



Economic Advice - 270

Pacific Highway Crows Nest

Silvernights Pty Ltd 22 | 02 | 2021





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Contents

1.	Introduction.....	4
1.1	Findings of earlier SGS report.....	4
2.	St Leonards & Crows Nest 2036 Plan.....	6
2.1	Vision.....	6
2.2	Employment targets and floorspace.....	6
2.3	Planning implementation	8
3.	Floorspace supply and demand.....	9
3.1	Employment forecasts.....	9
3.2	Floorspace pipeline.....	10
3.3	Floorspace demand and gap.....	12
4.	Economic trends and opportunities	16
4.1	The need for consolidated office floorspace	16
4.2	Future demand for office space / future office densities	17
4.3	Health co-location benefits	18
5.	Conclusion	21

LIST OF TABLES

Table 1:	Employment forecast for the broader st leonards strategic centre.....	9
Table 2:	developments in the floorspace pipeline.....	10
Table 3:	Floorspace pipeline summed to five-year intervals (sqm)	12
Table 4:	additional Floorspace demand implied by employment projections (sqm).....	14
Table 5:	forecast Floorspace demand gap (sqm).....	14

LIST OF FIGURES

Figure 1:	Sub-precinct employment targets and breakdown	7
Figure 2:	proposed height of buildings for st leonards and crows nest.....	8

1. Introduction

SGS Economics and Planning has been appointed by Silvernight Pty Ltd to provide economic advice relating to a site at 270-272 Pacific Highway Crows Nest. It is understood that a development is proposed for the site of 13 storeys and accommodating 22,853sqm gross floor area, to be used for employment generating purposes as a commercial building and for medical and health related services.

SGS previously prepared an economic context report for this site and proposed development. This report is intended to update the employment and floorspace projections in the previous report in light of the finalisation of the St Leonards and Crows Nest 2036 Plan and the release of newer employment projections, and to summarise the key economic arguments relevant to the proposed development.

SGS has considered only the potential economic opportunities for a development of this type in this location. Broader planning issues may also influence the appropriateness of development such as the compatibility of the proposed bulk and scale or off-site amenity impacts.

1.1 Findings of earlier SGS report

The main findings of SGS's earlier economic context research for development on the subject site, completed in May 2020, included the following.

Location and size

- The site is a 5 minute walk to the future metro station at Crows Nest, as well as the Mater Hospital and Melanoma Clinic. It is 15 minutes to the St Leonards centre and station, Wollstonecraft station, the future Victoria's Cross station and Australian Catholic University.
- Proximity to key assets including the future Crows Nest Metro Station, North Shore Private and Public Hospitals, Mater Hospital, Sydney Melanoma Institute, St Leonards TAFE, Australian Catholic University Campus, Sydney Design School as well as the Willoughby Rd Neighbourhood Centre provides an opportunity to support commercially focussed operations that benefit from proximity to these places.
- The site is larger than most sites in proximity along the Pacific Highway. Along with the site's consolidated ownership, its size makes development easier than on other smaller sites.
- The development of boutique prime office space on the subject site would support the vision for Crows Nest as the pre-eminent high street neighbourhood centre in the area. The proposed development would enhance the viability of Willoughby Road by adding in hundreds more workers who can spend locally.

Property market

- Agency consultation noted that the North Sydney and St Leonards markets were performing well, though are currently quiet until confidence returns to the market due to COVID-19. Crows Nest is located in a prime position, capable of leveraging both markets. It also has the advantage of the future metro station, with a high degree of amenity due to its proximity to Willoughby Rd.

- Market data and agent consultations suggests a shortage in prime office stock, in an already tight market. There is an opportunity to capitalise on a growing number of knowledge and health firms from North Sydney, St Leonards and Macquarie Park and provide a distinct type of commercial product in Crows Nest.
- Mapping vacant commercial space that is tagged as appropriate for 'medical' showed that there is a broad cluster across St Leonards and Crows Nest. This could indicate that from a marketing perspective, agents know that the area is well suited to medical uses.
- There is scope to attract interest from businesses in North Sydney, St Leonards and even Macquarie park. This is due to the site being able to offer proximity and amenity, at a more affordable price point. A development with larger floorplates to attract larger companies would be well positioned in this way.

Development opportunities

- The subject site is well suited for boutique A-grade commercial office space catering to knowledge and health workers wanting to be near the Mater Hospital, near the Melanoma clinic, or workers needing quality floorspace from broader markets.
- Crows Nest offers proximity to the CBD, high amenity and cheaper rents than the other sub-markets on the North Shore. Companies across North Sydney, St Leonards and even out to Macquarie Park may find that it offers the ideal blend of attributes not found across the existing centres.
- An A-grade office development would be able to be reconfigured to leverage the growing medical real estate asset class at St Leonards, without needing to be developed specifically as a niche medical development.
- Redevelopment of the subject site as commercial offices would be aligned with the draft St Leonards Plan 2036.

COVID-19

- An increase in remote working could lead businesses to downsize from premium office markets like Sydney CBD to smaller offices in slightly less central (although still accessible) locations. Centres like St Leonards and Crows Nest could benefit from this trend.
- With employees working from home part of the time, the role of physical offices could shift towards facilitating collaboration and connection. Higher-quality offices with generous floorspace facilitating collaboration would be appropriate for this role, but may not be provided in St Leonards without additional development such as that proposed on the subject site taking place.

Future floorspace demand and gap

In addition to the above conclusions, SGS also provided an estimate of the future demand for floorspace in St Leonards and Crows Nest, and the gap between this demand and what is provided in the current development pipeline. **The modelling has been superseded by modelling in this report, which relies on more up to date information.**

2. St Leonards & Crows Nest 2036 Plan

The St Leonards and Crows Nest 2036 Plan (the Plan) was finalised in August 2020, after SGS's previous economic evidence report for the subject site. This section reviews the Plan and summarises its relevance to economic opportunities on the subject site.

2.1 Vision

The Plan sets a vision for increased employment in the St Leonards and Crows Nest Strategic centre. the most prominent part of which is quoted below.

Sitting at the heart of the Eastern Economic Corridor; connectivity, innovation and a commitment to great design will see the St Leonards and Crows Nest area transform as a jobs powerhouse. Mixing commercial and residential, the centre will offer workers, residents, students and visitors a variety of homes, jobs and activities with increased accessibility with a new world class metro service.

Economic development and employment growth is a key part of this vision, with a target for 16,500 additional jobs in the Precinct set. The vision section of the Plan also highlights potential growth and opportunities in the health and technology sectors and in health and medical research.

2.2 Employment targets and floorspace

Employment targets and future economic character

A primary objective of the Plan is to provide sufficient capacity for additional commercial floorspace to support the area's projected employment growth to 2036. This will allow an enhanced economic role for the area as one of the Eastern Economic Corridor's major employment hubs.

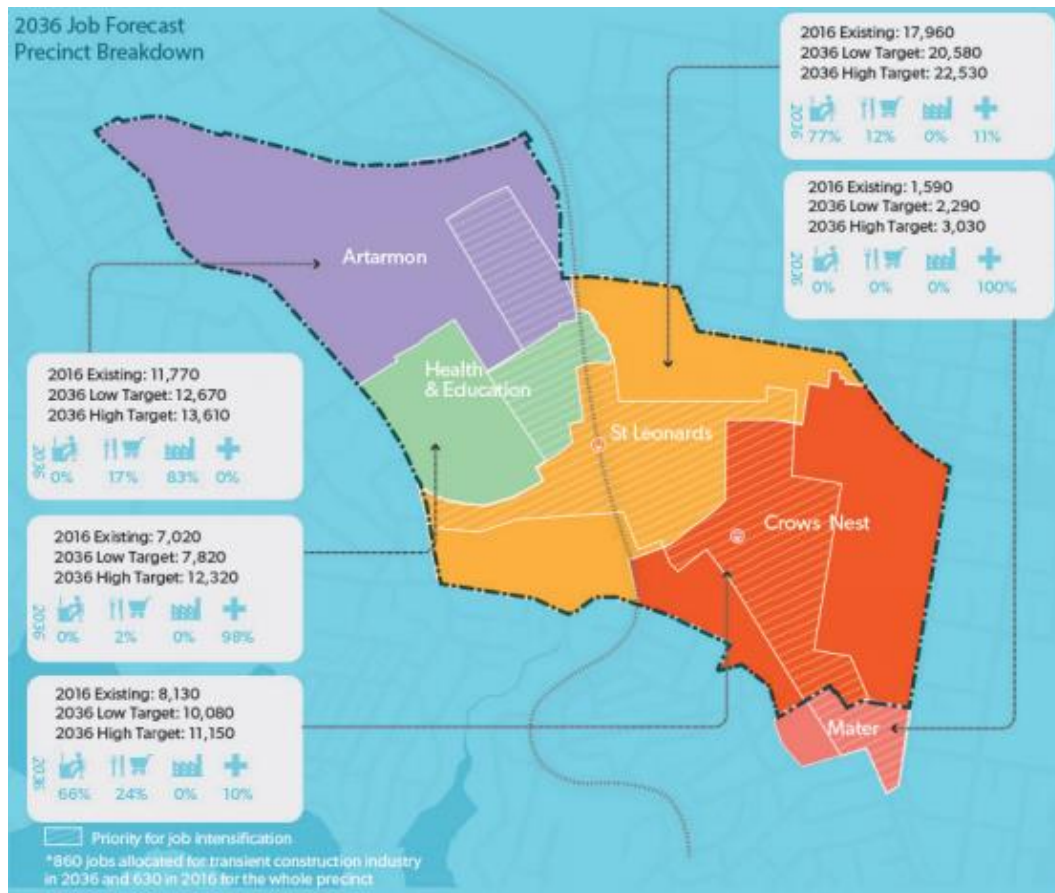
The plan aims to accommodate an additional 16,500 new jobs within the precinct to 2036, amounting to a total of 63,500 jobs if this target is reached. This is compared to a base case scenario, which would see approximately 54,000 jobs in the precinct by 2036.

Several sub-precincts have also been identified by the Plan, each with its own economic character (p51). Of these, the St Leonards, Crows Nest and Mater precincts are of relevance to the project site, and have been prescribed the following job targets and sources of employment growth:

- St Leonards - 2,160 - 4,570 jobs. Knowledge based jobs will be the dominant source of employment within the sub-precinct.
- Crows Nest – 1,950 – 3,020 jobs. This sub-precinct will host a mix of knowledge and population serving jobs, with the latter concentrated along Willoughby Road. 10% of additional jobs are also expected to come from health, given the proximity of the Mater Hospital.
- The Mater – 700-1440 jobs. All additional employment within this sub-precinct will be linked to health.

Additional details for all five precincts are illustrated in Figure 1 below.

FIGURE 1: SUB-PRECINCT EMPLOYMENT TARGETS AND BREAKDOWN



Source:

NSW Department of Planning, Industry and Environment

Relevant objectives

Precinct Objectives – Productivity contains several objectives which are strongly related to commercial development on the subject site:

- Ensure new employment sites in the area cater to a range of business types and sizes.
- Protect large commercial core zoned sites to ensure employment uses are protected into the future.
- New development in mixed-use areas should contribute to the delivery of active streets by providing a range of uses at ground floor.

Section 04 – *land use* of the Plan contains several actions which aim to leverage the benefits of co-locating of health, education and commercial uses to incentivise “innovative and complementary” uses to locate and develop in the area. While these objectives are primarily related to the North Shore Health and Education Precinct, similar opportunities exist for the project site, given its proximity to the Mater Hospital (p42).

The Plan also supports the retention and expansion of the boutique retail and hospitality character of the area, with Willoughby Road nominated as an important high street and a key part of the retail offering. Development near Willoughby Road would support its continued vibrancy through employees buying goods and services, particularly food and beverages, from businesses on Willoughby Road.

2.3 Planning implementation

The final section of the Plan outlines proposed changes to planning controls within the precinct, including those which apply to the project site. These maps recommend retaining the existing B4 zoning for the site, with a building height limit of 13 storeys. A floor-space-ratio (FSR) of 5.6 is recommended, all of which is to be provided as non-residential floorspace.

FIGURE 2: PROPOSED HEIGHT OF BUILDINGS FOR ST LEONARDS AND CROWS NEST



Source: NSW Department of Planning, Industry and Environment

Implications

Economic development and increasing employment is a key part of the St Leonards and Crows Nest 2036 Plan. Meeting the plan's jobs target of 16,500 additional jobs will require a significant amount of additional employment generating floorspace.

3. Floorspace supply and demand

3.1 Employment forecasts

New small area employment projections were recently released by Transport for NSW. These are an update on previous projections and take account of policy aspirations for the St Leonards Strategic Centre as expressed in the St Leonards and Crows Nest 2036 Plan, which the previous projections did not. The new employment projections for the St Leonards and Crows Nest Precinct are shown in the table below.

TABLE 1: EMPLOYMENT FORECAST FOR THE BROADER ST LEONARDS STRATEGIC CENTRE

Industry	2016	2036	Change	Average annual growth rate
Health Care and Social Assistance	11,147	19,138	7,991	2.7%
Professional, Scientific and Technical Services	9,056	14,122	5,065	2.2%
Manufacturing	1,922	3,128	1,207	2.5%
Construction	2,390	3,438	1,048	1.8%
Education and Training	1,398	2,371	973	2.7%
Accommodation and Food Services	1,645	2,553	908	2.2%
Retail Trade	2,480	3,361	881	1.5%
Information Media and Telecommunications	4,477	5,339	861	0.9%
Wholesale Trade	2,080	2,866	786	1.6%
Financial and Insurance Services	1,885	2,647	762	1.7%
Other Services	1,776	2,274	499	1.2%
Administrative and Support Services	1,258	1,706	448	1.5%
Public Administration and Safety	706	1,130	424	2.4%
Rental, Hiring and Real Estate Services	935	1,318	382	1.7%
Arts and Recreation Services	397	616	219	2.2%
Electricity, Gas, Water and Waste Services	110	196	87	3.0%
Mining	113	122	9	0.4%
Agriculture, Forestry and Fishing	32	24	-7	-1.3%
Total	43,806	66,350	22,544	2.1%

Source: Transport for NSW 2020, *TZP19 Projections*

According to these projections, employment in the St Leonards Strategic Centre is forecast to grow by 22,544 between 2016-2036. This equates to a proportional growth of 51% or 2.1% per year on average,

a higher employment growth rate than the forecast of 1.5% per year on average across Greater Sydney. The St Leonards 2036 Plan has a lower employment target of 16,500 additional jobs between 2016-2036, while previous employment projections (TZPv1.51) were for only 6,359 additional jobs during the same time period.

3.2 Floorspace pipeline

The development pipeline for commercial floorspace in the St Leonards Crows Nest Area (including development completed since 2016) is shown in the table below. The development pipeline was considered in SGS's previous report, however this information has been updated to produce the table below with additional projects and information now available.

To produce the floorspace pipeline table below, the commercial floorspace available on each development site pre-development was estimated. This was subtracted from the office floorspace to be provided in the proposed developments to obtain the *net change*. The commercial floorspace prior to development was sourced from publicly available development application material where possible, but in other cases was estimated based on a building area and number of floors.

Large employment generating buildings are also proposed or underway at the Gore Hill Business Park but these are not included as they are understood to be data centres, which is a light industrial rather than office use.

TABLE 2: DEVELOPMENTS IN THE FLOORSPACE PIPELINE

Development address and name	Development description	Expected completion	Estimated net change in commercial floorspace (sqm)
64-66 Chandos St, St Leonards	6 Storey mixed use development with commercial ground floor use, replacing two storey commercial building	2021	-180
100 Christie St, St Leonards	36 storey mixed use development with 6 floors of employment generating use, replacing 12 storey commercial building	2024	-7,313
18-20 Atchison St, St Leonards	16 storey mixed use development including retail, gym and commercial uses on four floors, replacing 3 storey commercial building	2022	346
563-565 Pacific Hwy, St Leonards	Mixed use development containing ground floor and lower ground floor retail/commercial floorspace, replacing shop/commercial building	2021	-147

Development address and name	Development description	Expected completion	Estimated net change in commercial floorspace (sqm)
617-621 Pacific Hwy, St Leonards	Concept design for approved planning proposal includes office uses on floors 3-5 in podium of 48 storey mixed use development, replacing 2 and 7 storey commercial buildings	2022	-1,906
575-583 Pacific Hwy, St Leonards	Approved planning proposal for mixed use development with commercial component	2024	2,616
Crows Nest Station Development, 14 Clark St, Crows Nest	Large mixed use development including hotel and 2700sqm of commercial floorspace	2024	2,700
67-69 Chandos Street, St Leonards	11 storey mixed use development with ground and lower level retail space, replacing 3 storey commercial building	2023	-1,404
88 by JQZ Pacific Highway, Lithgow Street and Christie Street, St Leonards	Mixed use development up to 47 storeys, with retail space including a supermarket and 19,297sqm of commercial space, replacing multiple commercial buildings over a site of approx. 0.62ha	2024	-13,339
St Leonards Square, 472-486 Pacific Highway, St Leonards	Mixed use development up to 36 storeys including 3 levels of commercial uses, replacing 5-6 storey office buildings	2020 (complete)	-7,099
The Landmark 496-520 Pacific Highway, St Leonards	Mixed use development with 3 levels of commercial floorspace, replacing 10 storey commercial building	2022	-9,908

Source: SGS 2020 based on Cordell Connect database and development application documentation

In most cases the amount of commercial floorspace is expected to be decreased by development. This is a result of solely commercial buildings being replaced by mixed use developments, of which only a portion is provided for commercial purposes. Most of St Leonards is intended to accommodate similar development under the St Leonards and Crows Nest 2036 Plan, and development economics generally favour the provision of residential over commercial floorspace due to the high returns provided by residential development.

The commercial buildings being replaced are often older-style buildings likely providing low-grade office floorspace. This floorspace in some cases may not be attractive for modern office use and may be partly vacant. Nonetheless, the expected decrease in the quantum of commercial floorspace represents a

reduction in the employment potential of St Leonards, in contrast with the aspirations of the St Leonards Crows Nest 2036 Plan.

Additional commercial development will be required to achieve the economic aspirations of the St Leonards Crows Nest 2036 Plan, with the amount required explored in the following section.

The floorspace pipeline is summarised in the table below, which provides the estimated net change in commercial floorspace in five-year increments aligned with the time periods used by employment projections.

TABLE 3: FLOORSPACE PIPELINE SUMMED TO FIVE-YEAR INTERVALS (SQM)

	2016-2021	2021-2026	Total
Estimated net change in commercial floorspace	-7,279	-28,355	-35,634

Source: SGS 2020 based on Cordell Connect database and development application documentation

3.3 Floorspace demand and gap

Floorspace demand in the St Leonards and Crows Nest Precinct has been estimated from the new employment projections using two different methods. These methods provide a range in which the floorspace demand is likely to lie.

Low scenario

For the low scenario, the updated employment projects were adjusted to align total employment growth in each sub-precinct between 2016-2036 with those in the St Leonards and Crows Nest 2036 Plan, which are shown in Figure 1 on page 7.

The six industry classifications with employees most likely to be housed in offices were identified, and all additional jobs in these categories assumed to be office-based and to contribute to office floorspace demand. This was the method employed by SGS in the previous economic report for the subject site using the older projections. The industry categories included were:

- Information media and telecommunications
- Financial and insurance services,
- Professional, scientific and technical services
- Rental, hiring and real estate services,
- Administrative and support services
- Public administration and safety

This scenario provides a likely underestimate of total office floorspace needed in the St Leonards Precinct to meet the St Leonards Crows Nest Plan 2036's targets, as there are many office jobs in industry sectors that are not traditionally regarded as office-based. For example, head offices for manufacturers or retailers may be based in an office separate from the rest of the business, or a private education college or medical practice may locate in a space that would otherwise be used as an office.

High Scenario

For the high scenario, industry-specific percentages were developed reflecting the likelihood of employees to be housed in offices. These factors were applied to all additional jobs forecast for the St Leonards and Crows Nest sub-precincts, in which employment is mostly either office based or in retail, hospitality and services (the Mater, Health and Education and Artarmon Precincts were not included). The percentages reflect an assumption that almost all employment growth in these office-based sub-precincts is likely to require office floorspace, with the exception of the retail, hospitality, utilities, construction, health and education sectors for which only a portion of employment will be office-based.

The new projections predict that employment in the Artarmon Industrial Precinct will grow by 5,955 or 57% between 2016-2036. This projection is inconsistent with the policy intention for the sub-precinct to retain an industrial zoning and use profile, under which only a modest increase in employment is likely to be possible. As such, under the high scenario around 10% of employment growth in traditionally industrial sectors, 50% in retail and services and 75% in other industries has been diverted to St Leonards and Crows Nest. This breakdown would divert 31% of the forecast growth in Artarmon into St Leonards and Crows Nest. The percentages used are intended to reflect opportunities at a high level rather than to provide an exact estimation of where employment growth will occur. The high scenario is intended to provide an upper estimate of likely floorspace demand in St Leonards and Crows Nest sub-precincts given current projections. In practice, it is expected that demand will fall somewhere in between the high and low scenarios.

Converting employment to floorspace demand

Floorspace to jobs ratios were used to convert employment projections to floorspace demand. Ratios were obtained from the SGS study into employment and economics (which has been publicly released) commissioned by the Department of Planning and Environment to inform the St Leonards and Crows Nest 2036 Plan.

Two potential floorspace to job ratios have been used:

- 26 sqm/job, which is the current ratio of floorspace to employment in the St Leonards and Crows Nest sub-precincts,
- 18 sqm/job, which is a potential future ratio of floorspace to employment established from consultation with property specialists to be at the upper end of the range of floorspace requirements in new office buildings. The use of a value at the upper end of this range rather than the lower end (where values of 11 – 14 sqm/job is seen) is a conservative assumption to ensure that employment floorspace needs are not underestimated, which could lead to under provision of floorspace.

In the context of COVID-19, these ratios can be considered as providing different scenarios which encapsulate how office environments may change in the future. The lower ratio (18 sqm/job) would require little change from current layouts in new offices, while 26 sqm/job would be more likely if trends in office layouts change in response to the need for more space between people.

Results

The table below shows SGS's estimates of floorspace demand in the St Leonards and Crows Nest sub-precincts under the assumptions discussed above.

TABLE 4: ADDITIONAL FLOORSPACE DEMAND IMPLIED BY EMPLOYMENT PROJECTIONS (SQM)

Scenario	Floorspace/job ratio	By 2021	By 2026	By 2031	By 2036
Low	Low (18)	38,031	57,873	71,470	86,520
	High (26)	54,934	83,594	103,235	124,973
High	Low (18)	64,244	106,186	142,762	181,255
	High (26)	86,474	142,215	189,533	239,420

Source: SGS 2020

Adding the current floorspace pipeline to these floorspace demand results provides an estimate for the gap between likely floorspace demand and what is currently proposed by the development industry. This gap is shown in the following table, with positive values indicating additional floorspace estimated to be needed.

With reference to the table below, it is possible to see that a development with around 26,050sqm of commercial and employment generating GFA completed in around 2026 would contribute towards meeting demand for required office space, but would not absorb all demand or detract from the opportunities for development in other parts of the St Leonards – Crows Nest Precinct. If development of a large site like the subject site does not occur in the short-medium term, there is likely to be a large shortfall of commercial floorspace.

TABLE 5: FORECAST FLOORSPACE DEMAND GAP (SQM)

Scenario	Floorspace/job ratio	By 2021	By 2026	By 2031	By 2036
Low	Low (18)	45,310	93,507	107,104	122,154
	High (26)	62,213	119,228	138,869	160,607
High	Low (18)	71,523	141,820	178,396	216,889
	High (26)	93,753	177,849	225,167	275,054

Source: SGS 2020

Implications

In addition to currently planned development, between 122,154 – 275,054 sqm of additional commercial (predominately office) floorspace would be needed to achieve employment growth in line with the St Leonards Crows Nest 2036 plan and employment projections. This gap is higher than the 119,979sqm estimated to be needed in the St Leonards Plan 2036, as a result of increased employment projections and the development pipeline, which contains many mixed-use developments currently associated with an overall decrease in the quantum of commercial office floorspace.

22,853sqm of commercial floorspace would contribute towards meeting demand without absorbing all forecast demand to the detriment of other potential development

4. Economic trends and opportunities

4.1 The need for consolidated office floorspace

Drivers of office location

Office floorspace can be broadly understood to be one of two types, each of which has distinctly different drivers.

- ‘Population-serving’ commercial activity is closely linked to demand from the local population. These commercial uses provide services for people within a relatively restricted local catchment. Typical activities include accounting, legal services, and medical services.
- ‘Business-serving’ commercial activities choose to locate in areas that suit the broader requirements of the business. For these uses, proximity to customers is important but sits alongside other broader locational factors. These are diverse and include:
 - access to skilled employees
 - Public transport accessibility (for example to the proposed Sydney Metro stop)
 - proximity to trade gateways (i.e. ports and airports)
 - access to key business inputs, (e.g. administrative functions associated with a winery locating within a wine region)
 - the location of clusters of related businesses
 - proximity to collaborators.

Based on standard ratios commonly used by SGS and population projections by the NSW Government, there is likely to be demand for around 4,000 additional population-driven office jobs across the Willoughby, North Sydney and Lane Cove LGAs between 2016-2036, which would be distributed between Chatswood, St Leonards, Crows Nest, North Sydney and smaller centres.

St Leonards and Crows Nest would need to compete with other major office centres to attract business-serving commercial business and activities and grow employment more than what would be possible with only population-serving commercial jobs. A-grade and premium office space with access to high levels of amenity would be important to make St Leonards Crows Nest competitive and provide scope for growth by attracting business-serving commercial activity.

Mixed use development

Creating a mix of uses in the high density core of St Leonards is a key part of the St Leonards – Crows Nest 2036 Plan, including commercial, retail and residential uses. As seen in the floorspace pipeline catalogued in the previous chapter, mixed-use development is already leading to plans for the demolition of dedicated commercial buildings and their replacement with very high density mixed use developments which are predominately residential and contain only a few floors of office space.

Office and commercial space in new developments in mixed use zones typically contains a diverse range of retail, hospitality, small offices and local services. These relatively small commercial spaces in mixed-use developments are unlikely to provide the consolidated A-grade and premium office space that a major commercial centre would require to grow.

There are some examples of *horizontal separation* of residential developments with premium commercial development, generally in mixed use zones which used to be commercial in focus like the North Sydney Town Centre. St Leonards is likely to develop in this way. However, mixed use developments with *vertical separation* between large premium office floorspace and residential apartments in the same building are much more rare. Rather, large corporate tenants usually prefer to be located in exclusive commercial buildings with a strong commercial sense of address.

Implications

The mixed use development occurring in St Leonards may not provide the consolidated and A-grade office space which is needed to create a sense of address and compete with other centers for strategic and business-serving commercial activities. Rather, some commercial-only buildings are likely to be required.

4.2 Future demand for office space / future office densities

The office market is currently severely affected by COVID-19. The impacts of this shock could persist past the short term and are discussed below.

Short-term decline

Throughout Australia, office markets in the CBDs of all Australian capital cities experienced increased vacancy rates in the first half of 2020. In Sydney's CBD this resulted in a net absorption of -66,600 sqm of commercial floorspace and a vacancy rate of 7.5%.

This short-term decline has been perpetuated as a result of declining revenues and uncertain projections amid the COVID-19 pandemic, with organisations seeking to reduce their cost-base by lowering their space requirements.¹

Long term implications

Although short-term declines in the demand for commercial office space may be attributable to the current economic recession, uncertain business climate and low consumer confidence, the effect of COVID-19 and subsequent lockdowns also seems to have expedited structural changes in the office market.²

Almost one third of workers have been working from home throughout the pandemic, with this figure almost 60% for financial services workers.³ This forced transition to remote working has illustrated the

¹ McKeown 2020, 'Office Vacancy Turns Negative', The Urban Developer, <https://theurbandeveloper.com/articles/office-vacancy-gets-negative-results-covid-19>

² De la Fuente & Barroso 2020, 'Covid-19 and the Office Market', Savills, https://www.savills.com.au/research_articles/167771/299044-1

³ Roy Morgan 2020, 'Nearly a third of Australian workers have been 'WFH'', <http://www.roymorgan.com/findings/8451-roy-morgan-working-from-home-june-202006290638#:~:text=New%20research%20from%20Roy%20Morgan,parts%20of%20the%20Australian%20economy>.

potential efficiencies which can be gained through this approach, with lower space requirements for companies able to completely digitise parts of their operation.

According to a global survey by office design firm Unispace, approximately 36 per cent of companies reportedly intend to shrink their office footprint in response to these changes to work practices.⁴ Research by Savills indicates that over 70 per cent of their clients believe there will be a long-term impact on the design and size of the workplace.⁵

However, while the transition to working from home for many has demonstrated the value of flexible working arrangements, it has also made clear the value and role of the physical workplace as a nexus for interaction between clients and colleagues.⁶

The effect of the pandemic of reducing floor space requirements may also be diluted somewhat by an expected increase in the allocation of floorspace per employee in the office due to physical distancing considerations.

As such, the physical office is predicted to continue to have a major role, although likely with a greater emphasis on spaces for collaboration and socialisation, with hot-desking also increasingly prevalent.⁷ Alternative arrangements, such as co-working spaces, may become more common as companies seek to combine the benefits of collaboration and physical proximity with those of remote working.

Implications

The physical office is likely to continue to have a role in the future, although it may look slightly different than it has in the past. While growth in the office market may be reduced, or the office market may shrink in the short term, increasing employment over the longer term means that additional modern and high-grade office space is likely to be required in the St Leonards and Crows Nest Precinct in the future.

4.3 Health co-location benefits

The subject site is within a short walk of the Mater Hospital. The broader St Leonards and Crows Nest Strategic Centre is also home to a range of other medical services, including the Royal North Shore Hospital and North Shore Private Hospital in the Health and Education Sub-precinct west of St Leonards Station.

Proximity to health-care services and major facilities creates opportunities for smaller health care facilities in new developments like that proposed for the subject site. This is noted in the St Leonards-Crows Nest 2036 Plan, which notes (p 49) the likelihood of growth in health services and complementary uses such as research, diagnostics and medical manufacturing, and proposes “further investigation of opportunities for allied health uses in the area”.

⁴ McKeown 2020, ‘Global Companies to Downsize Office Footprint’, The Urban Developer, <https://theurbandeveloper.com/articles/global-companies-to-downsize-office-footprint-covid-19>

⁵ Savills 2020, ‘89% believe the office is vital, but needs to change’, <https://www.savills.com.au/insight-and-opinion/savills-news/301232/less-time-spent-commuting-sees-londoners-working-longer-hours-in-lockdown>

⁶ Savills 2020, ‘Covid-19 and the Office Market’, https://www.savills.com.au/research_articles/167771/299044-1

⁷ Savills 2020

The sections below explore some of the benefits of co-location of health facilities.

Location of consulting rooms near hospitals

Clusters of consulting rooms and associated services are generally found near major hospitals, including private hospitals like the Mater Hospital. Consultant doctors will generally split their time between multiple hospitals and facilities, and this is facilitated by the presence of private consulting premises near hospitals.

Patient benefits

Patient outcomes and experiences may be better serviced where medical co-location occurs. Greater concentrations of medical services allow for focussed and efficient procurement of infrastructure. These improvements to infrastructure quality can offer savings for community members accessing medical services including travel and convenience.⁸

Additionally, patients may benefit from a broader provision of specialists and procedures and wider coordination with other care providers in a single location. This offers significant accessibility advantages when compared with a stand-alone GP or specialist practice.⁹ These gains are particularly relevant in scenarios where patients require access to more than one service e.g. transitions between primary, secondary and tertiary healthcare.

Innovation via agglomeration

Innovation and research districts, including those focused on health, are founded on the shared logic of leveraging the benefits of co-location within particular industries.¹⁰ These areas are characterised by anchor institutions surrounded by clusters of smaller ancillary uses, start-ups, research institutions and other complementary uses. Hospitals or major medical research institutions are typical examples of an anchor institution in an innovation context.

Within these areas, separate organisations benefit from physical proximity via shared resources, infrastructure and supply-chain efficiencies. Intangibles benefits as a result of ‘collisions’ between people in related fields, which create networks and encourage information sharing, are also regularly cited as part of the economic rationale for co-location.¹¹

Co-location of companies and institutions related to health offers benefits unique to the sector, with relationships between anchor institutions and health companies critical to the commercialisation of drugs and medical devices. Major hospitals and other facilities are typically highly invested in R&D, and have research relationships with universities, research institutions and related businesses within their vicinity. While this kind of co-location would be expected mostly to require research space and specialised facilities, the provision of high quality office space near research hospitals is also important to cater to businesses in the innovation supply chain.

⁸ Victorian Department of Education and Training 2015, ‘Co-location and other integration initiatives: Strategic Evaluation’, <https://www.education.vic.gov.au/Documents/about/research/colocation/Co-location%20Services%20Summary.pdf>

⁹ Bonciani et al 2018, ‘The benefits of co-location in primary care practices: the perspectives of general practitioners and patients in 34 countries’, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5822600/>

¹⁰ Katz, B., & Wagner, J. 2014, *The Rise of Innovation Districts: A new geography of innovation in America*, The Brookings Institution, <https://www.brookings.edu/innovation-districts/>

¹¹ NSW Government 2018, ‘The Sydney Innovation and Technology Precinct Panel Report’, https://www.business.nsw.gov.au/__data/assets/pdf_file/0009/267606/Sydney-Innovation-and-Technology-Precinct-Panel-Report.pdf

Implications

Proximity of the subject site to the Mater Hospital and to other health services creates a potential market for health uses as part of any redevelopment, as well as reinforcing the need for appropriate office space to leverage economic opportunities associated with the health and education precinct.

5. Conclusion

Demand

As outlined in Chapter 3, large amounts of additional commercial and office floorspace would be needed in the St Leonards-Crows Nest Strategic Centre to meet employment targets and to grow in line with employment projections to 2036. A commercial development of around 22,853 sqm GFA would contribute to meeting modelled demand, but would not flood the market to the detriment of other potential opportunity sites and developments.

COVID-19 is likely to dampen overall employment growth and office demand in Greater Sydney in the short and perhaps medium term. However, into the longer term there will continue to be a need for more office floorspace to permit economic growth. COVID-19 also creates the potential for reconfiguration of the office market towards out of CBD locations. Crows Nest and St Leonards could benefit from this trend, but modern A-grade office space would be needed to leverage this opportunity.

Current development pipeline and economic prospects

Mixed use developments dominate the current employment pipeline in St Leonards. These developments are mostly decreasing the current quantum of commercial floorspace and may not provide the consolidated A-grade office floorspace which would be needed to attract large corporate tenants to St Leonards and to enable it to compete with other major employment centres. Instead, modern office space consolidated in commercial-only buildings with a strong sense of address provides good prospects for leveraging economic opportunities in St Leonards and meeting employment targets.

Opportunities for the subject site

There are few prospects for a large commercial-only development in St Leonards and Crows Nest, with only mixed-use developments found on the Cordell Connect development database and little land intended to be zoned B3 Commercial Core in St Leonards. Sites with consolidated ownership like the subject site provide opportunities to facilitate commercial-only development in the short-medium term. Increased development would support economic objectives in the St Leonards and Crows Nest 2036 Plan and other strategic planning documents, as well as supporting Willoughby Road as a vibrant local centre.

As noted in SGS's previous work, Crows Nest offers proximity to the CBD, high amenity and cheaper rents than other sub-markets on the North Shore and than the Sydney CBD. Crows Nest is well placed to leverage proximity to office markets in both North Sydney and St Leonards.

Notwithstanding its location in Crows Nest out of the main centre of gravity of offices in St Leonards, the subject site is located near Willoughby Road and the future Crows Nest Station, increasing its potential level of attractiveness for businesses following redevelopment. There are also likely to be opportunities for medical premises on the subject site given its proximity to the Mater Hospital and other large medical facilities and premises, as well as accommodating local population-serving businesses seeking proximity to the local Crows Nest Centre rather than the more commercial St Leonards centre.

Key findings

There is likely to be demand in the St Leonards and Crows Nest Precinct over the life of the 2036 plan to support the proposed development.

The proposed development would contribute to meeting modelled demand, but would not flood the market and so prevent other sites from being developed.

Additional prime office space in stand-alone commercial developments (as proposed on the subject site) is likely to be required to attract business-serving commercial users and to support economic development in line with the St Leonards and Crows Nest 2036 Plan and other strategic planning documents. This development type is not being provided for in the current development pipeline, which is predominately composed of mixed use development reducing the overall quantum of commercial floorspace.

The subject site is well located for boutique A-grade office development, of which there is currently a shortfall. The site is very near the future Crows Nest Station, Willoughby Road, the Mater Hospital and other institutions, creating opportunities for office and medical services development.

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