



# Chatswood CBD

## Competitive and Comparative Analysis

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## Document Control

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# Executive Summary

## Background and Context

AEC Group (AEC) is engaged by Willoughby City Council to help understand Chatswood's competitive offer as an employment centre as well as weaknesses that may be preventing Chatswood from achieving its full economic potential.

Despite being an established office market located in close proximity to the North Shore executive belt, over the past decade, Chatswood commercial office centre has experienced significant competition from locations such as North Sydney, St Leonards/Crows Nest and Macquarie Park. This competition, combined with the loss of some major government tenants resulted in vacancy rates that approached 20% in 2010. Since that time the commercial office market has rebounded with vacancy rates trending downwards, most recently at 7.7% (December 2015).

Residential development has been a double-edged sword for Chatswood, contributing to a vibrant and desirable centre with an array of retail, entertainment and lifestyle options but also resulting in tensions between residential and non-residential uses. Chatswood is not unique in this respect. Many centres that benefit from good transport connections face similar challenges.

Recent participation of Chinese and overseas developers created intense competition between players and resulted in significant premiums paid for development sites, compressing development margins in some instances to below 10%. That said, the frenzied market conditions of 2014-2015 are observed to have tempered slightly with more moderate market activity observed in the last three to six months.

Completion of the Chatswood Interchange and The Concourse, and associated streetscape and public domain works has contributed immensely to the overall image of Chatswood. Tenant and worker amenity in Chatswood is widely commented upon to be a major drawcard for businesses locating in Chatswood.

## Competitiveness as Commercial Office Precinct

Chatswood is the smallest metropolitan office market on the North Shore (<290,000sqm) and currently subject to the lowest vacancy rate compared to other markets. As a percentage of total prime grade space, recent annual net absorption of nearly 9,000sqm in Chatswood is impressive. While average net face rents in North Ryde/Macquarie Park are the lowest, Chatswood relative to St Leonards/Crows Nest and North Sydney offers an affordable price point.

Chatswood is the beneficiary of a number of factors which have converged to increase net absorption of space and cause vacancy rates to fall from 2013-14.

- Strong public transport links, both bus and rail.
- Displacement of tenants elsewhere including from St Leonards/Crows Nest and North Sydney, following the residential conversion of existing office stock and rising rents.
- Comparative slowing of new floorspace additions to North Ryde/Macquarie Park.
- Completion of Chatswood Interchange and other retail/community facilities offering improved tenant amenity and increased centre vibrancy.
- Competitive price offer in consideration of excellent retail facilities and tenant amenity.
- Demand for project space by companies involved in major infrastructure projects in Sydney's North West region, e.g. Lend Lease taking space in the Zenith Centre in 2015.
- Growing local resident population which generates demand for urban support services and contributes to the skilled labour pool.

Chatswood CBD is mostly zoned B3 Commercial Core which prohibits residential development. Retail and office uses dominate this area. The B3 zone is abutted by B4 Mixed Use, B5 Business Development and residential land uses. Given strong residential market conditions there has been significant development activity around the market which has

served to change the nature of the area from an employment precinct historically towards a broader, mixed-use and residential focused precinct.

Whilst the commercial core is preserved for non-residential uses, the level of market rents is such that new office developments are not viable. The economic rents which would be required to justify a new commercial development are significantly greater than the current rents being achieved. This has inhibited new supply within the core, whilst on the CBD fringe the strength of residential demand has seen development opportunities which may once have led to new office buildings, instead being built out for residential uses.

Whilst there has been no sizeable reduction in commercial office floorspace in Chatswood, the sector has lacked investment and development for some time. In due course, this could result in a decline in the diversity of tenants within the centre and a resultant impact on the quality and quantity of jobs sustained.

Chatswood's flat growth as a commercial office market is a constraint to its future growth prospects. While office stock increased to the mid-1990's, the amount of stock in Chatswood has largely remained unchanged since then.

While Sydney's metropolitan office markets are each established in their own right, they do, to degrees, compete with each other for occupier interest and investment.

### **North Sydney**

North Sydney is considered the second most prestigious commercial office market after Sydney CBD. It has relatively large mass of office floorspace - almost 850,000sqm. Its proximity to the Sydney CBD and identity as a corporate centre enables it to command the highest rents of the Sydney metropolitan markets.

### **St Leonards/Crows Nest**

The St Leonards/Crows Nest commercial office markets conveys a perception of fragmentation. Large scale redevelopment and conversion of existing commercial stock has resulted in a perception that critical mass of the commercial centre is progressively being eroded.

While not offering a 'corporate image' like North Sydney, St Leonards/Crows Nest is nevertheless popular with technology and health-based occupiers who are typically smaller in size, leveraging proximity to the Royal North Shore Hospital and TAFE campus.

### **North Ryde/Macquarie Park**

While North Ryde/Macquarie Park is a compelling value proposition (i.e. large floorplates, relatively low rents, newer and 'greener' quality of floorspace), it does have its drawbacks.

The composition and configuration of floorspace caters less well to smaller tenants who seek small office suites in a high amenity setting. While there are two train stations that service the area, the streetscape and provision of retail, recreational and other facilities does not facilitate a high tenant amenity environment akin to a centre like Chatswood.

In its establishing years, attractive incentives and lease terms enticed occupiers away from other metropolitan markets like Chatswood. As Macquarie Park matures, it is apparent that its value proposition and offer is distinct from that of Chatswood's. The comparative value placed on space in Chatswood can be seen in McMillan Shakespeare who have moved from Macquarie Park to lease space at 475 Victoria Avenue in Chatswood.

## **Competitiveness as Retail Precinct**

Chatswood comprises a significant provision of retail floorspace, estimated at approximately 200,000sqm. The majority of major tenants in the Australian market are provided at Chatswood, with the exception of Big W and a full-line Woolworths supermarket. The only Woolworths supermarket provided Chatswood is some 2,500sqm at Chatswood Interchange.

Within the total trade area, a number of mini-major tenants are predominantly focused around Chatswood and the regional centres in the combined tertiary sectors. The lack of many major facilities in the secondary sectors is an indication of the dominance of



Chatswood as a retail destination across the *main* trade area (i.e. combined primary and secondary sectors).

A number of supermarket-based shopping centres are located immediately beyond the Chatswood retail core and are of limited competitive relevance as they are primarily focused on convenience-based food and grocery shopping, serving local residents.

Competitive retail precincts that also include a significant non-food retail offer include Macquarie and Sydney CBD. Macquarie is anchored by the Macquarie Centre which is one of the largest enclosed shopping centres in Sydney, however lacks a significant retail offer outside the shopping centre. In comparison, Chatswood's retail offer within a number of enclosed shopping centres as well as a vibrant retail strip contributes to its appeal.

The Sydney CBD represents the largest provision of retail facilities in Sydney and will likely draw from the entire Sydney metropolitan area. The wide draw of Sydney CBD retail elevates this precinct to the top of the Sydney retail hierarchy and would compete with retail at Chatswood given it is three times larger than any other retail precinct in Sydney.

All other retail precincts, including Macquarie, Brookvale, Hornsby and Bondi Junction are similar in size and scale to retail provided at Chatswood, but lack the significant activation outside shopping centres that Chatswood includes along Victoria Avenue.

No comparable precinct, with the exception of Sydney CBD which sits above Chatswood in the retail hierarchy, has a provision of retail floorspace greater than Chatswood.

Notwithstanding Chatswood's vibrant retail strip, there is a significant amount of retail and non-retail specialty floorspace located outside shopping centres and with no frontage to Victoria Avenue. A portion of this floorspace is located on the ground level of recently completed residential developments; receiving little benefit from the significant pedestrian flow is located along Victoria Avenue. This type of floorspace is unlikely to be sustainable in the long term.

## Recommendations

It is recommended that residential uses continue to be excluded from the B3 Commercial Core zone. In planning for Chatswood's future sustainability, it is important to recognise a number of key factors.

### Distinct Role and Function

Chatswood is the beneficiary of market cycles. While it was vulnerable to tenant leakage to more attractive lease terms in Macquarie Park in the 2008-2010 period, Chatswood has since grown and developed into a vibrant retail and entertainment precinct.

Chatswood is fulfilling a critical need in the market by providing affordable space for a range of tenant sizes in a high amenity environment benefitting from excellent public transport and retail facilities. As Chatswood's desirability as a commercial office destination continues to build in the market as more tenants take up space, effective rents will rise and thereby generate investor interest in the market.

Chatswood is already on the institutional investor radar, with two major transactions occurring in 2015 and 2016. Continued build of tenant interest will conceivably lift its profile even further, eventually to the level where investment into refurbishment of office space will represent a commercial proposition.

Commercial floorspace in buildings and locations that convey a sense of corporate identity and image is important. The preservation of opportunities to allow momentum in the commercial office market to continue to build will ensure investment opportunities are available when the time is ripe and market conditions are conducive.

### Critical Mass

Critical mass is important in order for commercial office precincts to remain competitive. Chatswood is the smallest of the North Shore office markets, the quantum of floorspace having remained largely flat since the mid-1990's.

Already disadvantaged from having a small commercial core, it is essential existing stock is not eroded and thereby undermining the corporate image and identity of the centre.

A defensive strategy to 'hold the line' will allow market conditions to strengthen further and investment returns to improve. This will in time provide an incentive for the refurbishment/ upgrade of existing space. The expansion of existing stock could then occur ahead of comprehensive redevelopment, noting that economic rents required for financially feasible new development are still significantly higher than current market rents.

### **Commercial Floorspace within Mixed-use Buildings**

The market appeal of commercial floorspace within mixed use residential buildings is less likely to convey a corporate image or identity that is typically sought on the western side of the rail line. Accordingly, large corporate occupiers are unlikely to seek space within a mixed use residential building unless the space is innovative in design and finish.

While commercial tenancies within mixed use residential buildings can be well sought after by small businesses, e.g. professional services offices (lawyer, accountant, tax advisor, etc.) and other businesses who respond to local population growth, it is not uncommon for many a commercial suite to remain vacant long after completion due to isolation and poor amenity.

Notwithstanding overall demand for retail and commercial floorspace, not all locations are suitable. Commercial occupiers are generally drawn to attractive buildings in close proximity to the train station and retail core.

While demand for retail and commercial floorspace has strengthened commensurate with growth of residential uses in Chatswood, retail and commercial suites within a mixed use development that is dominated by residential uses need careful planning and design, as well as astute market positioning to be sustainable.

### **Incentives for Smaller Commercial Tenancies**

It is important that demand for smaller commercial tenancies is able to be suitably met in Chatswood. Emerging technology and creative occupiers typically demand small amounts of space initially but can expand quickly depending on business success. Many professional services firms also require smaller tenancies.

The reconfiguration of floorplates and building services layout from accommodating a single occupier to multiple smaller tenants can be a costly exercise. Some building owners can be reluctant to manage multiple tenants rather than a single blue chip covenant. New buildings that feature flexible design from the outset could remove the disincentive to partition a building into smaller tenancies.

The nature and extent of any incentive offered needs to at a minimum offset the additional cost of incorporating flexible building design.

### **Increase to Market Profile of Chatswood**

Chatswood has benefitted from a resurgence of tenant and market interest. The recent sale of two prominent A-grade office buildings signals the market's confidence in investment returns in Chatswood. Previous perceptions of reduction in prestige (owing to encroaching residential uses) would appear to have dissipated following completion of the Chatswood Interchange and boost to the vibrancy of the centre.

With Chatswood on the cusp of an uptick in the market, Council could work to leverage industry and market interest/activity in the centre to promote Chatswood as a commercial office destination, highlighting the value proposition of Chatswood.

Even if new additions to office stock are not pursued yet, an ability for Chatswood to renew (upgrade and refurbishment of existing stock) is critical for market perception and appeal.

Renewal (whether refurbishment/upgrade of space or public spaces) of sites in strategic locations has flow-on impacts for the entire commercial office precinct, increasing its desirability and appeal which is then met by increasing rents and prices which could then stimulate their upgrade/renewal.

There is unfortunately no silver bullet for Chatswood's success and sustainability. Development of new office buildings will only occur when rents are sufficiently attractive. Council could work with building owners to collectively secure the necessary lifts in profile and image that will result in commensurate rises in overall commercial rent.

# Table of Contents

<b>DOCUMENT CONTROL.....</b>	<b>I</b>
<b>EXECUTIVE SUMMARY.....</b>	<b>I</b>
<b>TABLE OF CONTENTS.....</b>	<b>1</b>
<b>1. INTRODUCTION .....</b>	<b>2</b>
1.1 BACKGROUND AND CONTEXT .....	2
1.2 STUDY SCOPE AND APPROACH .....	2
1.3 STRUCTURE OF THE STUDY .....	3
<b>2. STUDY AREA CONTEXT .....</b>	<b>4</b>
2.1 THE STUDY AREA.....	4
2.2 REGIONAL AND LOCAL CONTEXT .....	4
2.3 PLANNING CONTEXT .....	5
2.4 SOCIO-DEMOGRAPHIC PROFILE .....	9
2.5 JOURNEY TO WORK ANALYSIS.....	12
2.6 FUTURE EXPECTATIONS .....	13
2.7 IMPLICATIONS FOR CHATSWOOD.....	16
<b>3. BACKGROUND RESEARCH.....</b>	<b>17</b>
3.1 CHATSWOOD MARKET CONTEXT .....	17
3.2 COMMERCIAL LAND USES.....	17
3.3 RETAIL LAND USES.....	20
3.4 DEVELOPMENT ACTIVITY .....	21
<b>4. CHATSWOOD AS A COMMERCIAL CENTRE .....</b>	<b>23</b>
4.1 MARKET OVERVIEW .....	23
4.2 MARKET ACTIVITY .....	24
4.3 LOCATION SELECTION FACTORS .....	27
4.4 COMPARATIVE ANALYSIS.....	30
4.5 CHATSWOOD'S COMPETITIVE POSITION.....	33
4.6 LOOKING FORWARD .....	35
<b>5. CHATSWOOD AS A RETAIL CENTRE .....</b>	<b>37</b>
5.1 OVERVIEW OF RETAIL FACILITIES.....	37
5.2 COMPARATIVE ANALYSIS.....	38
5.3 CHATSWOOD'S COMPETITIVE POSITION.....	42
5.4 LOOKING FORWARD .....	43
<b>6. GROWTH AND SUSTAINABILITY OF CHATSWOOD.....</b>	<b>44</b>
6.1 COMMERCIAL OFFICE PRECINCT .....	44
6.2 RETAIL PRECINCT AND DESTINATION.....	47
<b>REFERENCES .....</b>	<b>50</b>
<b>APPENDIX A: COMPETITIVE CENTRES AND PLANNING CONTROLS .....</b>	<b>51</b>
<b>APPENDIX B: RETAIL TRADE AREA ANALYSIS.....</b>	<b>54</b>

# 1. Introduction

## 1.1 Background and Context

Despite being an established office market located in close proximity to the North Shore executive belt, over the past decade, Chatswood commercial office centre has experienced significant competition from locations such as North Sydney, St Leonards/Crows Nest and Macquarie Park. This competition, combined with the loss of some major government tenants resulted in vacancy rates that approached 20% in 2010. Since that time the commercial office market has rebounded with vacancy rates trending downwards, most recently at 7.7% (December 2015).

Residential development has been a double-edged sword for Chatswood, contributing to a vibrant and desirable centre with an array of retail, entertainment and lifestyle options but also resulting in tensions between residential and non-residential uses. Chatswood is not unique in this respect. Many centres that benefit from good transport connections (e.g. Sydney CBD, North Sydney, Crows Nest, St Leonards, Hurstville, Burwood, etc.) face similar challenges.

While Chatswood features an excellent geographic position within metropolitan Sydney, there are a number of constraints to the success of the commercial office market in Chatswood:

- The geographic constraints of the centre by the Pacific Highway and associated road intersections. As a consequence, growth is required to occur through increased densities rather than through more cost effective campus style buildings (i.e. the type that are being developed in competing locations such as Macquarie Park).
- The dominance of residential uses within the centre, arguably reducing the commercial 'prestige' of Chatswood's office market to certain types of tenants.
- The quality of the stock which is aging amid owner resistance to upgrade and/or refurbish without any commercial tenant pre-commitment. This potentially undermines the prestige/status of the market.
- Speculation that some commercial space could be refurbished/redeveloped as residential in light of some approvals for residential in the CBD. This is also reducing willingness to invest in existing commercial stock by some property owners.

Willoughby City Council commissioned AEC Group (AEC) to help understand Chatswood's competitive offer as well as weaknesses that may be preventing Chatswood from achieving its full economic potential.

## 1.2 Study Scope and Approach

In order to undertake the competitive assessment, AEC worked with Location IQ to undertake the following tasks:

- Site visit to Chatswood CBD to understand:
  - Current built form, offer and amenity and existing market dynamics between land uses.
  - Principal land use opportunities and constraints that influence viability of future development and growth in the CBD.
- Socio-economic analysis was undertaken to understand:
  - Socio-demographic profile of residents in the Chatswood CBD.
  - Employment profile (industry and occupation types) of the Study Area to assist in obtaining an understanding of employment composition as well as sectoral growth/decline in various industries.
  - Journey to work analysis to determine where workers live and where residents work.



- Population, dwelling and employment projections to ascertain how Chatswood will grow toward 2041.
- Market assessment of Chatswood as a commercial centre to determine how it compares and competes with other commercial centres and critically how this could impact on the future and sustainability of the centre.
- Assessment of the provision of retail facilities at Chatswood, including where Chatswood sits in the current Sydney retail hierarchy and the trade area served by these facilities. Comparative and competitive analysis to consider the future potential of retail facilities at Chatswood.
- Critical considerations for and potential actions by Council to assist Chatswood fulfil its strategic role as a vibrant and sustainable employment hub.

### 1.3 Structure of the Study

The analysis is structured in the following chapters:

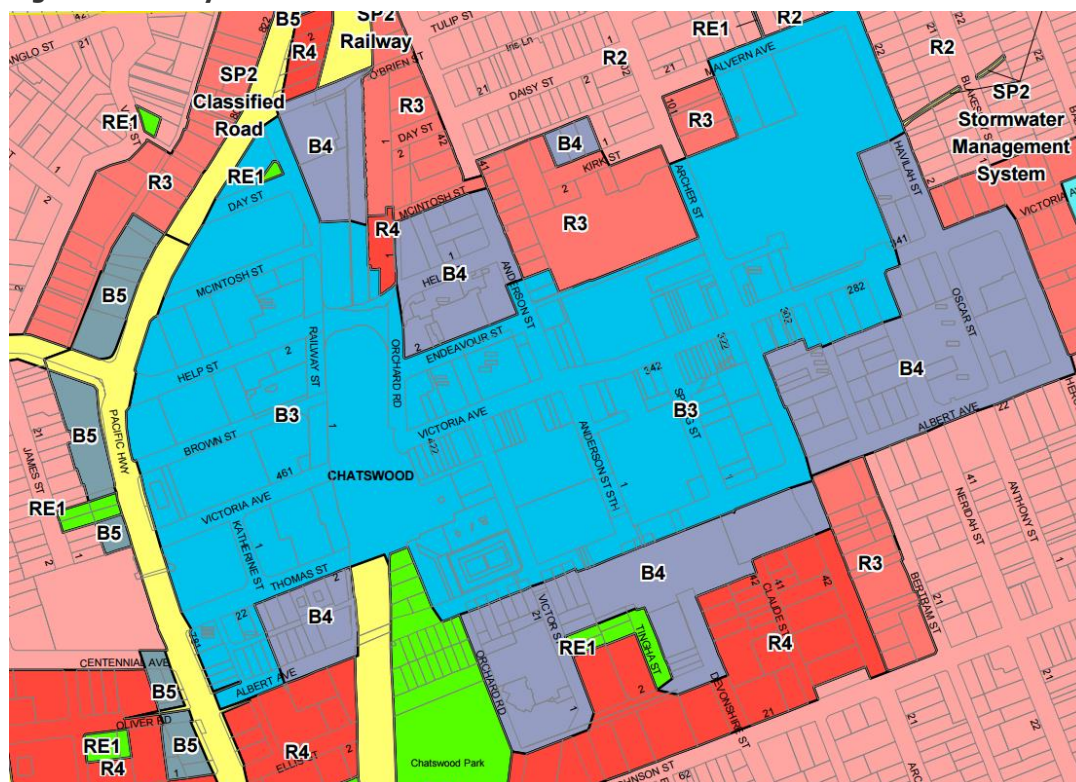
- Chapter 2 considers the context of the Chatswood CBD (or Study Area), also considering the composition and characteristics of workers and residents therein.
- Chapter 3 analyses the growth and performance of Chatswood CBD over time and how this compares to comparable commercial precincts on the North Shore. The evolution of Chatswood over two decades is examined, comparing and distinguishing this with comparable office markets.
- Chapter 4 examines property and market trends in the Chatswood CBD, specifically the nature of tenant/leasing activity and investor interest in commercial office floorspace. Chatswood's market appeal (or lack thereof) ultimately underpins its ability to be competitive. The chapter also considers macro-economic trends and factors that influence business activity and demand for floorspace. An understanding of these trends and influences is important as Chatswood is subject equally to broader macro influences as it is to local-specific factors.
- Chapter 5 investigates Chatswood's retail offer in comparison to other retail facilities in the surrounding geographical area. A comparative analysis examines Chatswood's retail offer and other major retail centres to understand Chatswood competitive standing in the broader market.
- Chapter 6 considers future demand opportunities for Chatswood CBD having regard to earlier identified trends and influences on the requirements of future floorspace demand.

## 2. Study Area Context

### 2.1 The Study Area

The Study Area for this analysis is defined as the area which is zoned B3 Commercial Core and B4 Mixed Use (depicted in Figure 2.1) and is referred to as the Chatswood CBD. The "Chatswood CBD" is used interchangeably with "Chatswood".

Figure 2.1: Study Area



Source: Willoughby LEP (2012)

### 2.2 Regional and Local Context

Chatswood is located on the North Shore of Sydney, approximately 10km from the Sydney Central Business District. Chatswood is a major retail and commercial centre of Northern Sydney and is a key employment hub. Chatswood is also a densely populated residential precinct and has a rich multicultural diversity.

Chatswood is identified as a 'Strategic Centre' in A Plan for Growing Sydney (2014). Other 'strategic centres' in the area include St Leonards, Macquarie Park, Rhodes, Sydney Olympic Park and Burwood. The objectives for strategic centres outlined include investing to grow jobs and housing, and creating vibrant hubs of activity.

Chatswood is very accessible for the surrounding population with a number of major carriageways and arterial roads passing through the suburb, including the Pacific Highway, Penshurst Street and Eastern Valley Way.

According to BTS information (2014), there were some 44,400 commuter movements through the barriers at Chatswood train station on a daily basis, making Chatswood the seventh busiest railway station in the Sydney network. In addition, according to the State Transit Authority 2010, between 6am and 7pm, an estimated 10,000 bus passengers utilise the Chatswood Transport Interchange on an average weekday.

As a major employment centre, Chatswood is characterised by the following key strategic assets are:

- **Commercial office market**  
Chatswood is an established office sub-market in the Sydney metropolitan area. One of Sydney's north shore office markets, as at December 2015 Chatswood was Sydney's sixth largest office market (accommodating 278,919sqm of lettable area) based on those surveyed by the PCA.
- **Chatswood train station**  
The newly completed Chatswood Interchange shopping centre includes a number of retail tenants including a convenience Woolworths offer.
- **Two regional shopping centres**  
Westfield Chatswood and Chatswood Chase which comprise 137,700sqm of floorspace in combination.
- **Other retail facilities**  
The Mandarin Centre is provided adjacent to Westfield Chatswood and includes a Hoyts Cinema complex and Strike Bowling Bar.  
  
A number of smaller shopping centres and arcades are provided in the area including Lemon Grove Shopping Centre, The Orchard Centre, Victoria Plaza, Spring Street Shopping Centre and Chatswood Village.
- **The focus for commercial and retail activity**  
Primarily focused along Victoria Avenue which runs in an east-west direction, terminating at Chatswood Interchange in the west.
- **Other community activity**  
The Concourse is a performing arts entertainment venue that includes a concert hall, theatre and a number of multi-purpose function centres. Chatswood Library is also provided at the site along with a number of restaurants and public open space.

Overall, Chatswood is an established commercial office market anchored by major retail facilities Westfield Chatswood and Chatswood Chase and along with a number of smaller shopping centres and arcades, making it a shopping destination for the region. The Chatswood train station is the seventh busiest in the Sydney network and anchors the western end of Chatswood.

## 2.3 Planning Context

The following section identifies State and local planning policies that are of relevance to the Chatswood CBD as well the legislative context of the Chatswood CBD.

### 2.3.1 A Plan for Growing Sydney (2014)

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

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

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

Of particular relevance to this analysis is *Goal 1: A competitive economy with world-class services and transport*.

One of the associated directions – *Direction 1.6: Expand the Global Economic Corridor* states that by 2030, there will be demand for around 190,000 new stand-alone office jobs: around 75 per cent of these will likely seek to locate in Sydney's 10 major office markets. Many of these jobs will be outside Sydney CBD and North Sydney, in the eight suburban

office markets of Chatswood, Macquarie Park, Norwest, Parramatta, Rhodes, St Leonards, Sydney Olympic Park and South Sydney, situated along the Global Economic Corridor.

Another of the associated directions – *Direction 1.7: Grow Strategic Centres by providing more jobs closer to home* states that removing “pinch points” in access to strategic centres and transport gateways improves access to jobs and services.

The public transport network connecting these centres provides many people with direct access to a range of job locations, as well as access to education facilities, health centres and hospitals, and sporting, cultural and entertainment facilities. Delivering more housing through targeted urban renewal around centres on the transport network will provide more homes closer to jobs and boost the productivity of the city.

#### **North District (formerly North Subregion)**

Chatswood is located in the North district (formerly the North subregion) and is identified as strategic centre in accordance with the Plan. One of the key priorities for Chatswood Strategic Centre in the Plan is to “*work with council to provide capacity for additional mixed-use development in Chatswood including offices, retail, services and housing*”.

### **2.3.2 Chatswood Office Precinct Economic Analysis (2010)**

In 2010 Hill PDA undertook an economic analysis of the Chatswood CBD Office Precinct. Council commissioned the work concerning the nature of the existing office market in Chatswood and its future role in light of competing land uses, particularly residential. More specifically Hill PDA:

- Provided an understanding of the existing and prospective office market in Chatswood.
- Analysed the impact of a policy change regarding office development in Chatswood CBD.
- Advised how the existing office market and built form would adjust to a revised policy position.
- Identified economic planning incentives to encourage commercial office development in Chatswood.

Overall the market analysis found that the Chatswood office precinct had seen little redevelopment activity over the past 10 to 15 years. Whilst wider economic trends and changes to industry indicate that demand for commercial office space will increase significantly in the future, existing vacancy levels in Chatswood coupled with a growth in new supply in other centres, will mean that it is likely to be another 10 to 15 years before major office development will become attractive once again in Chatswood.

Following on from the market analysis Hill PDA looked at potential policy scenarios. The preferred policy scenario was ‘Protect and Encourage’. Hill PDA considered it appropriate to not only protect the existing Chatswood office precinct but encourage additional commercial development across the Centre. Overall it was recommended that the existing office precinct be maintained and commercial floorspace be encouraged around it (particularly within the proposed B4 mixed use zones) through the implementation of development controls that encourage the provision of commercial office floorspace on the first and second floors of all new developments. This control would be applied to sites in excess of 1,000sqm in site area.

In summary the recommendations made included:

- The proposed controls for the B3 zone west of the railway line (the office core) should proceed in the draft LEP with an FSR for commercial office development of 10.5:1 and height limit of 90 metres, subject to a minimum lot size of 2,500sqm and no residential.
- The exceptions are appropriate peripheral sites of the office precinct where a component of (no greater than 50% of the floor area) residential might be allowed subject to no net loss of existing jobs and open book financial appraisal justifying that the residential component is necessary to render viable the office component.
- On the east side of the railway (Zones B4 and B3), minimum car parking requirements could be removed for retail and commercial elements for developments on sites over 1,000sqm, subject to an active ground floor use with offices at the upper levels.



- Existing policy be retained for Zone B5, west of Pacific Highway, as this area performs an important transition between the employment and residential areas beyond.
- Coordinated promotion and marketing of the CBD should also be pursued in addition to high quality/sustainable buildings.

### 2.3.3 Willoughby Economic Development Study (2016)

Earlier in 2016 SGS undertook an economic development strategy for the Willoughby local government area to ensure Council's economic development policies and land use planning provisions:

- Support the retention of existing employment and services in the LGA,
- Assist in the achievement of the growth targets identified for the City in the draft Metropolitan Strategy for Sydney to 2031, and
- Cater for global and local trends as well as the land use requirements of modern businesses and the expectations of customers.

SGS made the following recommendations for Chatswood Strategic Centre.

#### **Protect Commercial Core and Maintain Employment Potential**

- Underlying future projected employment growth (and the high level 'net community benefit' evaluation of different employment scenarios) suggests that the commercial core zoning in Chatswood should be protected, with no future rezoning of commercial core sites to mixed use dominated by residential.
- If residential is entertained on commercial core sites it should be used to underpin office development in genuine mixed use developments. For example, on any particular site an office component equivalent to the floorspace allowed in the current controls should be required before residential is permitted (in a vertically or horizontally separated built form).

#### **Enhance Amenity/Activation in Fringe and Lesser Performing Retail Precincts**

- Retail is performing strongly, though traffic congestion and movement within the centre during peak periods is identified as an issue. There are some 'lesser performing' fringe areas (east end of Victoria Avenue for example) and activation in these precincts from changes to development controls (to allow select mixed use for example in fine grain areas) or specific precinct interventions and public domain planning may be worth considering.

#### **Reduce Chatswood Congestion by facilitating Mixed Use Elsewhere**

- Chatswood carries a 'burden' of development given its multiple roles. This pressure could be eased in relation to retail and residential development at least, if other centres in Willoughby were developed or expanded for these uses (see directions for other retail centres). This might ease the pressure for conversion to residential and mixed use of commercial core sites in particular.
- While expected retail and employment growth and potential mixed use developments will place more pressure on traffic congestion, it is recommended to maintain (but not increase) the existing capacity on roads providing access to the centre. Instead, travel demand should be managed through a suite of measures, including land use planning, parking management policies and maintaining road capacity.
- With increased public transport access and a greater use of active transport modes, parking provision should be reduced over time to relieve traffic congestion in the peak periods. Innovative parking policies, such as shared parking between retail, office and residential uses (monitored by time of day for peak utilisation) and unbundling parking and offering as a rental option (meaning that stand alone car parks are developed separately from other developments based on cash contributions and available for rent by residents or office based businesses), should also be promoted. While restricting parking may put the centre at a disadvantage compared to say Macquarie Park the centre should be promoting its amenity and public transport offer as a comparative advantage.

### 2.3.4 Willoughby Local Environmental Plan (2012)

In accordance with the Willoughby Local Environmental Plan (2012), the Chatswood CBD is subject to the following land use controls.

Chatswood CBD Planning Controls	
Land Use Zone	B3 Commercial Core, B4 Mixed Use
Land Use Zone Objectives	<p><b>B3 Commercial Core</b></p> <ul style="list-style-type: none"> <li>To provide a wide range of retail, business, office, entertainment, community and other suitable land uses that serve the needs of the local and wider community.</li> <li>To encourage appropriate employment opportunities in accessible locations.</li> <li>To maximise public transport patronage and encourage walking and cycling.</li> <li>To support the role of St Leonards as a specialised centre providing health, research and education facilities.</li> <li>To strengthen the role of Chatswood as a major centre for the inner north sub-region and to improve its public domain and pedestrian links.</li> <li>To protect and encourage safe and accessible city blocks by providing active land uses on street and pedestrian frontages.</li> </ul> <p><b>B4 Mixed Use</b></p> <ul style="list-style-type: none"> <li>To provide a mixture of compatible land uses.</li> <li>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.</li> <li>To allow for city living on the edges of the city centre of Chatswood, which supports public transport use, shopping, business and recreational services that contribute to the vitality of the centre, without undermining its commercial role.</li> </ul>
Permissible Land Uses (with consent)	<p><b>B3 Commercial Core:</b> building identification signs, business identification signs, child care centres, commercial premises, community facilities, educational establishments, entertainment facilities, function centres, hotel or motel accommodation, information and education facilities, medical centres, passenger transport facilities, recreation facilities (indoor), registered clubs, respite day care centres, restricted premises, roads and serviced apartments.</p> <p><b>B4 Mixed Use:</b> boarding houses, building identification signs, business identification signs, child care centres, commercial premises, community facilities, educational establishments, entertainment facilities, function centres, hotel or motel accommodation, information and education facilities, medical centres, passenger transport facilities, recreation facilities (indoor), registered clubs, respite day care centres, restricted premises, roads, seniors housing, serviced apartments and shop top housing.</p>
FSR	<p>B3 Commercial Core: 2.5:1-8:1, 10.5:1 west of rail line on sites &gt;2,500sqm</p> <p>B4 Mixed Use: 2.5:1-6:1</p>
Heights	<p>B3 Commercial Core: 12-90m</p> <p>B4 Mixed Use: 9-80m</p>
Additional Local Provisions	<p><b>Size of shops in B3 and B4 zones in Chatswood:</b> the maximum gross floor area of a shop on land to which this clause applies must not exceed 100 square metres.</p> <p><b>Bonus height and floor space ratio available for development on consolidated sites on Pacific Highway and Thomas Street, Chatswood:</b> This clause applies to the land at 763–781 Pacific Highway and 20–24 Thomas Street, Chatswood. Despite clauses 4.3 and 4.4, if the site area for development on land to which this clause applies is greater than 1,500 square metres, development consent may be granted to development that will have:</p> <p>(a) a height of any building on the land not exceeding 60 metres above the highest point of ground level (existing) on the land, and</p> <p>(b) a floor space ratio of the development not exceeding 8:1.</p> <p><b>Bonus height and floor space ratio available for development on consolidated sites on Pacific Highway, Freeman Road and Oliver Road, Chatswood:</b> the area identified as "Area 7", despite clauses 4.3 and 4.4, if the site area for development on land to which this clause applies is greater than 2,400 square metres, development consent may be granted to development that will have:</p> <p>(a) a height of any building on the land not exceeding:</p> <p>(i) for that part of Area 7 that is shown edged black and marked "137.8" on the Special Provisions Area Map—137.8 metres above the highest point of ground level (existing) on the land, and</p> <p>(ii) for that part of Area 7 that is shown edged black and marked "128.8" on that Map—128.8 metres above the highest point of ground level (existing) on the land, and</p> <p>(b) a floor space ratio:</p> <p>(i) of the development—not exceeding 3.0:1, and</p> <p>(ii) of any shop top housing—not exceeding 2.14:1.</p>
Exceptions to FSR Controls	<p>(14) Development consent must not be granted for shop top housing on land in B4 zone:</p> <p>(a) for land bounded by Victoria Avenue, Hercules Street, Oscar Street and Albert Avenue, Chatswood—the floor space ratio for the housing will exceed 1.25:1, or</p> <p>(b) for all other land in that zone—the floor space ratio for the housing will exceed 1:1.</p>

Chatswood CBD Planning Controls	
Car Parking Ratio	<ul style="list-style-type: none"> <li>Office and/ or Business Premises outside Railway Precincts and Major Public Transport Corridors (MPTC) - 1 / 60sqm</li> <li>Offices and/or Business Premises within Railway Precincts and MPTC - 1 / 110sqm</li> <li>Offices and/or Business Premises in Chatswood zoned B3 where access is only available from Pacific Hwy, Albert Avenue, Victoria Avenue, Help or Railway Streets - 1 / 200sqm. From Willoughby DCP (Part C.4.2). The purpose of specific controls relating to access is to limit onsite parking with access from streets least able to cope with additional traffic and entry and exit points.</li> </ul>

Source: Willoughby Council (2012)

## 2.4 Socio-demographic Profile

In 2011 there were 20,967 people living in Chatswood suburb, an increase of 1,403 or 7% since 2006.

### 2.4.1 Age Structure by Service Groups

Analysis of the service age groups of Chatswood in 2011 compared to Willoughby LGA shows that there was a lower proportion of people in the younger age groups (0 to 17 years) and a similar proportion of people in the older age groups (60+ years).

Overall, 19.0% of the population was aged between 0 and 17, and 17.4% were aged 60 years and over, compared with 22.2% and 17.7% respectively for Willoughby LGA.

From 2006 to 2011, Chatswood's population increased by 1,407 people (7.2%). This represents an average annual population change of 1.4% per year over the period.

The largest changes in the age structure in this area between 2006 and 2011 were in the age groups:

- Empty nesters and retirees (60 to 69) (+448 people).
- Young workforce (25 to 34) (+330 people).
- Parents and homebuilders (35 to 49) (+247 people).
- Babies and pre-schoolers (0 to 4) (+213 people).

**Table 2.1: Age Structure – Service Groups**

Service age group (Years)	2006			2011			Chatswood (2006 to 2011)	
	Chatswood		LGA	Chatswood		LGA	No.	%
	No.	%	%	No.	%	%		
Babies and pre-schoolers (0 to 4)	1,096	5.6	6.9	1,309	6.2	7.2	+213	15.1
Primary schoolers (5 to 11)	1,320	6.8	8.0	1,390	6.6	8.6	+69	4.9
Secondary schoolers (12 to 17)	1,246	6.4	6.4	1,276	6.1	6.3	+31	2.2
Tertiary education and independence (18 to 24)	2,508	12.8	9.5	2,353	11.2	8.5	-155	-11
Young workforce (25 to 34)	3,733	19.1	16.6	4,063	19.4	15.9	+330	23.4
Parents and homebuilders (35 to 49)	4,449	22.7	23.9	4,696	22.4	24.0	+247	17.5
Older workers and pre-retirees (50 to 59)	2,176	11.1	12.2	2,241	10.7	11.7	+65	4.6
Empty nesters and retirees (60 to 69)	1,250	6.4	7.2	1,698	8.1	8.6	+448	31.8
Seniors (70 to 84)	1,339	6.8	7.2	1,397	6.7	6.9	+58	4.1
Elderly aged (85 and over)	442	2.3	2.0	545	2.6	2.2	+102	7.3
<b>Total Population</b>	<b>19,560</b>	<b>100.0</b>	<b>100.0</b>	<b>20,967</b>	<b>100.0</b>	<b>100.0</b>	<b>+1,407</b>	<b>100</b>

Source: ABS, Census of Population and Housing 2006 and 2011. Compiled and presented in profile.id.

## 2.4.2 Dwelling Structure

Analysis of the types of dwellings in Chatswood in 2011 shows that 33.4% of all dwellings were separate houses; 10.4% were medium density dwellings, and 56.2% were in high density dwellings, compared with 48.4%, 13.8%, and 37.5% in the Willoughby LGA respectively.

**Table 2.2: Dwelling Type**

Dwelling Type	2006			2011			Chatswood (2006 to 2011)	
	Chatswood		LGA	Chatswood		LGA		
	No.	%	%	No.	%	%	No.	%
Separate house	3,250	37.6	50.1	3,016	33.4	48.4	-233	-60.0
Medium density	1,129	13.1	14.0	936	10.4	13.8	-193	-49.7
High density	4,258	49.2	35.5	5,078	56.2	37.5	820	210.8
Caravans, cabin, houseboat	1	0.0	0.1	0	0.0	0.0	-1	-0.3
Other	10	0.1	0.4	7	0.1	0.3	-3	-0.9
Not stated	0	0.0	0.0	0	0.0	0.0	0	0.1
<b>Total Private Dwellings</b>	<b>8,648</b>	<b>100.0</b>	<b>100.0</b>	<b>9,038</b>	<b>100.0</b>	<b>100.0</b>	<b>389</b>	<b>100.0</b>

Source: Australian Bureau of Statistics, Census of Population and Housing 2006 and 2011. Compiled and presented in profile.id.

## 2.4.3 Employment by Industry (PoUR)

An analysis of the jobs held by the resident population in Chatswood in 2011 shows the three most dominant industry sectors were:

- Professional, Scientific and Technical Services (1,639 people or 16.5%).
- Financial and Insurance Services (1,089 people or 10.9%).
- Health Care and Social Assistance (1,012 people or 10.2%).

In combination, these three industries employed 3,740 people in total or 37.6% of the total employed resident population.

In comparison, Willoughby City employed 18.7% in Professional, Scientific and Technical Services, 11.7% in Financial and Insurance Services, and 10.3% in Health Care and Social Assistance.

The largest changes in the jobs held by the resident population between 2006 and 2011 in Chatswood were for those employed in:

- Accommodation and Food Services (+201 persons).
- Information Media and Telecommunications (+141 persons).
- Financial and Insurance Services (+135 persons).
- Health Care and Social Assistance (+134 persons).

**Table 2.3: Employment by Industry (PoUR)**

Industry Sector	2006			2011			Chatswood (2006-2011)	
	Chatswood		LGA	Chatswood		LGA		
	No.	%	%	No.	%	%	No.	%
Agriculture, Forestry and Fishing	20	0.2	0.3	0	0.0	0.2	-20	-2.9
Mining	17	0.2	0.2	15	0.2	0.3	-2	-0.2
Manufacturing	468	5.1	4.8	464	4.7	4.3	-5	-0.7
Electricity, Gas, Water and Waste Services	60	0.7	0.5	28	0.3	0.5	-32	-4.7
Construction	286	3.1	3.8	346	3.5	3.9	+60	8.6
Wholesale trade	626	6.8	6.1	637	6.4	5.6	+12	1.7
Retail Trade	947	10.2	8.8	853	8.6	7.4	-94	-13.6
Accommodation and Food Services	564	6.1	5.5	765	7.7	6.0	+201	28.9



Industry Sector	2006			2011			Chatswood (2006-2011)	
	Chatswood		LGA	Chatswood		LGA		
	No.	%	%	No.	%	%	No.	%
Transport, Postal and Warehousing	249	2.7	2.9	265	2.7	2.6	+16	2.3
Information Media and Telecommunications	431	4.7	5.1	573	5.8	5.2	+141	20.4
Financial and Insurance Services	954	10.3	11.4	1,089	10.9	11.7	+135	19.4
Rental, Hiring and Real Estate Services	208	2.2	2.3	226	2.3	2.3	+18	2.6
Professional, Scientific and Technical Services	1,529	16.5	17.7	1,639	16.5	18.7	+111	16.0
Administrative and Support Services	401	4.3	3.9	365	3.7	3.6	-36	-5.1
Public Administration and Safety	359	3.9	3.6	331	3.3	3.6	-28	-4.0
Education and Training	587	6.3	6.7	617	6.2	7.0	+31	4.4
Health Care and Social Assistance	879	9.5	9.4	1,012	10.2	10.3	+134	19.2
Arts and Recreation Services	115	1.2	1.3	129	1.3	1.5	+14	2.1
Other Services	313	3.4	3.1	273	2.7	2.8	-40	-5.8
Inadequately described or not stated	246	2.7	2.5	326	3.3	2.4	+80	11.5
<b>Total employed persons</b>	<b>9,259</b>	<b>100.0</b>	<b>100.0</b>	<b>9,954</b>	<b>100.0</b>	<b>100.0</b>	<b>+694</b>	<b>100.0</b>

Source: Australian Bureau of Statistics, Census of Population and Housing 2006 and 2011. Compiled and presented in profile.id.

#### 2.4.4 Employment by Occupation (PoUR)

An analysis of the jobs held by the resident population in Chatswood in 2011 shows the three most dominant occupations were:

- Professionals (3,755 people or 37.8%).
- Managers (1,593 people or 16.0%).
- Clerical and Administrative Workers (1,416 people or 14.3%).

In combination these three occupations accounted for 6,764 people in total or 68.1% of the employed resident population.

In comparison, Willoughby LGA employed 39.9% in Professionals, 18.2% in Managers, and 14.0% in Clerical and Administrative Workers.

**Table 2.4: Employment by Occupation (PoUR)**

Occupation	2006			2011			Chatswood (2006 to 2011)	
	Chatswood		LGA	Chatswood		LGA		
	No.	%	%	No.	%	%	No.	%
Managers	1,556	16.8	18.9	1,593	16.0	18.2	+37	5.6
Professionals	3,394	36.6	37.6	3,755	37.8	39.9	+361	54.8
Technicians and Trades Workers	691	7.5	6.9	821	8.3	6.9	+130	19.7
Community and Personal Service Workers	582	6.3	6.1	755	7.6	6.8	+173	26.3
Clerical and Administrative Workers	1,373	14.8	14.8	1,416	14.3	14.0	+42	6.4
Sales Workers	870	9.4	8.5	786	7.9	7.4	-83	-12.6
Machinery Operators And Drivers	178	1.9	1.7	149	1.5	1.5	-29	-4.5
Labourers	449	4.8	3.6	387	3.9	3.2	-62	-9.3
Inadequately described	180	1.9	1.9	269	2.7	2.0	+90	13.6
<b>Total employed persons</b>	<b>9,273</b>	<b>100.0</b>	<b>100.0</b>	<b>9,932</b>	<b>100.0</b>	<b>100.0</b>	<b>+659</b>	<b>100.0</b>

Source: Australian Bureau of Statistics, Census of Population and Housing 2006 and 2011. Compiled and presented in profile.id.

## 2.4.5 Employment by Industry (PoW), Chatswood CBD

The table below demonstrates that the majority of workers in the Chatswood CBD are employed in:

- Retail Trade (2,985 or 17%).
- Professional, Scientific and Technical Services (2,882 or 16%).
- Health Care and Social Assistance (1,576 or 9%).
- Construction (1,433 or 8%).

**Table 2.5: Employment by Occupation (PoW)**

Industry	No.	%
Agriculture, Forestry and Fishing	8	0.0
Mining	78	0.4
Manufacturing	657	3.7
Electricity, Gas, Water and Waste Services	13	0.1
Construction	1,433	8.1
Wholesale Trade	801	4.5
Retail Trade	2,985	16.9
Accommodation and Food Services	1,158	6.6
Transport, Postal and Warehousing	135	0.8
Information Media and Telecommunications	1,355	7.7
Financial and Insurance Services	924	5.2
Rental, Hiring and Real Estate Services	361	2.0
Professional, Scientific and Technical Services	2,882	16.3
Administrative and Support Services	776	4.4
Public Administration and Safety	930	5.3
Education and Training	522	3.0
Health Care and Social Assistance	1,576	8.9
Arts and Recreation Services	216	1.2
Other Services	449	2.5
Industry not classified	410	2.3
<b>Total Industries</b>	<b>17,669</b>	<b>100.0</b>

Source: Australian Bureau of Statistics, Census of Population and Housing 2011. Compiled and presented in economy.id

## 2.5 Journey to Work Analysis

### 2.5.1 Where Chatswood CBD Workers Live

The table below shows the top ten locations where Chatswood CBD workers live. The data demonstrates that the majority of Chatswood CBD workers live locally, with over 35% living in Chatswood-Lane Cove, Ku-ring-gai and Warringah SA3s.

**Table 2.6: Chatswood CBD Workers Place of Residence**

SA3	No.	%
Chatswood - Lane Cove	3,062	17%
Ku-ring-gai	2,119	12%
Warringah	1,262	7%
Ryde - Hunters Hill	1,107	6%
Hornsby	999	6%
North Sydney - Mosman	962	5%
Sydney Inner City	799	5%
Baulkham Hills	577	3%
Strathfield - Burwood - Ashfield	504	3%
Gosford	441	2%

SA3	No.	%
Other	5,840	33%
<b>Total</b>	<b>17,672</b>	<b>100%</b>

Source: BTS (2014)

## 2.5.2 Where Chatswood CBD Residents Work

The table below shows the top ten locations where Chatswood CBD residents work. The data demonstrates that Chatswood residents work locally, with 35% of residents working in the SA3s of Chatswood-Lane Cove. Almost 30% of residents work in the Sydney Inner City SA3.

**Table 2.7: Chatswood CBD Residents Place of Work**

SA3	No.	%
Chatswood - Lane Cove	911	35%
Sydney Inner City	750	29%
North Sydney - Mosman	225	9%
Ryde - Hunters Hill	205	8%
Ku-ring-gai	70	3%
Warringah	64	2%
No fixed place of work	50	2%
Strathfield - Burwood - Ashfield	38	1%
Baulkham Hills	34	1%
Auburn	34	1%
Other	239	9%
<b>Total</b>	<b>2,620</b>	<b>100%</b>

Source: BTS (2014)

## 2.6 Future Expectations

### 2.6.1 Population Projections

Based on population forecasts by the BTS, Chatswood's total population is expected to grow considerably over the timeframe from 2016-2041. By 2041, it is expected that the population will grow to 16,754, an average annual increase of 1% in the 25 years to 2041.

Although the 5-year annual average growth rate is expected to remain positive, it is forecast to steadily slow over the timeframe.

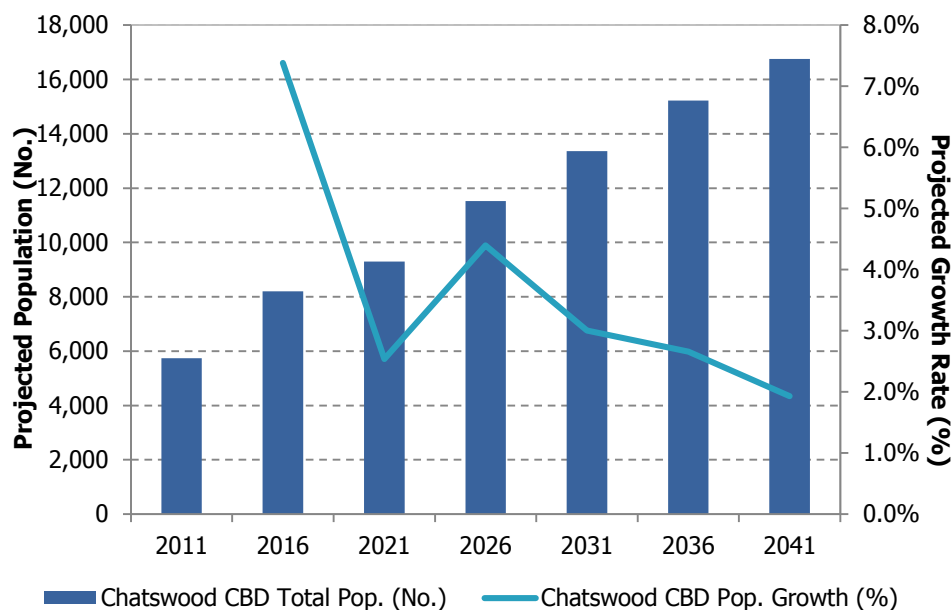
In 2041, it is projected that the 5-year annual average growth rate of Chatswood's population will slow to 1.9%. Despite the slower growth projected, overall growth still represents a doubling of residents from 2016-2041.

**Table 2.8: Chatswood CBD Population Projections**

Reference Year	Population	Population Growth
2011	5,742	
2016	8,197	7.4%
2021	9,292	2.5%
2026	11,521	4.4%
2031	13,357	3.0%
2036	15,227	2.7%
2041	16,754	1.9%
<b>2016-2041</b>	<b>8,557</b>	<b>104%</b>
<b>Annual Average Growth</b>	<b>342</b>	<b>1%</b>

Source: BTS (2014a)

**Figure 2.2: Population Projections, Chatswood CBD (2011-2041)**



Source: BTS (2014)

### 2.6.2 Dwelling Projections

Based on dwelling forecasts by the BTS, the total number of dwellings in Chatswood is expected to grow considerably over the timeframe from 2011-2041. By 2041, it is expected the total number of dwellings will grow to 7,376, an average annual increase of 1.1% in the 25 years to 2041.

Although the 5-year annual average growth rate for projected dwellings in Chatswood is expected to remain positive, it is forecast to steadily slow over the timeframe.

In 2041, it is projected that the 5-year annual average growth rate for dwellings will fall to 2.1%.

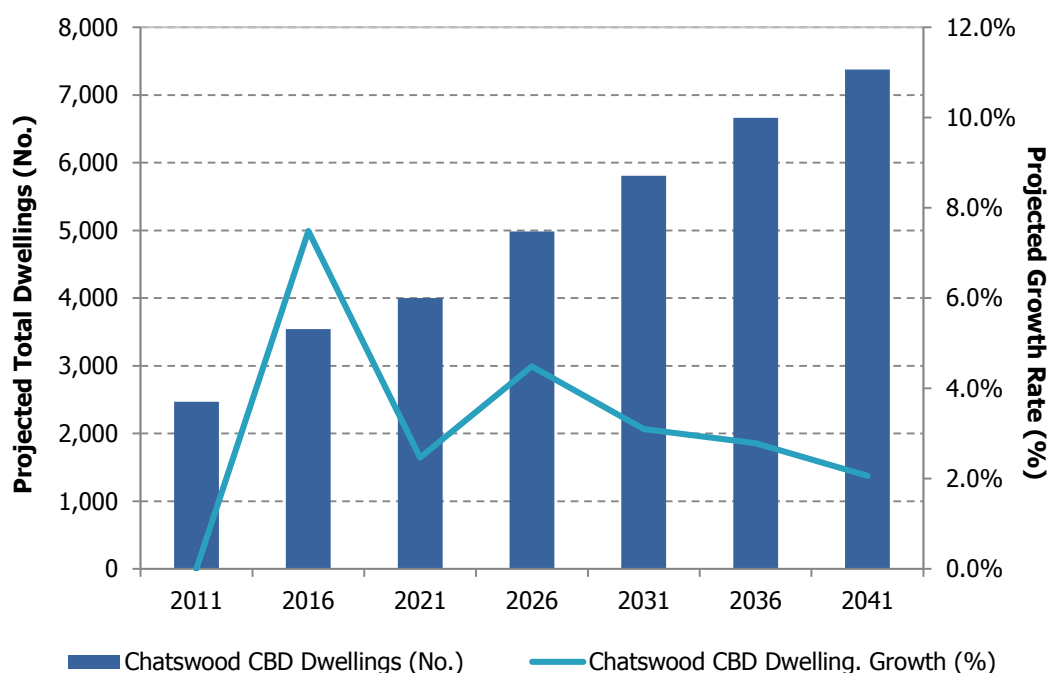
**Table 2.9: Chatswood CBD Dwelling Projections**

Reference Year	Dwellings	Dwelling Growth
2011	2,469	
2016	3,543	7.5%
2021	4,002	2.5%
2026	4,984	4.5%
2031	5,805	3.1%
2036	6,661	2.8%
2041	7,376	2.1%
<b>2016-2041</b>	<b>3,833</b>	<b>108%</b>
<b>Annual Average Growth</b>	<b>153</b>	<b>1.1%</b>

Source: BTS (2014a)



**Figure 2.3: Dwelling Projections, Chatswood CBD (2011-2041)**



Source: BTS (2014)

### 2.6.3 Employment Projections, Chatswood CBD (2011-2041)

Based on employment forecasts by the Bureau of Transport and Statistics, total employment in Chatswood is expected to continue to grow over the timeframe from 2011-2041. By 2041, it is expected that employment will grow to 27,279 jobs, an average annual increase of 0.2% from 2016.

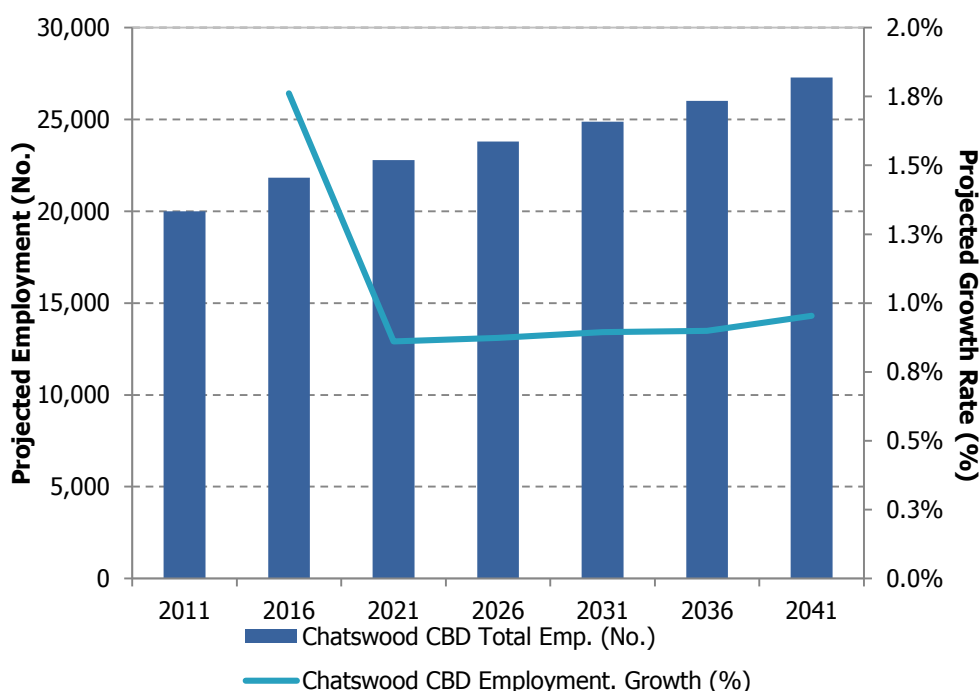
By 2041, it is projected that the 5-year annual average growth rate of employment in Chatswood will increase to 1.0%.

**Table 2.10: Chatswood CBD Employment Projections**

Reference Year	Total Employment	Employment Growth
2011	20,000	
2016	21,825	1.8%
2021	22,781	0.9%
2026	23,794	0.9%
2031	24,877	0.9%
2036	26,015	0.9%
2041	27,279	1.0%
<b>2016-2041</b>	<b>5,454</b>	<b>25%</b>
<b>Annual Average Growth</b>	<b>218</b>	<b>0.2%</b>

Source: BTS (2014b)

**Figure 2.4: Employment Projections, Chatswood CBD (2011-2041)**



Source: BTS (2014)

## 2.7 Implications for Chatswood

Chatswood's locational position and planning framework collectively influence the nature of land use and economic activity that occurs.

A number of industries grew significantly between 2006 and 2011:

- Retail trade (2,985 or 17%).
- Professional, scientific and technical services (2,882 or 16%).
- Health care and social assistance (1,576 or 9%).
- Construction (1,433 or 8%).

Ensuring that these key groups are catered for in terms of floorspace in the long term will be important to ensuring the continued growth and sustainability of the CBD. While mostly accommodated within retail-type floorspace, businesses involved in "retail trade" could also require commercial-type floorspace located in and amongst retail floorspace. The other categories are generally expected to be accommodated in commercial-type floorspace.

The journey-to-work data reveals that the majority of Chatswood CBD workers live locally, with over 35% living in Chatswood-Lane Cove, Ku-ring-gai and Warringah. Our enquiries suggest this is a result of location decisions by decision makers of companies who live locally to Chatswood. Accordingly, Chatswood can be observed to play an important role in providing for local employment.

Based on population forecasts by the BTS, Chatswood's population and workforce are expected to grow over the timeframe from 2016-2041.

- By 2041, it is expected that the population will grow to 16,754, an average annual increase of 1% in the 25 years to 2041.
- By 2041, it is expected that employment will grow to 27,279 jobs, an average annual increase of 0.2% from 2016.

It will be important to plan for this growth and match employment growth with floorspace requirements of the growing and evolving industries of employment.

## 3. Background Research

### 3.1 Chatswood Market Context

Chatswood benefits from strong access owing to public transportation links and proximity to major arterial roads. Road and rail connections to the Sydney CBD are strong.

Market activity in Chatswood has in recent years been characterised by strong demand in favour of mixed use and residential development rather than any other land use. This trend is not unique to Chatswood but is observed across Sydney.

It is an undisputed fact that dwelling completions over the last decade fell well below the number needed to meet underlying demand. This resulted in rapidly rising house and rental prices as competition grew between purchasers and renters.

Developers (local and overseas alike) responded to the call for more housing by assembling sites in myriad locations. Locations in and around transport nodes are obvious candidates targeted for site assembly. Additionally, commercial buildings in appropriately zoned locations (i.e. B4 Mixed Use) in a variety of CBDs and established centres with excellent transport connections are increasingly being acquired for mixed use residential development (e.g. Parramatta, Chatswood, Burwood, etc.).

The B4 and residential zones in Chatswood are no exception. Benefitting from strong transport links, various sites have been acquired and progressed for mixed use residential development.

Pacific Highway extends from North Sydney to northern NSW and carries thousands of vehicles on a daily basis. As one of Sydney's major arterial roads, Pacific Highway performs an important economic role by connecting the Sydney CBD to regional and northern NSW. Major employment areas are found off Pacific Highway, including North Sydney, St Leonards/Crows Nest, Chatswood and Pymble/Gordon.

Owing to the excellent exposure and accessibility afforded by a 'Pacific Highway location', many businesses have sought to capitalise on well exposed sites along Pacific Highway. Large format retail/bulky goods centres typically flourish in extremely high profile, main road locations, receiving excellent exposure to passing traffic and are easily accessible from both a local and regional perspective.

Recent participation of Chinese and overseas developers created intense competition between players and resulted in significant premiums paid for development sites, compressing development margins in some instances to below 10%. That said, the frenzied market conditions of 2014-2015 are observed to have tempered slightly with more moderate market activity observed in the last three to six months.

Notwithstanding, significant investment by the private sector and Council in the CBD, coupled with the strategic locational qualities of the Chatswood CBD offering convenience and lifestyle, are expected to sustain future development and urban renewal.

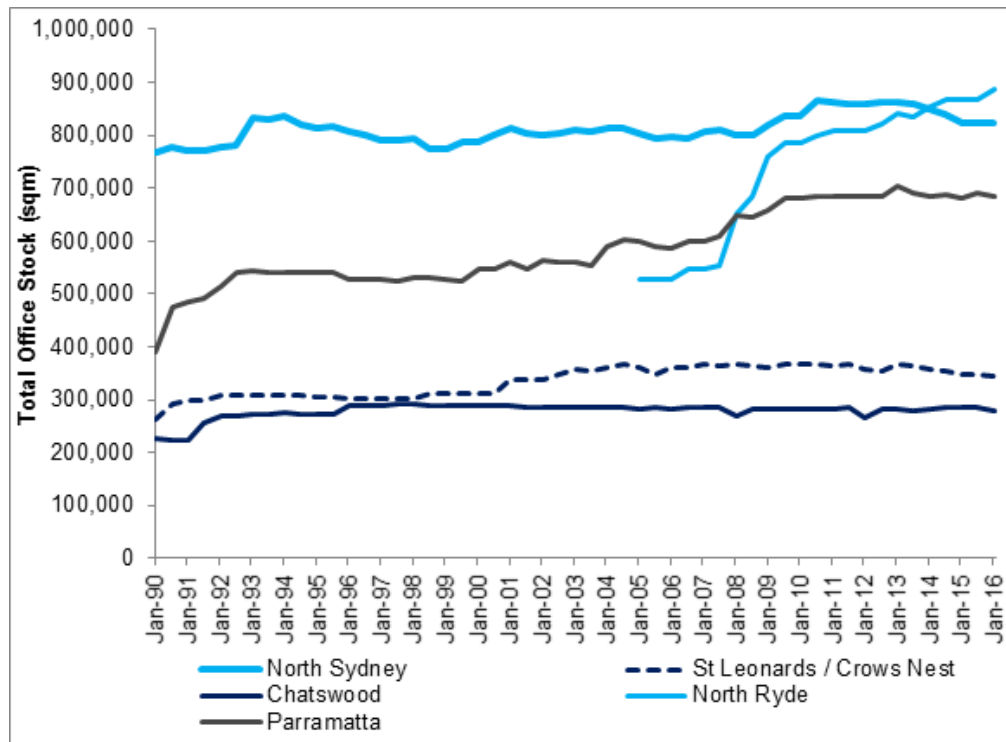
### 3.2 Commercial Land Uses

Chatswood currently accommodates nearly 290,000sqm of commercial office floorspace and is Sydney's sixth largest office market surveyed by the PCA (PCA, 2016). Chatswood is the smallest office market on the North Shore, marginally behind St Leonards/Crows Nest which comprises over 340,000sqm of office floorspace.

North Ryde/Macquarie Park is the North Shore's largest office market, comprised of nearly 890,000sqm of office floorspace in December 2015.

Figure 3.1 depicts the growth of stock in North Ryde/Macquarie Park over the 2008-2014 period, wherein more than 200,000sqm of new office stock was added. In contrast, Chatswood's supply has remained relatively flat since the mid-1990's. The other metropolitan markets (North Sydney, St Leonards/Crows Nest and Parramatta) have progressively grown in stock over the same period.

**Figure 3.1: Sydney Metropolitan Office Markets Total Stock, 1991-2016**



\*North Ryde data only available from 2005  
Source: PCA (2016)

The performance of the office market is dependent on two different metrics, which in combination determine the capital value of an asset: rents and yields.

Rents are reflective of floorspace demand from tenants and this creates a regular income stream for landlords. Yields are reflective of investment demand for office assets and this is not always correlated with rental performance. For example, the increase in the desirability of an office asset due to a low cash rate, future transport improvements or the potential for future residential conversions may increase the price investors are prepared to pay for an asset, with the rental return remaining unchanged. As such consideration of both rental and investment change is necessary when considering property cycles.

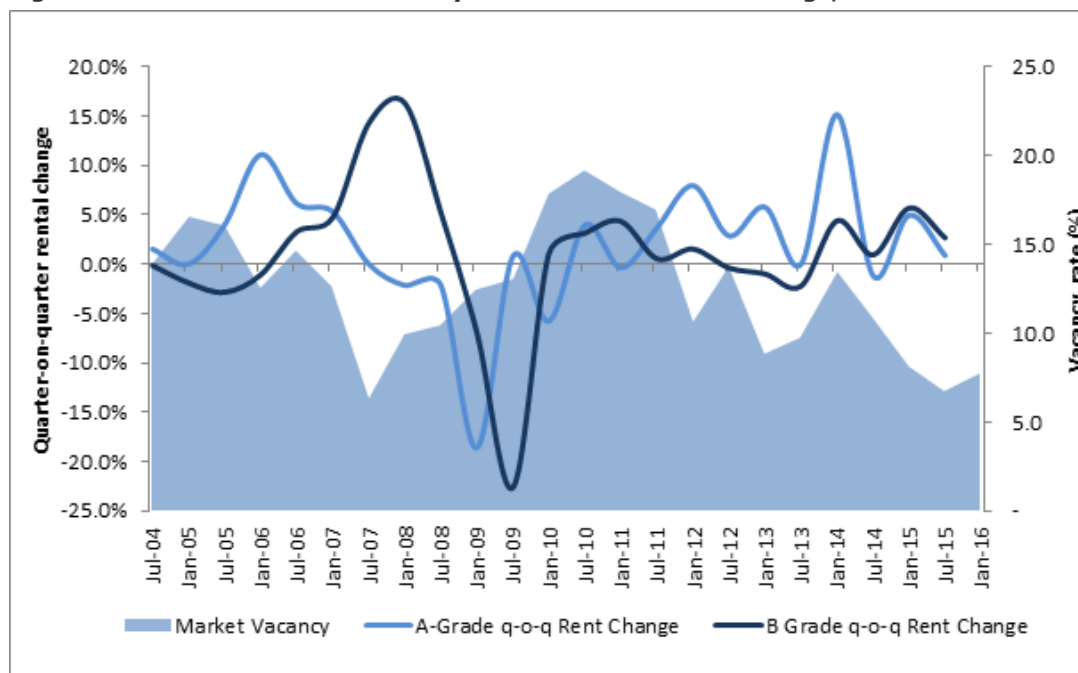
Figure 3.2 compares commercial office vacancy in Chatswood to the rental change for A-grade and B-grade office buildings over the 1996-2016 period. Rental change is based on net effective rents which factor in any market incentive.

The graph indicates that:

- Peaks and troughs of vacancy and net effective rental change are broadly consistent. That is when vacancy is high, net effective rental change is low or negative and vice versa. These two variables are inter-related with low vacancy leading to greater competition for space, driving up rents.
- The strongest reduction in net effective rental growth was recorded in 2008-09 which was then followed by a spike in vacancy rates in 2009-10, implying a retraction stage in the property cycle.
- Following 2010, the Chatswood office market appears to have rebounded with sharp increases and peaks in net effective growth in 2010-11 and 2013-14 for A-grade space with concurrent reduction in vacancy rates.



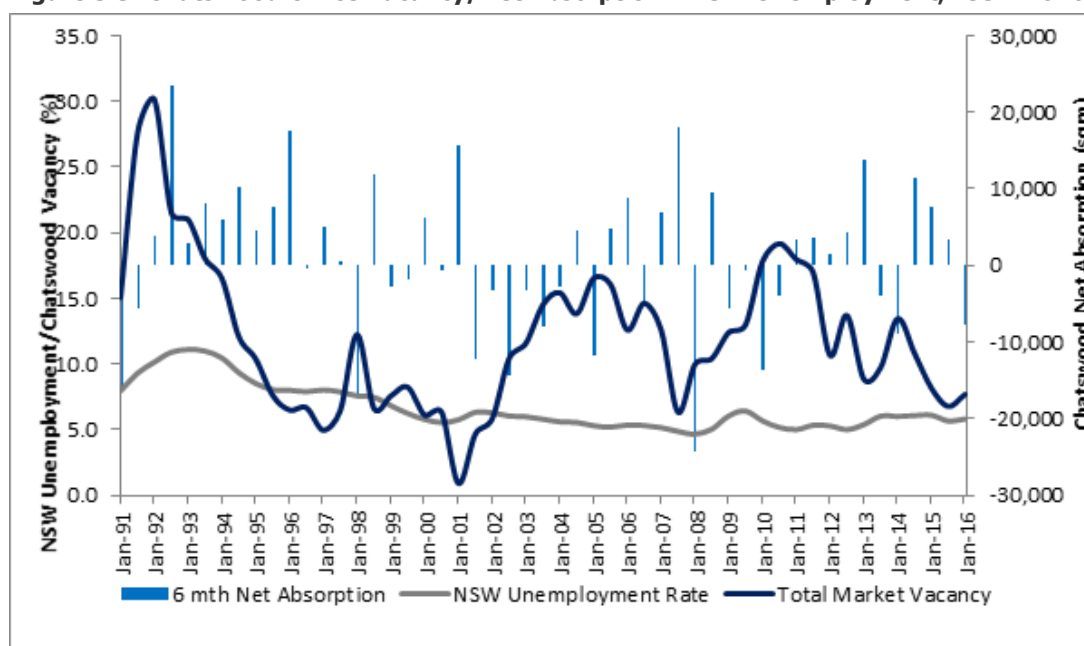
**Figure 3.2: Chatswood Office Vacancy v Net Effective Rental Change, 1996-2016**



Source: PCA (2015), AEC

Figure 3.3 depicts office net absorption in Chatswood compared to total market vacancy and the NSW unemployment rate. The unemployment rate is an indicator of broader economic trends and drives office floorspace absorption and in turn the vacancy rate.

**Figure 3.3: Chatswood Office Vacancy/Net Absorption v NSW Unemployment, 1991-2016**



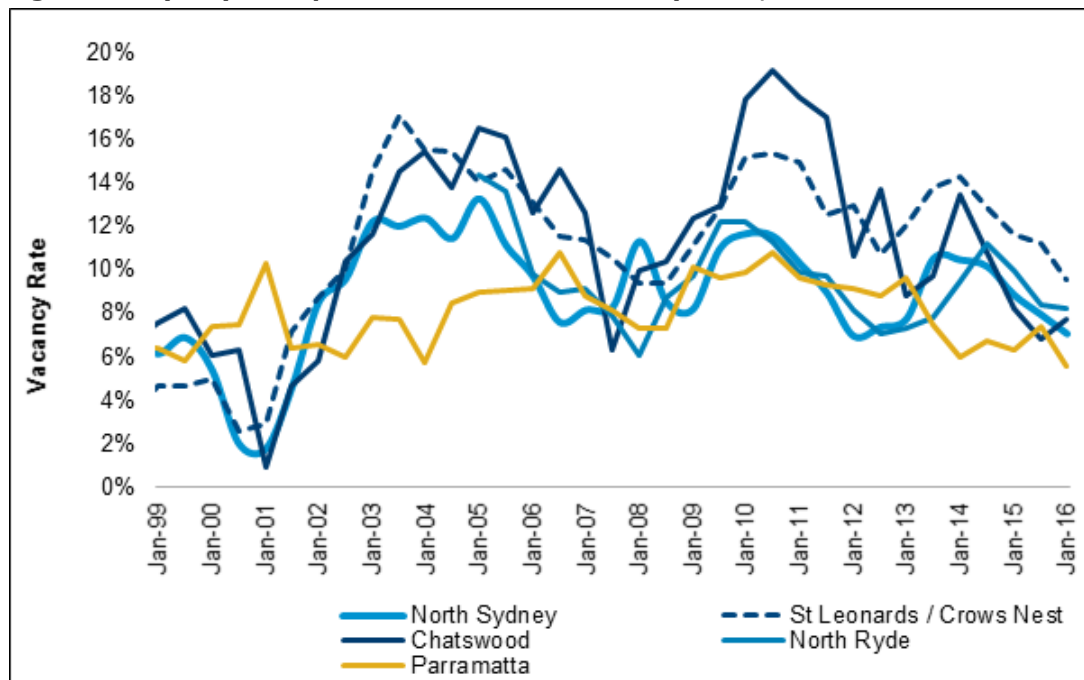
Source: PCA (2015), ABS (2015), AEC

The implications of the graph are:

- NSW unemployment peaked in 1993-94 and has been subject to downward pressure since then. Several rises in the unemployment rate are evident, most notably between 2001 and 2002 and 2008-10. This coincides with the strongest periods of net effective rental retraction in Figure 3.3.
- In 2001-02 and 2008-10, the rise in unemployment was a leading indicator of negative net office absorption and in turn rising office vacancy.

Chatswood experienced severe negative net absorption in early 2008, coinciding with the GFC and rising NSW unemployment *as well as* the emergence and growth of North Ryde/Macquarie Park as an office market which attracted tenants from established markets such as Chatswood and North Sydney.

**Figure 3.4: Sydney Metropolitan Office Markets Vacancy Rates, 1999-2016**



Source: PCA (2016)

Figure 3.4 demonstrates the cyclical nature of office markets. Though, Chatswood vacancy rates would appear comparatively more volatile between 2008 and 2011, affected not only by broader economic conditions but also a result of large amounts of leakage to the establishing market of North Ryde/Macquarie Park.

Vacancy rates in metropolitan markets are observed to be trending downwards from 2013-14. The vacancy rate in Chatswood is recorded at 7.7% at December 2015, much reduced from the peak of 19.2% vacancy in June 2010 (PCA, 2015).

### 3.3 Retail Land Uses

In addition to accommodating an established commercial office market, Chatswood is also a large retail shopping destination. Westfield Chatswood and Chatswood Chase along with a number of smaller shopping centres and arcades comprise Chatswood's retail offer.

**Table 3.1: Chatswood CBD Retail Composition**

Category	Westfield Chatswood		Chatswood Chase		Mandarin Centre		Chatswood Interchange		Other		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Majors	4	2%	3	2%	1	3%	1	2%	0	0%	9	1%
Food & Liquor	9	4%	12	6%	1	3%	7	11%	30	10%	59	7%
Food Catering	58	24%	34	17%	21	68%	38	60%	83	27%	234	28%
Apparel	80	34%	85	43%	2	6%	0	0%	26	8%	193	23%
Household Goods	6	3%	13	7%	0	0%	2	3%	7	2%	28	3%
Leisure	9	4%	8	4%	1	3%	0	0%	7	2%	25	3%
General Retail	24	10%	14	7%	3	10%	4	6%	23	7%	68	8%
Retail Services	34	14%	20	10%	1	3%	7	11%	83	27%	145	17%
<b>Total Retail</b>	<b>224</b>	<b>95%</b>	<b>189</b>	<b>95%</b>	<b>30</b>	<b>97%</b>	<b>59</b>	<b>94%</b>	<b>259</b>	<b>84%</b>	<b>761</b>	<b>91%</b>
Non-retail	13	5%	10	5%	1	3%	4	6%	48	16%	76	9%

Category	Westfield Chatswood		Chatswood Chase		Mandarin Centre		Chatswood Interchange		Other		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
<b>Total Specialty</b>	<b>237</b>	<b>100%</b>	<b>199</b>	<b>100%</b>	<b>31</b>	<b>100%</b>	<b>63</b>	<b>100%</b>	<b>307</b>	<b>100%</b>	<b>837</b>	<b>100%</b>

Source: Location IQ

Table 3.1 details the floorspace composition of the different specialty components within Chatswood. Key points of note include:

- Overall there are some 828 speciality shops in the Chatswood CBD, with the majority of these located outside the major shopping centres, predominantly along Victoria Avenue.
- The largest categories of specialty retail floorspace are food catering (28%) and apparel (23%). The majority of the apparel offer is situated in the major shopping centres including Westfield Chatswood and Chatswood Chase.
- Non-retail floorspace accounts for some 9% of the total Chatswood specialty offer, or 76 shops.
- The largest shopping centre in Chatswood in terms of shops is Westfield Chatswood with 233, some 80 of these (34%) are apparel shops with another 58 (25%) for food catering shops.

In summary, Chatswood represents one of the largest retail destinations in Sydney and is one of the only precincts in Australia to include two regional shopping centres, namely Westfield Chatswood and Chatswood Chase. Overall, some 828 speciality shops are provided, predominantly focused along Victoria Avenue with around 76 non-retail shops (9%). The largest provision of retail specialty floorspace in the Chatswood area is food catering with some 234 shops in total.

### 3.4 Development Activity

Residential development and market activity has been significant over the past 12-24 months. Many a new residential development has been met with phenomenal market response, in some cases off-the-plan sales concluding in a matter of days.

The growing number of innovative residential developments has fuelled the establishment of a critical mass of residents in Chatswood CBD, thereby boosting demand for retail and other urban support services therein.

Properties in closer proximity to the train station and Chatswood Interchange are well sought after as buyers seek amenity, convenience and lifestyle. Higher property values in these developments are observed to attract more owner occupiers rather than investors.

There is a significant amount of residential development in the pipeline in Chatswood, generally comprised of apartments. An analysis of larger developments is undertaken. Table 3.2 outlines a select number of residential and mixed use residential developments at various stages of planning and delivery by land use zone.

**Table 3.2: Development Pipeline, Chatswood**

Address	Type	Status	Land Use (units)
<b>B2 Local Centre</b>			
153-157 Victoria Ave	Mixed Use	Approved	Additions to existing commercial, shops, units (18)
129-135 Victoria Ave	Mixed Use	Approved	Retail, commercial, units (5)
<b>B3 Commercial Core</b>			
45 Victor St	Mixed Use	Withdrawn	Retail, commercial, units (300)
815 Pacific Hwy	Mixed Use	Rezoning Application	Retail, commercial, units (201)
65 Albert Ave	Mixed Use	Rezoning Application	Retail, commercial, units (285)
88 Archer St, 411 Victoria Ave	Mixed Use	Construction	Serviced apts, tavern, retail
<b>B4 Mixed Use</b>			
36-44 Hercules St & 256-260 Victoria Ave	Mixed Use	Construction	Retail, units (233)

Address	Type	Status	Land Use (units)
28-36 Anderson St & 2A McIntosh St	Mixed Use	Construction	Retail, commercial, units (156)
<b>B5 Business Development</b>			
871-877 Pacific Hwy	Mixed Use	DA	Retail, units (42)
654-666 Pacific Hwy, 1 Freeman Rd & 2A Oliver Rd	Mixed Use	DA	Commercial, units (75)
688-692 Pacific Hwy	Mixed Use	Rezoning Application	Retail, commercial, units

Source: Cordell Connect, Willoughby Council

Several large rezoning proposals seek to permit residential uses in the B3 Commercial Core.

Development activity in the B4 Mixed Use zone is dominated by residential uses, non-residential components within mixed-use developments generally observed to be modest, wherein retail/commercial suites may be proposed at ground level.

The following chapters examine the competitive standing of the Chatswood CBD as a commercial office market and major retail destination.

## 4. Chatswood as a Commercial Centre

### 4.1 Market Overview

Chatswood is divided into three parts by the major transport arteries of Pacific Highway and the North Shore rail line. West of Pacific Highway is some low-rise development and motor showrooms. Between the Pacific Highway and the rail line is the commercial office core of Chatswood. The retail precinct is located on the eastern side of the railway line and extends along Victoria Avenue. It is a mix of major retail complexes and small single fronted shops usually with offices above.

The commercial core (i.e. the area between the Pacific Highway and rail line) is well diversified. There are a mix of engineering, IT, telecommunications, construction, professional consulting and insurance companies who choose to headquarter their business in Chatswood's commercial precinct. It is generally characterised by both twin and single multi-storey tower developments such as Zenith Centre (which has recently sold), People Soft/Prudential, Sun Alliance and The Citadel (Vodafone) intermingled with older style, low scale office development and some service retail.

Chatswood's performance as an office market is influenced by market conditions and activity in the other office markets, namely North Ryde/Macquarie Park, St Leonards/Crows Nest and North Sydney.

**Table 4.1: North Shore Office Market Key Indicators**

Office Market	Total Stock (sqm)	Vacancy Rate	Annual Net Absorption (sqm)	Avg. Net Face Rent	Avg. Incentive*	Avg. Core Market Yield
<b>North Sydney</b>						
Prime	222,796	3.3%	1,402	\$663	26.5%	6.25%-6.75%
Secondary	600,555	9.7%	693	\$528	29.0%	7.00%-7.50%
Total Market	823,351	8.0%	2,095	\$564	28.0%	6.25%-7.50%
<b>St Leonards/Crows Nest</b>						
Prime	102,669	11.0%	4,983	\$488	29.5%	7.00%-7.50%
Secondary	244,235	11.3%	6,451	\$410	30.0%	7.75%-8.25%
Total Market	346,934	11.2%	1,468	\$433	30.0%	7.00%-8.25%
<b>Chatswood</b>						
Prime	157,412	6.9%	8,719	\$442	28.5%	7.50%-8.00%
Secondary	127,053	6.6%	2,122	\$385	29.5%	8.00%-8.50%
Total Market	284,465	6.8%	10,841	\$416	29.0%	7.50%-8.50%
<b>North Ryde/Macquarie Park</b>						
Prime	615,716	5.7%	20,993	\$368	28.0%^	6.50%-7.25%
Secondary	252,579	14.9%	4,574	\$300	30.0%^	7.50%-8.50%
Total Market	868,295	8.4%	25,567	\$348	28.5%^	6.50%-8.50%

Source: Knight Frank (2015)

Chatswood is the smallest office market (<290,000sqm) and currently subject to the lowest vacancy rate compared to other markets. As a percentage of total prime grade space, recent annual net absorption of nearly 9,000sqm in Chatswood is impressive. Table 4.1 shows that while average net face rents in North Ryde/Macquarie Park are the lowest, Chatswood relative to St Leonards/Crows Nest and North Sydney offers an affordable price point.

Chatswood is a beneficiary of a number of factors which have converged to increase net absorption of space and cause vacancy rates to fall from 2013-14 (as earlier depicted in Figure 3.4).

- Strong public transport links, both bus and rail.
- Displacement of tenants elsewhere including from St Leonards/Crows Nest and North Sydney, following the residential conversion of existing office stock and rising rents.
- Comparative slowing of new additions to North Ryde/Macquarie Park.



- Completion of Chatswood Interchange and other retail/community facilities offering improved tenant amenity and increased centre vibrancy.
- Competitive price offer in consideration of excellent retail facilities and tenant amenity.
- Demand for project space by companies involved in major infrastructure projects in Sydney's North West region, e.g. Lend Lease taking space in the Zenith Centre in 2015.
- Growing local resident population which generates demand for urban support services and contributes to the skilled labour pool.

Chatswood CBD is mostly zoned B3 Commercial Core which prohibits residential development. Retail and office uses dominate this area. The B3 zone is abutted by B4 Mixed Use, B5 Business Development and residential land uses. Given strong residential market conditions there has been significant development activity around the market which has served to change the nature of the area from an employment precinct historically towards a broader, mixed-use and residential focused precinct.

Whilst the commercial core is preserved for non-residential uses, the level of market rents is such that new office developments are not viable. The economic rents which would be required to justify a new commercial development are significantly greater than the current rents being achieved. This has inhibited new supply within the core, whilst on the CBD fringe the strength of residential demand has seen development opportunities which may once have led to new office buildings, instead being built out for residential uses.

Whilst there has been no sizeable reduction in commercial office floorspace in Chatswood, the sector has lacked investment and development for some time. In due course, this could result in a decline in the diversity of tenants within the centre and a resultant impact on the quality and quantity of jobs sustained.

Chatswood's flat growth as a commercial office market is a constraint to its future growth prospects. While office stock increased to the mid-1990's, the amount of stock in Chatswood has largely remained unchanged since then.

## 4.2 Market Activity

Good quality retail and tenant amenity, excellent public transport connections and comparatively cheaper rents collectively make Chatswood an attractive value proposition for tenants wanting to grow or who may have been displaced or priced out of other office markets. The growth in resident numbers in Chatswood also contributes to demand for office space in the Chatswood CBD.

The commercial market in Chatswood is multi-faceted, underpinned by trends and drivers that influence demand for commercial floorspace by type and by location.

Commercial floorspace in and around the train station and close to retail clusters generally performs well. The type of commercial floorspace accommodated in Chatswood CBD can be categorised into:

- Commercial office space within *purpose-built office buildings*, generally located within the 'commercial core' west of the rail line.
- Commercial space in a *mixed use setting*, e.g. within a mixed use residential building or retail/commercial building (generally low rise in nature).

There are a range of different types of commercial space available for lease/sale in Chatswood, including commercial office and other commercial space (e.g. to accommodate podiatrists, optometrists, language schools, etc.). The types of commercial floorspace are considered separately below as the drivers for their demand are different.

### 4.2.1 Leasing Activity

The type of commercial floorspace accommodated in the Chatswood CBD is distinct by type and location. More conventional commercial office formats are typically found west of the rail line and suit tenants who seek a more corporate address and identity.

Commercial occupiers who respond to population growth generally seek commercial floorspace within and close to population catchments, often within retail centres. Many of

the commercial suites on the east of the rail line accommodate these types of businesses, e.g. accountants and tax agents, financial advisors, healthcare professionals, etc.

### **Commercial Office**

The section below outlines these different types of commercial office space, the types of businesses seeking out the space and price points.

- **Conventional office space**

This type of workspace typically is unfurnished and leased per sqm, it is an option taken up by those needing a long term workplace.

Lease rates in Chatswood vary depending on the size and quality of office space. A grade office space leases for \$350/sqm-\$400/sqm (net) while B and C grade office space leases for \$200/sqm-\$350/sqm (net).

Leasing agents active in the local area indicate there is greater market depth for tenancy sizes of <300sqm compared to larger offices (>300sqm). Chatswood fills a gap in the market as it provides these smaller tenancies which aren't readily available in the nearby market of North Sydney.

Tenant interest in commercial space is understood to be diverse. Businesses seeking to locate in Chatswood typically include: medical-related occupiers, IT companies, engineering firms, accountants, finance companies and start-up businesses. Research suggests that diversity from occupiers is increasing with the leasing agent for 845 Pacific Highway (which is currently on the market) receiving interest from professional services firms as well as a music school.

North Sydney and Chatswood is the traditional tech corridor - leasing agents indicating there is strong demand from start-up companies seeking to locate in Chatswood, where there are smaller tenancies on offer at comparatively more affordable rents. An example of this is at Level 2, 465 Victoria Avenue (which is A Grade) which is currently on the market. Interest is reported received from a range of professional service firms as well as start-up companies. This property is expected to lease for \$380/sqm (net) or \$480/sqm (gross).

The way we work is transforming and so too are office formats. In line with technology and the emerging practice of 'collaborative consumption', the sharing economy has implications for the way commercial office space is used. While commercial office space has traditionally been used by a sole occupier, space is increasingly subject to sharing and co-usage. Serviced office providers facilitate the sharing of office space, offering a series of solutions from a single desk in a shared office to multiple desks in a series of open plan areas. This allows smaller and start-up businesses to limit their accommodation cost and commitment.

Research suggests there is a presence of serviced and shared/co-working office space in Chatswood. There are a range of types including:

- **Serviced office space**

A serviced office provides a fully furnished office environment, with internet and phone connection. User of this space pay an invoice per month which includes all services, i.e. outgoings, insurances, meeting rooms and reception services. Renting space can be as short as an hour to as long as a few years and the offices generally accommodate from 1 person to 100. Businesses which utilise this space are generally start-ups as it is a low cost and relatively low risk option for them.

In Chatswood there is currently serviced office space on the market at 10 Help Street and the Zenith Centre (both A-grade buildings). As an example, an office of 27sqm in size could be suitable for 5 people. At a rent per week of \$527, a rate in excess of \$1,000/sqm (gross) could be achieved for the space assuming 100% occupancy.

- **Co-working office space**

Co-working workspaces traditionally offer an open plan layout where desks are rented out by the hour or month to month. Many creative-type businesses favour this option as it allows them an environment to more readily collaborate.

There is co-working space currently on the market in Chatswood, located at 781 Pacific Highway (an older style building). The space is 78sqm and suitable for 12 people. At a rent per week of \$692, a rate of \$460/sqm (gross) could be achieved assuming 100% occupancy.

Businesses leasing space in Chatswood are generally already located within Chatswood or the general region, whether in North Sydney or St Leonards/Crows Nest. This is largely a function of owners/decision makers who reside locally to Chatswood.

Journey-to-work analysis in section 2.5 affirms this observation, with over 50% of workers in Chatswood living within a number of northern LGAs (Willoughby, Lane Cove, Kur-ring-gai, Warringah, Ryde, Hunters Hill and Hornsby).

#### **Commercial co-located with Retail/Mixed Uses**

There are a range of commercial occupiers who do not require a 'corporate' location or building with a corporate identity. Tenants such as child care centres, small professional practices (accountant, lawyer) and medical practices typically seek out space that is accessible to their target markets. Co-location within a retail cluster or centre is commonly sought after.

A number of commercial suites to the east of the rail line benefit from this type of demand, including commercial space along Victoria Avenue and Spring Street. While many of these businesses seek to cluster with retail uses, like corporate occupiers, these businesses also seek tenant amenity by favouring space that is in close proximity to the train station. Testament to the importance of the train station on location choice is the market acceptance of space in 443 Victoria Avenue (just east of the train station) compared to that in 282 Victoria Avenue which is at the eastern fringe of the CBD.

As the local population of Chatswood CBD grows, so too will the demand for commercial space to accommodate businesses that respond to local population growth. These businesses would also suit space in a mixed use residential building.

The demand for small commercial suites can additionally be witnessed from leasing and sales activity in ERA at 7 Railway Street. Completed and sold a couple of years ago, demand is understood to be strong from owner occupier businesses. 1-5 Railway Street (Chatswood Central) is understood to be leasing fairly well, achieving gross rents of \$450/sqm-\$500/sqm. A range of businesses are accommodated in this building (e.g. IT companies, real estate, accountants, new/start-up businesses) and are generally in suites of 100sqm or less.

#### **4.2.2 Sales Activity**

Sales activity of commercial office buildings in Chatswood CBD has been limited prior to 2015. Two A-grade commercial buildings were sold in 2015 and 2016 to institutional investors indicating a market expectation for improving investment returns.

- **Zenith Centre, 821 Pacific Highway**

After a marketing period of over a year, in May 2016 Dexus sold Zenith at 821 Pacific Highway to ASX-listed Centuria Property Funds Limited and investment firm BlackRock for \$279m. A newly incorporated Centuria unlisted property fund (Centuria Zenith Fund) will co-invest in the acquisition.

Acquisition of the investment grade asset is underpinned by an expectation of above-trend rental growth which would improve overall investment returns. With a diversified tenant mix and 40% government tenants, the high occupancy rates also drove confidence in purchase of the asset.

- **67 Albert Avenue**

In 2015 Eureka Funds Management sold the building to property fund manager CorVal for \$85m, on a yield in the high 8% range. The acquisition of the building by CorVal was in anticipation of the opening of Chatswood Interchange and confidence in the Chatswood A-grade market characterised by low levels of vacancy.

The building benefits from a recent lobby refurbishment facilitating an abundant amount of natural light to the space.

While the investment market in Chatswood has been subdued over the first half of the decade, improving market conditions has restored it to the radar of institutional investors.

Commercial investment in North Shore office markets is expected to continue, owing to the weight of capital seeking investment opportunities. While North Sydney and Macquarie Park have witnessed more investment sales activity, the two recent sales of investment

grade assets in Chatswood bodes well for investor confidence and signals strengthening market expectations of performance.

### 4.3 Location Selection Factors

There are many factors that influence decisions for business relocation and investment attraction. The Area Development Corporate Survey (2014) is a survey of businesses in the United States of America. The survey focuses on issues such as expansion/ relocation plans, the importance of site selection and quality of life factors in planning decisions, environmental sustainability and the economic climate. Each year the survey ranks the top 25 site selection factors when choosing a facility.

While the survey is based in the United States and the operating environment there is different from Australia, the survey contains many solid indicators as to how businesses make location decisions.

The survey found the availability of skilled labour was the top concern for businesses, followed by highway accessibility and labour cost.

**Table 4.2: Corporate Site Selection Factors**

Rank	Site Selection Factor	Score
1	Availability of skilled labour	95%
2	Highway accessibility	94%
3	Competitive labour costs	91%
4	Occupancy or construction costs	87%
5	Availability of advanced ICT services	85%
6	Availability of buildings	83%
7	Corporate tax rate	82%
8	State and local incentives	82%
9	Low union profile	81%
10	Energy availability and costs	81%
11	Tax exemptions	81%
12	Right-to-work state	81%
13	Available land	80%
14	Expedited or 'fast-track' permitting (planning approvals and regulation)	76%
15	Proximity to major markets	75%
16	Availability of long-term financing	75%
17	Environmental regulations	72%
18	Inbound/ Outbound shipping costs	71%
19	Proximity to suppliers	68%
20	Raw materials availability	61%
21	Accessibility to major airport	59%
22	Proximity to technical university	54%
23	Training programs	52%
24	Availability of unskilled labour	49%
25	Railroad service	29%
26	Waterway or oceanport accessibility	20%

Note: Percentages are the total of "very important" and "important" ratings of the Area Development Corporate Survey.  
Source: Area Development Corporate Survey (2014).

The same survey asked business decision makers in the United States about quality of life, which is another important locational aspect that supports the quality of an area. While not as conclusive as the site selection factors, these results demonstrate that quality of life in an area is important for site selection and investment decision making.

**Table 4.3: Corporate Quality of Life Factors**

Rank	Site Selection Factor	Score
1	Low crime rate	81%
2	Healthcare facilities	80%
3	Housing costs	75%
4	Ratings of public schools	73%
5	Housing availability	72%
6	Recreational opportunities	66%
7	Universities in the area	60%
8	Climate	60%
9	Cultural opportunities	55%

Note: Percentages are the total of "very important" and "important" ratings of the Area Development Corporate Survey.  
Source: Area Development Corporate Survey (2014).

Low crime, access to healthcare, housing, schools and recreational opportunities as well as cost of housing featured prominently and provides insights into the type of quality of life factors that can impact business investment decisions.

The key location selection factors for commercial centres include cost of accommodation, worker amenity, employee well-being and proximity of housing.

### **Cost of Accommodation**

Workplaces which are amenity rich are viewed favourably by occupiers when making location and building selection. Notwithstanding this, when occupiers and tenants evaluate their leasing options – what fundamentally underpins the decision is cost. A number of international tenants are located in Chatswood, driven by the relatively cheap accommodation price points.

There is no doubt occupiers and tenants are attracted to Chatswood due to the good value-for-money proposition that it offers. As a comparison,

- Prime grade rents in Chatswood are \$450/sqm-\$500/sqm (gross).
- Prime grade rents in North Sydney are \$700/sqm-\$900/sqm (gross).

A key factor which enables Chatswood to compete effectively with North Sydney is the better value for money that it offers, close proximity to the shopping centres, cafes and train station. In addition, the direct freeway connection to the Sydney CBD enhances its attractiveness.

As businesses continue to evolve to remain competitive in the face of global and national pressures, the primary focus for accommodation selection is to reduce cost and increase efficiencies.

### **Floorplates and Tenancy Sizes**

The decline in average tenancy size is being driven in part by an absence of large deals taking place, which is a cyclical element given the long leases that large corporations typically take. However there are a number of structural issues also occurring.

There has been significant growth in small to medium size enterprises looking for space. Average lease enquiry levels in the sub-500sqm category in Sydney have grown as a percentage of total leases. Accordingly there are more part-floor occupiers in the market.

While space in business parks such as Macquarie Park and Norwest Business Park offer large floorplate options (>1,000sqm), many tenants' floorspace requirements are less than that. The availability of not only affordable commercial office space but also that which is size-appropriate, makes Chatswood appealing to many commercial occupiers.

### **Accessibility**

There are many reasons why a tenant may prefer either a CBD location or metro location. This can include access to employees, close proximity to retail or ease of access by car or train. The role of Chatswood in providing for local employment ticks the accessibility boxes.



### **Worker Amenity**

As a proportion of total business cost, property occupancy costs (e.g. rents, outgoings, etc.) represent a small proportion, suggested to be in the region of 5%-10%. A key proportion of business cost is employees. As a consequence, despite the importance of cost in the location and building selection process, research suggests that the extent and quality of worker amenity is an increasingly important factor in location selection as employers seek to minimise employee cost by optimising employee productivity and retention.

"Worker amenity" that is sought by businesses is beyond the basic amenities that all workplaces are to provide under the Local Government Act 1995 and the Building Code of Australia (BCA). These legislative documents require the following amenities: air quality, temperature controls, workspace, lighting, seating, washing facilities, toilets, change rooms, dining facilities, drinking water and the provision of suitable access and egress.

"Worker amenity" demanded by industry is over and above statutory requirements, more akin to those which are deemed social infrastructure items, i.e. childcare, gyms, public recreation space, etc.

Colliers International carries out annual office tenant surveys to identify trends in tenants' leasing decision making to assist building owners and investors respond to occupier needs and requirements as they evolve.

The most recent survey was carried out in 2012 where 300 telephone interviews were carried out with key decision makers. Australian tenants surveyed represented 5.5% of all office space in Australia. These tenants were across Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra, Auckland and Wellington.

The following responses are of direct relevance for this Study:

- Increasing importance of building choice to attract and retain staff (61% of respondents indicated a "high importance rating" compared to 47% respondents in 2010).
- Reasons for the importance of building choice for attracting and retaining staff were suggested as:
  - Central location (51%).
  - Accessibility for staff (47%).
  - Staff happiness (37%).
  - Importance of image (32%).
  - Proximity to amenities (27%).
- An increasing importance placed on certain building attributes, specifically buildings with access to gyms, swimming pools, childcare facilities, bike racks, green space and a CBD location was observed between 2010 and 2012.
- A decline in importance in other building attributes, specifically car parking and ESD (environmentally sustainable design) was observed between 2010 and 2012.

Overwhelmingly, occupier needs are focused on cost-cutting and achieving workspace efficiencies. That said, there is increasing importance placed on location selection for attracting and retaining staff and with a focus on staff health and employee wellbeing.

As a consequence, the provision of significant informal, social and communal space within workplaces has increased.

Completion of the Chatswood Interchange and The Concourse, and associated streetscape and public domain works have contributed immensely to the overall image of Chatswood. Tenant and worker amenity in Chatswood is widely commented upon to be a major drawcard for businesses locating in Chatswood.

## 4.4 Comparative Analysis

The Sydney North Shore office market comprises four sub-markets: Chatswood, North Sydney, St Leonards/Crows Nest and North Ryde/Macquarie Park.

While each of these office markets is established in their own right, they do compete against each other for occupier interest and investment. This section provides a comparative overview of each sub-market.

### 4.4.1 North Sydney

North Sydney is focused on the Pacific Highway and Miller Street some 3km north of Sydney CBD. The North Sydney CBD is historically the sales hotspot of national metropolitan markets in terms of market activity and values. Many buildings there are of an older-style format.

The average floorplate size of buildings with North Sydney is 700sqm. There is a general trend for multi-national and mid-tier tenants to seek larger floorplates and fewer floors to maximise their efficiency, with the ideal floorplate size considered to be over 1,000sqm.

North Sydney is in a state of transition. There is strong demand for residential uses which has witnessed the repurpose of commercial office floorspace for residential uses. In the past year, over 48,000sqm of commercial space was withdrawn from the market. A large proportion of this was due to residential conversion, with over 1,700 units and 57,000sqm of residential floorspace currently in the pipeline. These withdrawals/conversions are restricted to the fringe, with the commercial core ring-fenced by a defensive zoning.

Furthermore, five buildings amounting to almost 20,000sqm will be withdrawn for the proposed Victoria Cross Metro line station. This will impose further pressure on market supply. Businesses displaced due to the construction of the Metro line will no doubt try to secure space elsewhere in North Sydney or look to other markets.

Major leases recently signed include Jacobs, Beam Suntory and Vodafone, totalling more than 17,000sqm of floorspace. A-grade offices in North Sydney lease for an average of \$600/sqm (net), which is higher than Chatswood, St Leonards and Macquarie Park. This is primarily due to the fact that North Sydney benefits from scale and prestige, which is unmatched by the competing sub-markets.

Recently development activity has increased in North Sydney - 177 Pacific Highway will be the first new development to the market in six years and scheduled for completion in the third quarter of 2016. Further to this, Dexis Property Group has activated the 41,000sqm development at 100 Mount Street, construction is to commence shortly.

Investment in North Sydney is strong, with over \$300 million of sales occurring in the second half of last year. It is estimated that 70% of the sales volume is due to foreign investment from China. One of the major sales that recently occurred was of 33 Berry Street which sold for \$95 million.

While commercial office buildings on the fringe of North Sydney have been redeveloped into residential uses, this has occurred in the periphery B4 Mixed Use zone with stock in the B3 Commercial Core preserved. A summary of North Sydney CBD planning controls is contained in Appendix A.

North Sydney is considered the second most prestigious commercial office market after Sydney CBD. It has relatively large mass of office floorspace - almost 850,000sqm. Its proximity to the Sydney CBD and identity as a corporate centre enables it to command the highest rents of the Sydney metropolitan markets.

### 4.4.2 St Leonards/Crows Nest

This commercial office market is focused along Pacific Highway and St Leonards train station. It abuts the North Sydney commercial precinct in the south and is situated approximately 5km from Sydney CBD. Commercial tenancies have traditionally focused on technological and broadcasting uses and comprise traditional, older style commercial floorspace. A-grade offices in St Leonards lease for an average of \$455/sqm (net).

There is strong demand for residential uses in this precinct given the high level of accessibility and presence of local services. Site rezonings from commercial to residential uses have over time eroded the commercial market in this precinct, this contraction in the market further exacerbated by a limited commercial pipeline. There are over 6,300 units and nearly 110,000sqm of residential floorspace in the pipeline.

It is anticipated that the St Leonards commercial market will be impacted by the withdrawal of almost 10,000sqm of commercial floorspace for the Crows Nest Metro line station. The completion of a large number of residential developments will not only drive demand for local retail and support services, a larger worker pool would conceivably establish in the centre.

Should they proceed, the St Leonards/Crows Nest market will see an uplift to stock from major developments such as Gore Hill and 88 Christie Street, which have the potential to provide 60,000sqm and 28,000sqm of floorspace respectively.

The St Leonards/Crows Nest office market straddles three local government areas, namely North Sydney, Willoughby and Lane Cove. The majority falls within the North Sydney LGA and is zoned B4 Mixed Use. A summary of St Leonards/Crows Nest planning controls is contained in Appendix A.

The St Leonards/Crows Nest commercial office markets is fragmented. Large scale redevelopment and conversion of existing commercial stock has resulted in a perception that critical mass of the commercial centre is progressively being eroded.

While not offering a 'corporate image' like North Sydney, St Leonards/Crows Nest is nevertheless popular with technology and health-based occupiers who are typically smaller in size, leveraging proximity to the Royal North Shore Hospital and TAFE campus.

#### 4.4.3 North Ryde/Macquarie Park

North Ryde/Macquarie Park continues to develop, supported by ongoing public and private infrastructure investment. It incorporates the headquarters of a number of international companies and has a focus on hi-tech industrial uses.

Demand has been strongest from tenants in the IT, pharmaceutical, manufacturing and distribution and food sectors. Generation 1 tenants have tended to upgrade their commercial premises but stay locally at lease renewal or with a view to expand, reflecting the long term attraction of this market. Floorplates are typically in excess of 2,000sqm.

The commercial office market in Macquarie Park is performing well due to the scale of floorplates on offer, good quality of newly developed space and health of pipeline supply. Unlike the markets of Chatswood, North Sydney and St Leonards, supply in Macquarie Park has increased significantly over the last decade.

Significant investment by Macquarie University (campus expansion, student accommodation, recreational facilities, etc.) and State Government (priority precincts) has further elevated Macquarie Park's profile and generated market interest.

North Ryde/Macquarie Park further benefits from having the largest proportion of A-grade space in Sydney's metropolitan markets. This is not surprising given the substantial new development that has occurred in recent years, some 45% of stock less than 10 years old.

**Table 4.4: A-grade space in Sydney Metropolitan Office Markets**

Office Market	Number of A-grade Assets	A-grade Stock (sqm)	% of A-grade Stock of Total
Macquarie Park	40	496,600	21.0%
Sydney fringe	36	363,900	15.4%
North Sydney	20	327,400	13.9%
Parramatta	22	296,500	12.6%
Sydney Olympic Park/Rhodes	24	279,200	11.8%
Norwest	19	194,500	8.2%
Chatswood	8	148,800	6.3%
Sydney South	12	143,700	6.1%

Office Market	Number of A-grade Assets	A-grade Stock (sqm)	% of A-grade Stock of Total
St Leonards/Crows Nest	10	109,400	4.6%
<b>Total</b>	<b>191</b>	<b>2,359,900</b>	<b>100.0%</b>

Source: JLL (2016)

While more than 20% of total stock comprised of A-grade space, Macquarie Park offers better quality of space compared to other Sydney metropolitan markets. The fact that rental levels are generally lower than other North Shore office markets further adds to its appeal. In contrast, only 6.3% of A-grade space metropolitan office stock is in Chatswood.

In the Sydney CBD, more than 50% of total floorspace is prime office space (Premium and A-grade). The relative proportion of good quality space is important for the health of any commercial office market, contributing to its overall image and tenant amenity.

Leasing activity has grown since the first half of 2015. The volume of spaces leased in the six months to January 2016 was 55% higher than the corresponding period in 2015. A-grade offices in Macquarie Park lease for \$300/sqm-\$350/sqm of lettable area. This is comparatively low compared to the other North Shore office markets.

Investment sales activity in North Ryde/Macquarie Park continues to be strong, with Mapletree Investments purchasing a portfolio of Goodman Group's assets, two of which were located at Macquarie Park (22 Giffnock Avenue and 118 Talavera Road). Mapletree Investments also purchased an office tower in Macquarie Park at 78 Waterloo Road.

In contrast to Chatswood, only a small proportion of workers (10.7%) in North Ryde/Macquarie Park live in Ryde LGA. About 25% of workers commute from surrounding LGAs of Hornsby, Ku-ring-gai, Warringah, Willoughby and North Sydney while the rest of workers commute from LGAs further afield. The worker pool that commutes to North Ryde/Macquarie Park is one that is highly skilled.

Under the Ryde Local Environmental Plan (2014), the core of Macquarie Park is zoned B3 Commercial Core while the land on either side of the core is zoned B7 Business Park. The zone objectives and floorplate sizes accordingly suit multi-national occupiers with large space and parking requirements.

Occupiers in the B3 zone include financial services firms, medical and pharmaceutical research and telecommunications companies. These include Orix, Johnson and Johnson, Novartis Pharmaceuticals and Foxtel. Prominent occupiers in the B7 zone include Toshiba, CSIRO, Komatsu, Astra Zeneca, Seiko and Optus.

A summary of North Ryde/Macquarie Park planning controls is contained in Appendix A.

While North Ryde/Macquarie Park is a compelling value proposition (i.e. large floorplates, relatively low rents, newer and 'greener' quality of floorspace), it does have its drawbacks.

The composition and configuration of floorspace caters less well to smaller tenants who seek small office suites in a high amenity setting. While there are two train stations that service the area, the streetscape and provision of retail, recreational and other facilities do not facilitate a high tenant amenity environment akin to a centre like Chatswood.

In its establishing years, attractive incentives and lease terms enticed occupiers away from other metropolitan markets like Chatswood. As Macquarie Park matures, it is apparent that its value proposition and offer is distinct from that of Chatswood's. The comparative value placed on space in Chatswood can be seen in McMillan Shakespeare who have moved from Macquarie Park to lease space at 475 Victoria Avenue.

#### 4.4.4 Implications for Chatswood

The Chatswood office market by comparison presents a distinctly different offer than its north shore competitors.

- While North Sydney is an established and prestigious office market, the price of accommodation is the highest of the north shore markets, only just behind the Sydney CBD with gross rents from \$700/sqm to \$900/sqm of lettable area.

- St Leonards/Crows Nest is not a contiguous commercial office precinct, accordingly attracting those businesses who benefit from proximity to the Royal North Shore Hospital and TAFE campus. The relatively poor quality of existing stock (comprised of less than 5% of A-grade stock in metropolitan office markets) also detracts from its desirability.
- On rents alone, North Ryde/Macquarie Park present the most competitive option of the north shore office markets. However, when viewed as a total value proposition, this office market caters less well for the needs of smaller occupiers or businesses who seek to achieve high quality amenity for its employees.

It is in recognising Chatswood's competitive offer and standing that a compelling value proposition can be 'packaged' to the market. The next section examines this competitive offer in greater detail.

## 4.5 Chatswood's Competitive Position

Chatswood CBD has seen a rebounding of market activity since the 2009-10 period wherein vacancy peaked at almost 20%. The increase in vacancies and reduction in net absorption was a product of broader economic conditions and unemployment levels following the GFC in 2008. At that time Chatswood was additionally vulnerable to tenant departures to Macquarie Park as attractive lease deals (with high incentives) were offered to entice tenants to anchor pre-commitments for new commercial developments.

Since 2010, NSW economic conditions and market activity have strengthened with demand for commercial space increasing amid a situation of commercial stock withdrawals and redevelopment into residential uses. As a consequence, many displaced commercial tenants have sought accommodation within remaining commercial buildings. The cumulative impacts of demand from displaced tenants and new commercial demand have resulted in a strengthening of market indicators across office markets including Chatswood.

The completion of Chatswood Interchange and The Concourse, various public domain and streetscape work as well as a burgeoning resident population have collectively increased the vibrancy of Chatswood as a commercial centre and thereby its market appeal.

The analysis in section 4.2 identifies and distinguishes the types of commercial occupiers in Chatswood. Tenants who seek a corporate address typically seek space west of the rail line while tenants who respond to population need and growth require smaller tenancies and locate well to the east of the rail line in a mixed use environment.

The strengths and weaknesses that face Chatswood, North Sydney, St Leonards/Crows Nest and North Ryde/Macquarie Park are listed in Table 4.5.

**Table 4.5: Strengths and Weaknesses of North Shore Office Markets**

Strengths	Weaknesses
<b>Chatswood</b>	
<ul style="list-style-type: none"> <li>• Accessibility and excellent public transport connections</li> <li>• Affordability, rent in Chatswood is lower than North Sydney and St Leonards/Crows Nest</li> <li>• Strong retail and entertainment offer, accordingly high tenant amenity</li> <li>• Proximity to skilled labour pool</li> <li>• Offer of diversity of floorspace formats including smaller commercial suites</li> <li>• Good quality streetscapes and public domain</li> </ul>	<ul style="list-style-type: none"> <li>• Small critical mass (&lt;290,000sqm)</li> <li>• Lack of new commercial supply and opportunities for expansion, hindering ability to renew</li> <li>• Older style stock with only 6.3% of metropolitan A-grade stock</li> <li>• Only incremental addition of new commercial space in mixed use (mostly residential) buildings</li> <li>• While commercial space in mixed use residential buildings can accommodate small occupiers, they typically lack a corporate identity and are less suited to corporate occupiers and multi-national tenants</li> <li>• Land rezonings from commercial to residential uses reducing the longer term potential of this market</li> </ul>
<b>North Sydney</b>	
<ul style="list-style-type: none"> <li>• Large and established office market</li> <li>• Accessibility and proximate to Sydney CBD</li> <li>• Strong retail and service offer</li> <li>• Prestigious and well regarded office market</li> <li>• Some commercial supply proposed in the pipeline, contributing to a lift in profile</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of large contiguous floorplates like Sydney CBD</li> <li>• Older style of existing stock</li> <li>• Strong pressure for residential conversions</li> <li>• Most expensive rents of Sydney metropolitan markets, pricing some tenants out</li> <li>• Less vibrant retail and entertainment offer</li> </ul>



St Leonards/Crows Nest	
<ul style="list-style-type: none"> <li>• Good accessibility</li> <li>• Proximity to North Shore residential areas</li> <li>• Proximity to major institutions (Royal North Shore Hospital and TAFE)</li> <li>• Local retail and services</li> <li>• Proximity to skilled labour pool</li> </ul>	<ul style="list-style-type: none"> <li>• Straddles 3 LGAs, making land use coordination difficult</li> <li>• High vacancy levels indicative of moderate demand</li> <li>• Low quality stock, less than 5% of metropolitan A-grade stock</li> <li>• Strong pressure for residential development and non-contiguous commercial core</li> <li>• Limited supply pipeline and expansion potential</li> </ul>
North Ryde/Macquarie Park	
<ul style="list-style-type: none"> <li>• Well-established business park style offer</li> <li>• Affordable rents</li> <li>• Range of high profile tenants</li> <li>• Accessibility by rail and road</li> <li>• Focus on hi-tech industrial sector</li> <li>• Flexible floorplates allowing warehousing and office space to be integrated</li> <li>• Availability of on-site car parking</li> <li>• Proximity to Macquarie Shopping Centre</li> <li>• Proximity to skilled labour pool</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure for residential and other non-commercial development</li> <li>• Less suited to smaller commercial tenants</li> <li>• Poorer quality of tenant amenity, configuration of uses and connectivity</li> <li>• Less than vibrant retail and entertainment offer (typically confined to Macquarie Centre)</li> <li>• Road congestion</li> </ul>

Source: AEC

### **Strengths**

Chatswood has a number of strengths it can leverage and in playing to these strengths it can cater to a gap in market supply. Chatswood's competitive standing can be summarised in the following themes.

- **Role and function**

Chatswood serves a secondary role to North Sydney and provides an alternative and a more affordable option for businesses unable to locate in North Sydney.

While St Leonards/Crows Nest also offers comparatively cheaper rents than North Sydney, the quality of existing stock is poorer, with less than 5% comprised of A-grade stock. Chatswood by comparison, has a slightly better grade of stock, 6.3% comprised of A-grade stock.

North Ryde/Macquarie Park caters well to occupier with large floorplate requirements and who need to combine office with warehouse/hi-tech industrial functions.

- **Small floorplates**

In addition to large floorplates, office buildings in Chatswood also provide small tenancy sizes (<500sqm and even <100sqm) and are accordingly attractive to small business and start-up companies.

North Sydney attracts national headquarters and mid-tier firms seeking floorplates of >1,000sqm while Macquarie Park provides larger floorplates again of >2,000sqm.

The depth of the market for small tenancies is greater than that for large floorplate occupiers. While large floorplate buildings convey a sense of prestige and corporate identity, in reality the large tenancy market is more limited in number.

- **Value-for-money offer**

Rents in Chatswood are less than in North Sydney and St Leonards/Crows Nest, offering a compelling value proposition for tenants, also considering the quality of tenant amenity on offer.

- **Small businesses and start-ups**

Chatswood is comparatively attractive for small businesses and start-up companies due to the offering of small tenancies at affordable rents.

- **Shared offices and co-working office space**

A number of service providers have space available that is an alternative to the conventional long-term office leasing arrangement. These options appeal to small businesses and start-up companies by assisting them to limit the cost and risk of accommodation. Depending on occupancy levels, the offer of shared spaces can result in higher rents per square metre of lettable area.

- **Tenant amenity**

Chatswood benefits from good amenity, particularly in terms of retail and public transport facilities. Good worker amenity is critical to the success of commercial precincts. In order for Chatswood to attract tenants and workers, office buildings will need to continue to cater to the needs of workers i.e. provide child care, gyms etc.

Since the completion of the Chatswood Interchange and The Concourse, the perception of Chatswood as a commercial office market has significantly improved.

- **Local workforce**

Journey to work data suggests that the majority of Chatswood CBD workers live locally, with over 35% living in Chatswood-Land Cove, Ku-ring-gai and Warringah. In contrast, only 25% of North Ryde/Macquarie Park workers live locally.

Chatswood can be considered an employment centre of local/regional significance, contributing to the self-containment of the general area.

### **Weaknesses**

The most significant of Chatswood's weaknesses is its apparent inability to grow as a commercial office market. The economic rents required to make the development of new space a commercial proposition are not present. At current rental levels even minimal refurbishment activity is not being pursued.

Limited development sites and pipeline supply does not help improve the quality and offering of commercial office space. This has a number of implications:

- Difficult for existing occupiers to remain in the area if they wish to expand or alter their location.
- New tenants are prevented from moving in due to a lack of suitable options.
- Chatswood is already the smallest office market on the North Shore. Its lack of critical mass is a weakness, detracting from its desirability as a location in which to work for both employers and employees.
- There appears a natural separation of the commercial core from the rest of the Chatswood CBD, current access to retail and other facilities to the east less than seamless.

While commercial floorspace is being incrementally added to (by virtue of Council's requirement for employment uses in mixed use developments), the marketability of commercial floorspace within mixed use (mainly residential) developments can be fragile.

As earlier discussed, the types of commercial occupiers who would locate in mixed use residential developments are not typically multi-national companies who seek a building with a corporate image and identity.

## **4.6 Looking Forward**

Existing commercial office markets are experiencing strengthening market conditions. This is a product of sustained economic conditions (reflected in sustained low NSW unemployment) and the withdrawal of existing commercial office stock for other uses. Market conditions in the Sydney CBD are witnessing strong growth in rents and prices, strong demand from new occupiers as well as expansion requirements from existing occupiers. This has flow-on implications for metropolitan markets, particularly those in close proximity to the Sydney CBD.

Chatswood is the beneficiary of the development of a number of key trends, some related to broader market conditions and some to do with development and activity in Chatswood itself. Key trends influencing market demand for space in the Chatswood office market are as follows:

- **Contracting supply of commercial office space in metropolitan markets**

The withdrawal of commercial office stock (largely for residential redevelopment) has resulted in the displacement of commercial tenants across Sydney. The lack of new office development (except in Macquarie Park) has meant increased demand is placed on existing stock, especially good quality stock.

- **Limited development pipeline and expansion prospects**

Chatswood's commercial office stock has been virtually unchanged for 20 years. While there is a relatively low proportion of A-grade stock (6.3% of total metropolitan stock), as rents and market interest continue to strengthen the incentive to refurbish/upgrade space will conceivably increase in response.

- **Affordable price points**

In comparison to other metropolitan office markets, in consideration of the quality of tenant amenity and public transport connections, Chatswood offers an excellent value proposition. It is for these affordable price points that international occupiers, for example Lenovo, are understood to be attracted to Chatswood.

- **Accessible and strong public transport connections**

While car access to Chatswood can be subject to congestion, its strong public transport connections are a major appeal factor for commercial office tenants and their employees.

- **Excellent retail and tenant amenity**

Not to be under-estimated, the availability of proximate retail and other social infrastructure facilities contributes significantly to tenant amenity and employee satisfaction. The relatively 'tight' geography of the Chatswood CBD affords relatively close access to the various supporting infrastructure relative to say a business park location like North Ryde/Macquarie Park.

- **Skilled labour pool**

Proximity to the North Shore executive belt is a major advantage for commercial occupiers as well as to a skilled labour pool.

While Chatswood is well positioned to benefit from positive and improving market conditions, the most critical challenge and key to Chatswood's sustainability would be to stimulate tenant/investor interest so as to promote the continued rise of rents/prices to incentivise refurbishment of existing stock and re-investment into commercial office buildings.

In order for new development to occur, market rents are still a long way off where economic rents are for new commercial office buildings to be financially feasible. That said, re-investment into existing stock signals a confidence in Chatswood's office assets.