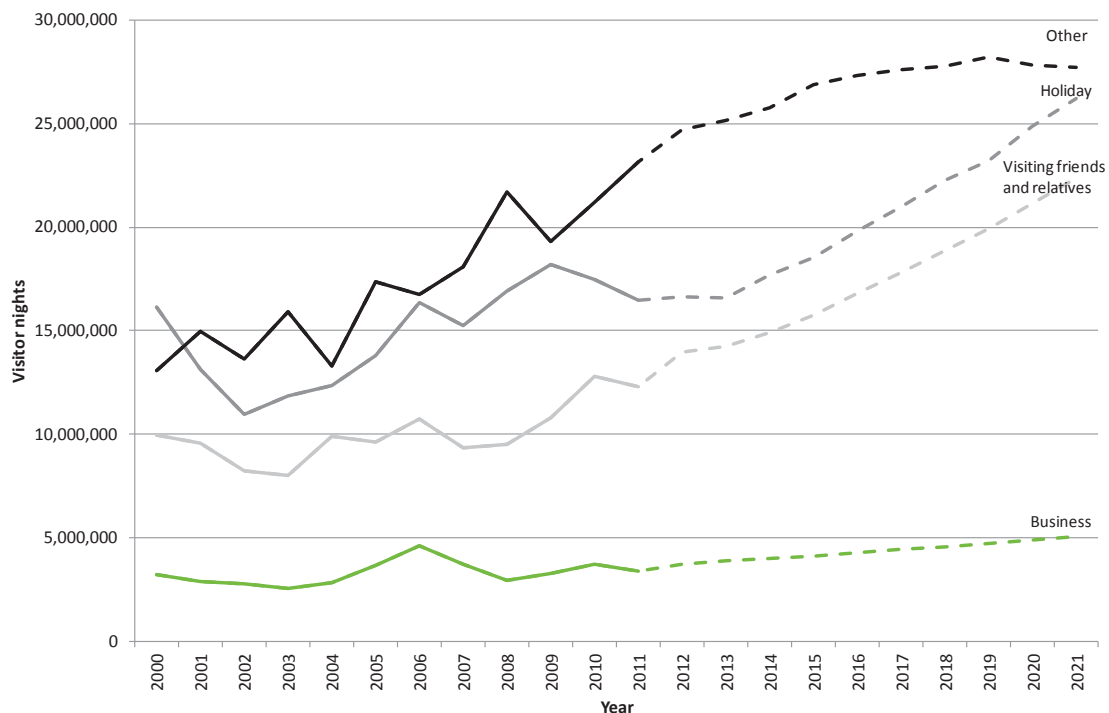


Source: Tourism Research Australia, Travel by Australians, December quarter 2011, Data source: ABS Cat. No. 3401.0

... however, inbound visitor nights in Sydney are projected to increase...

Sharp increases in visitor numbers are projected for trips for the purposes of holidays and visiting friends and relatives. A steady increase in the number of trips to Sydney for the purpose of business is projected to 2021.

FIGURE 13. INBOUND VISITOR NIGHTS FOR SYDNEY, BY TRIP TYPE, 2000-2021



Source: Tourism Research Australia, 2013

..and an undersupply of tourist accommodation is projected in Sydney.

Sydney tourist accommodation is reaching capacity with hotel occupancy exceeding 80 per cent per annum, which is the highest in Australia and as a result throughout the year there is often insufficient supply of accommodation to meet demand (Visitor Economy Taskforce, 2012).

The Visitor Economy Taskforce have highlighted that capacity for growth in accommodation is required, otherwise accommodation in Sydney will become increasingly more expensive and uncompetitive. Hotel supply increases of between 5,000 to 8,900 rooms will be needed in Sydney by 2020 to meet projected demand.

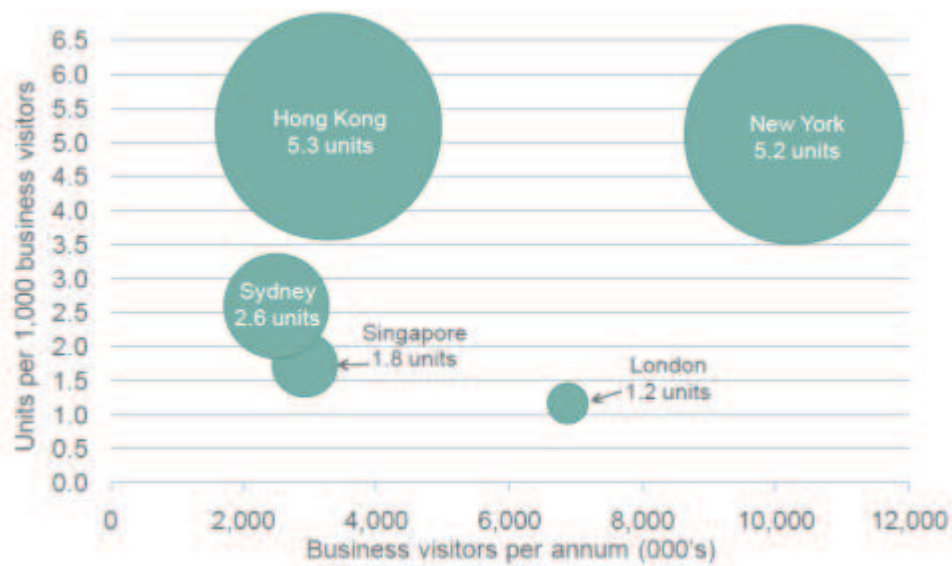
Trends in serviced apartment accommodation

The supply of serviced apartment accommodation in Sydney is low in comparison to international markets...

The chart below illustrates the supply of serviced apartments per 1,000 visitors for key global cities. The larger circles indicate greater levels of supply. Sydney has a supply rate of 2.6 units per 1000 business visitors. Hong Kong and New York have much higher rates of supply. With growing visitor numbers, this rate will decline without subsequent increases in the supply of service apartment accommodation. The majority of new serviced apartment developments in Sydney have been focussed on accommodating demand from the corporate sector¹.

¹ ibid

FIGURE 14. INTERNATIONAL SUPPLY COMPARISON



Source: Savills, 2012

...and occupancy rates for serviced apartments are greater than for hotel accommodation.

Serviced apartments generally have higher occupancy rates than hotel accommodation (refer to Figure 15). Savills (2013) highlights that strong occupancy rates have been due to corporate users opting for serviced apartments which are a more cost effective alternative to long-term hotel stays. Hotel occupancy rates in Sydney are lower than the four other global cities despite comparable serviced apartment occupancy rates. Serviced apartments are expected to continue to outperform hotels.

FIGURE 15. OCCUPANCY RATES



Source: Savills, 2012

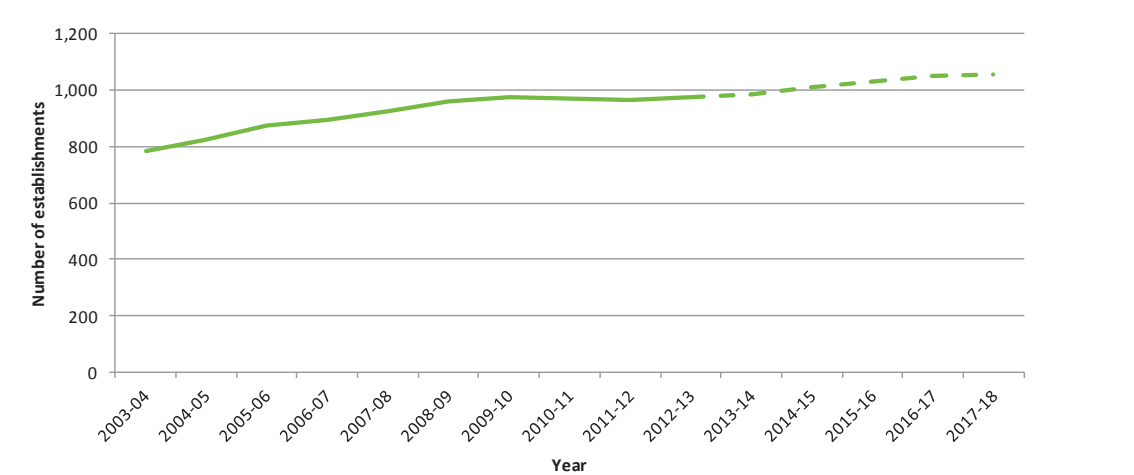
In Sydney, the average length of stay for serviced apartments is 2.8 days, compared to 2.1 days for hotels and resorts and 2.2 days for motels and guest houses (ABS, 2013). Sydney has much higher occupancy rates than all other regions in Australia.

Comparing both supply rates and occupancy rates highlights that low supply does not necessarily reflect a high occupancy and vice versa. Hong Kong, which has a much higher supply rate per 1,000 visitors compared to Sydney (refer to Figure 14), also experiences higher occupancy rates.

Overall, the supply of serviced apartments is struggling to keep up with demand.

Occupancy rates in key markets including Sydney are near capacity during the week and during major events. Supply of serviced apartment accommodation is expected to continue to increase in Australia (refer to Figure 16), however this new room supply is struggling to meet demand which has been increasing since the GFC due to the resources boom and broad economic growth in Australia.

FIGURE 16. PROJECTED SUPPLY OF SERVICED APARTMENTS IN AUSTRALIA



Source: IBISWorld, 2013

Serviced apartments are primarily occupied by domestic travellers, and CBDs attract a higher proportion of corporate customers...

Around 80 percent of customers of serviced apartments are domestic visitors. International visitors require increased services and fewer in-room facilities and thus are more likely to create demand for hotels as opposed to serviced apartments (CBRE Hotels, 2013). This varies according to location with CBD locations attracting a higher proportion of international visitors (refer to Figure 17).

FIGURE 17. CUSTOMER MIX FOR SERVICED APARTMENTS



Source: CBRE Hotels, 2013

CBD locations also attract a larger proportions corporate customers and a smaller proportion of leisure customers. ‘Approximately 35% of serviced apartment guests are business travellers, however this percentage is much greater in city locations’ (IBISWorld, 2013). Sydney, Melbourne and Brisbane are the three major business hubs in Australia and have the highest concentration of serviced apartments.

These findings were confirmed by consultation with serviced apartments managers.

...however, there is an increasing trend for serviced apartments to be built outside of the city centre.

Due to higher land prices in CBD locations, all forms of tourist accommodation have become increasingly less feasible. This, combined with strong demand from business parks and people working on projects in suburban locations has influenced the increasing development of serviced apartments outside of city centres in suburban locations (IBISWorld 2013).

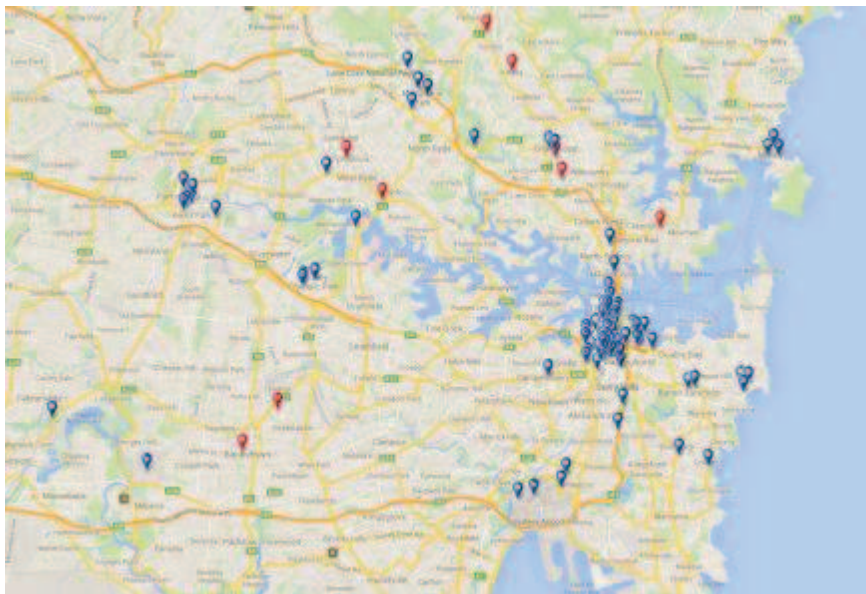
Serviced apartment developments are concentrated around employment centres in Sydney...

There is a concentration of “serviced apartments” around employment centres in Sydney, particularly Sydney CBD and North Sydney (refer to Figure 18).

It is important to note that the “serviced apartments” being advertised online may not meet Council’s definition as per the NSLEP 2013. Figure 18 may include dwellings within a residential flat building that are being rented out like a serviced apartment, but are not approved by Council.

Nonetheless, Figure 18 highlights that demand for serviced apartments is concentrated around employment centres in Sydney.

FIGURE 18. DISTRIBUTION OF SERVICED APARTMENTS IN SYDNEY



Source: Bookings.com.au, 2014

Demand for serviced apartments in Crows Nest

Smaller serviced apartment managers may be more viable than a serviced apartment complex...

According to the Planning Proposal for the Panorama Building by Robinson Urban Planning, serviced apartment providers (Medina and Waldorf Apartments) both turned down the opportunity to manage the six serviced apartments in the Panorama building. This was because six is considered too small a complex to be viable.

Council has approved approximately 100 serviced apartments in St Leonards with 65 currently under construction.

These tend to be individual apartments dispersed within a residential apartment building. SGS consulted with smaller serviced apartment providers and found that there is no separate welcome desk for guests,

and serviced apartment managers tend to meet their clients at the serviced apartments to hand over keys. Their office may be located elsewhere.

Based on consultation, prices range between approximately \$110 and \$160 per night for a one bedroom serviced apartment in Crows Nest. However, this range may include “short term accommodation” that has been advertised as “serviced apartments”.

Serviced apartments are classified as “non-residential floorspace” under the NSLEP 2013 non-residential floorspace ratio controls. This ratio was established to help North Sydney to meet employment targets, however, only a low level of direct employment is generated by serviced apartments.

Demand for serviced apartments in Crows Nest may be limited...

There were conflicting reports of demand for serviced apartments in Crows Nest. Some providers of serviced apartments felt that the market was saturated, and noted that their properties in other areas of the North Shore (including Neutral Bay, North Sydney and Chatswood) were more in demand. Other providers argued that there was strong demand for serviced apartments.

Anecdotally, Council experiences problems with applicants lodging DAs that include serviced apartments to meet non-residential FSR requirements, and then seek to convert them later to residential accommodation. Applicants often argue that serviced apartments are not viable in the area.

Consultation highlighted that there was once a serviced apartment complex on Willoughby Road, Naremburn managed by Medina, but this closed several years ago and has not reopened. One stakeholder speculated that this may have been because the studios available were “tired and rundown”. It indicates that there may not be sufficient demand to justify a serviced apartment complex in the area.

Although there is not a strong presence of serviced apartment complexes in Crows Nest, there are a number of serviced apartments available within residential buildings. There are also 62 serviced apartments in a complex in Cremorne, suggesting that nearby suburban locations could support serviced apartments. However, this apartment complex has harbour views, and therefore may appeal to a broader spectrum of travellers (i.e. leisure as well as corporate).

Serviced apartments in Crows Nest tend to be managed by agencies, but can individual owners.

Some investors feel that they can make more profit by furnishing an apartment and renting it out on a short term basis, managing it through an agency such as The Apartment Service. Although these are advertised as “serviced apartments” they likely do not meet the definition of “serviced apartments” under the NSLEP 2013.

This kind of serviced apartment is not necessarily employment generating, although it is considered non-residential development.

Serviced apartments in Crows Nest are mainly used by business travellers, not leisure travellers...

The chief appeal of Crows Nest as a location for serviced apartments is its proximity to employment centres at St Leonards, North Sydney and Chatswood. Serviced apartments are commonly rented by companies who have employed consultants on a short term basis, or by people who are looking for temporary accommodation while they look for more permanent accommodation near their place of work.

The average length of a stay is around six weeks for corporate travellers.

Serviced apartment providers in the area did not cite Mater Hospital as an attractor for serviced apartments. The hospital accounted for only a small proportion of clients for serviced apartments in Crows Nest, and the Hospital has recently entered into leases over other properties in the area and is

unlikely to need any additional space in the near term (Planning Proposal from Robinson Urban Planning 2014, p.9).

...Serviced apartments may not help Council to meet employment targets outlined by state governments...

According to Council's response to Robinson Urban Planning's Planning Proposal re: 200-220 Pacific Highway, serviced apartments and other tourist-related accommodation result in very low employment densities in comparison with employment densities for retail and office. The low level of direct employment generated by serviced apartments could impact on meeting employment targets set out in state government metropolitan strategies.

Serviced apartments in North Sydney

There may be unmet demand for serviced apartments in North Sydney...

There is a lot of demand for serviced apartments in North Sydney. Occupation rates are currently around 70-75%. These rates are linked to economic uncertainty, as serviced apartments rely on business travellers, who are far less likely to travel during uncertain economic conditions.

...But an influx of new supply may change this...

New serviced apartments have been built in North Sydney, including at The London, 156-158 Pacific Highway North Sydney; 138 Walker Street and 12 Berry Street.

However, there are also new commercial buildings in North Sydney which may increase the number of businesses/employees in the area, creating more demand for serviced apartments.

...But there is unlikely to be scope for further serviced apartments in Crows Nest.

Business travellers tend to prefer North Sydney because there are more businesses in the area and there is better access to a train station.

Appropriateness of the Study Area to accommodate serviced apartments

Crows Nest offers proximity to employment centres at St Leonards, North Sydney and Chatswood...

Crows Nest has excellent access to employment centres on the North Shore, either by driving or public transport.

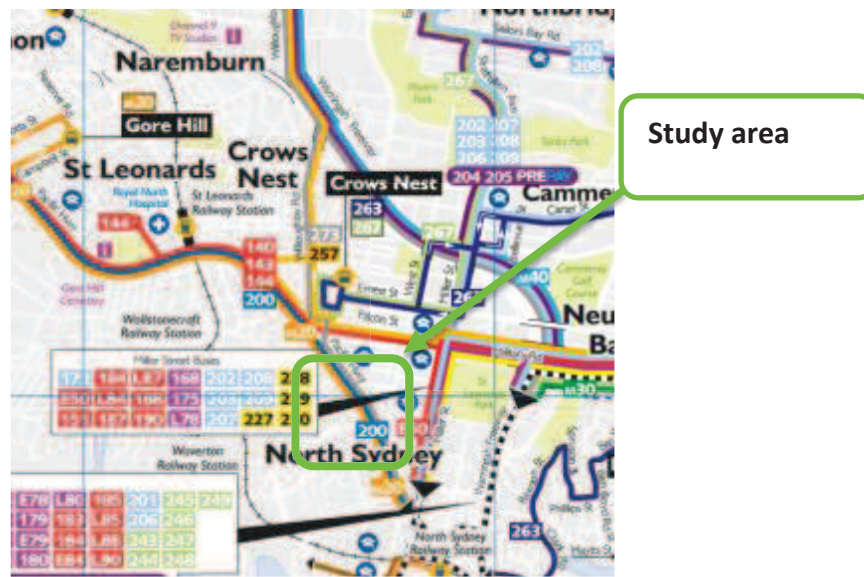
However, the Study Area is not particularly centrally located for walking to employment centres. It is at the southern extremity of the Crows Nest Town Centre, and is approximately 1km from major employment centres in North Sydney CBD and St Leonards.

Crows Nest offers good access to public transport...

Crows Nest is only a short walk from numerous bus lines connected to the North Shore, Northern Beaches and the CBD.

However, Crows Nest is located more than 1km from either the St Leonards or North Sydney train stations, outside conventional walking catchments. The Study Area therefore does not provide good access to mass public transport.

FIGURE 19. PUBLIC TRANSPORT NETWORK IN CROWS NEST



Source: Transport for NSW, 2014.

3.4 Other non-residential development

Suitability of the study area for a childcare centre

There is strong demand for additional childcare centres in the Crows Nest area...

Analysis of the location and vacancy rates of childcare centres in Crows Nest indicates that there is strong demand for childcare in the area. Consultation confirmed this, and suggested that lack of suitable sites constrained the provision of childcare centres.

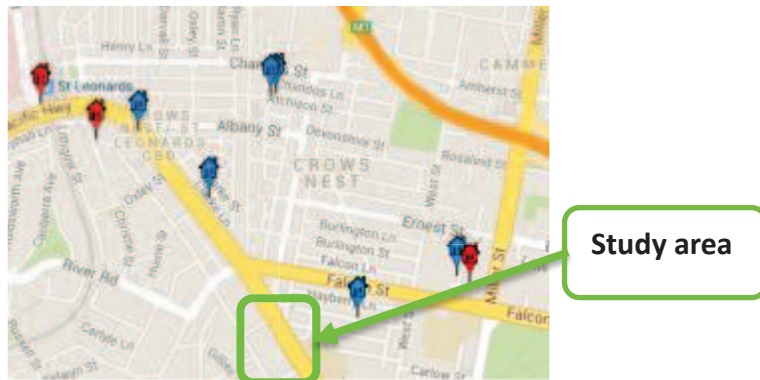
TABLE 11. CROWS NEST / ST LEONARDS CHILDCARE CENTRES

Name	Address	Waitlist?
Kidsnest – Crows Nest Occasional Care Inc.	Crows Nest Community Centre, 2 Ernest Place Crows Nest	No vacancies
Kelly's Place	Cnr Clarke and Hume Streets, Crows Nest	No vacancies
SDN Children's Services	8 Rodborough Avenue, Crows Nest	No vacancies
Devonshire Street Children's Centre	36-38 Devonshire Street,	No vacancies
Alouette Childcare Centre	3 Rodborough Avenue, Crows Nest	Some vacancies
Atchinson Cottage Long Day Care Centre	92-96 Atchinson Street, Crows Nest	No vacancies
Crows Nest Kindergarten – Preschool and Long Day Care	82 Hayberry Street, Crows Nest	No vacancies
Gumnut at Forum	Forum West Mezzanine, 205 Pacific Highway	Some vacancies
Goodstart Early Learning St Leonards	486 Pacific Highway, St Leonards	Some vacancies

Source: careforkids.com.au, September 2014.

Figure 20 shows the location of child care centres in Crows Nest/St Leonards. The blue markers indicate childcare centres with no vacancies. The red markers indicate childcare centres with some vacancies, but these may be limited to a single day a week. This indicates strong demand for child care centres in the area.

FIGURE 20. CHILDCARE CENTRES IN CROWS NEST / ST LEONARDS



Source: careforkids.com.au, September 2014.

...However, due to the planning constraints for childcare centres, it is unlikely that serviced apartments provided in 200 – 220 Pacific Highway could be converted into a childcare centre without prohibitive cost.

The North Sydney DCP specifies a number of conditions for childcare centres. These provisions include:

Car parking provision

- Staff – 1 space per 2 employees, with a max of 3 spaces
- Parents – 2 spaces per <24 places; 3 spaces / 24 places and above
- A set down area is required
- 1 bike parking space is required per 10 staff, 2 spaces required per centre

Access

- The DCP specifies that it is preferable to locate child care centres at ground floor levels to access landscaped play spaces
- If the centre is not located on the ground floor, a dedicated emergency lift must be provided dedicated to the childcare centre
- Separate entrance must be provided for childcare centre in mixed use buildings

Floor space requirements

- 3.25sqm of unencumbered indoor floor space per child, 10 sqm of unencumbered space per employee
- Minimum of 7 sqm of open space must be provided per child, and must not be located adjacent to a state road, however, if this level of outdoor space cannot be provided, an indoor-outdoor space must be provided, with natural light, high floor to ceiling heights, access to natural air flows
- DCP acknowledges that it may not be possible to provide level of minimum outdoor space in Crows Nest mixed use centre, but must be provided in indoor/outdoor space

These constraints affect on the suitability of the site for a childcare centre. For example, the need to provide adequate indoor/outdoor space, as well as car parking provision and potentially rear access to offer a safe set down area on the busy Pacific Highway. Nonetheless, as seen in Figure 20, there are some childcare centres located on the Pacific Highway.

Medical uses

One real estate agent consulted noted that there was some demand for medical consulting rooms in Crows Nest. Also, while examining properties on realcommercial.com.au, it was noted that many of the properties were advertised as appropriate for office/medical uses. This demand arises from the proximity of both the Mater and Royal North Shore Hospitals.

However, based on the Planning Proposal submitted by Robinson Urban Group, Mater Hospital has recently let property in Rocklands Road for the purpose of providing additional specialist medical office accommodation, and is therefore unlikely to let office space in the study area in the short term.

3.5 Effect of a railway station

Since 2005, the State Government has alluded to the potential for a second Sydney Harbour Rail crossing that would most likely pass through North Sydney, Crows Nest and St Leonards. In June 2014, the State Government announced further commitment to providing a second harbour railway crossing. It envisages that the new railway will connect Barangaroo with the existing railway Line at St Leonards. It is suggested that a new railway station may be constructed at Crows Nest, but no location has been identified.

There is still a high degree of uncertainty about delivery of a new train station in Crows Nest, with no confirmation of its location, whether or when it will be built.

Nonetheless, based on consultation with real estate agents, the presence of a new railway station at Crows Nest would increase the viability of non-residential development in the area, especially for serviced apartments. At the moment, the study area is more than 1km from St Leonards and North Sydney railway stations, and is therefore not an ideal location for serviced apartments, which require proximity to quick transport and employment centres.

3.6 League table

The league table below compares the competitive offering of a number of the different precincts of Crows Nest/St Leonards in relation to criteria reflecting their suitability for non-residential uses. Each site is assigned a value from one to three against each criterion.

The scoring system is as follows:

Positive impact	1
Neutral impact	2
Negative impact	3

According to Table 12, the precinct most suited to non-residential commercial development (for example, offices, gyms etc.) would be the Lane Cove area of St Leonards and Precincts 2 and 3 of the St Leonards Planning area. The part of St Leonards located in Lane Cove LGA has a slight advantage as it is largely zoned “B3 – Commercial Core”, to encourage a commercial address. In comparison, other precincts are predominantly zoned “B4 - Mixed Use”.

The Study Area, which comprises approximately 30% of Precinct 4 to the St Leonards / Crows Nest Planning Study, is the least appropriate area for non-retail commercial development.

TABLE 12. SUITABILITY OF PRECINCTS FOR NON-RETAIL COMMERCIAL DEVELOPMENT

Precinct attribute	Study area (Precinct 4)	Willoughby Road, Crows Nest	St Leonards (Lane Cove LGA)	St Leonards (Precincts 2 & 3)
Land use zoning	2	2	2	2
Vacancy rates	3	1	2	2
Rental and land cost	3	1	2	2
Age and building stock	3	1	2	2
Close to arterial road or freeway/motorway	1	2	1	1
Economic contribution - role in centres hierarchy	3	3	1	1
Proximity to residential development	2	2	2	3
Proximity to similar land uses	2	1	1	1
Proximity to key infrastructure, e.g. hospitals	1	3	1	1
Existing uses	2	1	1	1
Redevelopment potential	2	3	3	3
Public realm and pedestrian amenity	3	1	3	3
Access to train station	2	3	1	1
Average ranking	2.23	1.85	1.69	1.77

Source: SGS, 2014.

The reasoning behind the rankings can be found in the Appendix.

3.7 Summary

Commercial office

Consultation and market research confirms that the Crows Nest / St Leonards commercial office market is improving after several slow months. However, it still has relatively high vacancy rates in comparison with nearby office markets in Chatswood and North Sydney. The conversion of existing commercial buildings into new mixed use and residential buildings will tighten supply, and may place downward pressure on vacancy rates in the longer term.

Consultation with real estate agents, and an examination of properties available on the market, found that Crows Nest does not contain buildings with floor plates capable of supporting large businesses, which are more likely to be attracted to nearby centres at St Leonards or North Sydney. Instead, small businesses such as accounting firms, solicitors and financial planners are attracted to Crows Nest.

Using both vacancy and pipeline development as supply measures, the supply-demand analysis shows that there is over 12 years worth of office supply in the LGA given the demand forecast. However, the pipeline supply alone will be exhausted by 2021 to meet the forecast demand.

Retail

Crows Nest has two distinct retail precincts, which are performing very differently. The retail precinct on Willoughby Road is primarily characterised by restaurants and cafes, and is performing strongly. Properties sized between 50 and 100 square metres are in high demand, while properties larger than 100 square metres are harder to lease.

In comparison, the retail strip along the Pacific Highway, where the Study Area is located, is not performing well. The area has a high number of vacant properties, and comparatively low rents, ranging between \$400 and \$500 per square metre, depending on the size and quality of the property. The retail stock in this area tends to be more run down, with secondary tenants, such as nail salons and massage parlours. The area has a “mish mash” of differently sized spaces, few of which are appropriate for bigger retailers. There is a higher turnover of tenants in the area, and little visual appeal or access to convenient car parking. Table 9 provides a summary of rents and sales values from consultation.

After several slow months, the retail property market in Crows Nest is experiencing an upturn. However, this seems to be limited to the Willoughby Road precinct of Crows Nest. The Pacific Highway area in Crows Nest still suffers from high vacancy rates and high turnover of low value tenants.

Due to the recent poor performance of retail, rents have lowered slightly, and commercial businesses looking for street exposure (e.g. architects, accountants) have moved into some of the existing retail businesses.

Based on the retail demand analysis, the projected increase in retail expenditure would support additional 10,800 square metres of retail floorspace in Crows Nest to 2031.

Other non-residential uses

Although there is forecast significant future demand for serviced apartments in Sydney, the greatest demand for serviced apartments is in commercial areas with high levels of access to train stations, such as St Leonards or North Sydney, rather than Crows Nest. Based on consultation, there is currently only limited demand for serviced apartments in Crows Nest, and a serviced apartment complex (in contrast to serviced apartments forming only a small component of a mixed commercial and residential development) is unlikely to be a viable proposition.

Based on consultation with real estate agents and serviced apartment managers, the presence of Mater Hospital in the study area had little effect on the demand for serviced apartments. Guests in serviced apartments are much more likely to be business travellers working on the North Shore and staying in the area for an average of six weeks.

The viability of a childcare centre in the area was also considered. Although there is strong demand for childcare centres in the area, it may be unviable to convert existing floorspace in the study area into childcare centres, due to the rigorous planning controls on such development.

Other forms of non-residential development considered were gyms and medical uses. There are already large gyms in St Leonards, one of which recently closed down. Consultation suggested that there was unlikely to be scope for further gym floorspace in Crows Nest.

There was some limited interest in medical uses in Crows Nest, due to the proximity of both the Mater and Royal North Shore Hospitals to the Study Area. However, based on the Planning Proposal submitted by Robinson Urban Group, Mater Hospital has recently let property in Rocklands Road for the purpose of providing additional specialist medical office accommodation, and is therefore unlikely to let office space in the study area in the short term.

Based on the league table in section 3.6, the most attractive location for office and non-residential development in the Crows Nest / St Leonards area is near St Leonards Station, in Precincts 2 and 3 of the Crows Nest / St Leonards Planning Study.

4 URBAN DESIGN ASSESSMENT

This section contains an urban design assessment of the study area's functionality and amenity, including a review of existing uses and built form, as well as public realm and pedestrian amenity. The assessment also considers the redevelopment potential of the area. This section aims to help determine the minimum extent of non-residential floor space which is appropriate for the study area.

4.1 Existing built form

The study area comprises 11 properties located at the southern end of the Crows Nest Town Centre on the Pacific Highway. The Pacific Highway follows a ridge at this point and the perpendicular streets fall away resulting in some variation in the ground floor levels on some sites.

The existing buildings are a mix of commercial and mixed-use buildings that vary in scale between one storey and approximately 17 storeys. The buildings comprise a diverse range of architectural styles (see Figure 21). Buildings are generally built to the street edge with the exception of the commercial suites at 385-389 Pacific Highway which are set back to form a court of sort in front of the shop fronts.

The newer development at 200-220 Pacific Highway is comprised of a five storey building on the eastern part of the site and a taller building (17 storeys) on the western part of the site away from the Pacific Highway. There are retail tenancies on the ground level of the front building and a single small retail tenancy in the rear building.

FIGURE 21. EXAMPLES OF THE RANGE OF BUILT FORM IN THE STUDY AREA



Source: SGS, 2014.

4.2 Existing uses

The majority of the floor space in the Study Area comprises residential apartments located above ground level retail or commercial suites. Small shops and commercial suites comprise the next most significant land use and account for the majority of building frontages to the Pacific Highway. The property at the corner of Bruce Street and the Pacific Highway (242 Pacific Highway) hosts a café and take away business on the ground floor and a range of small professional suites with medical uses on the upper levels. There are two car repair businesses in the Study Area (1 Bruce Street and 238 Pacific Highway).

The Study Area forms the southern most part of the Crows Nest Town Centre, the centre of which is located approximately 200 metres to the north.

There is a high level of vacancy of ground floor retail and commercial tenancies in the Study Area, with both older and newer suites currently unoccupied. (It was not possible to determine the occupancy of above-ground non-residential floor space.) Along the Pacific Highway, beyond the Study Area, there are also significant vacancies – both retail and commercial – but it was beyond the scope of the urban design assessment to quantify the level of vacancy. However this issue is discussed elsewhere in section 3.1.

FIGURE 22. EXAMPLES OF THE EXISTING LAND USES AND EVIDENCE OF VACANCIES



Source: SGS, 2014.

4.3 Public realm and pedestrian amenity

The quality of pavers and the presence of street trees provide a good framework for a quality public realm. The built form provides opportunities for street activation in some locations. The quality of the public realm is however compromised by the fact that a significant number of the frontages are 'inactive' due to vacant tenancies or, in the case of the 'mixed use' building at 236 Pacific Highway, the design of building has resulted in the majority of the ground floor featuring either blank walls, fire and life safety infrastructure, or the car park entry.

The other dominant element impacting pedestrian amenity is the traffic on the Pacific Highway. The road has two traffic lanes in both directions and at this point is six lanes wide when bus/parking/turning lanes are included. The road carriage width and the traffic volumes are a significant challenge for creating a more amenable pedestrian environment.

FIGURE 23. EXISTING PUBLIC REALM



Residential amenity

Some of the apartments have their balconies (and possibly primary living areas) oriented towards the Pacific Highway. This is not an ideal arrangement from the perspective of residential amenity on a busy road.

4.4 Redevelopment potential

The lots that appear most likely to have redevelopment potential are the four sites at the northern end of the study area, comprising 238,240 and 242 Pacific Highway and 3 Bruce Street. These sites have the largest footprints, as well as high levels of vacancies.

The remaining sites at the northern end of the Study Area are all relatively small in size. The building at the corner of Bruce Street and Pacific Highway is three storeys and therefore unlikely to be redeveloped in isolation unless significant additional floor space can be achieved or consolidation is achieved with

adjoining properties. These smaller sites – by virtue of their size – are also unlikely to host significant redevelopment without amalgamation with each other and/or with adjoining sites.

The triangular site at 385-389 Pacific Highway could be redeveloped given the high vacancy, single ownership and relatively modest scale of the existing building. The shape of the site and secondary street access make it an interesting redevelopment proposition. However, the existing 10 metres height control limits opportunity for realising the additional floor space that would be required to make redevelopment viable.

Another site that has redevelopment potential is 222 Pacific Highway, as a DA has been lodged with Council. Based on information provided by Council, the proposed development comprises 21 apartments over 5 levels, 275 square metres of retail floorspace and 16 parking spaces.

4.5 Conclusions

Based on the results of the urban design assessment, the following conclusions can be drawn:

- There are relatively few sites in the study area with immediate redevelopment potential.
- Although the Crows Nest Town Centre is a relatively vibrant and accessible location, the fact that the Study Area is over one kilometre from both St Leonards and North Sydney stations places it outside what might be considered the conventional walking catchment from either station. The location is likely to be less attractive for office and retail uses than locations close to these stations/centres.
- There are limited redevelopment opportunities in the Study Area and therefore the policy decision concerning mandatory non-residential floor space requirements in the Study Area are unlikely to have a significant impact on the overall supply of residential or non-residential floor space in the broader precinct.
- Given what appears to be high levels of vacancy for non-residential floor space in the study area, there may be a case for reducing the mandatory non-residential FSR requirements.
- However this is not to say the same is true of the remainder of the Pacific Highway corridor: vacancy might just be symptomatic of a transition in land uses and Council should be careful to ensure that current demand for housing does unduly impact on employment capacity.

5 FEASIBILITY ASSESSMENT

In this section, we have assessed the feasibility of the existing minimum non-residential FSR controls pertaining to the Study Area. This assessment examines the feasibility of the likely mixed use development on three sites that appear most likely to have redevelopment potential.

The feasibility testing utilises a residual land value (RLV) model and takes into account associated development costs, anticipated sales revenue and developer's profit margin. This assessment has also identified the non-residential FSR threshold that would make a mixed use development just break-even.

5.1 Existing capacity

Based on information provided by Council, the current amount of non-residential floorspace in the area is 6867 square metres.

Based on the current non-residential floorspace ratio, the maximum non-residential floorspace capacity in the Study Area is 19,576 square metres, and the minimum non-residential floorspace is 4894 square metres. These calculations can be seen in detail in Table 13. As shown in this table, the minimum non-residential floorspace is almost 2000 square metres less than the current non-residential floorspace.

On those sites where DAs and Pre-DAs have been lodged with Council, the proposed amount of non-residential floorspace is around 1130 square metres, which are substantially less than the current provision on those sites.

TABLE 13. NON-RESIDENTIAL CAPACITY IN STUDY AREA

No.	Street	Land Use	Site Area (sqm)	Non-res FSR Range Area	Min Non-res FSR (#:1)	Min Non-res Floor Space (sqm)	Max Non-res FSR (#:1)	Max Non-res Floor Space (sqm)	Current Amount of Non-res Floor Space (sqm)	Actual Non-res FSR (#:1)	Amount of non-res floor space > than the min req (sqm)	Proposed Amount of Non-res Floor Space (sqm)	Proposed amount of Non-res FSR (#:1)	Amount of proposed non-res floor space > than the min req (sqm)
50	Rocklands Rd	Commercial premises	225.98	6	0.5	113.0	2	452.0	497	2.20	384.0			
198	Pacific Hwy	Dwelling house Business premises	332.31	6	0.5	166.2	2	664.6	177	0.53	10.8			
200-220	Pacific Hwy	Apartments Serviced Apartments Retail premises	3350.34	6	0.5	1675.2	2	6700.7	1351	0.40	-324.2			
222	Pacific Hwy	Business Premises (Vacant)	550.1	6	0.5	275.1	2	1100.2	850	1.55	575.0	275	0.50	-0.1
236	Pacific Hwy	Apartments Business premises	1671.29	6	0.5	835.6	2	3342.6	180	0.11	-655.6			
238	Pacific Hwy	Vehicle body repair workshop	209.3	6	0.5	104.7	2	418.6	209.3	1.00	104.7			
240	Pacific Hwy	Dwelling house Retail premises	200.9	6	0.5	100.5	2	401.8	266	1.32	165.6	431.7	0.48	-474.2
242	Pacific Hwy	Retail Premises Business premises	407.82	6	0.5	203.9	2	815.6	980	2.40	776.1			
1	Bruce	Vehicle body repair workshop	297.2	6	0.5	148.6	2	594.4	350	1.18	201.4			
2	David	Apartments Business premises	1717	6	0.5	858.5	2	3434.0	936	0.55	77.5			
385-389	Pacific Hwy	Business Premises Retail premises	825.73	6	0.5	412.9	2	1651.5	1070	1.30	657.1	424	0.51	11.1
Total (sqm)			9787.97			4894.0		19575.9	6866.3		1972.32	1130.7		
* Note: Figures in <i>italics</i> represent estimated figures, as no records or approved plans could be found to verify the level of non-residential floor space. Figures in <i>blue</i> are based on a Pre-DA proposal Figure in <i>green</i> are based on a DA approval Figures in <i>orange</i> are based on a DA currently being assessed Purple Mixed residential and Commercial Blue Commercial / Industrial														

Source: North Sydney Council, 2014.

5.2 Case study sites

In order to test the viability of the non-residential FSR control applying to the study area, we have selected three case study sites. Two of those sites have been identified in section 4 being having the greatest redevelopment potentials. Council has received a DA or pre-DA on all of those sites.

These sites are:

- **Site A:** consisting of four separate lots on the northern end of the study area, namely **238-244 Pacific Highway & 1 Bruce St**²
- **Site B:** the triangular site at **385-389 Pacific Highway**.
- **Site C:** **222 Pacific Highway**

As can be seen from the map below, sites A and C are located on the western side of the Pacific highway, whereas site B is located on the eastern side.

FIGURE 24. CASE STUDY SITES FOR FEASIBILITY TESTING



⁹Source: Google Maps, 2014

² Note that the DA lodged with Council does not include 238 Pacific Highway. But for the purpose of the feasibility testing, this lot is included to form a rectangular site.

5.3 Planning controls

The key planning controls applying to the mixed use development within the study area are summarised below.

Planning control	
Zoning	B4 – Mixed Use
Height of buildings	10m on the eastern side of the Pacific Highway 16m on the western side of the Pacific Highway
Non-residential floorspace ratio	Non-res floor space ratio must not be less than 0.5:1 and must not exceed 2:1
Setbacks	Zero setback to street frontage 1.5m setback to all laneways
Car parking requirements	Serviced apartments: 1 space per 5 apartments Mixed use zoning in Crows Nest – 1 space per 60 sqm of non-residential GFA, 1 space per studio, 1-2 bedroom apartment, 1.5 spaces per 3 or more bedroom apartments, 0.25 space per dwelling

5.4 Yield calculation

Based on the key planning controls above and the total area of each case study site, we have calculated the development yield from a likely mixed use development on sites A and B. This calculation is detailed in the following table. According to this, when redeveloped to a mixed use building, site A is expected to yield around 36 two-bedroom apartments and 415 square metres Net Leasable Area (NLA) of commercial floorspace. Due to the lower height limit of 10 metres and smaller site area, site B can only produce 19 apartments and 310 square metres NLA of commercial floorspace.

TABLE 14. YIELD CALCULATION

	Site A:238-244 Pacific Highway & 1 Bruce St	Site B:385-389 Pacific Highway
Total site area (sqm)	1107	826
Existing floorspace (sqm)	1907	1652
FSR controls		
Min. non-residential FSR	0.5:1	0.5:1
Height control (m)	16	10
No. of storeys	4	3
Total building area (GBA)	4428	2478
Floor efficiency	80%	80%
Total GFA	3542	1982
Non-residential GFA	554	413

Residential GFA	2989	1569
Average GFA per apartment (sqm)	82.5	82.5
No. of apartments	36	19
NLA of non-res floorspace (@75% of GLA)	415	310
No. of car spaces		
- Residential	36	19
- Non-residential	9	7
Total	45	26
Parking GFA (sqm)	1357	777

Source: SGS estimates based on Council's LEP/DCP controls, 2014

The development yield on site C is based on the DA information provided by Council, as shown below.

- 21 apartments located over Levels 1 to 5 comprising:
 - 4 x studios
 - 9 x 1-bedroom apartments
 - 7 x 2-bedroom apartments
 - 1 x 3-bedroom apartments
- 275sqm of retail floor space comprising:
 - 78sqm at Ground level
 - 197sqm at basement level one
- 16 parking spaces over 1.5 basement levels and part of the ground floor level.

Note this proposed development does not comply with the maximum building height control for the site (i.e. 4m above the 16m limit).

5.5 RLV modelling

Based on the above development parameters, an RLV model has been prepared to test the development feasibility of a mixed use development under the current controls.

Residual land value (RLV) represents the difference between total sales revenue from a development, and total development costs. In simple terms, RLV method computes the market valuation of land (subject to its best use under current zoning).

This is particularly useful in determining whether a proposed development is feasible, by comparing its RLV and current land value with improvements.

Details of RLV methodology is explained in subsequent sections below:

Methodology

Residual land value approach

The RLV model calculates the residual value of a development after deducting all the development costs from the sales revenues, in the current market. The development costs include construction costs and contingencies, external works and other site works, professional fees, developer's profit margin, infrastructure levies or contributions and other council fees. This calculation is illustrated in the diagram below.

FIGURE 25. RESIDUAL LAND VALUE CALCULATION



Source: SGS, 2014

Key assumptions used to derive sales revenue and development costs are drawn from multiple sources. The details of these assumptions are given below.

5.6 Key inputs and assumptions

Assumptions overview

Table 15 below illustrates the key components of the RLV model and their data sources. It shows that development costs are largely based on the per-sqm construction cost estimates in 2013 Rawlinson's Construction Handbook (Rawlinsons).

On the other hand, the likely revenue from the residential and commercial development has been established from a range of sources, including recent sales in RP data, listed property prices on domain and realestate websites, property agent consultation and property market reports.

TABLE 15. MODEL INPUT COMPONENTS AND DATA SOURCE

Model input components	Data source
Development costs	
Demolition costs	Rawlinsons Construction Handbook, 2013
Construction costs	Rawlinsons Construction Handbook, 2013
Other development costs	Rawlinsons Construction Handbook, 2013, SGS 2014
Revenues	
Residential apartment sales price	RP data, realestate.com.au
Non-residential sales price	Property agents consultation

Source: SGS 2014

Costs assumptions

As mentioned above, the per-sqm construction costs are directly sourced from Rawlinsons. The cost for residential and non-residential development type and car parking is shown in the table below. Note that the per-sqm cost used for the residential development assumes the medium standard of finishes.

TABLE 16. PER-SQM CONSTRUCTION COST

Development component	Con	Costs (excl. GST)	Unit
Demolition			
Two storey retail building	Demolition	\$102per sqm	
Construction cost			
Apartments - up to 3 stories, no lift, medium finishes	Residential	\$1,855per sqm	
1 storey office building – basic services, shell and core	Non-residential	\$1,060per sqm	
Parking fully underground – includes additional excavation, structural costs and lifts	Parking	\$1,710per sqm	

Source: Rawlinsons Construction Handbook, 2013

Other cost variables include:

- **External works and services** – this is estimated to be 3 percent of the construction cost
- **Construction cost contingency** - 10 percent of the construction cost and external works
- **Professional fees** – 9 percent of the construction cost based on the indicative range for office buildings from Rawlinsons
- **Construction GST** – No GST³ is included in this analysis
- **Developer's profit** – 20 percent. Note that in reality, the profit margin set by a developer varies across different projects, depending on the level of risks involved, the risk appetite of the developer and the capital structure for the project. We consider a 20 percent profit margin to be typical for the development being considered and have included this in the feasibility analysis⁴
- **Selling expenses** – Commission on sales, marketing expenses and legal fees are estimated to be 4 percent of the development sale value
- **Development contributions** – This has been calculated using the rates applying to other areas in Council's s.94 Plan and inflated to today's dollars using CPI.
- **Other costs** - No allowances have been made for council DA fees, strata title set up costs, rates and land tax, water corporation fees, electricity, gas and bank charges as these are calculated on a project by project basis, and

Land/property cost

Basic property cost

The current land value (or purchase cost) of the sites is one of the key inputs to the RLV model. It is important that land values are as accurate as possible. If inflated or undervalued they will have an erroneous influence on the feasibility analysis. The estimated land value of each site is based on the last sales figures or sales values for comparable properties (if a site does not have any recent sales).

The basic property cost for acquiring four lots within Site A is estimated to be around \$4.4 million. As none of the lots within this site has had a recent sale, this estimate has been based on the sales price of a neighbouring residential home at 47 Sinclair St, Wollstonecraft - \$2.2 million in April 2014. Since the total size of four lots is about twice the land area of this residential property, the market value of site A is estimated at \$4.4 million.

Based on the recent sales price of sites B and C, the land acquisition costs in the RLV model for these two sites are estimated at \$5 million and \$2.65 million respectively.

³ GST on all development cost is recoupable as input credit by the developer, when paying the GST on the final sales price. This analysis does not consider any GST implications.

⁴ Bryant, Lyndall (2010) Constraints to cost effective land supply. In of the 16th Annual Conference of the Pacific Rim Real Estate Society, Pacific Rim Real Estate Society (PRRES), InterContinental Hotel, Wellington, New Zealand. Page 19, <http://eprints.qut.edu.au/32586/>

Finance costs

It is assumed that half of the land purchase will be funded through borrowing, which will incur an interest expense to the developer. The potential finance cost for the land purchase is calculated by applying an interest rate of 10 percent p.a. to 50 percent of the land purchase price over a 2 year period.

No interest charge on construction costs is included in this analysis, as it is reasonable to assume that the profit margin included in the development cost would be sufficient to cover the finance cost of the construction cost.

Stamp Duty

Stamp duty is calculated at the rate as dutiable by the NSW Government. There is a lump sum and then proportional rate for any dollars over the threshold the lump sum is charged for. The proportional rate and lump sum vary according to the transfer value.

Revenue assumptions

Residential

Based on the prices of brand-new or newish apartments listed in Crows Nest and consultation with property agents, we consider the following price points achievable for apartment developments on three sites.

TABLE 17. RESIDENTIAL SALES PRICE ASSUMPTIONS, EXCLUDING GST

Development type	Sales price used (per unit)	Comments
2 bedroom apartment	\$800,000	These are based RP data sales and agent consultation. Averages of a range of comparable new developments comprising 2 bedroom units

Source: SGS estimates, 2014; using RP data (2014), and consultation with real estate agents.

Non-residential –commercial and retail

The sales price of non-residential floorspace has been based on the per sqm sales figures in Table 9. Based on consultation with real estate agents, the sales rate for commercial development ranges from \$2500 - \$4500 per sqm for the study area, whilst the sales price for retail floorspace is around \$3500 per sqm. An average sales rate of \$3500 per sqm is hence assumed for the non-residential component of the mixed use development.

Consistent with the cost calculation, we have excluded the GST from the achievable sales price in the feasibility calculation.

5.7 Results

Residual land value

Based on the aforementioned assumptions and development specifications, we have calculated the RLV of the mixed use development on each site. Results are illustrated in Table 18 below.

TABLE 18. RESIDUAL LAND VALUE RESULTS

	Formulas	Site A: 238-244 Pacific Hwy + 1 Bruce St	Site B: 385-389 Pacific Hwy	Site C: 222 Pacific Hwy
Total development costs	A	\$17,125,232	\$9,552,132	\$7,998,066
Net sales revenues (after sales expenses)	B	\$28,916,018	\$15,538,145	\$14,702,255
Residual land value (RLV)	C=B-A	\$11,790,786	\$5,986,013	\$6,704,188

Source: SGS estimates, 2014

Feasibility Ratio

Subsequently, a feasibility ratio is calculated by dividing the RLV by the current land costs. Note that the current land costs also include any stamp duties payable on the transfer of the land.

When the feasibility ratio is greater than 1, the development is deemed feasible. The feasibility ratios of three developments are shown in Table 19 below.

TABLE 19. FEASIBILITY RATIO RESULTS

	<i>Formulas</i>	Site A: 238-244 Pacific Hwy + 1 Bruce St	Site B: 385-389 Pacific Hwy	Site C: 222 Pacific Hwy
Total development costs	<i>A</i>	\$17,125,232	\$9,552,132	\$7,998,066
Net sales revenues (after sales expenses)	<i>B</i>	\$28,916,018	\$15,538,145	\$14,702,255
Residual land value (RLV)	<i>C=B-A</i>	\$11,790,786	\$5,986,013	\$6,704,188
Current land value		\$4,400,000	\$5,000,000	\$2,650,000
Stamp duty + financing cost		\$887,956	\$989,956	\$449,013
Total land costs	<i>D</i>	\$5,287,956	\$5,989,956	\$3,099,013
Feasibility ratio	<i>C/D</i>	2.23	1.0	2.16

Source: SGS 2014

The above results show that the development on Site A is found feasible, with a healthy feasibility ratio of 2.23. Similarly, the proposed development on Site C is also feasible, with a feasibility ratio of 2.16.

Conversely, the development on 385-389 Pacific Highway is found just break-even, due to the lower height limit applying to the eastern side of the Pacific Highway.

However, it should be noted that redeveloping Site A will require amalgamating four lots currently under different ownerships, which can hinder development or add extra costs for securing the site.

In addition, high vacancies in retail and commercial floorspace in the study area indicate that there is limited demand for non-residential floorspace, which can further undermine development momentum and prevent the mixed use development from occurring in the area.

Feasible non-residential FSR

Based on the assumptions used in the RLV modelling, we have identified a break-even non-residential FSR for the mixed use development of 1.4:1 on Site A. However, considering the aforementioned impediments to development, we estimate that a more realistic non-residential FSR threshold on site A may lie between 0.5:1 to 1:1.

The break-even result in Table 19 shows the minimum non-residential FSR may be just feasible on site B. However, considering the aforementioned impediments to development, we estimate that a more realistic non-residential FSR threshold for Site B may lie between 0.3:1 to 0.5:1.

Since the proposed development on Site C does not comply with the height limit, the feasibility of this development has been not used to inform the feasible non-residential FSR in the study area.

Further, it should be noted that the above feasibility assessment only considers wholesale redevelopment scenarios. It may be easier for developers to meet Council's non-residential floorspace ratio if they are developing a site wholesale.

Based on consultation, non-residential floorspace in above ground levels is not as desirable as floorspace with street frontages, as many of the small businesses in Crows Nest may desire street frontage. So if a site is being only partly redeveloped, this may force non-residential floorspace onto above-ground levels where it is less viable.

6 KEY FINDINGS & RECOMMENDATIONS

6.1 Key findings

Current market assessment

Crows Nest has two distinct retail precincts: Willoughby Road and the Pacific Highway. These two precincts are performing very differently...

- Willoughby Road tends to be the location of high value retail shops, supported by pedestrian amenity and relatively high quality urban design. In contrast, the retail strip along the Pacific Highway is performing relatively poorly, with high vacancy rates and low value tenants. This is where the study area is located.
- There is a need to rejuvenate the local retail precinct along the Pacific Highway, which has recently suffered high vacancy rates and has low pedestrian amenity.
- The retail precinct on Willoughby Road is characterised by restaurants and cafes, and is performing strongly.
- In comparison, the retail strip on the Pacific Highway, where the study area is located, is not performing well. The area has a high number of vacant properties, and comparatively low rents, almost half of average rents for properties on Willoughby Road.
- The retail stock in the study area tends to be more run down, with secondary tenants, such as nail salons and massage parlours. The area has a “mish mash” of differently sized spaces, few of which are appropriate for bigger retailers. There is a higher turnover of tenants in the area, and little visual appeal or car parking.
- Due to the recent poor performance of retail, rents have lowered slightly, and commercial businesses looking for street exposure (e.g. architects, accountants) have moved into some of the existing retail businesses.

Based on the retail demand analysis, the growth in the available retail expenditure can support additional 10,800 square metres of retail floorspace in Crows Nest to 2031.

- However, majority of this increase in retail demand will be satisfied by the Woolworths redevelopment and current vacancies in the Willoughby Road precinct of Crows Nest.

Although the Crows Nest / St Leonards commercial office market is improving after several slow months, there are still high vacancy rates in comparison with competitor locations. There is pressure to convert existing commercial floorspace into residential development...

- Crows Nest / St Leonards has relatively high vacancy rates in comparison with nearby office markets in Chatswood and North Sydney. Sales and rents are lower than in the Sydney CBD and North Sydney.
- The conversion of commercial buildings into mixed use and residential buildings in Crows Nest / St Leonards will tighten supply, and may place downward pressure on vacancy rates in the longer term. In their June 2014 report, Knight Frank note that there up to ten commercial buildings (approximately 16,000 square metres) have been approved for residential conversion in Crows Nest/St Leonards, and could be withdrawn from the office market over 2014 and 2015 (p.4).

- Crows Nest does not have the floor plates to support large businesses, which are more likely to be attracted to nearby centres at St Leonards or North Sydney. Instead, small businesses such as accounting firms, solicitors and financial planners are attracted to Crows Nest.
- Using both vacancy and pipeline development as supply measures, the supply-demand analysis shows that there is over 12 years worth of supply given the demand forecast. However, the pipeline supply alone will be exhausted by 2021 to meet the forecast demand.
- The high vacancy rates have a negative impact on the image of Crows Nest as a commercial precinct.

There is limited demand for above ground non-residential floorspace...

- Consultation also suggested that there is limited demand at the moment for above ground non-residential floorspace. Even the office uses attracted to Crows Nest tend to be looking for offices with street frontage.

Serviced apartments

There is limited demand for serviced apartments in Crows Nest, and other nearby areas may be more suitable...

- Although there is forecast significant future demand for serviced apartments in Sydney, there is greatest demand for serviced apartments in commercial areas with access to train stations, such as North Sydney, rather than Crows Nest.
- It is important to separate lawfully approved serviced apartments in comparison to dwellings in residential flat buildings that are being rented for short term accommodation, in a similar way to serviced apartments.

A serviced apartment *complex*, with the supporting management, maintenance, marketing and administration required, is unlikely to be viable in the study area...

- Based on consultation, there is only limited demand for serviced apartments in Crows Nest, and a serviced apartment complex (in contrast to serviced apartments scattered within a residential building) is unlikely to be a viable proposition.
- However, serviced apartments scattered throughout a residential building and managed by an external organisation such as The Apartment Service or Wyndel Apartments may not achieve Council's employment generating objectives.

Demand for serviced apartments is likely to be driven by business travellers...

- Demand for serviced apartments on the North Shore tends to be from business travellers working in nearby employment centres, such as St Leonards or North Sydney.
- Proximity to train stations and employment centres is more likely to drive demand for serviced apartments, rather than presence to Mater Hospital.
- Serviced apartment providers in the area did not cite Mater Hospital as an attractor for serviced apartments.

Other forms of non-residential development, especially childcare centres, may be more viable in the study area...

- Based on the results of consultation, there is strong demand for a childcare centre in the area. However, development of child care centres must satisfy rigorous planning controls.
- There was little interest in medical uses or gyms in the study area, as there are already several large gyms in St Leonards, and Mater Hospital has recently let property in Rocklands Road for the purpose of providing additional specialist medical office accommodation, and is therefore unlikely to let office space in the study area in the short term.

...but there are limited opportunities for adaptive reuse of existing buildings for these purposes...

- Although there is strong demand for childcare centres in the area, it may be unviable to convert existing floorspace in the study area into childcare centres, due to the rigorous planning controls.
- Childcare centres, according to the North Sydney DCP, require a high amount of outdoor space, as well as a high number of parking spaces and particular access requirements.

Based on the urban design assessment, there are limited opportunities for redevelopment in the study area...

- There are limited redevelopment opportunities due to the need for site amalgamation in the Study Area. Therefore the policy decision concerning mandatory non-residential floor space requirements in the Study Area is unlikely to have a significant impact on the overall supply of non-residential floorspace in the broader precinct.
- Given what appears to be high levels of vacancy for non-residential floor space in the study area, there may be a case for reducing the minimum non-residential FSR or relexing the height limit to allow for more residential floorspace in a mixed use development.
- However this is not to say the same is true of the remainder of the Pacific Highway corridor: vacancy might just be symptomatic of a transition in land uses and Council should be careful to ensure that current demand for housing does unduly impact on employment capacity.

Non-residential floorspace ratio

There are limits to the feasibility of Council's non-residential floorspace ratio for particular sites...

- It may be easier to meet Council's non-residential floorspace ratio if sites are being redeveloped wholesale.
- If a site is being only partly redeveloped, this may force non-residential floorspace onto above-ground levels where it is less viable.

...Non-residential floorspace in above ground levels is not as desirable as floorspace with street frontages...

- Consultation has found that commercial floorspace in above-ground levels is less desirable than commercial floorspace with street frontage.

...200-220 Pacific Highway is unlikely to be able to meet the requirements of the non-residential floorspace ratio...

- One of the sites in the Study Area, 200-220 Pacific Highway, has already completed construction. The site was not redeveloped wholesale, and the floorspace is split over three buildings with smaller footprints. To meet the required non-residential floorspace ratio in the new building footprints, some of the non-residential floorspace was forced onto the first floor, and does not have a street frontage.
- The site is also located more than 1km from both St Leonards and North Sydney railway stations, and is more than walking distance from employment centres in these areas.
- It also seems that the developer has experienced difficulty in selling or finding tenants for the non-residential components of the building, including serviced apartments.

... but other sites in the area may be able to meet these requirements.

6.2 Preliminary recommendations

Feasible non-residential FSR

The feasibility assessment on selected case study sites finds that the minimum non-residential FSR (of 0.5:1) applying to the study area is generally feasible, particularly on the western side of the Pacific Highway, as the building height limit is higher (16m).

The RLV modelling shows that the mixed use development on site A (on the western side of the highway) is expected to yield a feasibility ratio of 2.23, which is a strong indication for a feasible development. Similarly, site C yields a healthy feasibility ratio of 2.16. However, as the proposed development on Site C does not comply with the height limit, the feasibility of this development has been not used to determine the feasible non-residential FSR in the study area.

The mixed use development on the eastern side of the Highway is found to be less feasible, due to the lower building height limit (10m). Redeveloping the commercial property at 385-389 Pacific Highway into a mixed use development is likely to be just break-even.

Considering other development impediments, including lot amalgamation requirements and weak demand for retail and commercial floorspace (hence higher holding costs), we recommend the minimum non-residential FSR on the western side of the Pacific Highway to be kept at 0.5:1. On the eastern side of the Pacific Highway, Council may need to consider lowering the minimum non-residential FSR or relaxing the building height to make mixed use redevelopment more viable.

However, because there are limited redevelopment opportunities within the study area, the policy decision concerning the non-residential FSR requirements are unlikely to have a significant impact on the overall supply of non-residential floor space in the study area.

200 – 220 Pacific Highway

The proponent of this site has argued that provision of non-residential floorspace in the form of serviced apartments to meet the required ratio of 0.5:1 is not feasible, and should therefore be amended.

Based on consultation with real estate agents and serviced apartment providers, it seems unlikely that the serviced apartments provided in this development will be feasible, for the following reasons:

- As the site was not redeveloped wholesale, building footprints are slightly smaller, and non-residential floorspace has been pushed to the first floor to meet the non-residential floorspace ratio. It may be easier for other developments in the Study Area to meet the non-residential floorspace ratio if sites are redeveloped wholesale.
- Above-ground non-residential floorspace is not desirable in Crows Nest. Due to the nature of the businesses located in the area and the flat performance of the commercial property market in the area, properties with street frontages are more in demand.
- The site is located more than 1km from both St Leonards and North Sydney train stations and employment centres. Serviced apartments are most in demand in employment areas and areas well served by mass public transport.
- The developer has had difficulty finding appropriate tenants to fill the non-residential components of the development.

However, this site should be considered in isolation and not establish a precedent for relaxing non-residential floorspace ratios in the Study Area as a whole.

Based on the findings of the feasibility assessment, the non-residential floorspace ratio should be feasible for sites on the western side of the Pacific Highway in the Study Area, although it may need adjustment for the eastern side of the Pacific Highway.

Street level activation

Based on the urban design assessment, the following actions may help address the lack of street level activation in the study area.

- Require active frontages at ground level for either retail or commercial uses. Notwithstanding the current vacancies these locations are not suited to residential use due to the traffic volumes on the Pacific Highway.
- Allow flexibility in tenancy size at the ground level. Planning of ground level non-residential floorspace should allow – as much as is practical – flexibility in the size of the tenancy so as to cater for a diversity of potential users, large, medium and small.
- Rather than requiring dedicated non-residential floorspace above ground level, Council might consider requiring applicant to provide flexible first floor units that might be used as either residential or office or other professional consulting suites (e.g. medical related) through simple conversion.
- Minimise mandatory parking and access requirements for more viable non-residential uses, such as childcare centres.

APPENDIX

League table

Precinct attribute	Study area (Precinct 4)	Willoughby Road, Crows Nest	St Leonards (Lane Cove LGA)	St Leonards (Precincts 2 & 3)
Land use zoning	B4 - Mixed use zoning; ratio 1.5:1 non-residential floorspace ratio required; height limits of 10 and 16m in the study area.	B4 - Mixed use zoning, B3 - Commercial core, height limits between 10 and 13m, ratio of 1.5:1 non-residential floorspace required.	B3 - Commercial core. While this may maintain the supply of employment floorspace in the area, there have been recent requests for rezoning in the area.	B4 - Mixed use zoning, B3 - commercial core.
Vacancy rates	Very high on Pacific Highway, which harms the image of the area as a centre. This is because owners are holding onto their properties quite tightly in case they are rezoned residential.	Relatively low vacancy rates in comparison to non-residential properties on Pacific Highway.	After several slow years, vacancy rates are decreasing. Slow supply means that vacancy rates may tighten up in the short term.	After several slow years, vacancy rates are decreasing. Slow supply means that vacancy rates may tighten up in the short term.
Rental and land cost	Poor rental values in comparison with Willoughby Road and St Leonards.	High rents. This is the location of prime retail stock.	Poor rental values in comparison with other centres, e.g. North Sydney. However, the rental values are higher than Macquarie Park and Chatswood.	Poor rental values in comparison with other centres, e.g. North Sydney. However, the rental values are higher than Macquarie Park and Chatswood.
Age and building stock	Building appearance is tired, attracts low value tenants.	Building appearance varies between shops, but in general there are many 'active' frontages.	Older commercial buildings, with small floor plates, appropriate for smaller tenants. However, higher grade office space is more in demand across the region.	Older commercial buildings, with small floor plates, appropriate for smaller tenants. However, higher grade office space is more in demand across the region.
Close to arterial road or freeway/motorway	Very close to Pacific Highway	Comparatively far from Pacific Highway.	Close to Pacific Highway	Close to Pacific Highway.
Economic contribution - role in centres hierarchy	Crows Nest is classified as a "village" in the DINSS, rather than classified as a specialised centre like St Leonards.	The area is a "village"	St Leonards/Crows Nest is a specialised centre, earmarked for significant employment and residential growth to 2031 (DMS). However, experiencing competition from commercial centres at North Sydney and Macquarie Park.	St Leonards/Crows Nest is a specialised centre, earmarked for significant employment and residential growth to 2031 (DMS). However, experiencing competition from commercial centres at North Sydney and Macquarie Park.

Precinct attribute	Study area (Precinct 4)	Willoughby Road, Crows Nest	St Leonards (Lane Cove LGA)	St Leonards (Precincts 2 & 3)
Proximity to residential development	High proportion of residential development in the area (Crows Nest) dilutes the area as a commercial address.	Close to residential development in surrounding streets.	Mixed use rezoning in the North Sydney LGA-side of the St Leonards centre has resulted in a significant increase in the number of residential units in the area.	Mixed use rezoning has resulted in a significant increase in the number of residential units in the area. This may have compromised the area's status as a commercial core.
Proximity to similar land uses	Tenants tend to be smaller local businesses - Crows Nest is not an established commercial hub for non-retail.	High number of retail, restaurants and cafes in the area creates a "vibrant and active retail hub".	Large number of other commercial buildings has established St Leonards as a specialised office precinct.	Large number of other commercial buildings has established St Leonards as a specialised office precinct.
Proximity to key infrastructure, e.g. hospitals	Next door to Mater Hospital, nearby to Royal North Shore hospital.	Not close to either train stations or major hospitals.	Very close to Royal North Shore hospital, TAFE, these are key knowledge infrastructure assets.	Very close to Royal North Shore hospital, TAFE, these are key knowledge infrastructure assets.
Existing uses	High proportion of apartments, followed by ground floor small retail shops and commercial suites.	High proportion of retail, restaurants and cafes creates a "precinct".	Significant number of commercial buildings	Significant number of commercial buildings
Redevelopment potential	Some smaller sites may require amalgamation. The larger sites with higher levels of vacancy may be good candidates for redevelopment.	Narrow sites with fragmented ownership. To achieve a suitable footprint for redevelopment will require amalgamation.	Low levels of development activity at the moment, compared with North Sydney and Macquarie Park.	Low levels of development activity at the moment, compared with North Sydney and Macquarie Park. Redevelopment potential higher for conversion of commercial into residential buildings, in areas zoned B4 - Mixed use.
Public realm and pedestrian amenity	High number of 'inactive' frontages due to vacant tenancies. However, the framework for a high quality public realm is provided by pavers and street trees.	High quality public realm, with good pedestrian amenity and many 'active' frontages. Narrow frontages	Poor public realm and pedestrian amenity, lack of outdoor public spaces. Council is currently collecting contributions for streetscape upgrades.	Poor public realm and pedestrian amenity, lack of outdoor public spaces. North Sydney Council is currently collecting contributions for streetscape upgrades.
Access to train station	More than 1km from St Leonards and North Sydney stations - outside the usual walking catchment. However, excellent proximity to buses.	More than 1km from St Leonards and North Sydney stations - outside the usual walking catchment. However, excellent proximity to buses.	Excellent access to St Leonards train station.	Excellent access to St Leonards train station

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