



ESSENTIAL ECONOMICS

Proposed Redevelopment of Chatswood Post Office

Economic Assessment

Prepared for

Australia Post

by

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INTRODUCTION

Background

This independent economic assessment has been prepared for by Essential Economics Pty Ltd, and relates to a planning proposal for the Australia Post site at 45 Victor Street, Chatswood.

The site is located at the corner of Victor Street and Post Office Lane in Chatswood CBD, in the City of Willoughby. The site currently hosts a three-storey building comprising a Post Office at ground level and two levels of office space above ground.

The indicative development scheme allows for the existing building be demolished and for a 42-storey mixed-use facility be developed in its place. The Planning Proposal seeks to amend the following planning controls applying to the site:

- Retain the B3 Commercial Core zone but add 'shop-top housing' as an additional permitted use on the site under schedule 1 of WLEP 2012
- Increase in the maximum height limit from 12 metres to RL235 (approximately 42 storeys plus plant room space)
- Remove the floorspace ratio (FSR) control for the site, and allow for the building to be defined by a building envelope control.

Objective

The objective of this study is to assess the net economic impact of the proposed scheme.

The analysis includes a detailed assessment of potential employment impact associated with the proposed scheme, having regard for the importance of Chatswood in creating local employment opportunities and in supporting other job-sustaining activities.

It is understood that the findings of this study will be presented to Willoughby City Council as part of the planning proposal by JBA Planning on behalf of Australia Post.

This Report

This report contains the following chapters:

- Chapter 1: Project Description – Describes the geographic context, current site uses and the nature of the indicative scheme
- Chapter 2: Policy and Planning Context – Outlines the strategic land use policy context for the site as it relates to economic outcomes
- Chapter 3: Market Assessment – Provides an assessment of the office and residential markets in Chatswood

- Chapter 4: Economic Assessment – Provides estimates of the potential economic outcomes that would result from the realisation of indicative scheme, including employment and local spending outcomes by workers and residents
- Chapter 5: Key Findings – Outlines the key findings and conclusions of the study

1 PROJECT DESCRIPTION

This Chapter provides an overview of the planning proposal, including the site location and the indicative development scheme.

1.1 Location

Chatswood CBD

The Chatswood CBD is located in the City of Willoughby and is a key focus for retail, commercial and community facilities serving residents living on the north shore of the Sydney metropolitan area. Sydney CBD is situated approximately 8km south-east of Chatswood.

Chatswood is located on the North Shore and Northern lines of the CityRail network which provide frequent services to the Sydney CBD and to the balance of the metropolitan rail network. The recently-developed Chatswood Transport Interchange is a high capacity rail/bus/taxi facility located in the middle of the Chatswood CBD.

The Pacific Highway is the major road link which runs along the western edge of the centre.

Subject Site

Chatswood Post Office is located on the southern corner of Victor Street and Post Office Lane in the Chatswood CBD, as shown in Figure 1.1.

Surrounding land uses include:

- Westfield Chatswood to the east, on the opposite side of Victor Street
- An apartment building, the Sebel Residences and City of Willoughby offices to the south
- An office building to the immediate west, with the Chatswood Transport Interchange located beyond
- Shops and the Chatswood Mall to the north.

In general terms, the Chatswood Post Office site is located adjacent to, but has limited direct exposure to, the high levels of activity generated by the Chatswood Mall and Westfield Chatswood.

The Post Office is surrounded on three sides by buildings which are considerably more developed in terms of their height and built form, such as the high-rise Sebel residences and various other medium-rise developments.

Post Office Lane is proposed to undergo an upgrade that would include a shared pedestrian/vehicle access road and provide direct access to the Chatswood Transport Interchange from Victor Avenue.

Figure 1.1: Locational Context



Source: Essential Economics using Nearmap and MapInfo.

1.2 Current Use of the Subject Site

The Chatswood Post Office is situated in a 3-level building occupying a site of approximately 980m².

On the ground floor is an Australia Post Shop retail outlet which incorporates approximately 410m² of leasable floorspace and other postal support services, including Post Office boxes. Approximately 15-20 full-time equivalent Australia Post staff are employed on-site at the Chatswood Post Office.

The first and second floors each provide a combined total of 1,380m² of office space across both floors. Although both these floors are technically occupied by Australia Post, it is understood that neither floor is used regularly, other than for staff amenities. The 'office space' on these floors is therefore surplus to Australia Post's current requirements.

1.3 Indicative Development Scheme

The indicative scheme for the Chatswood Post Office site would replace the existing under-utilised building with a 42-storey mixed-use development, incorporating:

- Refurbished retail floorspace at ground level,
- Three levels of commercial office space,
- A total of approximately 300 apartments,
- On-site of car parking with a total of 195 spaces, 10 of these for commercial tenants and 185 for residential tenants.

The car park entry would be on Post Office Lane, with the new shared pedestrian/vehicle route starting at the corner of Post Office Lane and extending west to the Chatswood Transport Interchange. The ground floor retail would have frontage to the shared area, and would be oriented towards the northern edge of the ground floor to allow for an active frontage to Victor Street and the new Post Office Lane pedestrian route.

A preliminary concept drawing of the proposal is shown in Figure 1.2.

Figure 1.2: Street Level Concept Drawing of Redevelopment



Retail and Commercial

Under the indicative scheme, the proposed the ground floor retail space would have a total leasable area of approximately 210m². This is likely to be occupied by a single large tenancy or configured to accommodate multiple tenants depending on market demand.

The building will also include three storeys of high-quality commercial floorspace relative to the redundant office floorspace in the existing building. Total commercial floorspace will be approximately 1,856m².

The commercial floorspace is expected to include a mix of business types, including smaller tenancies occupied by personal and professional services firms seeking proximity to customers in the high activity areas of Chatswood, east of the railway line.

In total, the retail and commercial office floorspace component under the indicative scheme is approximately 2,066m², as shown in Table 1.1. This would represent a net increase of 1,656m² on the 410m² of retail floorspace currently being utilised on the site (noting the existing office space is currently virtually un-used by Australia Post).

Table 1.1: Commercial Capacity According to Indicative Scheme

Proposed Use	Levels Allocated	Number of Storeys	Net Leasable Area (Per Storey)	Net Leasable Area (Total)
Retail	Ground	1	210m ²	210m ²
Office	over three levels	3	210m ² + 823m ²	1,858m ²
Total	-	4	-	2,066m²

Source: JBA Planning. Figures rounded.

Residential

A total of approximately 300 apartments are proposed in the indicative scheme, including a mix of studio, one-, two- and three-bedroom apartments, as shown in Table 1.2.

The permanent resident population would be expected to be in the order of 535 persons, based on an average household size of 1.8 persons.

Table 1.2: Residential Capacity of the Proposed Development

Apartment Type	Indicative Apartment Mix	Number of Apartments	Typical Number of Occupants Per Apartment	Total Occupants
Studio	30%	90	1.4	125
One-Bedroom	30%	90	1.6	145
Two-Bedroom	24%	72	2.0	145
Three-Bedroom	16%	48	2.5	120
Total	100%	300	1.8*	535

Source: JBA Planning, Essential Economics. * Implied average occupancy per apartment.

1.4 Surrounding Developments

At present, several other major developments are proposed or under-construction in the Chatswood CBD. A brief description of each development is provided below.

- **The 'Suncorp' Building:** This building is located immediately north of the subject site, abutting Post Office Lane. A development application for the site proposes new 'shop-top' housing on two levels above the existing commercial uses at ground level.
- **Metro Towers:** Chatswood Towers is a major development which will provide more than 500 dwellings in three residential towers above Chatswood Railway Station. Three levels of retail floorspace will be provided in the podium.
- **ERA:** The 'ERA' development at 7 Railway Parade is a major mixed-use development that will provide retail floorspace at ground level, three levels of commercial office floorspace, and 38 storeys of residential apartments. Commercial uses in the podium will provide approximately 4,875m² of office and a further 115m² of retail floorspace.
- **38 Albert Avenue:** 38 Albert Avenue, at the corner of Albert Avenue and Archer Street, will provide a nine-storey residential building of luxury apartments and a second building that will house a 'centre of excellence' for integrative medicine.
- **Thomas Street Mixed-Use Development:** Approximately 250 metres to the south-west at Thomas and Albert Streets is a mixed use development that is currently under construction. The development includes two buildings, of 29 and 21 storeys, although there is currently a submission seeking to increase the maximum height of Building 1 of the towers to 47 storeys (RL235.35 plus plant) and Building 2 to 37 storeys (RL221.95 plus plant). The modification is expected to be determined by the Planning Assessment Commission following a public hearing on the 27 August 2013.

The extent of residential and mixed-use development occurring around the subject site demonstrates the attractiveness of central Chatswood as a commercial investment location, as well as a location that appeals to potential residents as a place to live, work or engage in recreational and civic activities.

1.5 Summary

Chatswood is a major activity centre and a focus for retail, commercial and community uses. The centre is located 8km from Sydney CBD and is well-connected with the CBD and the North Shore area by excellent road and rail transportation links.

The office floorspace on the upper floors of the existing building that occupies the subject site is under-utilised, and an opportunity exists to redevelop the site in the future with a multi-storey, mixed-use building comprising retail, office and residential uses. The construction of such a building at the subject site would be in keeping with the character of surrounding developments and the role of Chatswood as an important activity centre and transport hub.

2 POLICY AND PLANNING CONTEXT

This Chapter outlines the strategic land use policy context for the Chatswood Post Office site, as it relates to economic outcomes.

2.1 State and Regional Objectives for Chatswood

The overarching State Government policy objectives for Chatswood are conveyed through the *Sydney Central Subregional Strategy*, a component of the *Draft Metropolitan Strategy for Sydney*.

The *Draft Metropolitan Strategy* is currently on exhibition for public comment, and will inform the development of the final Metropolitan Strategy. Once the final strategy has been released, Subregional Delivery Plans will be developed in partnership with communities and local councils.

The key objectives of the *Sydney Central Subregional Strategy*, which incorporates Chatswood, are:

- Enhance the role of the subregion as Sydney's global economic driver, including strengthening connections within the Global Sydney and Global Economic Corridor city shapers
- Recognise the importance of Sydney Harbour as an icon of Sydney that will continue to drive investment in and around the subregion
- Strengthen transit connections throughout the Global Economic Corridor, particularly around Sydney CBD, in line with the Long Term Transport Master Plan
- Recognise the well connected, highly accessible and walkable environments which contribute to the vitality of the suburbs in this subregion
- Enable housing intensification throughout the subregion, particularly around established and new centres, and key corridors.

According to the *Metropolitan Strategy*, achieving these objectives will involve the construction of 138,000 new dwellings and the creation of 230,000 new and ongoing jobs in the Central Subregion between 2011 and 2031.

Chatswood CBD

Chatswood is designated as a 'Major Centre' in the Metropolitan Strategy which provides the following objectives for the centre:

- Support its role as the primary office-based hub for northern Sydney
- Grow as a dominant service retail and recreational centre
- Plan for medium and high density housing outside the commercial core

- Provide capacity for at least 8,000 additional jobs to 2031.

(Page Page 84, Draft Metropolitan Strategy for Sydney)

The objectives outlined in the new draft strategy continue the themes outlined in the existing, although soon to be superseded, Metropolitan Plan for Sydney. The current plan provided a vision for the Chatswood Major Centre as:

"[A] Major shopping and business centre serving immediate subregional residential population usually with a full scale shopping centre, council offices, taller office and residential buildings, central community facilities and a minimum of 8,000 jobs."

(Page 11, Inner North Subregional Plan)

As a large mixed-use centre that is well-served by public transport and road linkages, Chatswood is one of the most important Major Centres in Sydney. This places additional demands on Chatswood to become a vibrant and successful high-order, mixed-use centre, as indicated by the following text from the strategy:

"...Chatswood will continue to provide housing near the centre to cater for growth. The attraction of Chatswood as a place to live will be enhanced through the completion of the Epping-Chatswood Rail Link, the Chatswood Transport Interchange, and the Civic Place Development...which will include theatres and other cultural facilities."

(Page 48, Key Directions, Centres and Corridors)

In addition, the *Metropolitan Plan* seeks to achieve the following priority-related outcomes for the Inner North:

- As part of the Economy and Employment priority area, to deliver an additional 16,000 jobs in Willoughby over the period 2001 to 2031 across all industries and occupations
- As part of the Housing priority area, to increase the Inner North's share of total dwellings in metropolitan Sydney from 7% in 2001 to 8% in 2031, requiring an approximately 1,100 net new dwellings per year over 30 years. The strategy strongly encourages Inner North Councils to *"plan for a greater range of housing forms, especially in centres with good public transport, which will continue to improving the mix of housing choice to accommodate changing demands of existing residents and to support a diverse workforce"*
- As part of the Implementation and Governance priority area, to align sub-regional and local planning with strategy aims
- As part of the Transport priority area, to integrate transport and land use opportunities, and especially the *"significant opportunities for transit-oriented development around new and upgraded stations."* Doing so will improve the self-containment rates of

employment and other activities, thus reducing the number of trips and increasing the overall efficiency of people movements into, out of, and within the Inner North.

2.2 Local Objectives for Chatswood

The City of Willoughby's vision for the Chatswood CBD is conveyed in local planning policy documents, and principally through the Willoughby Local Environment Plan (WLEP).

The 2012 WLEP commenced on 31 January 2013, following a period of public exhibition and community feedback.

Council's specific objectives for the Chatswood CBD are contained in the *Willoughby City Strategy 2010 – 2025* (2010) and the *City Centre Plan* (2008). The key goals and objectives of each document that are relevant to this study (ie those related to the commerce, employment or housing) are summarised below.

Willoughby City Strategy

According to the *Willoughby City Strategy 2012-2029* (2013), the key long-term development objectives for Willoughby are:

- *"Investigate changing demographics of the Willoughby area and review planning controls to encourage new housing types to meet community and intergenerational needs", and "Protect important employment areas (industrial, commercial land) from incursion by residential development and other uses that affect the long term integrity of those areas."*

The strategy recognises that achieving this goal necessarily involves promoting mixed use developments, and that it is important for new housing to be located in areas where housing densities are appropriate to the infrastructure and services, and where high quality living amenity for residents is ensured. Although recognising that residential development needs to be considered against potential impacts on the continued viability of employment areas.

- *"To manage the transport needs of the community in a sustainable manner by reducing car dependence and increasing public transport use, walking and cycling".*

Transit-oriented development with direct access to high capacity public transport is critical to achieving this goal.

- *"To maintain and promote the City's employment opportunities and the range and quality of businesses, industry and services", and specifically "Implement strategy for the long term development of Chatswood CBD as a major regional employment, retail and entertainment destination".*

Maintaining and enhancing Chatswood's role as high-order, mixed-use activity centre is of central importance to achieving this goal.

City Centre Plan

According to the central vision of the *City Centre Plan*, Chatswood will:

- Be a vibrant and multi-functional business district serving a regional and local role
- Provide for city living
- Be environmentally sustainable
- Be a centre where residential and commercial uses complement each other.

Importantly, the city vision recognises that a balance must be struck between the simultaneous objectives of the CBD as both ‘a place to live’ and ‘a place to work’. This is recognised in the following statement of opportunity:

“High-density residential use is balanced with retail and commercial uses focusing urban consolidation in the City Centre without eroding the surrounding lower density high quality residential suburbs and Conservation Areas.”

(Page 8, City Vision, Chatswood City Centre Plan)

Accordingly, the vision aims to increase retail and office floorspace, reduce the office vacancy rate, increase the number of dwellings, increase the residential population, and increase the public transport use in Chatswood CBD.

2.3 Summary

The state and local policy objectives for the Chatswood CBD demonstrate that strong underlying support exists at both levels of government for the kind of mixed-use development proposed for the subject site in the indicative scheme.

A high-rise building incorporating retail, office and high-density residential uses would assist in advancing several key state and local policy objectives simultaneously, including:

- Improving housing choice
- Encouraging greater public transport use through transit-oriented urban development
- Expanding the employment capacity by renewing the retail component of the building, creating additional office floorspace
- Helping to increase the Inner North’s share of total dwellings in metropolitan Sydney by creating new residential capacity
- Allowing for a greater range of housing forms
- Improving the mix of housing choice to accommodate the changing demands of existing residents and to support a more diverse workforce

- Enabling the appropriate co-existence of residential and commercial uses in a single building, thus contributing to the vibrancy and success of Chatswood as high-order centre of local, regional and metropolitan significance.

3 MARKET ASSESSMENT

This Chapter assesses the office and residential markets in Chatswood as they relate to the viability of potential land and building uses at the subject site.

3.1 Site Context

The land and building uses in central Chatswood can be grouped into two functional geographic precincts as follows:

- A commercial office precinct, located immediately west of the railway, between Railway Street and Pacific Highway. This precinct provides the location for almost all the office buildings in Chatswood.
- A community precinct, located immediately east of the railway, which provides high street shopping, the Westfield and Chatswood Chase shopping centres, cafés, restaurants, gyms and other recreational facilities. This precinct is the location for Council's new civic space, 'The Concourse,' featuring a public library, a public square, concert hall, theatre, and conferencing facilities.

The subject site is located within the community precinct, as shown in the map at Figure 3.1 below. The map also clearly demonstrates the land use specialisations of commercial and community uses either side of the railway.

These land use specialisations lend support to the logic of allowing mixed uses (as opposed to only office uses) at the subject site in the future, as it would allow people to reside in close proximity to shopping, recreational and civic facilities.

Factors limiting site potential for exclusively commercial development

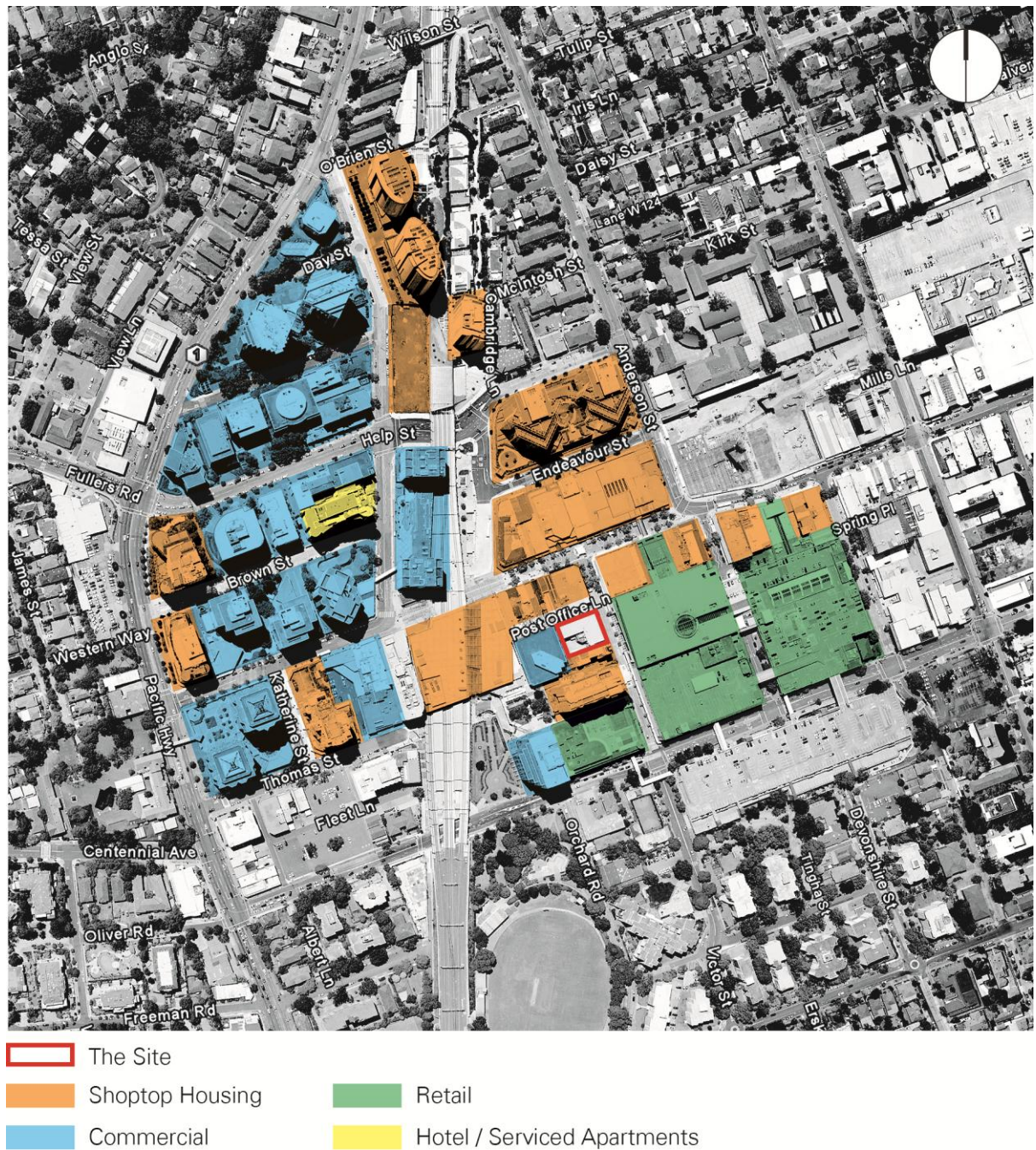
The relatively low exposure of the site to foot traffic makes it a sub-optimal location for further retail development when compared to other locations in central Chatswood, such as the existing shopping centres and Victoria Avenue mall.

Furthermore, the maximum potential floor plate for the site is less than the 1,000m² per level that is required to qualify as A-Grade commercial office. This means that any commercial office development will have a significantly lower range of potential occupants and achieve reduced rental yields relative to dedicated office development on the larger sites located primarily west of the railway.

Following the completion of the Metro Towers development above the railway line, Post Office Lane will provide direct access to Chatswood Station for future residents of the proposed Chatswood Post Office development.

In summary, these locational factors and commercial realities point to the suitability, in both land-use and economic terms, of locating a mixed-use development at the subject site over a commercial-only development.

Figure 3.1: The Clustering of Commercial Office Buildings in Chatswood Major Centre



Source: JBA Planning

3.2 Office Market Assessment

Office Market Trends in Chatswood

The Chatswood CBD office market has had a mixed performance over the past 20 years.

According to published market reports, the vacancy rate in the Chatswood CBD has fallen below 5% on just one occasion during the past twenty years (in 2001), and has generally fluctuated between 5% and 10% for the majority of that period. By standard industry benchmarks, a vacancy rate consistently in excess of 5% is a sign of underperformance.

In particular, the office market in the Chatswood CBD has struggled during the past five years, with vacancy rates generally above those of alternative North Shore office locations at North Sydney, St Leonards and Macquarie Park (as noted below).

The office vacancy rate in Chatswood was 8.9% in April 2013 according to Knight Frank estimates (Table 3.1). This is nearly double the industry benchmark of 5% for a 'healthy' office market and reflects approximately 30,000m² of vacant commercial floorspace in the Chatswood CBD.

Table 3.1: Market Conditions, Chatswood Office Market, May 2012-13

Office Type	Vacancy Rate May 12	Vacancy Rate May 13	Change in Vacancy Rate	Net Absorption [^]
Prime ('A' grade)	11.5%	9.2%	-2.3%	16,351m ²
Secondary ('B', 'C', 'D' grade)	9.7%	8.4%	-1.3%	1,637m ²
Total: Chatswood	10.7%	8.9%	-1.8%	17,988m²

Source: Knight Frank North Shore Office Overview, May 2012 and May 2013. ^ as at April 2013

More recent Property Council Office Market Report published in July 2013 indicates that the office vacancy rate in the Chatswood CBD has increased to 10.7%.

Overall, the Chatswood office market has fluctuated around the 10% vacancy rate for the past few years. This is high in a metropolitan context, with the Suburban Sydney average being around 8% over the period and implies a relative lack of market demand.

Over 90% of the net absorption in Chatswood in the past 12-months has been in Prime A-Grade office space, located in the commercial core of the centre to the west of the railway line. This suggests low demand exists for office development in secondary locations, such as the Chatswood Post Office site, that do not have the capacity to support floor plates of sufficient size to attract corporate tenants.

Discussions we have undertaken in August 2013 with commercial agents highlight the reliance of Prime or A-Grade office space in the improved Chatswood Office Market performance over the past 12 months. Agents have also indicated that potential tenants typically require floor plates in the order of 1,500m² (per floor).

The reduction in office vacancy rates in the Chatswood CBD over the 12 months to May 2013 can be primarily attributed to the refurbishment and re-leasing of 465 Victoria Avenue by FKP Property. The leasing of the building represents 93% of the net Prime floorspace absorption in Chatswood over the past 12 months.

Without the refurbishment of the 465 Victoria Avenue building, the vacancy rate in Chatswood would have remained approximately 10%.

Outlook

The long-term outlook for the commercial office market in the Chatswood CBD is influenced by the following main factors:

- **A lack of new office construction:** Over the past decade the overall stock of office floorspace in Chatswood has been stable, or declined slightly, indicating limited commercial investment in the development of new office space
- **Increased competition:** Locations such as Barangaroo, Ultimo, Parramatta and Rhodes are generating significant new Prime office space and increasing the level of competition for office tenants with other suburban commercial office markets including Chatswood
- **Vacancy rates:** Overall vacancy rates have remained stubbornly high, reflecting the large supply, small non-contiguous spaces and increased competition from other North Shore locations
- **Prime space:** The vacancy rate of prime office space in Chatswood is now lower than non-prime space, reflecting renewed interest in quality office space in the centre
- **Office absorption:** Overall rates of 'absorption', or the annual rate at which additional office space is taken up in the Chatswood CBD, are relatively low and have averaged approximately 3,500m² to 4,000m² per year over the past 20 years. Although absorption in the past year has been significantly higher at approximately 17,988m², this has occurred on the back of a large and one-off refurbishment program.
- **Achievable rents:** Prime rents in Chatswood are higher than the campus-style office located at North Ryde/Macquarie Park, but lower than in the key office market of North Sydney. In effect, Chatswood appears to be 'priced out' as a corporate location for firms seeking value for money accommodation (such as Macquarie Park), yet has more limited exposure and prominence of other prime corporate locations (such as North Sydney). Nonetheless large prime spaces appear to be attracting increased market interest, particularly in areas west of the railway line.

Over the long-term, it is estimated that the Chatswood CBD will continue to achieve overall office absorption rates in the order of 4,000m² per annum.

Implications for the Subject Site

This review of the commercial office market shows there is approximately 30,000m² of vacant commercial office located in Chatswood.

Although some renewed market interest is being directed towards prime office space, the maximum potential floor plate of the Post Office site – approximately 850m² per floor - is too small to qualify as A-grade office space.

Furthermore, the subject site lacks the exposure and accessibility of alternative office development locations to the west of the railway line.

For this reason, it is appropriate that the indicative scheme incorporates only a modest office component, consistent with current and forecast market requirements and the constraints of the subject site.

The indicative scheme for the Chatswood Post Office site incorporates an office floorspace component of 1,860m², and this would contribute approximately half a year's additional supply to the Chatswood office market. It is anticipated that this office space will be well-suited to a range of small to medium businesses seeking smaller office floor plates relative to the corporate office buildings located west of the railway line.

3.3 Residential Market Assessment

Overview

The lower north shore residential region, comprising the local government areas of Lane Cove and Willoughby, is considered to have considerable appeal as a location for higher-density residential development and living. This is due to factors including:

- Proximity to the Sydney CBD and other regional employment and service hubs
- High quality built and urban form in the region
- A comprehensive range of local services and amenities
- High quality transport links and other social infrastructure.

These factors continue to drive high levels of population growth in the region, which has averaged approximately 1.2% per year since 2006, as shown in Table 3.3 (following page).

Over the next decade, the population of the lower north shore is forecast to increase by approximately 7,300 persons and at an average annual rate of 0.7% per annum. This includes a forecast increase in the population in the City of Willoughby from 70,710 persons in 2011 to 75,900 persons in 2021.

The demand for housing in the lower north shore is also influenced by the demographic profile of those currently living, or wanting to live, in the region. Socio-economic data for the region shows that the area is characterised by high numbers of professionals with above-average incomes, high proportions of couples without children, and non-family households. All of these groups have a well-known propensity to live in conveniently located apartment-style dwellings

Table 3.2: Population Lower North Shore Region, 2001 to 2021

	2001	2006	2011	2021
<u>Population (No.)</u>				
Lane Cove	32,090	31,720	33,980	36,100
Willoughby	<u>61,800</u>	<u>66,890</u>	<u>70,710</u>	<u>75,900</u>
Total Lower North Shore	93,890	98,610	104,690	112,000
<u>Average Annual Growth (%)</u>				
Lane Cove	-	-0.2%	+1.4%	+0.6%
Willoughby	-	<u>+1.6%</u>	<u>+1.1%</u>	<u>+0.7%</u>
Total Lower North Shore	-	+1.0%	+1.2%	+0.7%
<u>Average Annual Growth (No.)</u>				
Lane Cove	-	-70	+450	+210
Willoughby	-	<u>+1,020</u>	<u>+760</u>	<u>+520</u>
Total Lower North Shore	-	+940	+1,220	+730

Source: ABS, Department of Planning and Essential Economics

Note: Figures rounded.

Demand for High Density Living in Chatswood

Chatswood is an important part of the housing market in the North Shore region, primarily due to the strong policy support as a location for higher-density living (see Chapter 2) and the presence of significant infrastructure and services.

Between 2006 and 2011, approximately 46% of new dwelling approvals in the City of Willoughby were located in suburb of Chatswood.

In terms of dwelling by type, approximately 60% of dwellings in Chatswood are units/apartments compared to just 30% for the City of Willoughby as a whole. This highlights the strong demand for Chatswood as a location for higher-density housing formats.

Over the past 12 months, rental costs for one and two-bedroom dwellings in Chatswood have been moderate, as shown at Table 3.4 below. However, the median weekly rent for a one-bedroom apartment in Chatswood of \$510 is approximately 20% above the median for metropolitan Sydney of \$410 per week.

Table 3.3 Chatswood Apartment and Unit Rental Price, March 2013

Dwelling Type	Median Weekly Rent	Change on Year	Variation from Metro Sydney
<u>Chatswood</u>			
One-bedroom	\$510	0.0%	+24%
Two-bedroom	\$623	+2.0%	+42%
<u>Metro Sydney</u>			
One-bedroom	\$410	+3.8%	-
Two-bedroom	\$440	+4.8%	-

Source: Housing NSW: Based on Chatswood postcode 2067

The median purchase price for a strata dwelling in Chatswood has grown at more than double the rate for metro Sydney, with the median price some 35% higher (shown in Table 3.4). The continued strong price growth reflects strong interest from both investors and owner occupiers in the Chatswood residential market.

Table 3.4 Chatswood Median Strata Purchase Price, March 2013

Dwelling Type	Median Price	Change on Year	Variation from Metro Sydney
Chatswood	\$642,000	+5.2%	+35%
Metro Sydney	\$477,000	+2.1%	-

Source: Housing NSW: Based on Chatswood postcode 2067

Outlook

The outlook for unit/apartment development in the Chatswood CBD is considered strong on the basis of:

- **Policy support:** State and local policy visions call for a mix of housing options and for high-density residential uses to be balanced with retail and commercial uses at Chatswood.
- **Investor/Owner Occupier interest:** Property price growth reflects renewed market interest in apartment developments in the Chatswood CBD
- **Population Growth:** Potential exists for an additional 2,600 residents and 1,300 dwellings in Chatswood
- **Amenity:** Factors such as proximity to transport, retail, recreation and the new civic space give Chatswood a high appeal to potential residents
- **Demographics:** The demographic and socio-economic profile of existing and future residents indicates a higher propensity to live at a higher residential density.

Implications for the Subject Site

The indicative scheme incorporates a total of approximately 300 apartments which are expected to accommodate approximately 535 permanent residents. This represents 20% of the additional supply of units/apartments required in Chatswood in the period to 2021.

Strong investor interest is expected for the residential component of the redevelopment in view of the continued growth in rental yields being experienced in Chatswood. A strong owner-occupier component is also expected in view of the increasing affordability of Chatswood based on recent price declines, and the continued attraction of the Lower North shore as a place to live for high income earners and young professionals.

The incorporation of 300 apartments into the scheme is supported by market demand, and reflects the need for a mixed use development format on the subject site.

3.4 Summary

Although the office market in Chatswood has recovered in recent years, demand is primarily for prime office space, which any development of the Post Office site is unable to provide. Strong demand is still apparent in the residential market, and over the next decade significant new housing stock is required at locations providing appropriate levels of amenity for new residents.

The location of the subject site in the 'community precinct' of Chatswood, east of the railway, provides the site with excellent access to retail, recreational and civic amenities. Accordingly, the Chatswood Post Office site lends itself more comfortably to a mixed-use development incorporating residential uses, as opposed to a commercial-only development that is located outside of the main commercial office precinct.

4 ECONOMIC ASSESSMENT

This Chapter provides estimates of the potential economic outcomes that would be expected to result from the realisation of the indicative scheme, including employment and local spending outcomes by workers and residents.

4.1 Construction Employment

The total capital investment associated with the indicative scheme is estimated to be in the order of **\$135 million**. This figure is an indicative estimate only, prepared by the consultant on the basis of average construction costs in Sydney for buildings of similar height, size and use (*Source: Davis Langdon Research – Bluebook 2012 Edition*).

The capital outlay on the new building and construction work would generate direct and indirect forms of construction-related employment. Since the development of a commercial-only building is not viable in Chatswood (as explained in the office market assessment in Chapter 3), the redevelopment of the subject site and the generation of construction jobs would only be possible for a mixed-use development such as that proposed in the indicative scheme.

Direct Employment

For the purposes of this study it is assumed that 1 FTE (full-time equivalent) construction job is supported for every \$430,000 of construction spending. This estimate is based on Essential Economics' own calculations using industry data and insights, and with reference to Australian Bureau of Statistics (ABS) input-output tables and National Accounts data.

Allowing for construction costs of \$135 million, this analysis indicates that approximately **315 FTE jobs** would be directly supported by the construction works for the lifetime of the project, assuming that construction occurs over one year.

Indirect Employment

In addition to direct site-based employment, indirect (or flow-on) employment will be generated elsewhere in the economy through a multiplier effect. This represents jobs supported indirectly by construction-related activities, and would include a wide range of sectors such as financial services, building supplies, equipment manufacturers, and other activities that support the construction industry.

Indirect jobs can be supported locally, regionally and externally (ie metropolitan Sydney, other parts of NSW, or interstate) as the economic benefits of the initial capital investment flow through the economy.

ABS input-output tables show an industry-standard multiplier for the non-residential construction industry of 2.6, ie for every 10 direct FTE jobs created, a further 16 FTE jobs are generated indirectly in the wider economy.

Applying this multiplier to direct construction employment shows a further **500 FTE jobs** (rounded) would be expected to be indirectly supported by the construction-phase of the proposed development.

The total number of direct and indirect onsite construction positions that would therefore be supported by the development project is of the order of **815 FTE jobs**, as shown at Table 4.1 below.

Table 4.1: Estimated Construction Employment Outcome

Employment Type	FTE Jobs
Direct	315
Indirect	500
Total	815

Source: Essential Economics

4.2 Ongoing Employment

Retail Employment

Australia Post currently employs 15 to 20 FTE staff on 410m² of floorspace, at an average employment density of around one job per 23m². Noting that a proportion of this is back office floorspace.

The indicative scheme provides for 210m² of brand new street level retail floorspace. The refurbished space would be occupied by a single showroom use or could be configured to accommodate several small specialty retail tenancies. Based on the location and surrounding uses it is anticipated that the retail floorspace would support approximately one FTE job per 20m² floorspace.

Therefore it is estimated that the site would support approximately 11 FTE positions.

Office Employment

The upper levels of the existing building provide office floorspace of 1,860m². However, this space is not currently used by Australia Post for any value-adding economic activity or employment-generating purposes, and is not currently suitable for external lease. The area is therefore redundant space, and makes no contribution to the local economy.

Furthermore, the existing office floorspace is accessed via the ground floor post office, and prevents the separate leasing of these offices.

The new floorspace will be dedicated commercial offices separated from the bottom floor retail tenancy. The floorspace while not be classified as A-grade due to its small floorplate on each level, although in functional terms it will operate as high quality commercial office space well-suited for small and medium sized businesses.

Under the indicative scheme, new office space of 1,656m² over two floors (at 823m² of NLA per floor) would be provided at the site and this would be made available to the market.

Considering the current Chatswood office market, the subject site could realistically achieve occupancy of up to 90% (noting that the current vacancy rate of 10% implies an occupancy rate of 90%).

However, allowing for a more conservative occupancy rate of 80%, and an equally conservative employment density of one job per 25m² of occupied floorspace, approximately **66 FTE jobs** would be supported by the office component of the indicative scheme.

When combined with the ongoing ground floor employment in the retail floorspace, Table 4.2 shows that the site would provide ongoing employment for approximately 77 FTE positions.

Note that this represents a net employment gain +57 jobs at the site compared to the status quo, since currently the upper ('office') floors of the Post Office cannot support any employment activity.

Table 4.2: Estimated Ongoing Employment Outcomes

Employment Category	FTE Jobs
Retail	11
Office	66
Total	77

Source: Essential Economics

Emphasising that this is a conservative estimate, the actual number of jobs supported would be much higher if a higher occupancy rate and/or higher employment densities were achieved at the new building.

4.3 Net Employment Gain

Under the scheme, a total of **815 FTE construction phase jobs** and **77 FTE ongoing retail and office jobs** could be realised.

No construction employment could be achieved from the site by any scheme that precludes residential use, because such a development (eg an office-only development) is not commercially viable and would not attract sufficient investment support. Accordingly, the net employment gain from the indicative scheme for construction jobs would be +815 FTEs.

The net employment gain from the indicative scheme for ongoing jobs would be +57 FTEs, allowing for a reduction of 9 retail position on the ground floor, and the additional 66 FTE positions could be realistically supported by the proposed office component.

Note that there would be no employment gain in any category without a zoning change to the subject site that supports the proposed development.

Table 4.3: Net FTE Employment Gain from Redevelopment

Employment Category	No Change	Employment from Indicative Scheme	Net Employment Gain from Scheme
Construction Phase Jobs	0 jobs	815 jobs	+ 815 jobs
Retail Jobs (Ongoing)	20 jobs	11 jobs	- 9 jobs
Office Jobs (Ongoing)	0 jobs	66 jobs	+ 57 jobs
Total Jobs Outcome	0 construction jobs 20 ongoing jobs	815 construction jobs 77 ongoing jobs	+ 815 construction jobs +57 ongoing jobs

Source: Essential Economics. All jobs FTE.

4.4 Retail Spending Outcomes

The redevelopment of the subject site according to the indicative scheme would result in higher levels of retail spending in local shops, businesses and so on.

Higher retail spending would be derived from both the retail and office workers at the new building, and the residents of the building. The most common purchases and expenditure categories would typically include:

- Lunch and meal expenditure by workers, including sandwiches, coffee, drinks, convenience food etc
- Grocery shopping, by workers and residents
- Entertainment and leisure items, by workers and residents
- Other recreational purchases and sundry items.

Based on the current typical spending profile of Chatswood residents (according to the MarketInfo program which quantifies retail spending in small areas), each new resident at the development would spend approximately \$14,300 on retail purchases in current dollars. It is estimated that around half of this amount would be spent in Chatswood centre, with the balance spent in other places such as Sydney CBD, bulky goods outlets and so on.

These figures indicate that a total of **\$3.8 million** would be spent in Chatswood centre by new residents at the development proposed in the indicative scheme, as shown at Table 4.4.

Table 4.4: Retail Spending Outcomes – New Residents

Description	Value
Retail Spending Per Capita	\$14,300
Number of Residents	535 persons
Total Retail Spending	\$7.6m
Share Spent in Chatswood	50%
Total Spent in Chatswood	\$3.8m

Source: Essential Economics, MarketInfo.

It is estimated that a further **\$346,500** in local retail spending would be generated by workers at the redeveloped site, allowing for 77 FTE workers at the site and average retail spending of \$20 per day, as shown at Table 4.5 below. The \$20 figure would include daily expenditures such as lunches, coffee and snacks, but also weekly or monthly purchases at the nearby major shopping centres.

Table 4.5: Retail Spending Outcomes – Workers

Description	Value
Number of FTEs	77
Average Spending Per Worker, Per Working Day	\$20
Number of Working Days Per Year	225
Total Amount Spent Per Working Day	\$1,540
Total Worker Spending in Chatswood	\$346,500

Source: Essential Economics, MarketInfo.

Taken together, the combined annual retail expenditure in the Chatswood centre by new residents and workers resulting from the indicative scheme would be of the order of **\$4.2 million** (in current dollars).

4.5 Other Impacts and Benefits

In addition to the net investment, employment and spending gains that would be derived under the indicative scheme, social and civic gains would be expected for the broader community. The nature of these additional community benefits are described below.

Achievement of Strategic Policy Objectives

State, regional and local planning policy objectives for Chatswood, described in detail in Chapter 2, point to the long-term desirability of more intensive utilisation of land and a greater diversity of uses, while preserving employment opportunities. The indicative scheme for the subject site is fully consistent with these strategic policy objectives, and would assist in achieving the dwelling and employment growth targets set for Willoughby and the Inner North Subregion.

Land-use Adaptation and Efficiency

Currently, the subject site is under-utilised. While adjacent sites have much larger buildings and support higher levels of value-adding activity, the existing Post Office only supports ground floor retail, as the upper office levels are unused by Australia Post and presently unsuitable for external lease.

In this regard, the existing building is not fulfilling the fundamental economic aims of the B3 Commercial Core zone in which it is located. By contrast, using the land more efficiently would maximise both the economic return to landowners and deliver a higher social benefit to the community. Allowing residential development above the proposed commercial storeys would allow an even greater yield to be achieved from the same amount of land.

Meet Market Demand for Housing

Chatswood is an attractive place to live, particularly for inner urban professionals who wish to live close to work, to transport and to recreational facilities. Chatswood's location and character makes medium and high-density apartment-style living viable in the area, as demonstrated by the residential market analysis in Chapter 3. Any future redevelopment consistent with the indicative scheme would direct land use at the subject site toward the functions that achieve the highest benefit for the community.

Realise Benefits of Transit-Oriented Development

The NSW community has invested hundreds of millions of dollars in transport infrastructure at Chatswood, including the Chatswood Transport Interchange and the Epping to Chatswood Rail Link. Encouraging residential and mixed-use development around the train station, as proposed by the indicative scheme, would help achieve the maximum productivity benefit from this investment.

Activate the Civic Space

Council has invested more than \$150 million in The Concourse, a civic space that incorporates a concert hall, theatre, conferencing facilities, Chatswood Library, a big screen and public gathering area. The introduction of new residents to the Chatswood urban core would result in the greater use of public facilities at the Concourse and bring additional vitality to the CBD.

4.6 Summary

The indicative scheme proposes a redevelopment of the subject site that could generate significant economic benefits to both the economy and to the community. These would include the creation of around 815 direct and indirect FTE jobs in the construction phase, and 57 net new additional FTE office jobs on an ongoing basis. Annual retail spending by new residents and workers of approximately \$4.2 million would also help support local employment and local economic activity.

In addition to the economic benefits, social and civic gains for the community would also be generated, such as the social return from greater land-use adaptation and efficiency, and a greater variety of transit-based housing choices.

5 KEY FINDINGS

The key findings of this report are as follows:

1. The subject site is in an appropriate location for mixed-use development, including high-density residential dwellings. The surrounding land uses and built form, together with the site's proximity to excellent public transport linkages, make it an efficient location for the type of development proposed in the indicative scheme. The planning proposals are consistent with state and local strategic policy objectives and would help to achieve the dwelling and employment targets set for the Inner North Subregion and Willoughby.
2. Demand for prime A-grade office space in the core office precinct in Chatswood has improved in the past year, however the subject site is unable to satisfy the demand for prime office space. The Chatswood office market has struggled with high vacancy rates and low absorption rates for approximately two decades. Recent developments have revealed increased demand for prime office space. However, a dedicated office development on the Chatswood Post Office site (incorporating ground floor retail) would not be considered viable as the subject site is too small to accommodate large-scale tenancies such as major corporate headquarters.
3. Chatswood is a highly attractive residential location and the market is demanding well-located housing. Because of its location close to public transport and other amenities and services, Chatswood holds particular appeal for professionals seeking to live in apartments located within easy distance of Sydney CBD and other activity centres. As a result, the local property market is strong, and this is evidenced by increasing prices for strata property and the construction of other residential developments such as Chatswood Towers and Mirvac ERA.
4. The location of the subject site away from the main commercial office precinct makes it an excellent location for mixed-use development. The precinct east of the railway, where the site is located, provides optimum access to Chatswood's civic, shopping and recreational facilities, including Westfield shopping centre, Chatswood Chase and The Concourse.
5. The redevelopment of the subject site would result in a net employment gain at the site. At present, the upper levels of the Post Office building are not used for commercial purposes and are economically redundant. If redeveloped, the building would offer 1,656m² of new office space to the market. This is approximately equivalent to one year's absorption in Chatswood, and would offer some additional long-term choice and competition without flooding the market. Introducing new workers and residents to the Chatswood community would also have a significant effect in stimulating new retail and non-retail expenditure in the local area.

6. Only a residential or mixed-use development would be commercially viable at the subject site; and only a mixed-use development would enable the expansion of residential capacity in Chatswood without eroding the long-term employment potential of the site. Planning for a mixed-use building that includes a high-density residential use would not cause a decline in the value of office buildings or lead to Chatswood becoming a dormitory centre. Rather, it would provide a much needed expansion of residential capacity in Chatswood, and control the expansion of office capacity (an expansion which is not needed). Preventing an oversupply of commercial office floorspace in this way would help maintain the value of existing and future office development, and the addition of new residents to the central city would contribute to the vibrancy and overall success of Chatswood as a key activity centre.