ECONOMIC IMPACT ASSESSMENT

524 PACIFIC HIGHWAY, ST LEONARDS

29 OCTOBER 2016
FINAL
PREPARED FOR GROCON

URBIS STAFF RESPONSIBLE FOR THIS REPORT WERE:

Director	Clinton Ostwald
Senior Consultant	Ryan McKenzie
Consultant	Sass Baleh, Bruce Yeung
Project Code	EMR0987
Report Number	1

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EXECUTIVE SUMMARY

Grocon has appointed Urbis to undertake an Economic Impact Assessment in respect to the rezoning of 524 Pacific Highway, St Leonards (the subject site). The site comprises land in the Lane Cove Local Government Area (LGA).

Our analysis demonstrates that the proposed rezoning to support a mixed-use development incorporating commercial and residential uses on the subject site should be supported in view of the following:

- The subject site sits within St Leonards Strategic Centre and is near key locations within the Centre, namely:
  - The St Leonards Forum retail
  - Royal North Shore Hospital
  - Willoughby Road / Crows Nest
  - North Sydney TAFE.
- Strong provision of existing transport infrastructure (St Leonards train station, multiple bus services and Pacific Highway – a major arterial road) provide residents with access to significant employment opportunities, underpinning the area's value as a highly functional mixed-use precinct:
  - St Leonards currently provides local residents with access to approximately 520,000 jobs within a 20-minute train ride, which is more than double that of Macquarie Park (225,000 jobs), another area earmarked for significant mixed-use development
  - Significant investment in future public transport infrastructure in the immediate area (Crow Nest Metro Station and St Leonards Bus Interchange) will further increase access to employment with direct links to key employment hubs, including Macquarie Park, Barangaroo and Sydney CBD.

The development of the subject site as a single-use commercial tower, compliant with planning controls, is unviable due to a number of site specific constraints:

- The Telstra Exchange building is a key piece of regionally significant infrastructure that must be retained in any future building design and remain fully operational during construction, presenting a significant practical impediment to redevelopment in this location, thereby:
  - Raising construction complexity and development costs substantially by requiring the structure above to support the Telstra Exchange
  - Reducing floorplate size of the commercial product
  - Inhibiting the ability to excavate underneath the Exchange building due to the network of cabling below.
- The constraints outlined above result in a maximum lettable floorplates of a sub-optimal size (800sq.m), falling below the requirements for an A Grade building (minimum of 1,000sq.m) thereby limiting corporate tenant demand and the achievable grade of commercial product
- There is a high degree of risk associated with securing a pre-commitment from commercial tenants. Pre-commitment is critical to the feasibility of any new commercial development, and is particularly important for one with the site-specific constraints such as those listed above.

Given the above, a single use commercial tower is unlikely to ever be viable on the site. Ultimately, a mixed-use development incorporating commercial uses aligned with growth opportunities for St Leonard's (e.g. the Health and Social Services sector), that is underpinned by residential uses likely represents the optimal future employment outcome on the site.

Once a suburban hub for 'corporate' tenants, the market for commercial space in St Leonards has experienced several challenges over the past 10 to 15 years. Today, for a variety of reasons, the neighbouring Office markets of North Sydney, Macquarie Park and Chatswood are now deemed more attractive for traditional office occupiers.

Since January 2000, only 10,318 sq.m of new office floorspace has been taken up in St Leonards, equating to an average take-up rate of 625 sq.m per annum. The low rate here indicates that large commercial developments are generally not supportable within the St Leonards Centre.

Several practical examples in the immediate vicinity of the site support this notion, including vacancies at Gore Hill Technology Park and the inability to secure an anchor pre-commitment at 88 Christie Street.

The following market evidence indicates that this trend is likely to continue for the foreseeable future:

- Net absorption at St Leonards fell by 5,661 sq.m over the six months from January 2016 to July 2016, however the vacancy rate decreased from 9.6% to 8.3% over the same period due to the withdrawal of vacant office stock from the market.
- If the historical office market net absorption rate of 625 sq.m per year in St Leonards is to continue, it will result in only 9,375 sq.m of total stock being absorbed until 2031 (15 years from 2016).
- Competing office markets have seen consistently higher rates of net absorption of floorspace than St Leonards (-4,657 sq.m) since 2010, namely North Ryde / Macquarie Park (131,063 sq.m) and Chatswood (27,338 sq.m) reflecting stronger market interest. North Sydney has experienced lower net absorption (-1,425 sq.m) than other office markets, however this is largely due to withdrawals to make way for major new office developments that will ultimately see net absorption there rebound sharply in the next two years.
- The diminution of demand for commercial floorspace at St Leonards relative to neighbouring office markets is due to a combination of the following:
  - Larger campus-style floorplates and superior quality of office stock due to larger consolidated development sites (e.g. North Ryde / Macquarie Park, where floorplates average 1,800 sqm).
  - Greater amenity and proximity to major retail centres with which St Leonards is unable to compete (e.g. Macquarie Centre, Westfield Chatswood and Chatswood Chase).
  - More affordable rents at North Ryde / Macquarie Park and Chatswood.
  - Superior location and proximity of North Sydney at only 25% higher average rent.
  - Trend towards larger organisations seeking space in larger floor plate formats in ‘A’ or ‘Premium’ Grade developments within precincts near complementary and competing firms. This trend is driven by the efficiency and connectivity gains associated with consolidating staff and physical resources in one location.
  - The fragmented nature of land ownership and the shortage of potential development sites in St Leonards has historically constrained its ability to offer consolidated floor plate products to larger tenants in the area.

This analysis does not preclude new demand for commercial space within St Leonards. Employment growth in the Health and Social Services sector between 2006 and 2016 identified it as the burgeoning sector in St Leonards. In 2016, the Health and Social Services sector provided 26% of total employment in the area - that number is forecast to grow to 28% by 2036 (total jobs growth of 3,379 over this period).

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

The subject site will be ideally placed to accommodate these types of uses, however it should be noted that these tenants are unlikely to be able to pay premium costs for accommodation nor will they be likely to require enough floorspace to underpin the development in the form of a leasing pre-commitment. Furthermore, medical uses will add additional amenity and services to St Leonards’ developing mixed-use precinct.

In this context, a mixed-use development on the subject site will be informed by the following factors:

- A projected surplus of office floorspace between 62,637 and 76,749 sq.m by 2036 within the St Leonards Centre.

- Office accommodation that is directed to the Healthcare and Social services sector will support the underlying economic base of St Leonards. Future commercial office demand will be driven by medical tenants or businesses that will benefit from synergies with RNSH and its redevelopment. These businesses require smaller-scale suites.
- The proposed development will deliver 7,309 sq.m of commercial floorspace as part of a mixed use scheme in a format that is compatible with demand in the area.
- Strong demand is expected to continue for new residential accommodation, particularly apartment product.
- Lack of affordable housing (i.e. less than 30% of household income) in the St Leonards residential Market Catchment. This has been caused by an insufficient supply of dwellings and an increasing preference for housing close to transport.

A feasibility analysis of the site's viability of a 9,536 sq.m (Net Lettable Area) standalone commercial development (compliant with its current planning controls) found the following:

- Standalone commercial development here is not financially viable
- Return on investment is negative (-35% ROI) as the development would not be able to generate a positive cash flow position, despite generous assumptions for rental, timing for occupation and end value
- Commercial uses incorporated into a mixed-use scheme represent the optimal employment outcome on the site given:
  - Lack of demand for commercial floorspace of this scale in this location
  - Small size and irregular shape of viable commercial floorplates
  - Increased development costs associated with ongoing operation of the Telstra Exchange.

A range of economic benefits will be derived from the change in land use from B3 Commercial Core to B4 Mixed Use, including:

- Employment uplift through additional commercial space of 7,309 sq.m of GFA which is expected to accommodate 439 jobs at a conservative estimate
- Additional employment generation of 879 direct jobs associated with construction of a $215 million project
- Increased retail expenditure in the area of $18 million ($2016) p.a. by 2020 from residents of the proposed 422 apartments
- Greater housing choice and better affordability, when compared with more expensive detached dwellings.

Ultimately the benefits likely to flow from a mixed use development on the subject site will be significantly greater than those which might occur if the status quo on the site is maintained (e.g. retained solely as a telecommunications exchange).

INTRODUCTION

Grocon has appointed Urbis to undertake an Economic Impact Assessment with respect to the rezoning of 524 Pacific Highway, St Leonards (the subject site). The subject site is currently zoned B3 Commercial Core and sits within the Lane Cove Local Government Area (LGA) and measures approximately 1,670 sq.m in area.

The rezoning of the subject site to B4 Mixed Use is intended to facilitate the redevelopment of the entire area, involving the following:

- Constructing a residential apartment complex (51 levels) with yield of 422 residential dwellings and 112 car spaces
- Creating an enhanced employment yield through the construction of commercial uses (12 levels) – with a total GFA of 7309 sq.m (439 jobs) and 48 car spaces.

The purpose of this report is to:

- Confirm industry and employment trends at an LGA and Centre level
- Assess the future need for office development to support projected employment growth within the St Leonards Centre
- Assess the suitability of the subject site for residential uses and meeting ongoing demand for housing in the area
- Identify broader economic benefits associated with the proposed rezoning from B3 Commercial to B4 Mixed Use.

The report is structured as follows:

- **Section 1** provides an overview of the subject site and local context
- **Section 2** provides an overview of the North Shore office market, specifically focusing on the performance of and investment in the St Leonards office market over the last decade. Also identifying the quantum of new supply of floorspace that will provide increased future employment capacity within the St Leonards CBD
- **Section 3** shows an analysis of historic and projected employment within St Leonards that underpins ongoing demand for office floorspace
- **Section 4** provides an estimate of future commercial floorspace demand, based on projected employment growth and industry floorspace benchmarks, compared to the identified pipeline for commercial property projects in St Leonards
- **Section 5** reviews the key drivers for residential demand and implications for the subject site, taking into consideration key socio-demographic factors and future demand for housing. An analysis of key local residential market trends, relevant development profiles, and a housing affordability model is also presented
- **Section 6** provides an analysis of stand-alone commercial development at this location under the site's current planning controls
- **Section 7** identifies the direct and indirect economic benefits associated with the proposed development
- **Section 8** summarises the conclusions and recommendations arising from this report.

1. STUDY BACKGROUND

1.1. SUBJECT SITE

The subject site is located at 524 Pacific Highway, St Leonards within the Lane Cove LGA. The subject site is currently zoned B3 Commercial Core, and measures approximately 1,670 sq.m.

The subject site has frontage to the Pacific Highway, a major transport route connecting Sydney, Newcastle and Brisbane. Located on the subject site is a Telstra exchange building as well as several dated retail shops.

Map 1.1 shows the subject site in relation to other key locations within the St Leonards Centre including:

- St Leonards Railway Station (100 metres north-west) of the site
- Proposed Crows Nest Metro Station (350 metres south-east)
- Royal North Shore Hospital (550 metres north-west)
- TAFE St Leonards Campus (1 km north-west).

Subject Site **Map 1.1**

CONSTRAINTS

As mentioned previously the subject site is zoned B3 Commercial Core. In its current physical state and under its existing zoning there are several site-specific constraints that impact the viability of its redevelopment.

These constraints include the following:

- The presence of a Telstra Exchange that occupies a substantial component of the site, operates as a regionally significant piece of infrastructure that needs to be retained in the long-term and incorporated into any future building design. The location of the Telstra exchange on the subject site is shown in Map 1.2 below.
- The retention of the Telstra Exchange precludes the site from having basement car parking, increases development complexity and cost and reduces the available floorplate size of the commercial product being developed.
- The size of the subject site means the maximum lettable floorplate for the proposed development is unlikely to exceed 800 sq.m. A floorplate of 1,000 sq.m is the minimum floorplate size required to achieve an A Grade rating and attract corporate tenants. Map 1.2 compares the size of the subject site with a 1,500 sq.m and a 2,000 sq.m (NLA) floorplate, and illustrates that the size of the site is not large enough to accommodate an A Grade floorplate.
- These constraints limit the site's marketability to modern corporate tenants who typically seek to occupy space in a larger floorplate (circa >1,500 sq.m), A Grade tenants require this floorplate size so as to consolidate and connect its workforce across as few floors as possible.
- A floorplate above 1,000 sq.m is a key criterion in being considered A-Grade by the Property Council of Australia (PCA) and the market, which is usually a pre-condition in securing corporate tenant pre-commitment that would underpin project financing and its feasibility.
- Lower rents that apply to the B Grade office market are rarely sufficient to justify new construction, let alone on a site that has the added complexity of a piece of operating infrastructure.

Subject Site Constraints **Map 1.2**

Considering these points, it is clear that redevelopment options for the site are limited. The subject site's physical constraints and unusual floorplate configuration and presence result in an elevated construction cost, while it's sub-optimal floorplate makes it unattractive to larger anchor tenants. The combination of these two constraints make a standalone commercial development unviable.

This is compounded by competitive factors in the market (discussed in Section 2) that have seen tenants select locations such as Macquarie Park, North Sydney and the Sydney CBD over smaller centres such as St Leonards. These factors include larger floorplate buildings and more amenity to workers provided on site.

The site's inability to accommodate premium rental yields necessary to offset the inflated development costs associated with the presence of the Telstra Exchange mean that stand-alone commercial redevelopment at this location is unviable. As such without a change in zoning to B4 Mixed Use, the existing built form will be maintained, resulting in a substantial gap in the revitalised built form of the precinct.

Figure 1 – Subject Site Constraints

Picture 1 – Telstra Exchange

Picture 2 – Retail shops

1.2. PROPOSED SCHEME

In view of the above constrains, Grocon is seeking to maximise the economic potential of the subject site through the following proposal:

- Rezoning of the entire site to accommodate a 63-level mixed use development
- Creating an enhanced employment yield through the construction of commercial uses over 12 levels – with a total GFA of 7,309 sq.m and 48 car spaces
- Constructing a residential apartment complex (51 levels) with yield of 422 residential dwellings and 112 car spaces.

If rezoned, the proposed mixed-use development would result in a significant increase in current employment and will likely represent the optimal employment outcome for the site, given the need to retain the exchange building. The smaller floorplates necessitated by the site's practical constraints are ultimately better suited for medical and educational uses. Ultimately the scheme will achieve both employment and housing outcomes for the St Leonards Strategic Centre.

1.3. RELEVANT PLANNING POLICY

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

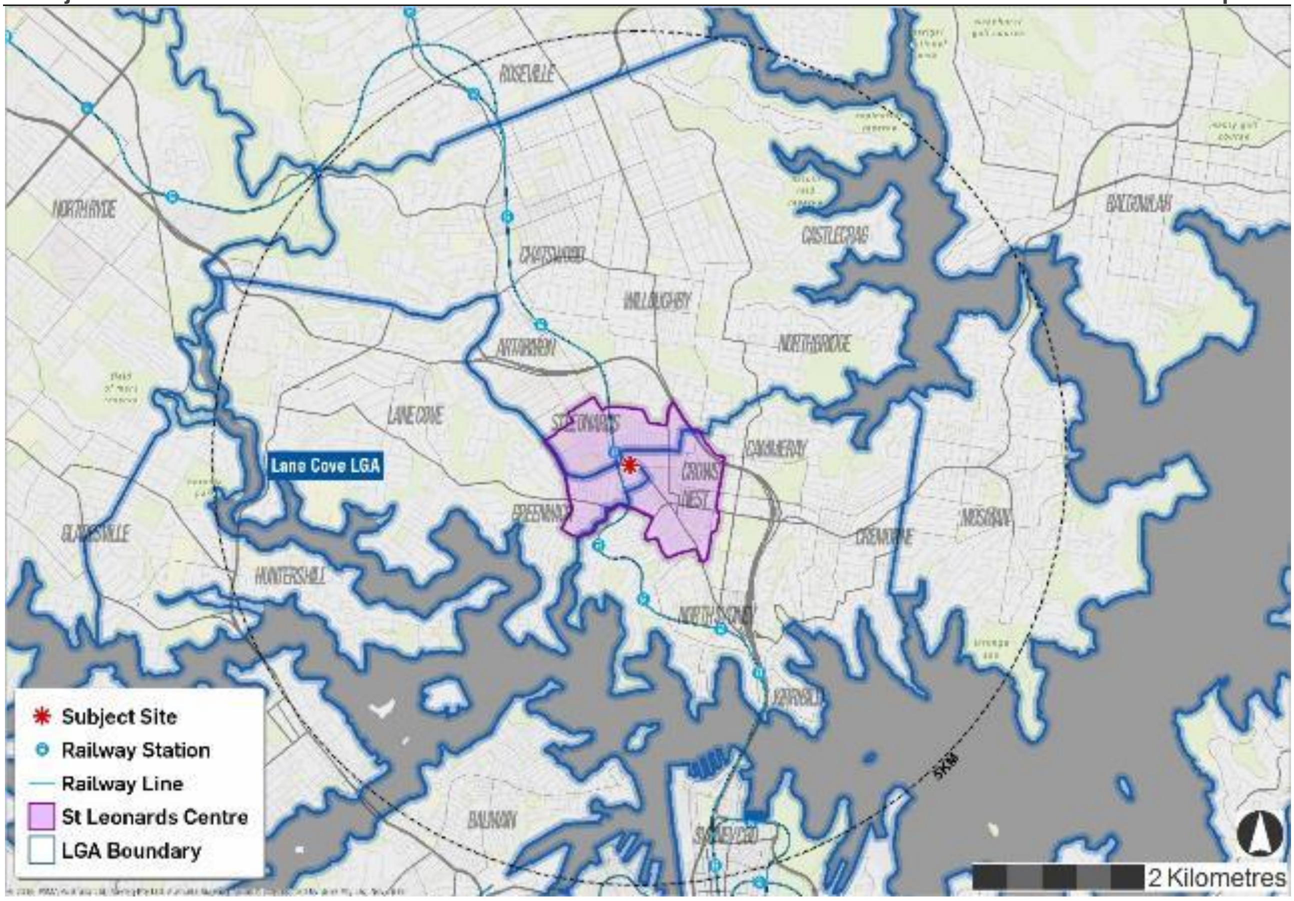
The St Leonards Centre will form the Study Area for this assessment. This report will identify the economic impact of the proposed development on this area.

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

- Retain a commercial core in St Leonards for long-term employment growth;
- Provide capacity for a mixed-use development in St Leonards including offices, health, retail, services and housing;

- Support health-related land uses and infrastructure around Royal North Shore Hospital; and
- Investigate potential future employment and housing opportunities associated with a Sydney Rapid Transit train station at St Leonards / Crows Nest.

Subject Site and St Leonards Centre **Map 1.3**



2. OFFICE MARKET REVIEW

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

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

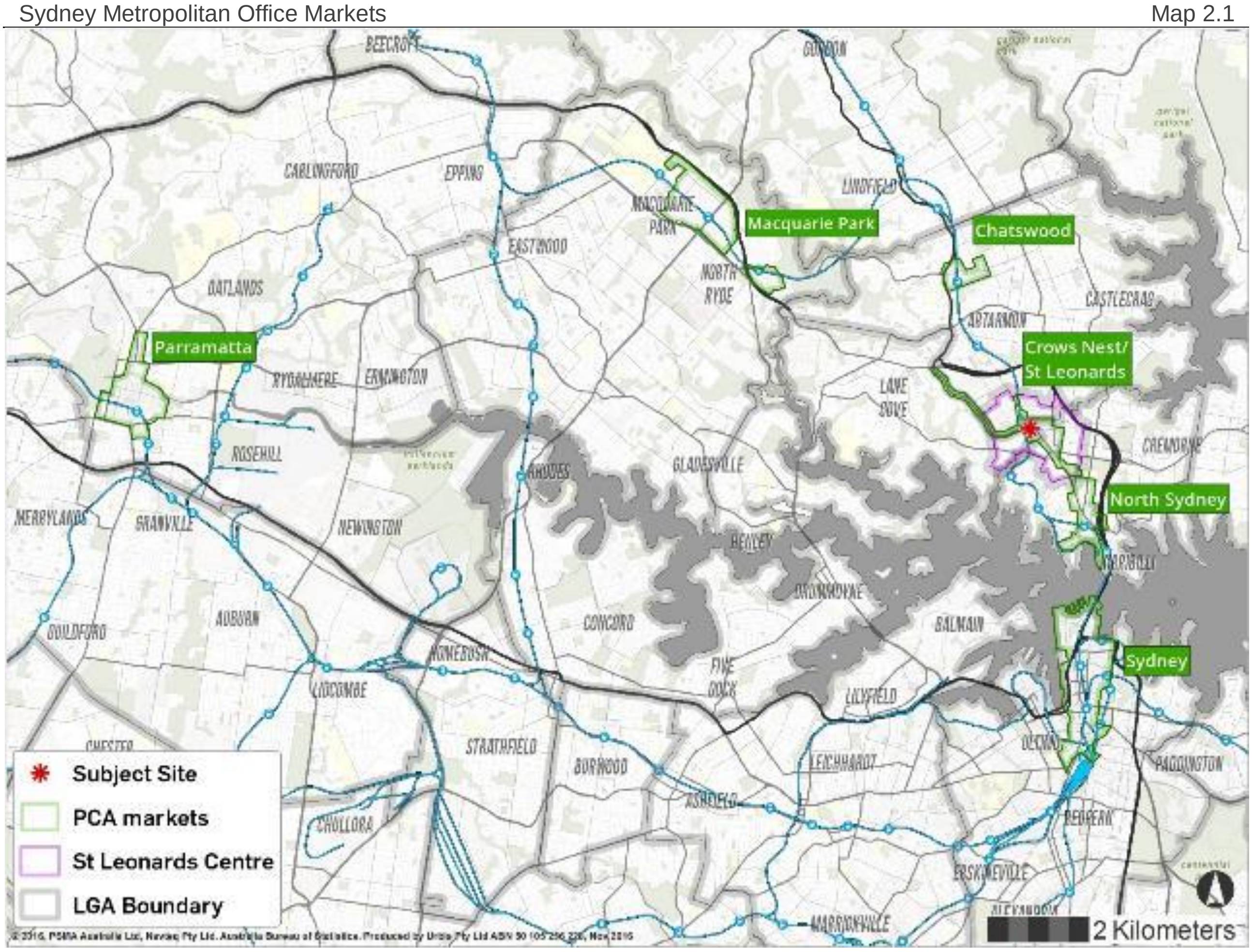
This will highlight the number of challenges that are facing the St Leonards office market and the relevant implications for the subject site.

2.1. SYDNEY OFFICE MARKETS – SIZE AND POSITION

The St Leonards Centre is located around 5 km north of the Sydney CBD, between the North Sydney, Chatswood and Macquarie Park office markets (Map 2.1). As at July 2016, St Leonards had a total of 333,600 sq.m of office space, making it smaller than the North Sydney (792,500 sq.m) and Macquarie Park (883,400 sq.m) office markets, but larger than Chatswood (278,900 sq.m).

Compared to these markets, St Leonards has the highest vacancy rate at 8.3% despite older office accommodation being withdrawn from the market over the past four years. It has an average net face rent of $475 per sq.m, placing it behind North Sydney ($594 per sq.m) but ahead of Chatswood ($435 per sq.m) and Macquarie Park ($351 per sq.m).

Sydney Metropolitan Office Markets Map 2.1



**Macquarie Park Office Market estimated as the outline of the Macquarie Park suburb*

Chart 2.1 illustrates the total quantum of office stock within the St Leonards / Crows Nest market, and the shift in grade since 2000. As at July 2016, approximately 49% of office stock in St Leonards / Crows Nest is classified as C or D Grade.

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

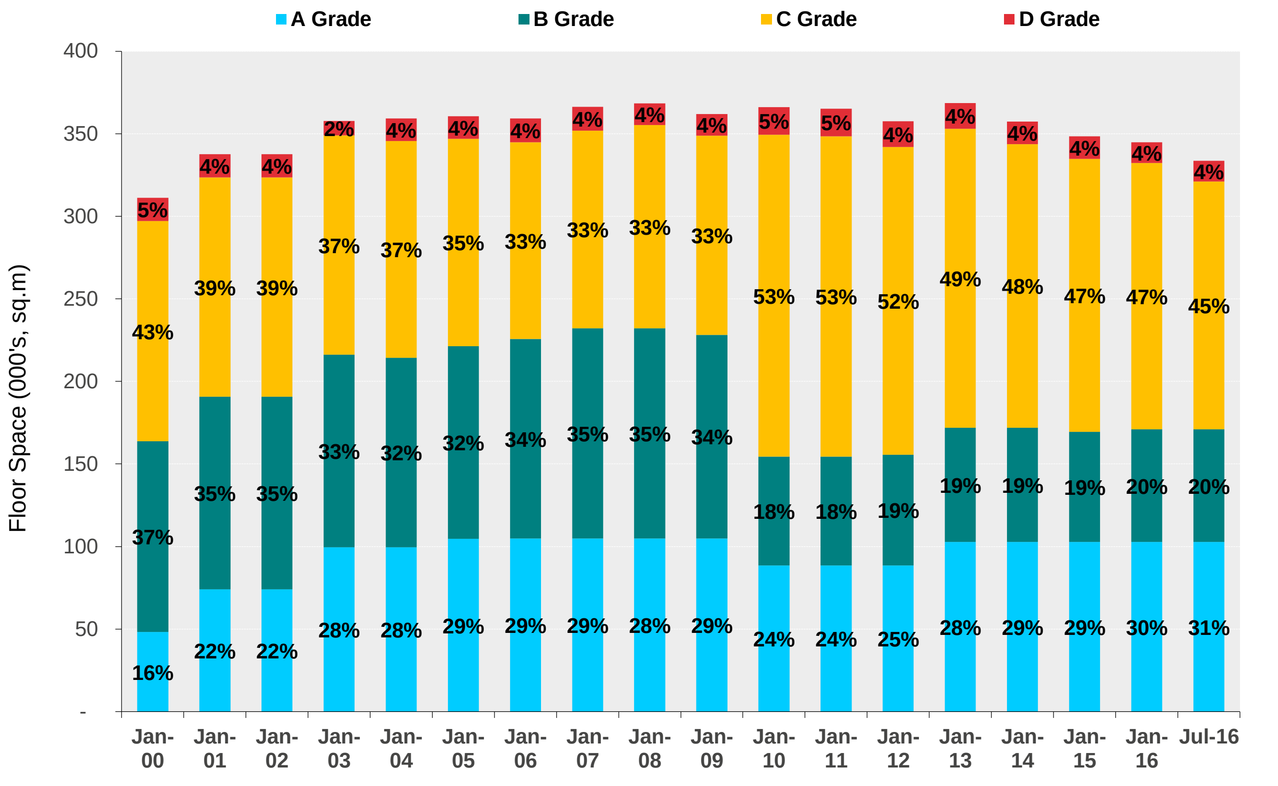
Notable shifts in the supply of office stock in St Leonards / Crows Nest since January 2010 include:

- A gradual decline in total office stock in St Leonards / Crows Nest. The total office stock has decreased by -32,600 sq.m from 366,200 sq.m in January 2010 to 333,600 sq.m in July 2016.
- The reduction in total office stock was due to the withdrawal of C Grade office stock from the St Leonards / Crows Nest sub market.
- Consequently, the proportion of lower grade stock in St Leonards / Crows Nest has declined from 58% in January 2010 to 49% in July 2016.

It is noted that the subject site currently does not contribute any office accommodation that would be measured in the Property Council of Australia Survey. It does contribute however, to some direct employment through on-site telecommunications technicians.

Office Stock

St Leonards / Crows Nest, January 2000 to July 2016 — Chart 2.1



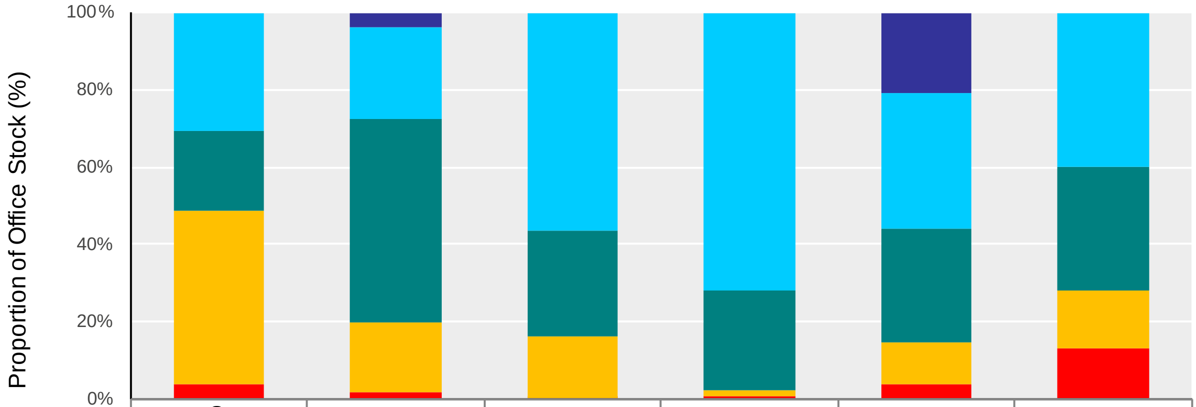
Source : Urbis; PCA Office Market Report Jul-16

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

- The proportion of C-Grade stock in St Leonards / Crows Nest is 45%, significantly higher than all other major commercial centres
- Sydney CBD has the highest proportion of premium grade office stock at 18%
- Chatswood and North Ryde/Macquarie Park have large proportions of A-Grade stock
- North Sydney has the highest percentage of B-Grade stock at 52%
- Parramatta has a relatively high proportion of D-Grade stock compared to other major commercial centres.

Grade of Office Space

Sydney Office Market, as at July 2016 — Chart 2.2



	St Leonards/Crows Nest	North Sydney	Chatswood	North Ryde/Mac Park	Sydney CBD	Parramatta
Premium	0	30,787	0	0	1,052,848	0
A Grade	102,699	186,296	157,412	635,620	1,805,226	273,617
B Grade	68,210	418,966	76,046	229,641	1,487,037	219,303
C Grade	150,153	143,501	45,007	15,385	551,478	100,373
D Grade	12,569	12,932	454	2,721	185,626	89,176

Source : Urbis; PCA Office Market Report Jul-16

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

2.2. NET ABSORPTION AND VACANCY

Since January 2000, only 10,318 sq.m of new office floorspace has been taken up in St Leonards / Crows Nest, equating to a low take-up rate of 625 sq.m per annum. Net absorption fell by -5,661 sq.m over the six months to July 2016, however the vacancy rate decreased from 9.6% to 8.3% over the same period due to the withdrawal of vacant office stock. Evidence suggests that in St Leonards landlords are removing buildings from the market to change their use or to limit operating costs, due to low underlying demand.

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

- The vacancy rate of A-Grade stock reduced from 3.5% in January 2016 to 2.9% in July 2016. The reduction in vacancy rate was due to a small amount of additional absorption of 620 sq.m of A-Grade stock over the same period. It is unlikely that the subject site would be able to access the A-Grade commercial tenant market, given its small floorplate, as it does not align with A-Grade criteria of having floorplates larger than 1,000 sq.m.

- The vacancy rate of B-Grade stock in St Leonards / Crows Nest decreased from 9.1% to 6.3% with the absorption of 1,895 sq.m of B-Grade stock.

- The vacancy rate of C-Grade stock reduced from 13.8% to 12.4%, however over the same period occupied C-Grade stock also reduced by -7,503 sq.m. This suggests the reduction in vacancy was due to the withdrawal of vacant C-Grade stock. Such withdrawal of stock indicates that there is little new demand for this type of stock.

- Conversely, the vacancy rate of D-Grade stock increase from 9.2% to 14.6% as tenants seeking lower quality space move to other office markets.

Chart 2.3 shows the declining vacancy rate of office stock in St Leonards / Crows Nest, particularly since 2014. Chart 2.4 details the vacancy rates of each grade of stock in the St Leonards / Crows Nest office market from January 2000, including the trends of each grade in the last six months as described above.

A-Grade stock within St Leonards has experienced some renewed interest from the market with some tenants looking to upgrade to higher quality premises off the back of withdrawals in lower grade buildings. C-Grade stock is the focus of withdrawal from the market, either for refurbishment or converted to residential. This is reflective of low market acceptance of lower-quality office space in the St Leonards market.

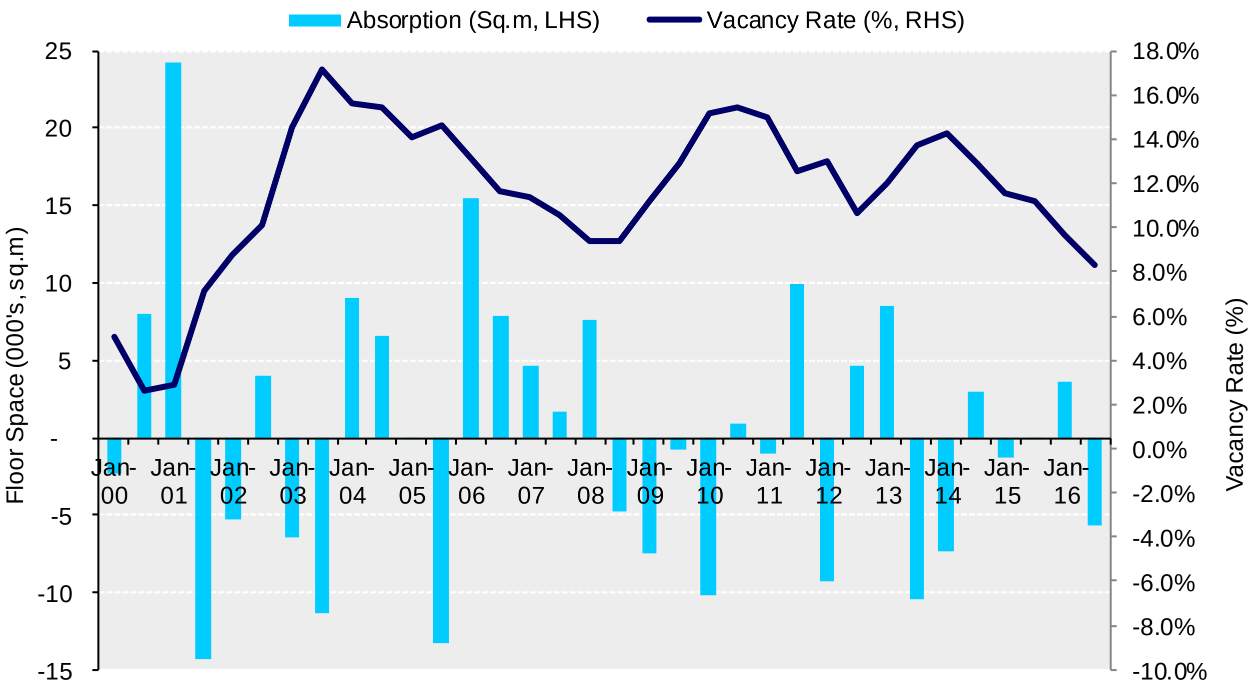
If the historical office market net absorption rate of 625 sq.m per year in St Leonards is maintained, it will result in approximately 12,500 sq.m of total stock being absorbed by 2036 (20 years from 2016).

Based on this level of absorption, there is likely to be demand for some commercial space at the Telstra Exchange.

This conclusion is supported by recent tenancy changes in other office buildings in St Leonards and Gore Hill. In 2013, IBM announced a partial relocation of staff to its Pennant Hills campus, while Leightons relocated its headquarters to a new office in North Sydney. In addition, Winten Property Group were unable to secure an anchor tenant pre-commitment for its site at 88 Christie St, after seeking an anchor tenant for over three years. The development has since converted to mixed use. Such evidence further indicates that a large scale commercial development at the Telstra exchange will struggle to achieve pre-commitments from an anchor tenant.

Net Absorption and Vacancy Rate

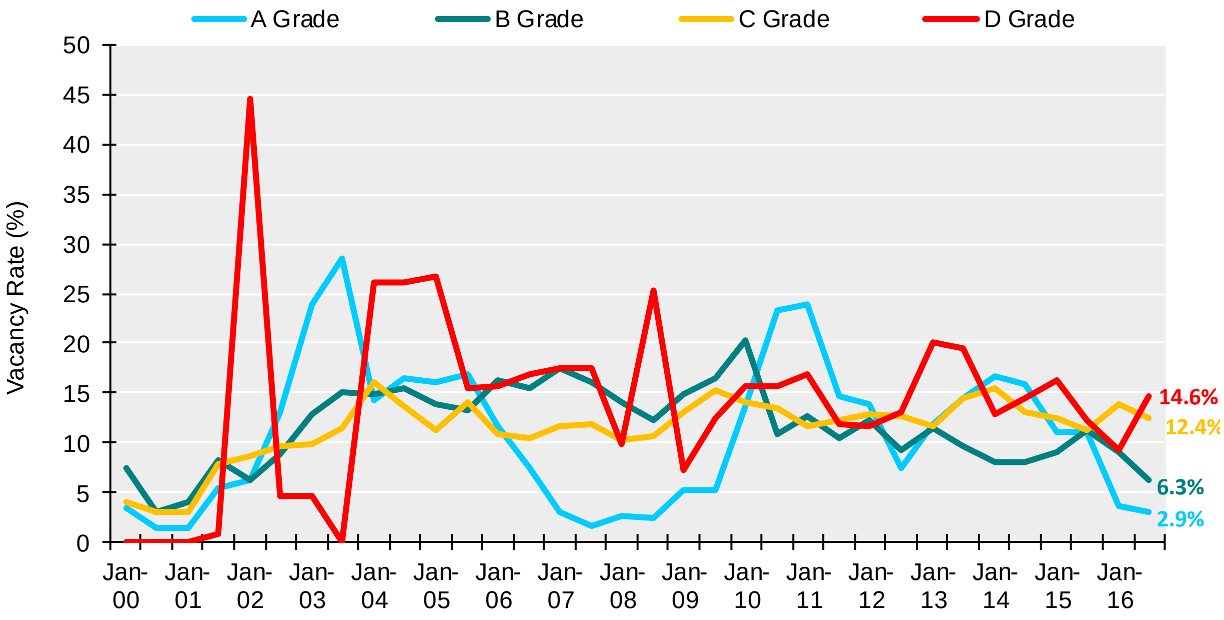
St Leonards / Crows Nest, January 2000 to July 2016 Chart 2.3



Source : Urbis; PCA Office Market Report Jul-16

Office Vacancy, by Grade

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



Source : Urbis; PCA Office Market Report Jul-16

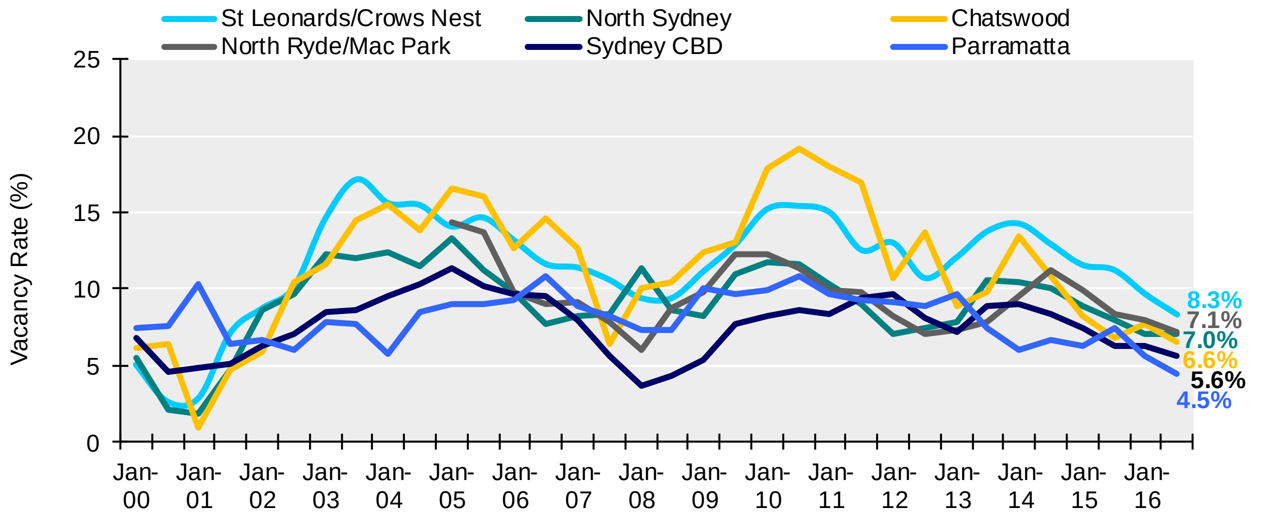
Chart 2.5 provides a comparison of office market vacancy amongst Sydney office markets from January 2000 to July 2016 and an indication of market demand for commercial office floorspace across Metropolitan Sydney's CBDs and Centres. As Chart 2.5 shows, St Leonards has consistently displayed high vacancy compared with the major office markets across Sydney. This has persisted as an obvious pattern for over 16 years since 2000. In July 2016, St Leonards / Crows Nest had the highest vacancy rate at 8.3% compared to other Metropolitan Sydney's CBDs and Centres.

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

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

Office Space Vacancy Rate

By Market, January 2000 to July 2016 — Chart 2.5



Source: Urbis; PCA Office Market Report Jul-16

2.3. RENTS

Table 2.1 compares the July 2016 Average Net Face Rents of different CBD locations within Sydney. The rental data illustrates that St Leonards needs to achieve higher average rents compared to Chatswood, North Ryde / Macquarie Park.

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

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

Market Rents

A and B Grade Stock, July 2016 Table 2.1

	Average Net Face Rent (Per Sq.m)[1]	
Grade of Stock	**A-Grade**	**B-Grade**
St Leonards / Crows Nest	$517	$456
North Sydney	$696	$556
Chatswood	$466	$395
North Ryde / Macquarie Park	$368	$310
Parramatta	$559	$460

1. July 2016
Source: Knight Frank ; Urbis

2.4. NEW SUPPLY

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

The total commercial floorspace (NLA) expected to be offered into this submarket is 91,361 sq.m.

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

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

Proposed Office Developments

St Leonards, as at October 2016 — Table 2.2

Project	Address	Stage	Average Office Floor Plate (sq.m)	Building Height (Storeys)	Owner	Office NLA
1. Gore Hill Technology Park - Building D1	219-247 Pacific Highway	DA Approved	2,000	8	Lindsay Bennelong Development	16,000
2. Gore Hill Technology Park - Building D2	219-247 Pacific Highway	DA Approved	2,000	6	Lindsay Bennelong Development	15,000
3. Gore Hill Technology Park - Buildings D3	219-247 Pacific Highway	DA Approved	2,000	7	Lindsay Bennelong Development	15,000
4. Electroboard	18-20 Atchison Street	DA Approved	-	16	Electroboard	2,300
5. St Leonards Square	472-486 Pacific Highway	DA Approved	-	-	Mirvac	3,700
6. Royal North Shore Hospital	Reserve Road & Herbert Street	DA Approved	-	-	NSW Government	34,700
7. 88 Christie Street Mixed Use	88 Christie Street	DA Approved	1,770	16	Winten Property Group	4,661
Total						**91,361**

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

2.5. SUMMARY AND IMPLICATIONS

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

- A lack of investment, office developments or major refurbishments in the St Leonards / Crows Nest office market is clearly reflected in the high proportion of C-Grade stock relative to other major office markets (See Chart 2.2 on Page 9).
- C-Grade stock in the St Leonards submarket is, however, being withdrawn from the market, either for refurbishment or conversion to residential, reflecting lower market take-up of lower quality office space in the area.
- A low take-up rate of new office floorspace over the past 15 years (625 sq.m per annum since January 2000), indicates that many larger corporate tenants prefer office floorspace with large open floorplates.
- The subject site is heavily constrained by the Telstra Exchange, which cannot be moved or excavated. This greatly restricts the ability to provide larger floorplates (as illustrated in Section 1.1).
- Net absorption in St Leonards / Crows Nest fell by - 5,661 sq.m over the six months to July 2016 however the vacancy rate decreased from 9.6% to 8.3% over the same period due to the withdrawal of vacant office stock (i.e. landlords are removing buildings from the market to change their use or to limit operating costs due to low underlying demand). The lower vacancy rate will not be a sufficient enough advantage to spur on new office development in the area.
- Other competing office markets have seen consistently higher net absorption of floorspace than St Leonards (-4,657sq.m since 2010), namely North Ryde / Macquarie Park (+131,063sq.m) and Chatswood (+27,338sq.m), reflecting stronger market interest. North Sydney has experienced lower net absorption, however this has been impacted by withdrawals to allow for major new office developments. It is therefore predicted that net absorption will rebound sharply in the next two years in North Sydney. This is due largely to having several characteristics that are attractive to potential tenants that are lacking in St Leonards, namely:
  - Larger office floorplates and superior quality of office stock, due to the ability to have larger consolidated development sites (North Ryde / Macquarie Park floorplates average 1,800 sq.m).
  - St Leonards Forum offers some food and beverage retail and a single Coles supermarket. This is relatively limited in comparison to the amenity provided at major retail centres such as Macquarie Centre at Macquarie Park and Westfield at Chatswood.
  - More affordable rents (North Ryde / Macquarie Park and Chatswood are both more affordable than St Leonards; See Table 2.1 on Page 13).
  - Superior location (North Sydney) with respect to Sydney CBD.
  - There is currently an observable trend for larger organisations to occupy space in larger floor plate formats in A or Premium Grade office developments, in office precincts within Sydney. This trend is driven by the efficiency and connectivity gains associated with consolidating staff/employees and physical resources, rather than being disbursed across different floors and locations.
  - The fragmented nature of land ownership and the shortage of potential development sites in St Leonards, constrain its ability to offer consolidated floor plate products to larger tenants in the area.
  - Looking ahead, a growing demand for commercial space in the health care and social services sector will occur with the redevelopment of the Royal North Shore Hospital. This may not translate into increased demand for commercial space at St Leonards because of parking availability, rents and vacancy.
- The subject site's redevelopment into a mixed-use development with up to 7,500sq.m of commercial space will be more suited to meet market need, particularly for smaller medical-based suites, and result in an actual net increase in jobs above what is currently located on the subject site. This is unlikely to be achieved if a single-use office tower was proposed as the return on investment is unable to cover the development cost and profit requirements at this location.

3. EMPLOYMENT ANALYSIS

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

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

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

- The size and profile of the study area's resident workforce, in terms of industry sector and occupation
- The size and profile of the study area's employment base, including industry sector and occupation
- Journey to work / place of residence of the local resident workforce and workers employed within the study area
- The gap between study area jobs and resident workers.

3.1. JOBS AND RESIDENT WORKFORCE

According to NSW Bureau of Transport Statistics Journey to Work data, the St Leonards Centre accommodates 8,087 employed residents.

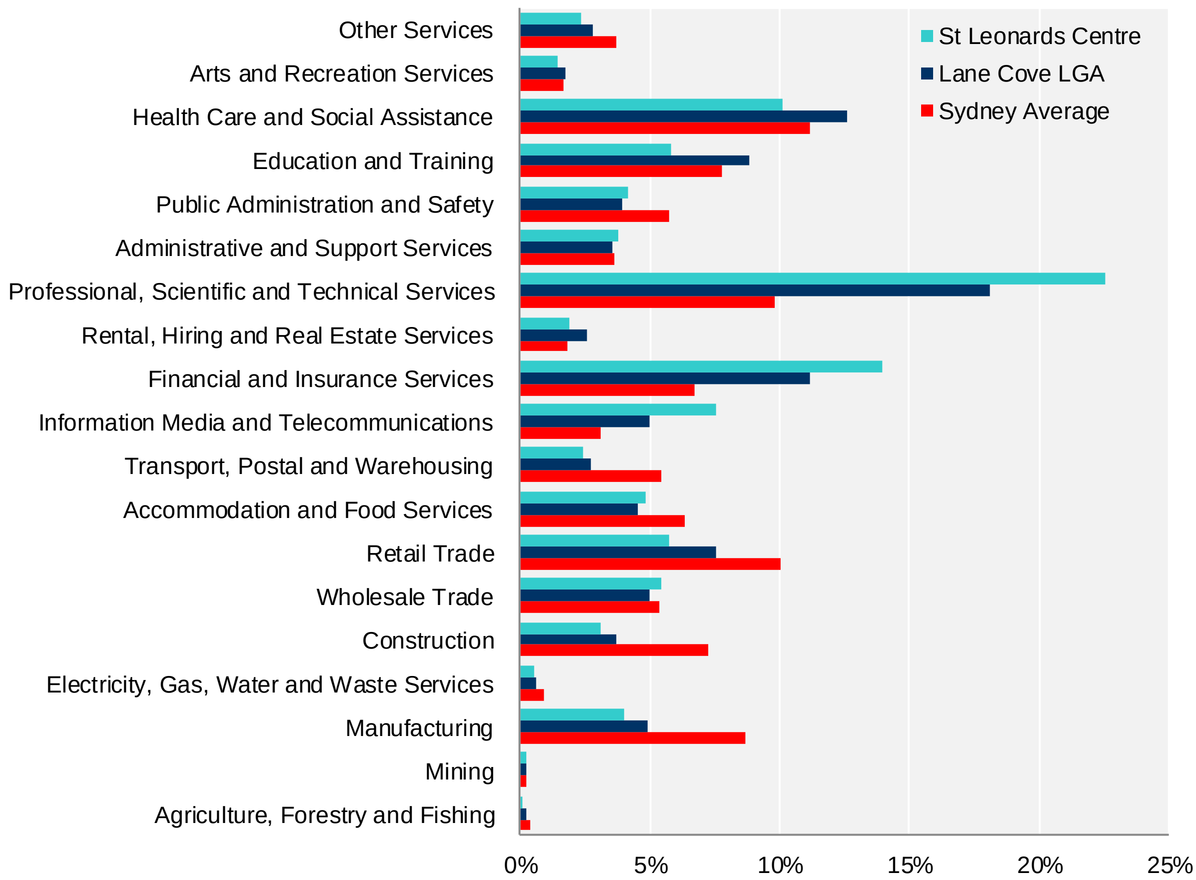
Chart 3.1 overleaf illustrates the industry make-up of local resident workers by industry sector in the St Leonards Centre, the Lane Cove LGA and the Sydney Average. This represents the "job demand" by the St Leonards local workforce across different industry sectors.

The chart shows that:

- St Leonards has a resident employment profile typical of the Lane Cove LGA, with a slightly higher proportion of local workers in the following industries compared to the LGA:
  – Professional, Scientific and Technical Services (+5%)
  – Financial and Insurance Services (+3%)
  – Information Media and Telecommunications (+3%).
- The St Leonards Centre has a higher proportion of professional and scientific, financial and insurance, and I.T workers than the Lane Cove LGA overall.
- There is a much lower proportion of the St Leonards Centre residents working in industrial sectors such as manufacturing, transport, postal and warehousing and construction (6%), compared with the broader Sydney distribution (14%).

Proportion of Resident Workers by Industry

St Leonards Centre and Lane Cove LGA, 2011 Chart 3.1



Source: ABS Census 2011

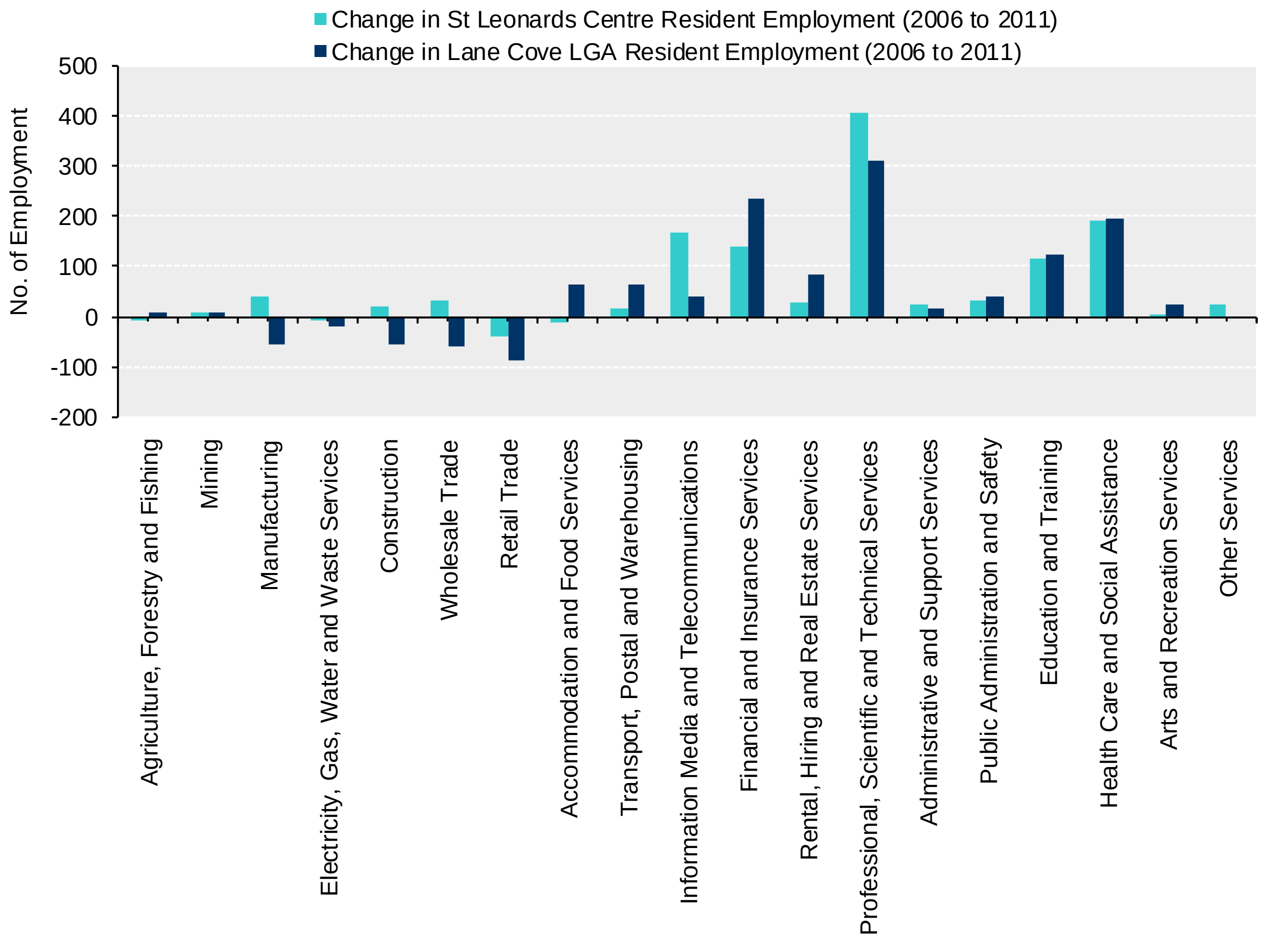
Chart 3.2 shows the changes in resident employment by industry in the St Leonards Centre and the Lane Cove LGA between 2006 and 2011. The graph demonstrates that the largest resident employment growth sectors in St Leonards were in:

- Professional, Scientific and Technical Services; and
- Health and Social Services.

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

Change in Resident Workers by Industry

St Leonards Centre and Lane Cove LGA, 2006 to 2011 — Chart 3.2



Source: ABS Census 2006 and 2011

Table 3.1 overleaf shows the job gaps by industry in the Lane Cove LGA as at 2011. These are deduced by comparing the number of resident workers and the number of jobs provided in the LGA by industry in 2011. As at 2011, the number of Lane Cove LGA jobs exceeded the number of resident workers by approximately 2,500, as outlined in Table 3.1 below.

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

- Professional, scientific and technical services (+1,056)
- Health Care and Social Assistance (+398)
- Administrative and support services (+346)
- Retail Trade (+221).

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

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

Sectors such as Financial and Insurance Services are dominated by large financial institutions that tend to group together in large centres such as the Sydney CBD.

Jobs Gap (+Surplus / -Deficit)

Lane Cove LGA

Table 3.1

Industry	Resident Workers	Jobs[1]	Jobs Gap
Agriculture, Forestry and Fishing	38	21	-17
Mining	41	7	-34
Manufacturing	829	1,797	968
Electricity, Gas, Water and Waste Services	102	35	-67
Construction	621	950	329
Wholesale Trade	843	1,530	687
Retail Trade	1,277	1,498	221
Accommodation and Food Services	769	909	140
Transport, Postal and Warehousing	463	252	-211
Information Media and Telecommunications	846	729	-117
Financial and Insurance Services	1,885	799	-1,086
Rental, Hiring and Real Estate Services	439	340	-99
Professional, Scientific and Technical Services	3,045	4,101	1,056
Administrative and Support Services	602	948	346
Public Administration and Safety	665	500	-165
Education and Training	1,491	1,067	-424
Health Care and Social Assistance	2,126	2,524	398
Arts and Recreation Services	289	263	-26
Other Services / Unclassified	472	1,075	338
Total	**16,843**	**19,345**	**2,502**

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

Source: ABS Census 2011; BTS 2014 Release; Urbis

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

3.2. PROJECTED EMPLOYMENT ST LEONARDS CENTRE (2016 – 2036)

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

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

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

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

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

Projected Jobs by Industry

t Leonards Centre, 2016 to 2036 — Table 3.2

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

Source: BTS 2014 Release; Urbis

Table 3.3 overleaf examines how the projected employment growth for the St Leonards Centre is likely to be split by property type. This analysis is based on benchmarks that Urbis have derived, looking at land use proportions by different categories of employment. The table indicates that the employment split by sector is likely to be as follows:

- **Office sector:** to account for around 35% of total employment growth for the St Leonards Centre, equal to around 2,822 additional jobs between 2016 and 2036 (around 140 jobs per annum). Includes office components of sectors where majority of employment is accommodated in 'non-office' floorspace. Examples include education and training; health; arts and recreational services; and industrial sectors such as construction and urban services. These sectors may be better suited to collocating office-based employment with their complementary non-office based operations. This is because there are the functional benefits of collocating such businesses with their core business hence producing an amenity and productivity outcome greater than that associated with having a CBD location.
- **Health sector:** to account for around 38% of employment growth, equal to around 3,041 additional jobs between 2016 and 2036 (around 150 jobs per annum).
- **Retail sector:** to account for around 5% of employment growth, equal to around 362 additional jobs between 2016 and 2036 (around 18 jobs per annum). Includes retail components of accommodation, food services, and wholesale trade.
- **Education sector:** to account for around 5% of employment growth, equal to around 422 additional jobs between 2016 and 2036 (around 20 jobs per annum).
- **Off site employment:** to account for around 4% of employment growth, equal to around 322 additional jobs between 2016 and 2036 (around 16 jobs per annum).
- **Industrial sector:** to account for around 8% of employment growth, equal to around 648 additional jobs between 2016 and 2036 (around 30 jobs per annum). The clear majority of this growth would be driven by the transport, postal and warehousing sector linked to warehousing and distribution. Components of 'non-industrial' sectors such as retail, wholesale trade and information technology is also included.
- **Home-based employment:** to account for around 1% of employment growth, equal to 108 additional jobs between 2016 and 2036 (around 5 jobs per annum).

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

Employment Split by Property Type St Leonards

St Leonards Centre, 2016 to 2036

Table 3.3

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

Source: BTS 2014 Release; Urbis

3.3. SUMMARY AND IMPLICATIONS

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

- Employment growth in the health and social services sector between 2006 and 2011 reflects a broader trend in employment in a growing health sector within the St Leonards Centre.
- In 2011, the health care and social services sector provided 10% of St Leonards employment and is forecast to grow to almost 30% of the Centre's jobs by 2036 (jobs growth of 3,379 between 2016 and 2036).
- The subject site is well placed to accommodate smaller office occupiers such as medical services and specialist suites. Health-related services and aged care facilities may also be highly suited to this location. However, these uses typically do not pay premium rates for office accommodation and are likely to only be accommodated if the costs of the office accommodation can be maintained at more affordable levels. In this context, a mixed-use development on the subject site involving residential uses that can offset higher development costs may make a smaller scale and targeted office development aimed at medical uses more likely.
- Employment projections for St Leonards Centre illustrate that around 8,000 additional jobs will be created over 2016 to 2036. Based on Urbis' Economic Impact Analysis of St Leonards, the Lane Cove LGA and the Greater Sydney region, the projections by industry sector are likely to translate to 35% (i.e. around 2,800 jobs) of all jobs required at this location to be office-based.

4. OFFICE FLOORSPACE DEMAND

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

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

This involves the following:

1. Using the BTS employment growth projections at the individual industry level (as presented in Section 3.2).

2. Converting jobs growth per industry into jobs growth by land use (as presented in Section 3.2).

3. Converting projected jobs growth by land use into floorspace demand.

4.1. EMPLOYMENT GROWTH

Different industry sectors have different needs when it comes to the type of floorspace required to operate their respective businesses. The industry employment projections presented in Section 3.2 are summarised in Table 4.1 below outlining the total jobs by land use.

Jobs by Land

St Leonards

Table 4.1

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

Source: Urbis.

4.2. FLOORSPACE DEMAND - ST LEONARDS CENTRE

To determine the floorspace requirement that will arise from the additional jobs targeted for the St Leonards Centre, Urbis have derived employment floorspace densities, based on the typical sq.m per employee by land use. These floorspace densities are shown in Table 4.2 below.

The analysis derived from the data in Table 4.2 considers differing floorspace requirements for industry sectors and business types, with industrial operators typically needing a larger site with fewer employees, resulting in lower employment yields per sq.m compared to non-industrial uses.

Office floorspace employment density is expected to be between 15 and 20 sq.m per job. The potential higher employment density of 15 sq.m per employee reflects the observed trend for office tenants to rationalise leased floorspace, coming in the form of greater use of open plan workplaces to reduce costs. As such, the additional demand for office floorspace has been expressed as a range, using both employment densities.

Table 4.2 shows that between approximately 42,336 to 56,448 sq.m of office floorspace will be required to accommodate the targeted employment growth outlined in the BTS employment projection in St Leonards by 2036.

It is important to note that these forecasts have assumed that the draft Metropolitan Strategy job targets for St Leonards will be achieved. Urbis notes that the St Leonards office market since January 2000, has only taken up 8,557sq.m of new office space, equating to 611sq.m per annum.

Based on Urbis employment-to-floorspace benchmarks, this is estimated to have accommodated 30- 40 jobs per annum, aggregating to 428-570 new office jobs since January 2000.

To achieve the employment targets, set out in the draft Metropolitan Strategy, and outlined in Table 4.2, the future take-up rate of office floorspace will need to shift from the historic rate observed since January 2000 to a much higher rate of 2,822 sq.m per annum.

Floorspace Demand

St Leonards Centre, 2016 to 2036 Table 4.2

Land Use	Sq.m / Job	Floorspace (sq.m)
Industrial	150	97,155
Office	15-20	42,336 – 56,448
Retail	25	9,045
Education	25	10,545
Health	10	30,411
Other	10	2,998

Source: BTS September 2014 Release; Urbis

4.3. SUPPLY / DEMAND FLOORSPACE – ST LEONARDS CENTRE

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

According to the PCA Office Market Report July 2016, there is currently 27,724 sq.m of vacant office space in the St Leonards Centre (row A) and a development pipeline of 91,361 sq.m office floorspace in the St Leonards Centre market (row B). Given that there will not be a withdrawal of office floorspace on the subject site from supply (row C), combined with the total demand for office floorspace being based on 15 to 20 sq.m per employee (row E), the result is a surplus of office floorspace capacity (row F) by 2036 of between 62,637 sq.m and 76,749 sq.m.

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

St Leonards Centre, 2016 to 2036 — Table 4.3

	St Leonards Centre	Office Floorspace (sq.m)
A	Vacant Existing Floorspace	27,724
B	Proposed Commercial Developments	91,361
C	Withdrawal of Existing Property on Subject Site	0
D	Existing and Approved Supply (A+B-C)	119,085
E	Total Office Floorspace Demand (i.e. 2,822 jobs)	42,336 – 56,448
F	**+Surplus / -Deficit Office Floorspace Capacity (D-E)**	+62,637 – +76,749

Source: BTS September 2014 Release; PCA Office Market Report Jul-2016; Urbis

4.4. SUMMARY AND IMPLICATIONS

Given the existing pipeline of approved commercial development and the likelihood that additional commercial projects will be developed, the supply of commercial/office space is unlikely to be a constraint on accommodating projected employment growth.

- Between 2016 and 2031 employment is projected to grow by around 8,000 additional jobs within the St Leonards Centre. Based on Bureau of Transport Statistics (BTS) forecasts, Urbis estimates that approximately 2,822 of these jobs will be office-based, requiring office floor space.
- Urbis estimates that office floorspace employment density is between 15 and 20 sq.m per employee and forecasts continued office floorspace rationalisation amongst office tenants. This indicates that there will be new employment in St Leonards for approximately 42,336 to 56,448 sq.m by 2031.
- To achieve the employment targets set out in the draft Metropolitan Strategy, the future take-up rate of office floorspace will need to shift from the 625 sq.m per annum observed since January 2000, to a much higher rate of 2,822 sq.m per annum.
- As a large proportion of future jobs are projected to come from industries that do not require office space, particularly the health care industry, take-up rates of office floorspace are not expected to grow to meet these employment targets.
- With significant proposed supply of office floorspace at Gore Hill Technology Park and RNSH as outlined in Section 2.4, the forecast demand for new office floorspace can be sufficiently accommodated within the existing vacant floorspace and proposed supply.
- The Supply/Demand gap analysis presented in this section forecasts a surplus of office floorspace by 2031 between 62,637 – 76,749 sq.m (assuming all commercial office developments in the pipeline are developed).
- A forecast of excess supply of office floorspace supports the rezoning of the subject site from a B3 Commercial Core zone to a B4 Mixed Use zone, which will better support the employment landscape of St Leonards.

5. RESIDENTIAL ANALYSIS

In addition to considering the employment impacts of redeveloping the subject site, an assessment of the residential market, including its supply-demand dynamic, will be conducted. This will consider:

- The market for apartments in St Leonards
- Profile and demographics of this geographical market, and implications for housing demand
- Benefits of locating high density developments with strong access to employment opportunities
- Future population growth, which will impact underlying demand for housing
- Market Catchment's housing market, compared to the broader Sydney Metropolitan Region (GMR)
- Historic development patterns, and where infill development is most likely to occur
- Affordability of the average apartment price in different market segments
- Future supply and demand of housing in the Market Catchment.

5.1. RESIDENTIAL DEMAND DRIVERS

We have identified seven key drivers of residential housing demand relevant to the development at St Leonards. Table 5.1 provides a brief description of these drivers and implications for the subject site.

Map 5.1, following this table, shows the amenities surrounding St Leonards within the broader Lower North Shore region. The subject site at St Leonards is well-located in proximity to public transport, health facilities, retail centres, schools, parks and recreation.

Residential Demand Drivers

Subject Site

Table 5.1

Factors	Comments	Implications for the Subject Site
1. Access to amenities	Locations that have easy access to shops, public transport, parks, entertainment and dining options, medical facilities and schools will be highly demanded as residential locations. These factors remain high on the priority lists of those looking to rent or buy.	• Strong connection and access to retail services at St Leonards Forum and High Street (Willoughby Road, Crows Nest), medical facilities, St Leonards train station and bus stops along Pacific Highway, entertainment and dining, and local parks will drive demand for housing on the subject site
2. Demographics	The residential market's demographic profile has significant ramifications for housing demand. It affects its location, type, design and price. It also has socio-economic implications relating to affordability.	• The age profile shows a significantly lower proportion of residents aged below 15 years. This reduces the demand for larger dwelling types, and indicates that the market is more amenable to a higher density residential dwelling product • This points to potential demand for smaller / higher density product, located close to key employment / transport nodes • The employment amongst residents in the market catchment indicates a much higher proportion of workers living in the market catchment than the broader Sydney GMR • Workers appear to be employed in close proximity to the market catchment, indicating that a driver of demand for housing in this market is employment accessibility.
3. Access to employment	Residents often prefer to live close to work, enabling them to minimise travel times and improve work life balance.	• St Leonards has access to the most employment opportunities within 20 minutes of by train in Sydney • Access to employment exceeds what is available from than the North Ryde Urban Activation Precinct, which indicates that it will attract strong interest from white collar workers.
4. Transport and infrastructure	Access to good public transport and road infrastructure are important to potential purchasers and renters. Particularly, linkages to the CBD, airport and major employment centres.	• The subject site is approximately 100 metres from St Leonards Train Station and has direct access to Pacific Highway • This provides strong transport links to the CBD and other key employment centres.

Factors	Comments	Implications for the Subject Site
	Future infrastructure projects can revitalise areas, improve connectivity and linkages, create new jobs and reshape the existing community.	
5. Population growth	Population growth is a key indicator of demand for apartments.	• Population growth within the identified market catchment to 2031 is projected to record strong growth at annual rate of 1.2% • This will support demand for additional housing within the market catchment, specifically located in close proximity to key residential amenity and transport infrastructure.
6. Competing supply	Competing residential developments provide an indication of market preferences in terms of price points, size, mix and scale of development. The amount of competing supply, quality and location of other apartment developments in the area can influence demand on the subject site.	• There are a number of competing projects located within the catchment area that are currently under construction, including: – 2 bed product appears to be the most sought after apartment types in the market catchment – The market catchment attracts a mix of investors and owner occupiers, which reflects its strong location draw to workers who are seeking to live close to work – Strong sales rates have been observed across all projects, indicating strong demand for apartments in the market catchment. • Although there are a number of projects in the development pipeline (around 9,157 units by 2023) this is likely to be exceeded by the projected population growth within the market catchment area, and its subsequent housing demand.
7. Supply and demand	Forecasting population and household size provides an indication of housing demand. Compared to the identified residential	• Between 2016 and 2031 there is projected to be a deficit of housing stock - a deficit of around 12,200 by 2031.

Factors	Comments	Implications for the Subject Site
	development pipeline, this can indicate if there is a surplus / deficit of housing.	

Source: Urbis

Amenities Surrounding the Subject Site

Map 5.1

5.2. MARKET CATCHMENT ANALYSIS

The Market Catchment for a new residential development is essentially the main geographical area from which new residents or potential purchasers are likely to be drawn. For the purpose of defining this for the subject site, we have identified geographic migration patterns of new residents moving into the local SA2 census area in which the subject site is located.

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

Map 5.2 overleaf shows the geographic migration patterns into these two SA2s as at 2011, clearly indicating that new residents in St Leonards are migrating from a predominantly local Lower North Shore catchment.

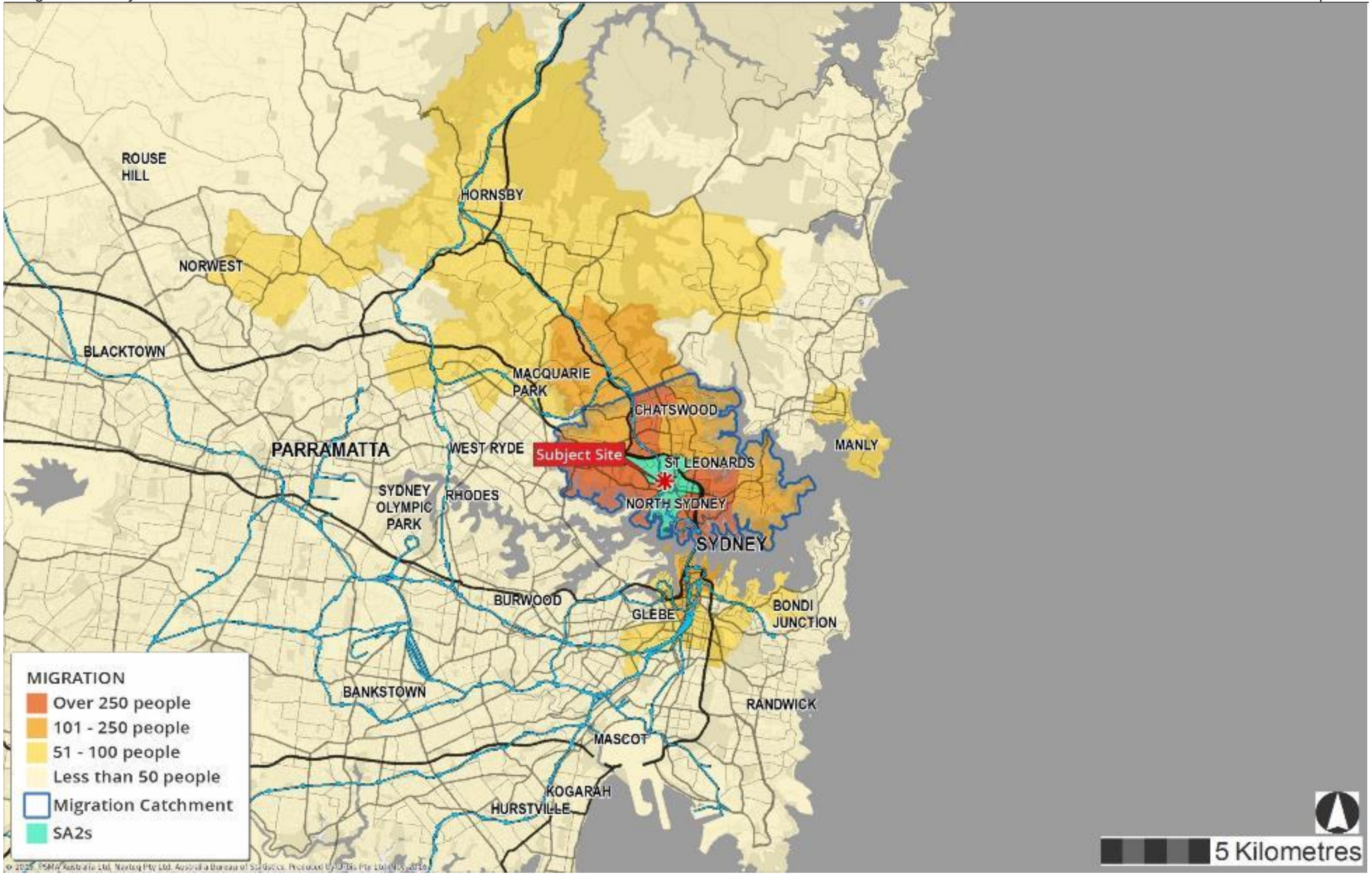

ROUSE HILL
HORNSBY
NORWEST
BLACKTOWN
MACQUARIE PARK
CHATSWOOD
PARRAMATTA
WEST RYDE
Subject Site
ST LEONARDS
MANLY
SYDNEY OLYMPIC PARK
RHODES
NORTH SYDNEY
SYDNEY
BURWOOD
GLEBE
BONDI JUNCTION
BANKSTOWN
RANDWICK
MASCOT
KOGARAH
HURSTVILLE
MIGRATION
Over 250 people
101 - 250 people
51 - 100 people
Less than 50 people
Migration Catchment
SA2s
5 Kilometres

Chart 5.1 below illustrates the change in migration patterns into the two SA2s surrounding the subject site (St Leonards – Naremburn SA2 and the Crows Nest – Waverton SA2), between the periods of 2006 – 2010 and 2010 – 2011, illustrating that:

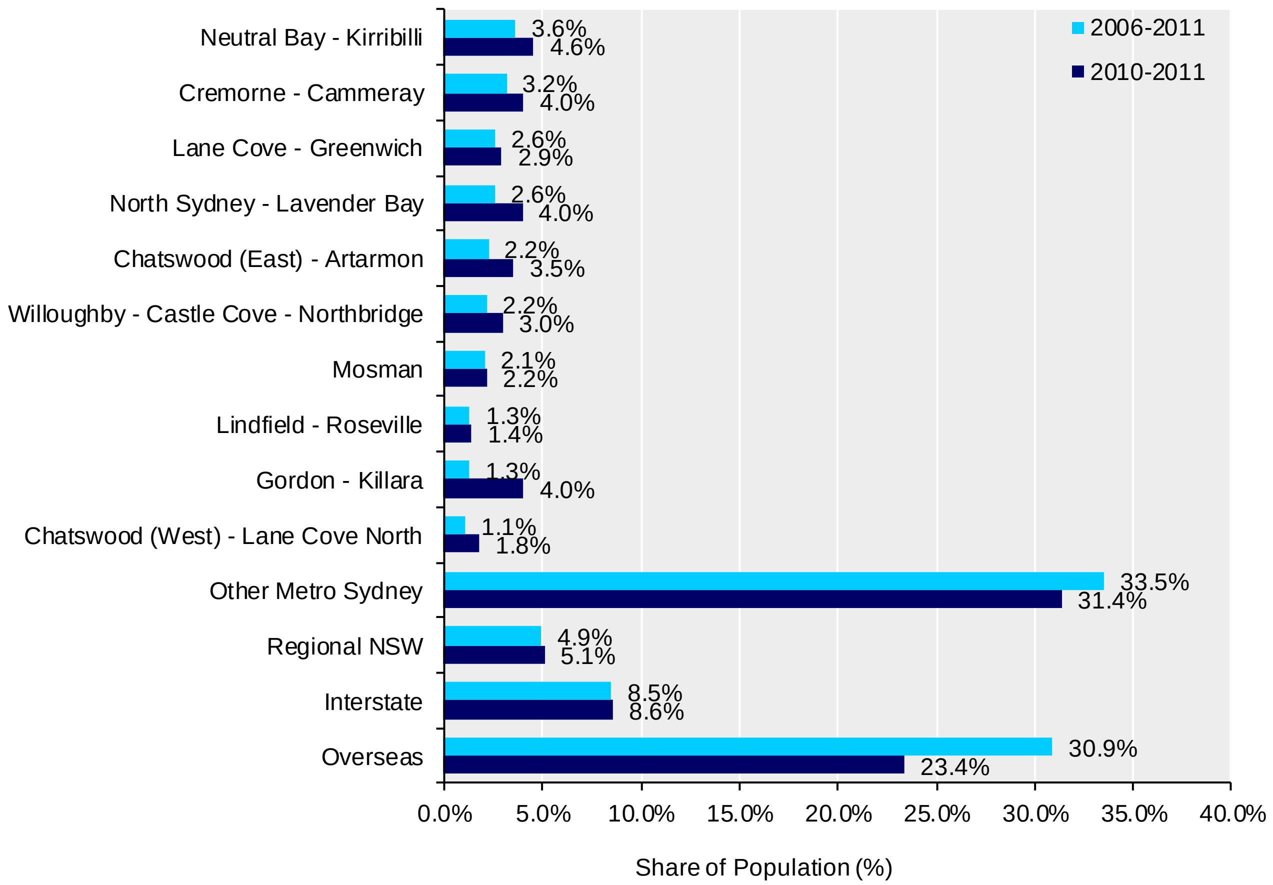
- Migration into the study area is dominated by Lower North Shore areas surrounding the subject site. These areas have increased as a proportion between 2010-2011, relative to 2006-2010, indicating that the proposed development is likely to have an increasingly geographically-contained market.
- Both Interstate and Regional migration have maintained a consistent share between 2006-2011 and 2010-2011. Overseas migration, as a share of overall migration, has fallen from 30.9% (2006-2011) to 23.4% (2010-2011).
- It is clear from this analysis that the primary source of new residents will be drawn from areas around the subject site at St Leonards.

As most of the SA2s highlighted below are contained in Mosman, North Sydney, Lane Cove and Willoughby, the combination of these LGAs has been identified as the main catchment area for the proposed development, and the Market Catchment for this residential assessment. This is outlined numerically and graphically in Chart 5.1, and spatially in Map 5.2.

Migration Analysis

Into Study Area

Chart 5.1



Source: ABS Census 2006 and 2011; Urbis

5.3. DEMOGRAPHIC ANALYSIS

The demographics of an area can indicate the market profile of potential purchasers. A comparative profile of demographic characteristics for St Leonards has been undertaken to identify specific residential property buyer segments and needs within the Market Catchment.

Comparing the identified Market Catchment in which the subject site sits, as defined in the previous section, and the broader Sydney Metropolitan Region (GMR), provides an indication of the type of market that is available within the Market Catchment relative to the broader Sydney area.

Age: Chart 5.2 overleaf shows that the Market Catchment area has a higher proportion of residents aged between 20-49 years than the Sydney Average. St Leonards also has a markedly lower number of residents aged 0-14. This indicates that there are fewer family-type households currently in the area, with a larger 'working age' population.

The average age of the Market Catchment has increased since 2001 from 38.1 years to 38.5 years (See Table 5.2 overleaf). While trending upwards, the ageing of the Market Catchment is significantly below what has been observed across Sydney, with the average age increasing from 35.8 years in 2001 to 37.1 years in 2011.

Income: Table 5.3 overleaf illustrates that the Market Catchment has a significantly higher income than the broader Sydney GMR. This is driven by the 45% of households earning above $130,000 per annum, compared to 26% across the Sydney area (See Chart 5.3 overleaf).

Household Composition: The Market Catchment has a much higher proportion of lone person households, comprising 30% of all local households, compared with 23% across the wider Sydney GMR as shown in Chart 5.4 (See Page 37 of this report).

Household Profiles: Family households comprise 64% of households in the Market Catchment, compared to 73% across Sydney GMR. This reflects the age profile discussed above, which showed a significantly lower proportion of residents aged below 15 years and consequently lower formation of family household.

This reduces the demand for larger dwelling types, and indicates that the market is more amenable to a higher density residential dwelling product.

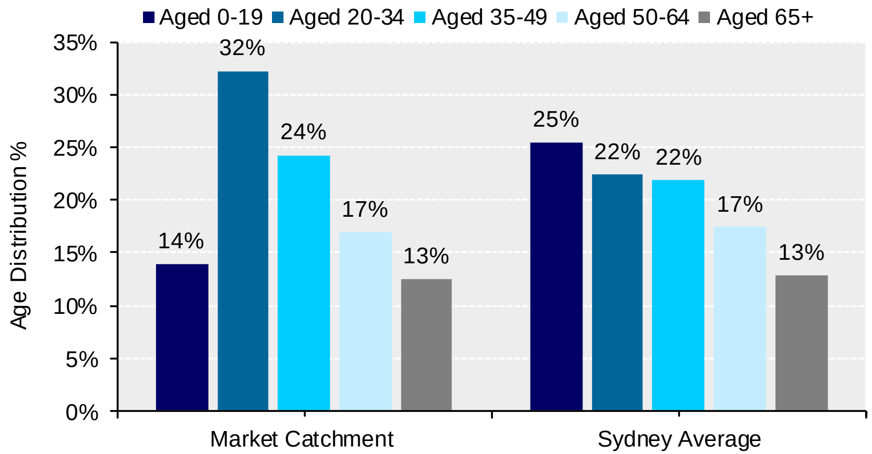
Family Composition: Chart 5.5 (on Page 38 of this report) shows that family households within the Market Catchment are dominated by couples without children, comprising 43% of family households compared to 33% across the Sydney GMR. This again points to demand for smaller and higher density products located close to key employment and transport nodes.

Housing Structure: Reflecting this underlying need for smaller housing, the Market Catchment housing profile is largely made up of apartments which comprise some 54% of all housing in the Market Catchment compared to 26% across the Sydney GMR (See Chart 5.6 on Page 38 of this report).

Employment: Employment participation amongst residents in the Market Catchment indicates a much higher proportion of workers living in the Market Catchment than the broader Sydney GMR. Workers appear to be employed near where they live, indicating that a driver of demand for housing in the Market Catchment is employment accessibility. This perhaps indicates that mixed-use development in this location would have a high level of acceptability and desirability.

Age Distribution

Market Catchment and Sydney Average, 2011 Chart 5.2



Source: ABS Census 2011; Urbis

Average Age

Market Catchment and Sydney Average, 2001 to 2011 Table 5.2

Year	Market Catchment	Sydney
2001	38.1	35.8
2006	38.4	36.6
2011	38.5	37.1

Source: ABS Census 2001, 2006, and 2011; Urbis

Average Household Income

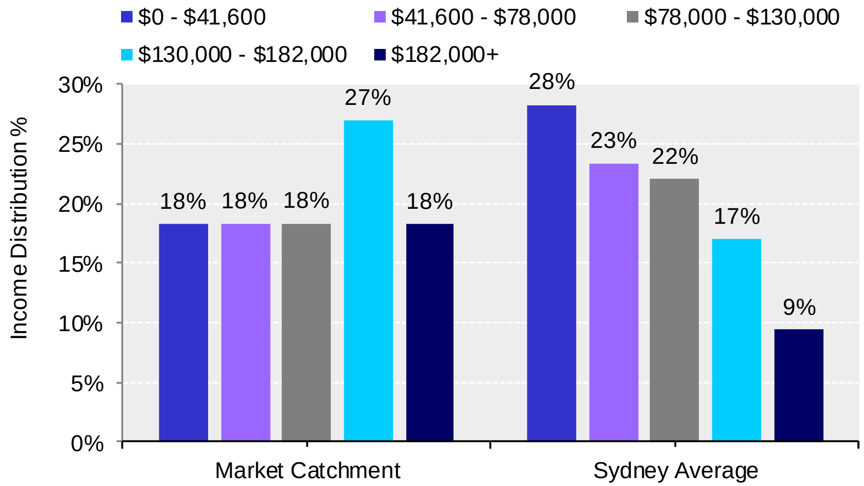
Market Catchment and Sydney Average, 2011 Table 5.3

Market Catchment	Sydney
$125,167	$94,428

Source: ABS Census 2011; Urbis

Household Income

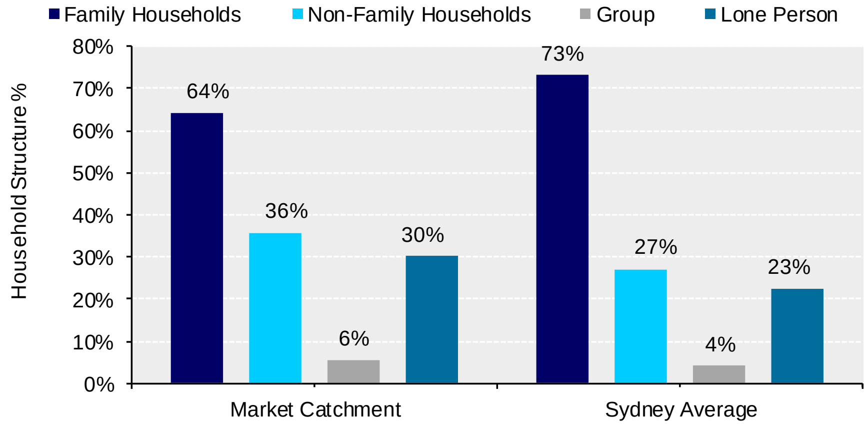
Market Catchment and Sydney Average, 2011 Chart 5.3



Source: ABS Census 2011; Urbis

Household Profile

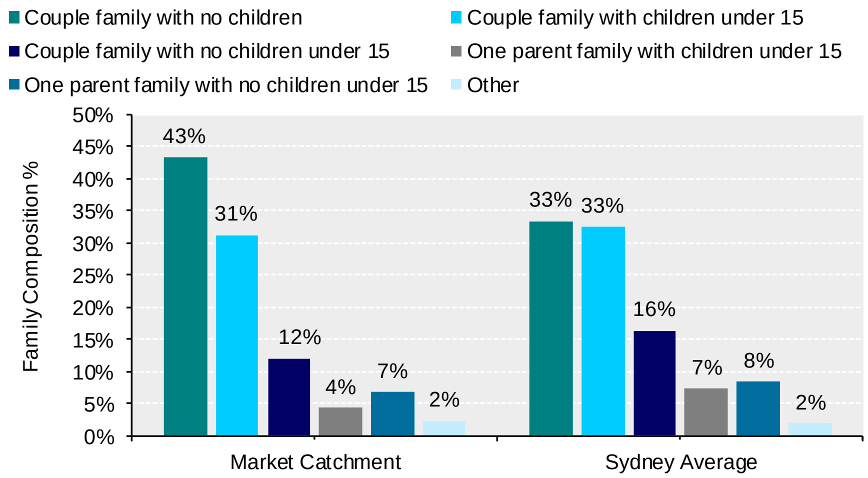
Market Catchment and Sydney Average, 2011 Chart 5.4



Source: ABS Census 2011; Urbis

Family Composition

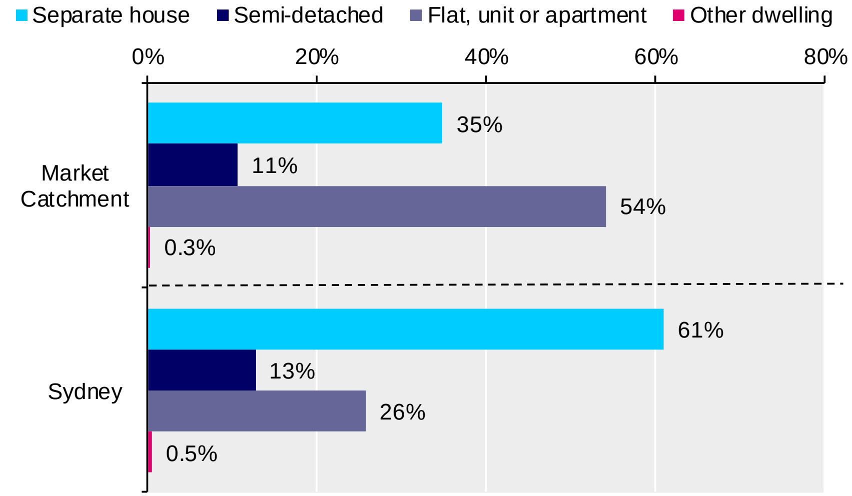
Market Catchment and Sydney Average, 2011 — Chart 5.5



Source: ABS Census 2011; Urbis

Dwelling Structure

Market Catchment and Sydney Average, 2011 — Chart 5.6



Source: ABS Census 2011; Urbis

5.4. ACCESS TO EMPLOYMENT

The demographic analysis of the Market Catchment illustrates that white collar workers are highly represented in the overall employment statistics (See Table 5.4 below). A key driver of where these residents seek to live is access to suitable jobs, mainly located within CBDs and Town Centres.

In addition to the amenity associated with the St Leonards Specialised Centre, its geographical positioning between Macquarie Park / North Ryde and the Sydney CBD and proximity to rail, allows residents access to a significant number of jobs.

This underpins its value as a residential area, providing local residents with access to approximately 520,000 jobs within a 20-minute train ride (shown in Map 5.3 overleaf). Contrasting this is Macquarie Park, which has access to approximately 225,000 jobs, fewer than 50% available to St Leonards residents (shown in Map 5.3 overleaf). This is despite a number of large-scale residential developments being directed into the Macquarie Park / North Ryde area.

None of these centres have access to the same level of employment as St Leonards, which can access not one, but three developing employment areas: Macquarie Park Employment Corridor; North Sydney; and the Sydney CBD (as well as St Leonards itself). It should also be noted that the presence of the new Crows Nest Metro Station (located within 350 m of the site) will further increase access to employment with direct links to key employment hubs, including Macquarie Park, Barangaroo, and various localities within Sydney CBD.

Employment

Market Catchment and Sydney, 2011 — Table 5.4

	Market Catchment	Sydney
Employment Rate (%)	51%	45%
Labour Force Participation (%)	72%	66%
Unemployment Rate (%)	4%	6%
White Collar	90%	74%
Blue Collar	10%	26%

Source: ABS Census 2011; Urbis

Journey to Work

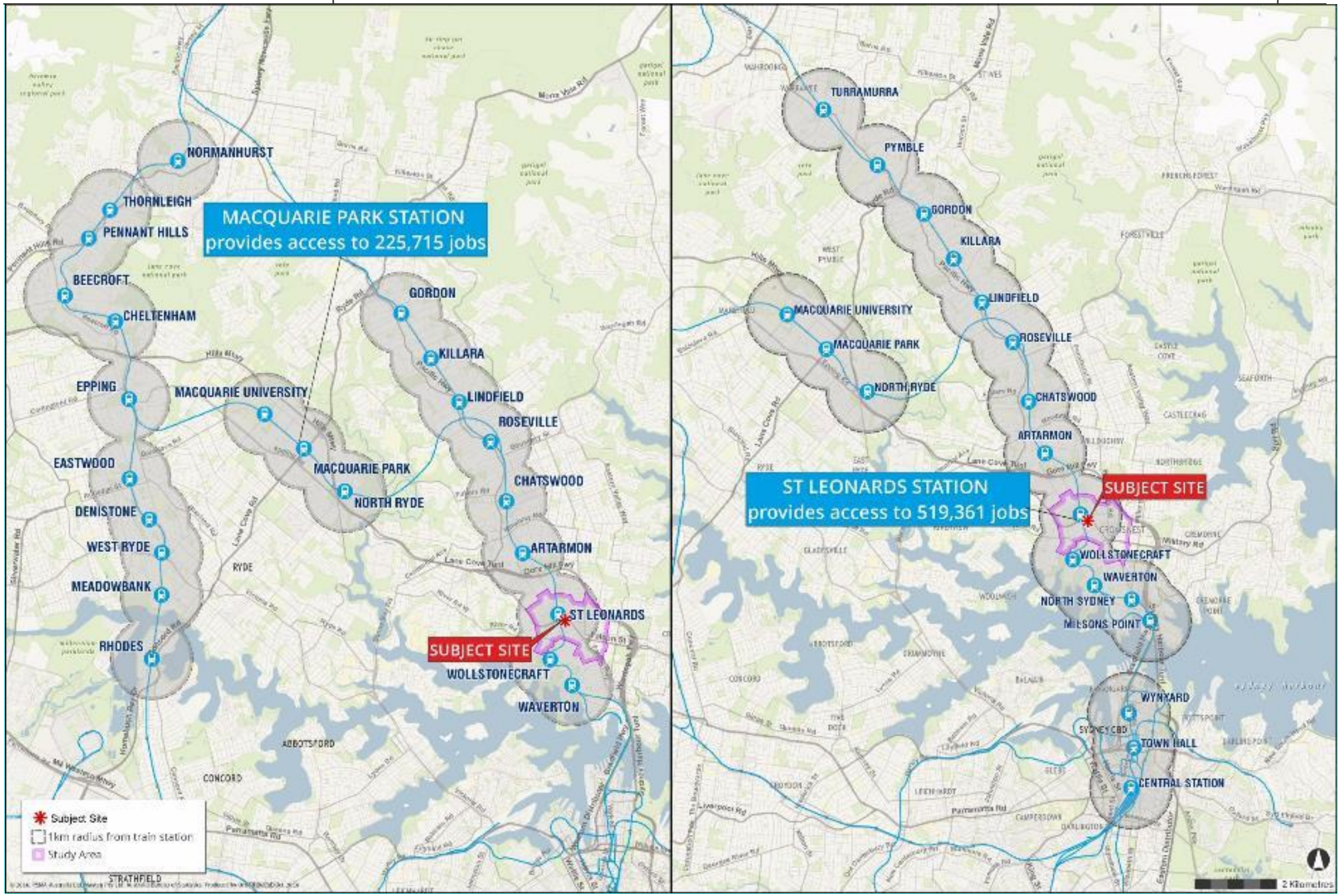
Market Catchment Residents — Table 5.5

SA2	No.	%
Sydney – Haymarket – The Rocks	26,945	27%
North Sydney – Lavender Bay	9,070	9%
St Leonards – Naremburn	6,034	6%
Chatswood (East) – Artarmon	5,926	4%
Mosman	3,999	4%
Lane Cove – Greenwich	3,911	3%
Macquarie Park – Marsfield	3,364	3%
Willoughby – Castle Cove – Northbridge	3,253	3%
Crows Nest – Waverton	3,129	3%
Neutral Bay – Kirribilli	2,680	3%
Balance	*32,832*	*33%*
Total	**101,144**	**100%**

Source: BTS JTW Data; Urbis

Access to Jobs – St Leonards and Macquarie Park Train Stations

Map 5.3



POPULATION GROWTH

Population provides an indication of the underlying demand for housing in a particular area.

The NSW Department of Planning and Environment is responsible for the development and regular review of official population projections in NSW. These projections provide the main source of population analysis undertaken by the NSW Government.

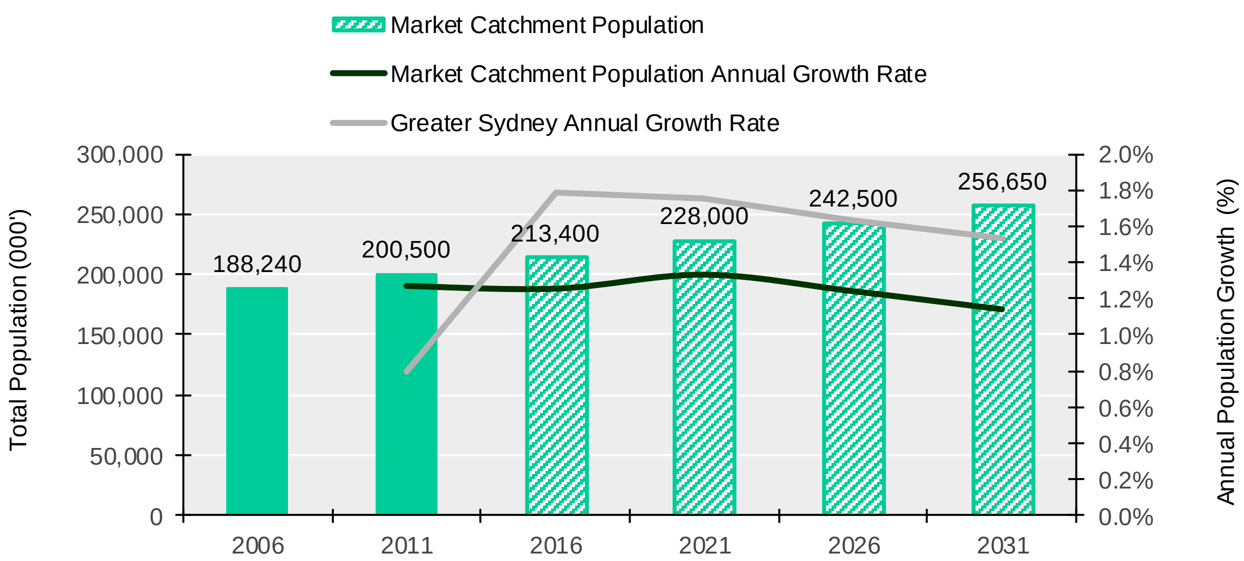
Chart 5.7 below shows the historic and projected population estimated by the Department of Planning for the Market Catchment as well as the annual growth rate.

The key findings for both historical and projected growth for the Market Catchment include:

- From 2006 to 2011, the average annual population growth for the Market Catchment increased by 6.5%, with an additional 12,260 residents over this period - reflecting an annual growth rate of 1.3%
- Sydney GMR increased by 4% over the historic period (2006 to 2011), below the Market Catchment growth
- From 2011 to 2016, the Market Catchment experienced continued population growth of 1.3% per annum. This was slightly below Sydney GMR population growth in the same period, recorded as 1.8% per annum. The Market Catchment population growth has been supported by approximately 6,600 new dwelling approvals, comprised of 78% of apartments and 22% of detached dwellings, over the ten years to 2011.
- Population growth in the Market Catchment is expected to continue to grow by an average of 1.2% per annum in the period (2016 – 2031), slightly below historic levels.
- The implication of strong population growth moving forward is a need for increased dwellings within the study area.

Historic and Projected Population Market Catchment (2006 – 2036)

2006 to 2036, Market Catchment vs Sydney GMR — Chart 5.7



Source: NSW Department of Planning and Environment; Urbis

5.5. COMPETITIVE CONTEXT

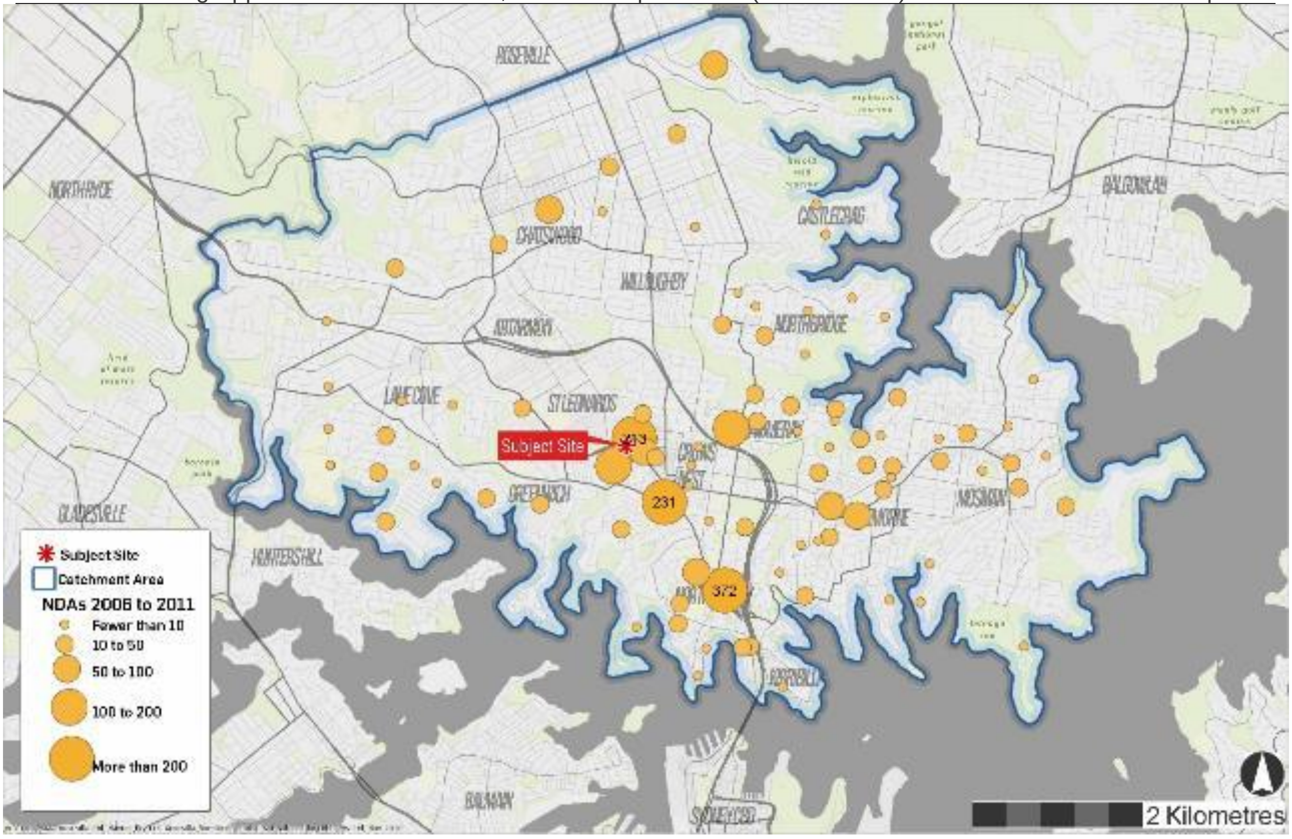
HISTORIC DWELLING APPROVALS

Maps 5.5 and 5.6 overleaf display the historical new dwelling approvals (NDAs) that have been delivered in the periods (2006 - 2011) and (2011 - 2015) for the Market Catchment. Although the latter period is only four years, there was a greater number of NDAs than the 2006 to 2011 period as highlighted below:

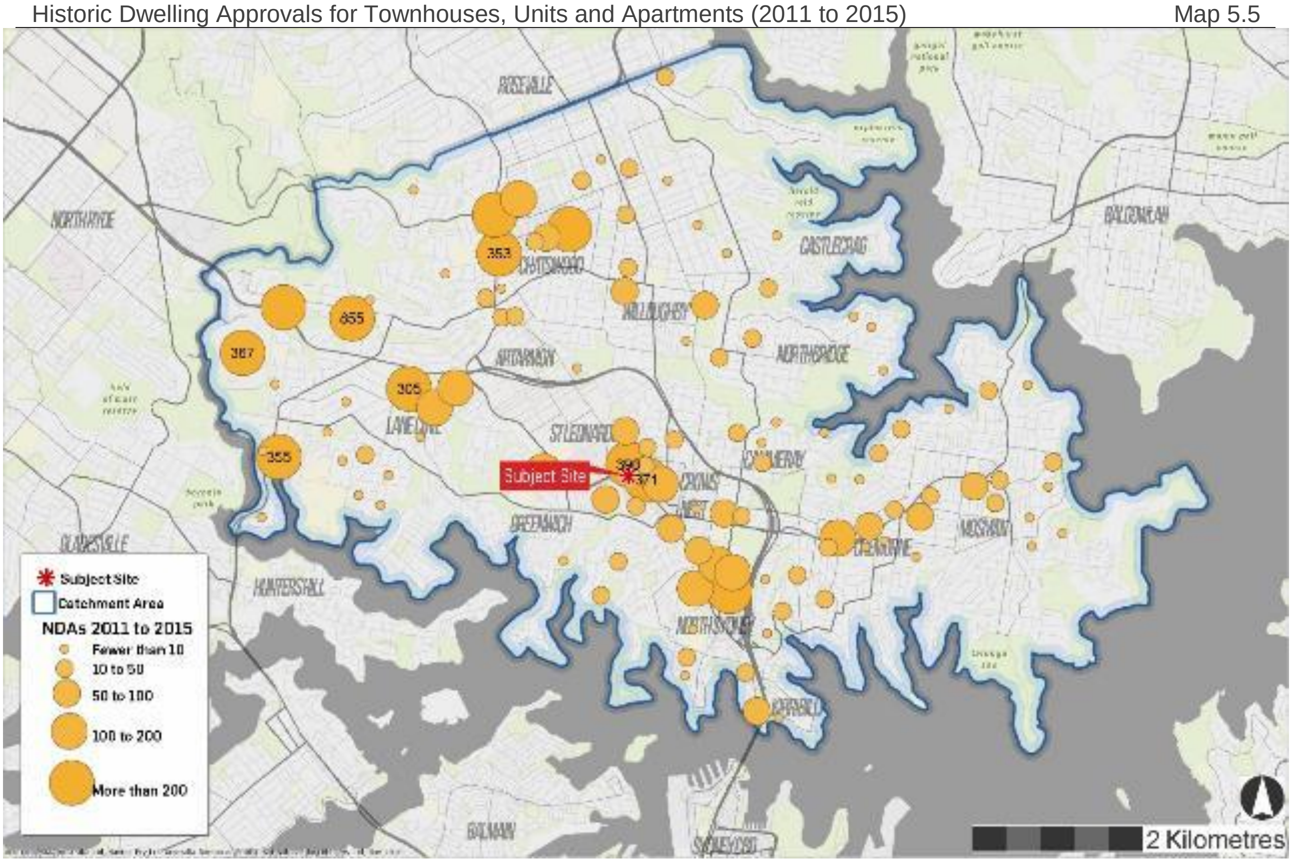
- Between 2006 and 2011 there were around 2,500 NDAs for town houses, units and apartments and around 900 for houses; totalling approximately **3,400 NDAs**
- Between 2011 and 2015 there were around 6,900 NDAs for town houses, units and apartments and around 850 for houses; totalling approximately **7,750 NDAs**

Comparing Map 5.4 with 5.5, it is evident that there has been a significant proportion of new dwelling approvals occurring within Chatswood, St Leonards, and North Sydney – within proximity to public transport connections. This reflects the preferences of residents in the area for apartment living that have accessibility to public transport, retail and other amenities.

Historic Dwelling Approvals for Townhouses, Units and Apartments (2006 to 2011) Map 5.4



Historic Dwelling Approvals for Townhouses, Units and Apartments (2011 to 2015) Map 5.5



DEVELOPMENT PROFILES

The below four development profiles present large-scale apartment projects that have been completed since 2015, on sites comparable to the subject site at St Leonards, in terms of locational in the Lower North Shore and accessibility to public transport, retail and other amenities.

1. Project Name: Chatswood Transport Interchange Residential Towers Metro Residences

Location	By Albert Avenue, Thomas Lane, Railway Street and Help Street, Chatswood
Units	553
Completion	2015
Property Description	Construction of 3 residential buildings. Tower 1, called Metro View is 40 stories and contains a total of 261 apartments, consisting of 122 one bedrooms, 90 two bedrooms and 49 three bedrooms. Tower 2, called Metro Spire is 27 stories and contains a total of 147 apartments, consisting of 70 one bedrooms, 73 two bedrooms and 4 three bedrooms. Tower 3, called Metro Grand is 38 stories and contains a total of 145 apartments, consisting of 67 one bedrooms, 76 two bedrooms and 2 three bedrooms.
Buyer Profile	A combination of local and overseas buyers
Developer	Galileo Group and ISPT

Type	Indicative Living Area	Advertised / Asking Prices
1 bed	52 – 73 sq.m	$488,000+
2 bed	83 – 117 sq.m	$735,000+
2 bed + study	107 – 120 sq.m	
3 bed	127 – 137 sq.m	$1.5 million +
Penthouse	140 – 271 sq.m	$1.495 - $4 million

Source: Cordell, CBRE Press Release, The Home Page, Agent; Urbis

2.	**Project Name:** Skye	
	**Location**	211-223 Pacific Highway, North Sydney
	Units	232
	Completion	2015
	Property Description	Construction of a 20 storey mixed use building comprising ground floor retail and commercial on part of level 1, with commercial/retail GFA of 860 sq.m. Basement car parking over 6 levels accommodating up to 194 car parking spaces.
	Developer	Crown

Type	Mix	Indicative Living Area	Advertised / Asking Prices
Studio	14	36 – 43 sq.m	From $600,000
1 bed	70	50 – 61 sq.m	$620,000 – $905,000
2 bed	144	73 – 88 sq.m	$950,000 – $1.175 million
3 bed	4	120 – 148 sq.m	$2.755 million

Source: Cordell, Agent, Property Observer; Urbis

3.	**Project Name: Bay Pavilions**	
	**Location**	316-322 Burns Bay Road, Lane Cove
	Units	270
	Completion	2015
	Property Description	Construction of five 8 to 9 storey buildings, with basement car parking over 3 levels for 446 vehicles.
	Buyer Profile	High proportion of owner-occupiers
	Developer	Piety Developments

Type	Mix	Indicative Living Area	Advertised / Asking Prices
1 bed	82	51 - 63 sq.m	From $600,000
2 bed	163	71 - 85 sq.m	From $735,000
3 bed	25	87 - 154 sq.m	From $1.12 million - $1.6 million

Source: Cordell, Agent, Property Observer, Domain; Urbis

4. **Project Name: Bridgehill Residences, Milsons Point**

Location	74-80 Alfred Street, Milsons Point
Units	129
Completion	2015
Property Description	Adaptive reuse of a 14 storey office building to accommodate a 16 storey residential/commercial development, retail space on the ground and first floor and four level basement car parking providing for 59 cars, 10 motorcycles and 90 bicycles.
Buyer Profile	Even spread of owner-occupiers and investors
Developer	Bridgehill Developments Pty Ltd

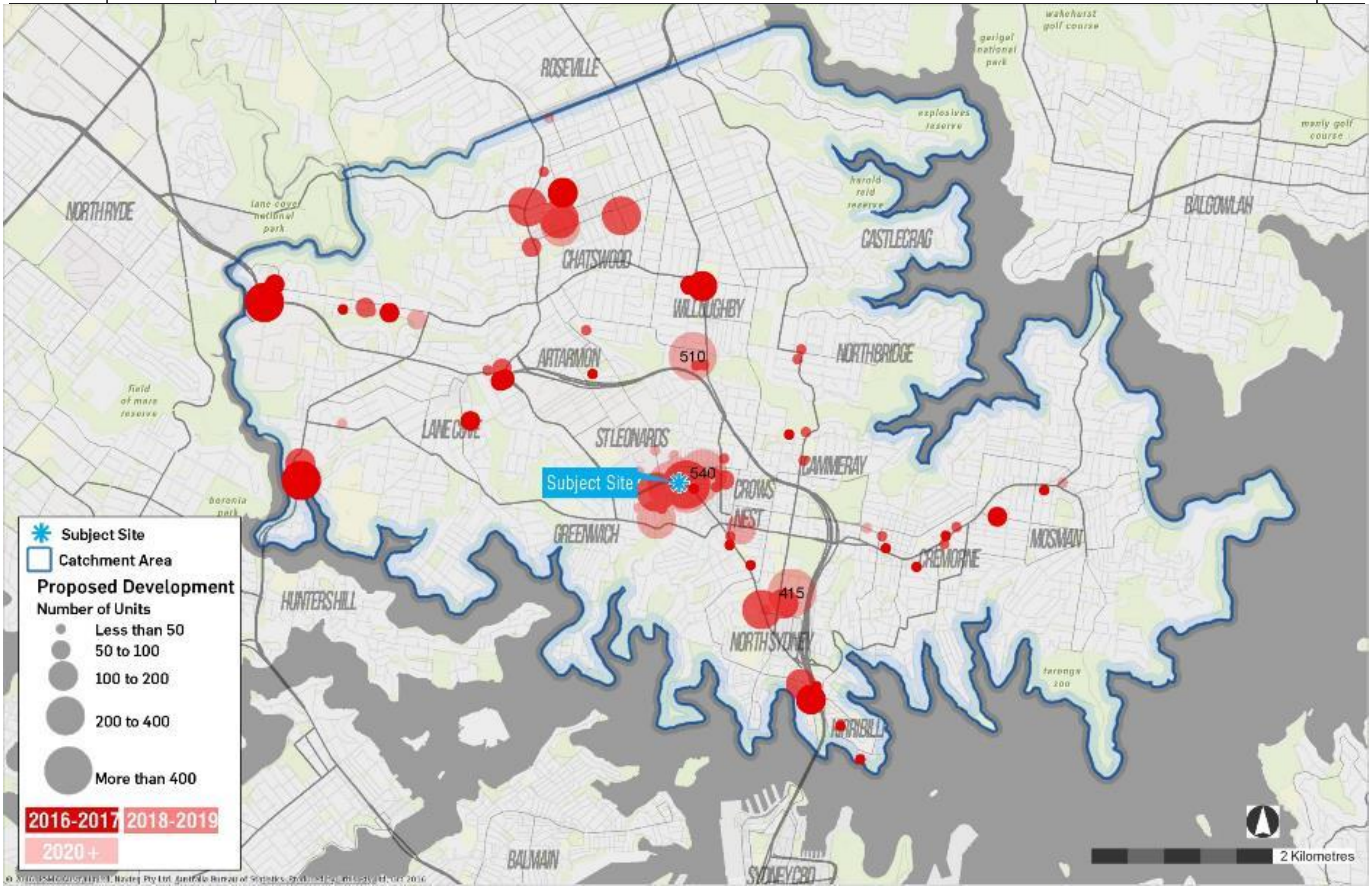
Type	Mix	Indicative Living Area	Advertised / Asking Prices
Studio	16	~45 sq.m	From $550,000
1 bed	45	~50 sq.m	From $600,000
2 bed	62	~80 sq.m	From $1.1 million
3 bed	6	~120-130 sq.m	From $1.8 million

Source: Cordell, Agent, CBRE; Urbis

PROPOSED RESIDENTIAL DEVELOPMENTS

Map 5.7 overleaf shows proposed developments (with a residential dwelling yield over 20) that are expected to occur within the Market Catchment. There are large developments proposed around Chatswood, St Leonards, and North Sydney, which follow historic NDA trends (as previously shown in Maps 5.4 and 5.5).

Table 5.6, following, provides a summary of the details of each development. From this table, it is possible to determine the scale of residential supply entering the market in the future. The projected additional supply into the residential market is approximately 9,157 residential units by 2023.


ROSEVILLE
NORTH RYDE
lane cove national park
CHATSWOOD
WILLOUGHBY
CASTLECRAG
NORTHBRIDGE
ARTARMON
510
field of mars reserve
LANE COVE
ST LEONARDS
CAMMERAY
Subject Site
540
CROWS NEST
boronia park
GREENWICH
HUNTERS HILL
415
NORTH SYDNEY
CREMORNE
MOSMAN
BALGOWLAH
taronga zoo
BALMAIN
SYDNEY CBD
garigal national park
wakehurst golf course
explosives reserve
harold reid reserve
manly golf course
Subject Site
Catchment Area
Proposed Development
Number of Units
Less than 50
50 to 100
100 to 200
200 to 400
More than 400
2016-2017
2018-2019
2020+
2 Kilometres

Proposed Developments

Market Catchment, as at October 2016 — Table 5.6

Development Name	Address	Suburb	Yield	Completion Date	Status
Lane Cove LGA					
Canberra Av Residential Development Site	2 Canberra Avenue	St Leonards	N/A	2018	Early Planning
Canberra Av Residential Development Site	17-19 Canberra Avenue	St Leonards	N/A	2019	Early Planning
Marshall Canberra & Holdsworth Av Development	2-8 Marshall Av, 1-5 Canberra Av & 2 Holdsworth Av	St Leonards	N/A	N/A	Early Planning
Northcote St Mixed Development Site	2-6 Northcote Street	St Leonards	N/A	N/A	Early Planning
Penrose St Townhouse Development Site	21 & 23 Penrose Street	Lane Cove	N/A	N/A	Early Planning
Holdsworth & Canberra Avs Residential Development Site	18-26 Holdsworth Av & 21-27A Canberra Av	St Leonards	N/A	N/A	Early Planning
Berry Rd & Holdsworth Av Residential Development Site	8-22 Berry Rd & 13-19 Holdsworth Av	St Leonards	N/A	N/A	Early Planning
St Leonards Gateway Residential Development - Pinnacle	Berry Rd & Park Rd	St Leonards	N/A	2020	Site Acquisition
Parkside Residences	2-4 Pinaroo Pl	Lane Cove	23	2017	Contract Let
Gordon Cr Units	56-60 Gordon Cr	Lane Cove	39	2017	Site Preparation in Progress
Mindarie Street Units	2-6 Mindarie St	Lane Cove	45	2018	Development Application
Longueville Rd Units	25-29 Longueville Rd	Lane Cove	45	2018	Development Application
Mowbray Rd Units	594-596 Mowbray Rd & 5-7 Mindarie St	Lane Cove	52	2018	Development Approval
Mafeking Ave Apartments - The Point	9 Mafeking Av	Lane Cove	60	2017	Contract Let
Gordon Cr & Mowbray Rd Units - Battique	46-54 Gordon Cr & 552 Mowbray Rd	Lane Cove	64	2016	Construction
Pacific Hwy Apartments - Lotus	390-398Pacific Hwy & 7 Mafeking Av	Lane Cove	69	2017	Contract Let
Mowbray Rd Units	536-542 Mowbray Rd	Lane Cove	70	2017	Contract Let
Gordon Cr Residential Development Site	84-90 Gordon Cr	Lane Cove	85	2020	Site Acquisition
Little St Apartments - Magnolia Lane Cove	27-43 Little St	Lane Cove	94	2017	Contract Let
Burley St Units	2-4 Burley St	Lane Cove	95	2019	Development Application
Burns Bay Road Mixed Use Development	296-314 Burns Bay Rd	Lane Cove	107	2019	Development Application
Canberra Av & Holdsworth Av Residential Development Site	31-41 Canberra Av & 28-32 Holdsworth Av	St Leonards	257	2020	Site Acquisition
Embassy Tower	1-13A Marshall Av	St Leonards	269	2019	Development Approval
Burns Bay Rd Units - Bay Pavilions	316-322 Burns Bay Rd	Lane Cove	273	2016	Construction

Source: Cordell Connect; Urbis

Development Name	Address	Suburb	Yield	Completion Date	Status
Lane Cove LGA					
Epping Rd Mixed Development	150 Epping Rd	Lane Cove	367	2017	Construction
St Leonards Mixed Development	84-90 Christie St & 75-79 Lithgow St	St Leonards	450	2020	Rezoning Application
Pacific Hwy Mixed Development - The Landmark	496-498, 500 & 504-520 Pacific Hwy	St Leonards	495	2019	Development Application
Pacific Hwy Mixed Development - St Leonards Square	472-486 Pacific Hwy	St Leonards	539	2021	Development Approval
Pacific Hwy Potential Mixed Development	500-520 Pacific Hwy	St Leonards	550	2021	Site Acquisition
Total Lane Cove LGA			**4048**		
Mosman LGA					
Former Greater Union Cinema Mosman	5 Spit Rd	Mosman	N/A	N/A	Early Warning
Harbour St Mixed Development - Sommar	46-54 Harbour St	Mosman	50	2016	Contract Let
Military Rd Mixed Development - Monarch	339 Military Rd& 116 Belmont Rd	Mosman	68	2016	Contract Let
Total Mosman LGA			**118**		
North Sydney LGA					
Greenway Building	4 Ennis Rd	Milsons Point	0	2017	Contract Let
Waruda St Residential Flat Building	21 Waruda St	Kirribilli	0	2017	Development Approval
Upper Pitt Residential Building	48 Upper Pitt St	Kirribilli	0	2017	Development Approval
Chandos St Mixed Use Development Site	67-73 Chandos St	St Leonards	0	2020	Early Planning
North Sydney Bus Depot	359 Ernest St	Neutral Bay	0	2021	Early Planning
Pacific Hwy Mixed Development Site	617-621 Pacific Hwy	St Leonards	0	2019	Site Acquisition
20 Berry St North Sydney	20 Berry St	North Sydney	0	2020	Site Acquisition
Cambridge St Units - Sanctuary	18 Cambridge St, formerly 2 Vale St	Cammeray	21	2016	Contract Let
Pacific Hwy Mixed Development - Pacific 222	222 Pacific Hwy	Crows Nest	21	2017	Development Approval
Holt Avenue Units	148-150 Holt Ave	Cremorne	22	2018	Development Application
Miller St Units	562A-564 Miller St	Cammeray	22	2018	Development Approval
Rangers Rd Mixed Development - Muse Neutral Bay	9-11 Rangers Rd	Neutral Bay	23	2017	Contract Let
Pacific Hwy Mixed Development	385-389 Pacific Hwy	Crows Nest	23	2018	Development Approval
Miller St Mixed Development - Miller Place	467-473 Miller St	Cammeray	24	2018	Tenders/Submn Of Props For Design Construct
Atchison St Mixed Development - Site B	18-20 Atchison St	St Leonards	25	2018	Development Approval

Source: Cordell Connect; Urbis

Development Name	Address	Suburb	Yield	Completion Date	Status
North Sydney LGA					
Pacific Hwy Mixed Development - Northern Light	567-573 Pacific Hwy	St Leonards	27	2017	Contract Let
Grosvenor Street & Ben Boyd Road Apartments	14 Grosvenor St & 219 Ben Boyd Rd	Neutral Bay	30	2018	Development Application
Parraween St & Military Rd Development - Verona & Paramount	21-23 Parraween St & 320-322 Military Rd	Cremorne	33	2017	Contract Let
Military Rd & Parraween St Mixed Development - Niche Cremorne	352-356 Military Rd & 57-59 Parraween St	Cremorne	34	2018	Development Approval
Albany Street Mixed Use Development	31/33 Albany St	Crows Nest	35	2018	Development Application
Pacific Hwy Shop Top Housing Development - East Lane	319-321 Pacific Hwy	North Sydney	36	2017	Contract Let
Doohat Av Units	7 Doohat Av	North Sydney	36	2018	Sketch Plans
Military Rd Mixed Development - Sync	138-146 Military Rd	Neutral Bay	38	2017	Contract Let
Ridge St Carpark	Ridge St	North Sydney	42	2020	Early Planning
Atchison St Apartments	84-90 Atchison St	Crows Nest	45	2018	Development Approval
Albany St Mixed Development - Edge 28	22-28 Albany St	St Leonards	48	2018	Development Approval
Miller St Apartments - North	231 Miller St	North Sydney	60	2018	Contract Let
Crows Nest Plaza	101-111 Willoughby Rd & Zig Zag Ln	Crows Nest	67	2018	Development Approval
Atchison St Mixed Development - Site A	22-24 Atchison St	St Leonards	68	2019	Development Approval
Pacific Highway Mixed Development	575-583 Pacific Hwy	St Leonards	88	2022	Rezoning Application
Miller St Mixed Development	229 & 231 Miller St	North Sydney	99	2019	Development Application
Vibe Hotel Redevelopment - 88 Alfred St	84-88 Alfred St South	Milsons Point	123	2017	Contract Let
Albany St Mixed Development - Metropolitan Residences	7-19 Albany St	St Leonards	125	2020	Construction
Lavender St Units	61 Lavender St	Milsons Point	135	2019	Development Approval
Miller St Mixed Development - The Miller	221 Miller St	North Sydney	183	2019	Tenders Called/Regns Advertised
Crows Nest Residential Development	27-47 Falcon St	Crows Nest	200	N/A	Early Planning
Berry St & Pacific Hwy Mixed Development - Polaris	18 Berry St & 144-154 Pacific Hwy	North Sydney	230	2018	Contract Let
Walker St Mixed Development	168 Walker St	North Sydney	415	2022	Development Approval
Chandos St & Atchison St Mixed Development	79-89 Chandos St, 23-35 & 58-62 Atchison St	St Leonards	540	2023	Rezoning Application
Total North Sydney LGA			**2918**		

Source: Cordell Connect; Urbis

Development Name	Address	Suburb	Yield	Completion Date	Status
Willoughby LGA					
Lahc - Artarmon	15-17 Barton Rd	Artarmon	N/A	2017	Development Approval
Royal North Shore Hospital Concept Plan - Remaining Stages	Lot 21 & 22 bnd by Pacific Hwy, Westbourne & Herbert Sts	St Leonards	N/A	N/A	Early Planning
Royal North Shore Hospital	bnded by Pacific Hwy, Westbourne & Herbert Sts	St Leonards	N/A	N/A	Early Planning
Archer St Residential Development Site	130-138 Archer St	Roseville	N/A	N/A	Early Planning
Willoughby Rd Residential Development Site	460 Willoughby Rd	Willoughby	N/A	2019	Site Acquisition
Elizabeth St Mixed Development	2 Elizabeth St	Artarmon	N/A	2019	Sketch Plans
Strathallen Av Shop Top Housing	46 Strathallen Av	Northbridge	22	2019	Development Application
Willoughby Road Units	155-161 Willoughby Rd	Naremburn	22	2019	Development Application
Walter Street Units	11-13A Walter St	Willoughby	24	2019	Development Application
Sailors Bay Rd Mixed Development - Orana	147-151 Sailors Bay Rd	Northbridge	25	2018	Site Preparation in Progress
Pacific Hwy Mixed Development	871-877 Pacific Hwy	Chatswood	42	2018	Development Approval
Penshurst St Affordable Housing	34-42 Penshurst St	Willoughby	74	2017	Contract Let
Pacific Hwy, Freeman Rd & Oliver Rd Mixed Development	654-666 Pacific Hwy, 1 Freeman Rd & 2A Oliver Rd	Chatswood	75	2019	Development Application
Mowbray Rd Mixed Development - The Mint	150 Mowbray Rd & 670-680 Willoughby Rd	Willoughby	104	2017	Contract Let
Anderson St Mixed Development - The Chatswood	28-36 Anderson St, 2A McIntosh St & 1 Help St	Chatswood	156	2016	Contract Let
Pacific Hwy Mixed Development	815 Pacific Hwy	Chatswood	201	2019	Rezoning Application
Hercules St & Victoria Av Mixed Development - Chatswood Place	36-44 Hercules St & 256-260 Victoria Av	Chatswood	233	2018	Contract Let
Mandarin Centre	65 Albert Av	Chatswood	285	2023	Rezoning Application
Australia Post Office Site Chatswood	45 Victor St	Chatswood	300	2019	Rezoning Application
Channel 9 Studios Development Site	6-30 Artarmon Rd & Scott St	Willoughby	510	2021	Early Planning
Total Willoughby LGA			**2073**		
Total Market Catchment			**9157**	**By 2023**	

Source: Cordell Connect; Urbis

5.6. AFFORDABILITY ASSESSMENT

This section provides an assessment of the price points comparing price to income of residents. It is designed to provide an indication of the market's capacity to take on a mortgage and purchase housing.

The model is based on a 30-year mortgage term, at a range of mortgage rates listed along the vertical axis (See Table 5.8 and Table 5.9 overleaf). The model uses both the current rate of 5.25% as well as the long-term rate of 7.25% (Reserve Bank of Australia: F5 Indicator Lending Rates).

A 20% deposit is assumed for First Home Buyers (FHBs), defined as purchasers who are buying their first home, and 50% for established home owners, which flow through to monthly repayments and the price points they can afford to purchase at.

Table 5.7 below illustrates the affordability constraints facing FHBs, and the need for an entry-level price point on developments seeking to attract this market.

The median price for apartments within the Market Catchment is $725,000, which is above the FHBs average household income. This is a relatively unaffordable price point compared to the Sydney GMR median, of $550,000, which may lead to migration away from the LGA or Market Catchment amongst some household groups to more affordable accommodation or restrict them to the rental market.

Several projects currently on the market were outlined previously in Section 5.6.3. It illustrates that while in a number of projects the price point for studios / 1 bed apartments were affordable for FHBs, they were at the 'upper end' of what is affordable. In addition, it effectively 'locks' this group out of larger apartments more suitable for young families.

Established households appear to be able to afford most product types, illustrating the impact of reducing the size of mortgages on repayments and overall affordability.

Housing Affordability

Markets | Table 5.7

Market	Average Household Income	Upper Quartile Household Income
First Home Buyer	$600,000 – $750,000	$750,000 - $900,000
Established Home Owners	$1m – $1.2m	$1.25m – $1.5m

Source: Urbis

First Home Buyer – Affordability

Market Catchment Table 5.8

	$450,000	$500,000	$550,000	**$600,000**	$650,000	$700,000	**$750,000**	$800,000	$850,000	$900,000	$1,000,000
5.00%	-$1,933	-$2,147	-$2,362	-$2,577	-$2,791	-$3,006	-$3,221	-$3,436	-$3,650	-$3,865	-$4,295
5.25%	**-$1,988**	**-$2,209**	**-$2,430**	**-$2,651**	**-$2,871**	**-$3,092**	**-$3,313**	**-$3,534**	**-$3,755**	**-$3,976**	**-$4,418**
5.50%	-$2,044	-$2,271	-$2,498	-$2,725	-$2,953	-$3,180	-$3,407	-$3,634	-$3,861	-$4,088	-$4,542
5.75%	-$2,101	-$2,334	-$2,568	-$2,801	-$3,035	-$3,268	-$3,501	-$3,735	-$3,968	-$4,202	-$4,669
6.00%	-$2,158	-$2,398	-$2,638	-$2,878	-$3,118	-$3,357	-$3,597	-$3,837	-$4,077	-$4,317	-$4,796
6.25%[1]	-$2,217	-$2,463	-$2,709	-$2,955	-$3,202	-$3,448	-$3,694	-$3,941	-$4,187	-$4,433	-$4,926
6.50%	-$2,275	-$2,528	-$2,781	-$3,034	-$3,287	-$3,540	-$3,792	-$4,045	-$4,298	-$4,551	-$5,057
6.75%	-$2,335	-$2,594	-$2,854	-$3,113	-$3,373	-$3,632	-$3,892	-$4,151	-$4,410	-$4,670	-$5,189
7.00%	-$2,395	-$2,661	-$2,927	-$3,193	-$3,460	-$3,726	-$3,992	-$4,258	-$4,524	-$4,790	-$5,322
7.25%[2]	**-$2,456**	**-$2,729**	**-$3,002**	**-$3,274**	**-$3,547**	**-$3,820**	**-$4,093**	**-$4,366**	**-$4,639**	**-$4,912**	**-$5,457**
7.50%	-$2,517	-$2,797	-$3,077	-$3,356	-$3,636	-$3,916	-$4,195	-$4,475	-$4,755	-$5,034	-$5,594
7.75%	-$2,579	-$2,866	-$3,152	-$3,439	-$3,725	-$4,012	-$4,298	-$4,585	-$4,872	-$5,158	-$5,731
8.00%	-$2,642	-$2,935	-$3,229	-$3,522	-$3,816	-$4,109	-$4,403	-$4,696	-$4,990	-$5,283	-$5,870
8.25%	-$2,705	-$3,005	-$3,306	-$3,606	-$3,907	-$4,207	-$4,508	-$4,808	-$5,109	-$5,409	-$6,010
8.50%	-$2,768	-$3,076	-$3,383	-$3,691	-$3,998	-$4,306	-$4,613	-$4,921	-$5,229	-$5,536	-$6,151
8.75%	-$2,832	-$3,147	-$3,461	-$3,776	-$4,091	-$4,406	-$4,720	-$5,035	-$5,350	-$5,664	-$6,294
9.00%	-$2,897	-$3,218	-$3,540	-$3,862	-$4,184	-$4,506	-$4,828	-$5,150	-$5,471	-$5,793	-$6,437
9.25%	-$2,962	-$3,291	-$3,620	-$3,949	-$4,278	-$4,607	-$4,936	-$5,265	-$5,594	-$5,923	-$6,581
9.50%	-$3,027	-$3,363	-$3,700	-$4,036	-$4,372	-$4,709	-$5,045	-$5,381	-$5,718	-$6,054	-$6,727
9.75%	-$3,093	-$3,437	-$3,780	-$4,124	-$4,468	-$4,811	-$5,155	-$5,499	-$5,842	-$6,186	-$6,873
10.00%	-$3,159	-$3,510	-$3,861	-$4,212	-$4,563	-$4,914	-$5,265	-$5,616	-$5,967	-$6,319	-$7,021

Catchment Av. HH Income:	$136,504	Catchment Upper Quartile Income:	$170,129
Total Catchment Households	200,473	Catchment Households in Upper Quartile	90,520

Established Buyers - Affordability

Market Catchment Table 5.9

	$950,000	$1,000,000	$1,050,000	$1,100,000	$1,150,000	$1,200,000	$1,250,000	$1,300,000	$1,350,000	$1,400,000	$1,450,000	$1,500,000	$1,550,000
5.00%	-$2,550	-$2,684	-$2,818	-$2,953	-$3,087	-$3,221	-$3,355	-$3,489	-$3,624	-$3,758	-$3,892	-$4,026	-$4,160
5.25%[1]	**-$2,623**	**-$2,761**	**-$2,899**	**-$3,037**	**-$3,175**	**-$3,313**	**-$3,451**	**-$3,589**	**-$3,727**	**-$3,865**	**-$4,003**	**-$4,142**	**-$4,280**
5.50%	-$2,697	-$2,839	-$2,981	-$3,123	-$3,265	-$3,407	-$3,549	-$3,691	-$3,833	-$3,975	-$4,116	-$4,258	-$4,400
5.75%	-$2,772	-$2,918	-$3,064	-$3,210	-$3,356	-$3,501	-$3,647	-$3,793	-$3,939	-$4,085	-$4,231	-$4,377	-$4,523
6.00%	-$2,848	-$2,998	-$3,148	-$3,298	-$3,447	-$3,597	-$3,747	-$3,897	-$4,047	-$4,197	-$4,347	-$4,497	-$4,647
6.25%	-$2,925	-$3,079	-$3,233	-$3,386	-$3,540	-$3,694	-$3,848	-$4,002	-$4,156	-$4,310	-$4,464	-$4,618	-$4,772
6.50%	-$3,002	-$3,160	-$3,318	-$3,476	-$3,634	-$3,792	-$3,950	-$4,108	-$4,266	-$4,424	-$4,582	-$4,741	-$4,899
6.75%	-$3,081	-$3,243	-$3,405	-$3,567	-$3,729	-$3,892	-$4,054	-$4,216	-$4,378	-$4,540	-$4,702	-$4,864	-$5,027
7.00%	-$3,160	-$3,327	-$3,493	-$3,659	-$3,825	-$3,992	-$4,158	-$4,324	-$4,491	-$4,657	-$4,823	-$4,990	-$5,156
7.25%[2]	**-$3,240**	**-$3,411**	**-$3,581**	**-$3,752**	**-$3,923**	**-$4,093**	**-$4,264**	**-$4,434**	**-$4,605**	**-$4,775**	**-$4,946**	**-$5,116**	**-$5,287**
7.50%	-$3,321	-$3,496	-$3,671	-$3,846	-$4,020	-$4,195	-$4,370	-$4,545	-$4,720	-$4,895	-$5,069	-$5,244	-$5,419
7.75%	-$3,403	-$3,582	-$3,761	-$3,940	-$4,119	-$4,298	-$4,478	-$4,657	-$4,836	-$5,015	-$5,194	-$5,373	-$5,552
8.00%	-$3,485	-$3,669	-$3,852	-$4,036	-$4,219	-$4,403	-$4,586	-$4,769	-$4,953	-$5,136	-$5,320	-$5,503	-$5,687
8.25%	-$3,569	-$3,756	-$3,944	-$4,132	-$4,320	-$4,508	-$4,695	-$4,883	-$5,071	-$5,259	-$5,447	-$5,634	-$5,822
8.50%	-$3,652	-$3,845	-$4,037	-$4,229	-$4,421	-$4,613	-$4,806	-$4,998	-$5,190	-$5,382	-$5,575	-$5,767	-$5,959
8.75%	-$3,737	-$3,934	-$4,130	-$4,327	-$4,524	-$4,720	-$4,917	-$5,114	-$5,310	-$5,507	-$5,704	-$5,900	-$6,097
9.00%	-$3,822	-$4,023	-$4,224	-$4,425	-$4,627	-$4,828	-$5,029	-$5,230	-$5,431	-$5,632	-$5,834	-$6,035	-$6,236
9.25%	-$3,908	-$4,113	-$4,319	-$4,525	-$4,730	-$4,936	-$5,142	-$5,347	-$5,553	-$5,759	-$5,964	-$6,170	-$6,376
9.50%	-$3,994	-$4,204	-$4,414	-$4,625	-$4,835	-$5,045	-$5,255	-$5,466	-$5,676	-$5,886	-$6,096	-$6,306	-$6,517
9.75%	-$4,081	-$4,296	-$4,511	-$4,725	-$4,940	-$5,155	-$5,370	-$5,585	-$5,799	-$6,014	-$6,229	-$6,444	-$6,658
10.00%	-$4,168	-$4,388	-$4,607	-$4,827	-$5,046	-$5,265	-$5,485	-$5,704	-$5,924	-$6,143	-$6,362	-$6,582	-$6,801

$136,504	Catchment Upper Quartile Income	$170,129
200,473	Catchment Households in Upper Quartile	90,520

Note: Blue indicates that this house price and interest rate level push 'average' households into mortgage stress (i.e. mortgage repayments > 30% of household income). Orange numbers indicate that this house price and interest rate push upper income quartile households into mortgage stress. Average household incomes are taken from the 2006 census and adjusted to account for income growth to 2011.

1 Standard Variable Rate as at June 2014

2 Long-term standar variable average since June 2004

Source: Urbis; RBA F5 Indicator Lending Rates; ABS Census, 2011

5.7. SUPPLY AND DEMAND GAP ANALYSIS

To assist in identifying the potential for additional residential dwellings that could be supported within the Market Catchment area, a review of historic and government-projected population growth and dwelling completions has been undertaken.

The supply and demand analysis is presented in Table 5.10 below.

By applying the household size to population projections, the number of dwellings required to accommodate the future population in the Market Catchment area can be deduced. Comparing this to the future pipeline of private development within the Market Catchment area, allows any gaps (or oversupply) in the market to be identified.

Based on the projected population growth for the Market Catchment area, there is anticipated to be demand for around 3,438 dwellings in 2016, which exceeds the projected supply of 632 dwellings. A deficit in the number of dwellings is projected between 2016 and 2031, and this gap between dwelling supply and demand is expected to widen significantly between 2026 and 2031 (a deficit of around 12,200 by 2031). Therefore, there is underlying demand in the Market Catchment for an average of 1,741 new residential dwellings each year until 2031.

Projected Future Dwelling Supply and Demand

Market Catchment Table 5.10

Market Catchment Area	2016	2017	2018	2019	2020	2021	2026	2031
Population	213,400	216,243	219,124	222,044	225,002	228,000	242,500	256,650
New Residents	7,836	2,843	2,881	2,919	2,958	2,998	14,500	14,150
Household Size	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Demand for New Dwellings	3,438	1,247	1,264	1,281	1,298	1,315	6,361	6,207
Cumulative Demand	*13,964*	*15,212*	*16,475*	*17,756*	*19,054*	*20,369*	*26,730*	*32,938*
Dwelling Supply	632	1,201	1,143	2,095	959	1,599	1,328	0
Cumulative Dwelling Supply	*12,419*	*13,620*	*14,763*	*16,858*	*17,817*	*19,416*	*20,744*	*20,744*
Surplus / Deficit	**-1,545 Deficit**	**-1,592 Deficit**	**-1,712 Deficit**	**-898 Deficit**	**-1,237 Deficit**	**-953 Deficit**	**-5,986 Deficit**	**-12,194 Deficit**

Source: ABS Census 2011; Cordell Connect; BTS 2014 Data; Urbis

5.8. URBAN RENEWAL OPPORTUNITIES AND BENEFITS

Mixed-use development can deliver significant additional benefit to a local area. While providing an opportunity for diversity of housing supply, such a development can also accommodate increased provision of employment and services (e.g. retail and community facilities) as well as enhancing connectivity and an amenity offering for residents and employees in the precinct.

The St Leonards Strategic Centre is well located to take advantage of a variety of urban renewal offerings that are supported by and compatible with additional mixed-use development, many of which are already in place. These opportunities include:

- Opportunity to house white-collar workers, with strong access to jobs in other nearby centres such as – Macquarie Park, Chatswood, North Sydney and the Sydney CBD
- The newly-redeveloped RNSH creating a health services hub
- Enhanced amenity and urban design benefits through mixed-use development compatible with the St Leonards Strategic Centre
- New and enhanced commuter access to St Leonards train station, future Crows Nest Metro Station and the bus interchange, aligned with transit oriented development (TOD) principles.

Mixed-use developments such as the one presented here, in addition to increasing housing supply, have the ability to enhance urban design outcomes and provide substantial community benefit to the local area. Benefits include:

- Rezoning of the entire site to accommodate world-class urban design in the form of a 63-level mixed-use development, upgrading the urban form at a keystone activation point for the precinct
- Construction of a residential apartment complex (51 levels) with yield of 422 apartments and 112 car spaces, providing unparalleled views of Sydney Harbour for residents without substantially encroaching on the amenity of neighbouring properties
- Creating an enhanced employment yield through the construction of commercial uses (over 12 levels) – with a total GFA of 7,309 sq.m and 48 car spaces, improving on the site's best-case employment yields under its existing B3 Commercial Core zoning, given practical site constraints.

This additional non-residential land use is expected to contribute to the employment capacity within St Leonards, while the residential units will provide housing for workers employed within St Leonards and nearby employment hubs. The additional office capacity will be designed to attract medical, educational, as well as white-collar office tenants, which will, in turn, improve medical, educational, retail and other services within St Leonards.

The demographic analysis of the Market Catchment illustrates that white-collar resident workers are highly represented. A key driver of where these residents seek to live is access to suitable jobs, mainly located within CBDs and town centres. The subject site will properly fulfil the aim of locating jobs and people closer together, a noted objective of the DPE's strategic plans for Sydney GMR.

5.9. SUMMARY AND CONCLUSIONS

The key findings of the analysis of the St Leonards residential market are as follows:

- Demand drivers for residential accommodation, which include: access to amenities; demographics; access to employment, transport and infrastructure; population growth; and competing supply and demand are particularly strong for the subject site.

- The main catchment area for the proposed development includes Mosman, North Sydney, Lane Cove and Willoughby LGAs. Based on migration analysis, all of these LGAs will contribute to the growth of this St Leonards precinct.

- The age profile shows a significantly lower proportion of residents aged below 15 years, which points to greater demand for smaller dwelling types, indicating that the market is more amenable to a higher density residential dwelling product.

- The employment participation rate amongst residents in the St Leonards Market Catchment, indicates a much higher proportion of workers living in the Market Catchment than the broader Sydney area, which points to a potential preference for housing located close to key employment / transport nodes.

- Workers appear to be employed near the St Leonards Market Catchment, indicating that one potential driver of demand for housing in this market is employment accessibility.

- The proposed development's proximity to the St Leonards train station (100m) and the new station at Crows Nest (350m) is likely to attract strong interest from white-collar workers seeking to minimise their travel time to work.

- The demand and supply analysis (contained in this report) projects a deficit in the supply of residential dwellings for the Market Catchment between 2016 and 2031. Our analysis indicates there is underlying demand in the Market Catchment for an average of 1,741 new residential dwellings each year until 2031.

- St Leonards has become a competitive residential area in terms of its locational attribute, employment opportunities, connectivity to other major precincts and increased service amenities.

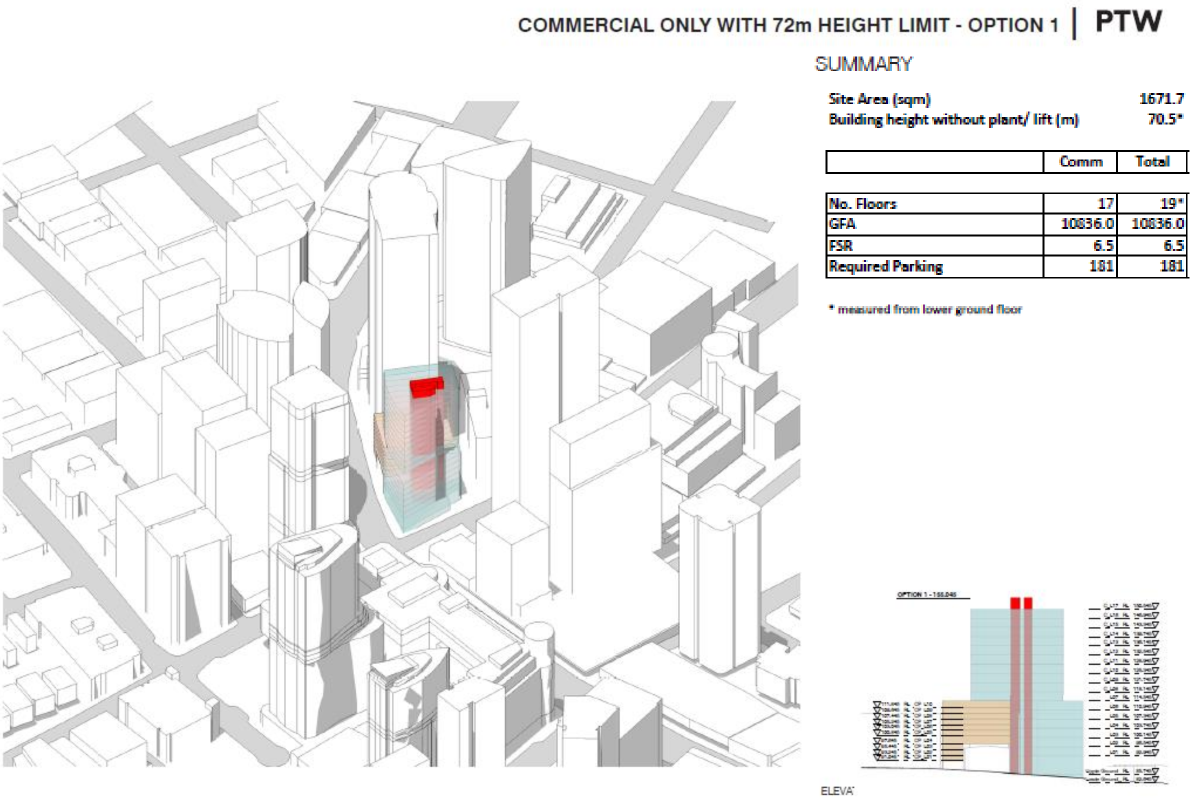
- The proposed mixed-use development at the Telstra Exchange site in St Leonards will complement existing and planned infrastructure upgrades and mixed-use development within the Strategic Centre, and bring in an additional worker market via its substantial offering of commercial floorspace.

6. COMMERCIAL FEASIBILITY ANALYSIS

In assessing the potential employment that could be generated on the subject site, we have prepared an independent development feasibility of a pure commercial office scheme (provided by PTW Architects) to test its financial viability. This is important as the ability of a property to produce employment generating uses is contingent on its financial viability (i.e. a development will only proceed if it can produce a sufficient return on investment to justify the risk of development and the requirements of financiers, etc.).

Whilst the absolute number of jobs that can be generated on a site is a relevant consideration, the probability of this occurring also has to be considered. We have been advised by Grocon that their proposed mixed-use development for the site under a rezoning to B4 will be financially viable, therefore it is important to test the viability of develop under the existing B3 zone controls.

Figure 2 – Commercial only scheme



Source: PTW; Grocon

Table 7.1 overleaf outlines the feasibility outcome for the development of a 9,536 sq.m commercial tower on the subject site. The feasibility analysis assumes the following:

- That development staging will include the following:
  - Developer approval – 6 months
  - Construction – 18 months
  - Tenants occupy the building immediately upon completion of the building.
- The commercial space will achieve an average gross rental rate of $700 per sq.m (in excess of current A Grade office rents being achieved in St Leonards). From this we have deduced an allowance for outgoings of $120 per sq.m and applied a capitalisation rate of 6% to derive the end value. Typical leasing incentive costs equal to 25% of total gross lease value have also been allowed for as a cost of development.

- Construction costs incorporate hard construction costs and have been based on independent cost estimates produced by MBM Pty Ltd (outlined in Appendix A). In addition, the construction costs also include:
  – Council fees and charges
  – Professional fees
  – Project management fee
  – Developers contingency
  – Finance costs
  – Marketing costs
  – Holding costs.

The result of the feasibility assessment indicates that a pure office development would not be able to generate a positive cashflow position, resulting in a loss on the overall development (despite using generous assumptions on rental and end value). The feasibility analysis confirms that a commercial development is not feasible on the subject site, due primarily to:

- Small floorplate due to the size and shape of the subject site, limiting its appeal to the office tenant market
- The presence of the Telstra Exchange on the subject site that increases the cost of development, requiring a land use that can generate a higher end value return (e.g. residential) to underpin the development's feasibility (we have been advised that the overall mixed-use development concept produces a sufficient return which assists in underwriting the commercial office elements of the development)
- Lack of demand for this scale of commercial development in St Leonards.

This indicates that for the subject site to achieve an urban renewal outcome, there would need to be a change in zone to permit development with a commercially viable mix of uses.

Commercial Feasibility Analysis

Summary Table 6.1

	Commercial Development - Summary
Residential units	N/a
Average unit price	N/a
Commercial floorspace (sq.m)	9,536
Average gross rental (per sq.m)	$700
Outgoings (per sq.m)	$120
Cap rate	6%
Gross Realisation	$92,083,216
Selling Cost	-$25,118,661
Net Realisation	$66,964,555
Land acquisition costs	$25,994,725
Construction costs	$79,381,934
Total development costs	**$105,376,659**
Cashflow before interest	**-$27,664,958**
Interest costs	-$8,828,410
Cashflow after interest	**-$36,493,368**
Return on Investment	**-35%**
Internal Rate of Return	**N/a**

Source: Urbis

7. CONSTRUCTION AND ONGOING ECONOMIC BENEFIT

The proposed redevelopment of 524 Pacific Highway will deliver employment benefits associated with the construction phase of the development and the jobs from commercial floorspace.

7.1. CONSTRUCTION EMPLOYMENT

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

To assess the employment generation of the construction phase of this development, it is necessary to first estimate the construction costs associated with the project. MBM Pty Ltd have estimated a capital cost of $215 million for the development of the subject site ($2016). The estimated number of jobs created is illustrated in Table 6.1.

Table 6.1 indicates that the construction investment of $215 million would generate direct employment of 879 full-time, part time and temporary jobs over the life of the construction. These construction jobs would be spread over the development timeframe for the project.

Construction Employment Benefit

Subject Site Table 7.1

	Capital Cost (indicative)	Employment per $1million Invested	Direct Jobs[1]
Construction	$215 million	4.087	**879**

1. Direct jobs over the life the construction project
Source: Urbis

7.2. COMMERCIAL EMPLOYMENT

The proposed redevelopment will incorporate 7,309 sq.m of commercial space (as outlined in Section 1.2) which will generate ongoing employment opportunities once completed.

Table 6.2 presents the ongoing employment that will be generated by the commercial component of the proposed development. The table is based on a net floor area to employment ratio.

For the purpose of estimating direct jobs, the 7,309 sq.m of GFA is converted to NFA assuming that 10% of GFA are taken up by circulation and plant space, which equates to a NFA of 6,578 sq.m.

NFA is the space that is let out to tenants, the quantum of which has a direct relationship with the number jobs it can accommodate. The commercial component of the proposed development is expected to generate around 439 total jobs once completed.

It is noted from Section 6 that a straight commercial office development concept for the site is unlikely to be viable given the constraints of the site and the difficultly in building over an operating telephone exchange. As such, the likely employment potential generated by the proposed mixed-use concept will significantly outstrip employment that could be achieved under the current zoning.

Ongoing Employment

Subject Site Table 7.2

	Gross Floor Area (GFA)	Net Floor Area (NFA) (GFA x 90%)	Sq.m per employee	Direct Jobs
Commercial	7,309	6,578	15	**439**

Source: Urbis

7.3. RETAIL EXPENDITURE

Based on the proposed development of 422 residential dwellings and the average household size of the Market Catchment (i.e. 2.3), the indicative number of residents to be accommodated across the subject site is 975 people.

Based on the current spending profile of the Market Catchment, an average spend per capita of $18,115 in 2016 has been sourced from MarketInfo 2012. Therefore, additional population could generate $18 million in retail expenditure (in $2016), as illustrated in Table 6.3.

Resident Spending by Product Category

Subject Site, based on 975 additional residents ($million $2016) — Table 7.3

Number of Residents	Year	Food Retail	Food Catering	Apparel	Home-wares	Bulky Goods	Leisure/ General	Retail Services	Total Retail[1]
975 Residents	2020	6	3	2	2	2	2	1	18

1 Spend per annum

Source: ABS; MarketInfo 2012; Urbis

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

- Potential to improve turnover performance of existing retail precincts near the subject site
- Scope to sustain additional retail floorspace around 2,570 sq.m (for a total retail spend of $18 million per annum), based on an average turnover per sq.m rate of $7,000 per sq.m
- Creation of additional full-time, part-time and casual retail jobs in the range of around 158 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16.5 sq.m).

8. SUMMARY AND CONCLUSIONS

- The analysis set out in this report suggests that redevelopment options for the site are limited. The site's physical constraints and irregular shape necessitate increased development costs, while sub-optimal potential floorplates make the commercial offering unattractive to larger anchor tenants.
- The St Leonards office market is currently characterised by a high proportion of C-Grade office stock. In recent years, demand for lower-quality office stock in the area has declined, resulting in some stock being withdrawn from the market, a low take-up rate of new stock, and low net absorption rates.
- Since 2010, the competing office markets of North Ryde / Macquarie Park (+131,063sq.m) and Chatswood (+27,338sq.m) have seen substantially higher rates of net absorption of floorspace than St Leonards (-4,657sq.m). This is due a combination of the following: Larger floorplates that allow for efficiency and connectivity gains for larger organisations, superior quality of office stock due to larger consolidated development sites, superior commercial amenity, and more affordable rents.
- The St Leonards office market has an average net absorption rate of 625 sq.m per year since 2000. Based on this rate, the office market in St Leonards will absorb 9,375 sq.m of total stock by 2031 (15 years from 2016).
- Based on an employment density of between 15 and 20 sq.m per employee, Urbis' supply/demand gap analysis forecasts a surplus of office floorspace of between 62,637 and 76,749 sq.m by 2031, assuming that all office developments in the pipeline are developed.
- Despite the lack of demand for significant commercial floor space in St Leonards, the Centre remains attractive to smaller tenancies in the Health and Social Services sector. The commercial floor space provided as part of this development is expected to be well supported by these types of tenancy profiles.
- Demand drivers for residential accommodation, including access to amenities, demographics, access to employment, transport and infrastructure, population growth, and competing supply and demand, are particularly strong for the subject site.
- Urbis' Supply/Demand analysis of the St Leonards residential market indicates there is underlying demand for an average of 1,741 new residential dwellings in the Market Catchment each year until 2031.
- A feasibility analysis of the site's viability for standalone commercial development under its current planning controls (9,536 sq.m of Net Lettable Area) resulted in negative return on investment (-35% ROI) despite generous assumptions for rental yields, timing of occupation and end sale value, suggesting that such development at this location is not commercially viable.
- The subject site, if rezoned, will complement the existing mixed-use precinct already at St Leonards and take advantage of planned infrastructure upgrades within the Strategic Centre.
- The proposed mixed-use development is likely to generate substantial employment uplift through additional commercial space of 7,309 sq.m, which is expected to accommodate 439 jobs as well as generate $18 million p.a. in retail expenditure by 2020. Additional employment of 879 direct jobs is estimated during the construction phase of the development.
- In light of the above considerations, a single-use commercial tower is unlikely to ever be viable on the site. Ultimately, a mixed-use development incorporating commercial uses is likely to represent the optimal future employment outcome on the site.

DISCLAIMER

This report is dated 29 October 2016 and incorporates information and events up to that date only and excludes any information arising, or event occurring, after that date which may affect the validity of Urbis Pty Ltd's (**Urbis**) opinion in this report. Urbis prepared this report on the instructions, and for the benefit only, of Grocon (**Instructing Party**) for the purpose of Economic impact assessment (**Purpose**) and not for any other purpose or use. To the extent permitted by applicable law, Urbis expressly disclaims all liability, whether direct or indirect, to the Instructing Party which relies or purports to rely on this report for any purpose other than the Purpose, and to any other person which relies or purports to rely on this report for any purpose whatsoever (including the Purpose).

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This report has been prepared with due care and diligence by Urbis and the statements and opinions given by Urbis in this report are given in good faith and in the reasonable belief that they are correct and not misleading, subject to the limitations above.

APPENDIX A COMMERCIAL DEVELOPMENT QS REPORT

Figure 3 – Commercial Office – Extract of QS Report

TRADE DETAIL

mbm

Project: Grocon
Building: 524 Pacific Highway, St Leonards
Details: Commercial Only - Option 1

Item No.	Item Description	Quantity	Unit	Rate	Amount
3	**SCHEDULE OF AREAS**				*(Continued)*
3.11	Tower - Commercial Office	9,710	m2		
	SCHEDULE OF AREAS				**0**
4	**COST ESTIMATE**				
4.1	Demolish existing two storey retail shops	904	m2	180.00	162,720
4.2	Lower Ground - Plant Rooms	632	m2	1,200.00	758,400
4.3	Lower Ground - Car Park Entrance	304	m2	1,200.00	364,800
4.4	Lower Ground - Car parking Zone	181	m2	950.00	171,950
4.5	Upper Ground - Retail	129	m2	1,800.00	232,200
4.6	Upper Ground - Commercial Lobby	243	m2	3,500.00	850,500
4.7	Upper Ground - Plant Rooms	224	m2	1,200.00	268,800
4.8	Upper Ground - Car Parking Levels	181	m2	950.00	171,950
4.9	Podium Levels - Commercial Office (L01 to L06)	4,260	m2	2,800.00	11,928,000
4.10	Podium Levels - Car Parking Levels	3,726	m2	950.00	3,539,700
4.11	Tower - Commercial Office (L07 to L16)	9,710	m2	2,800.00	27,188,000
4.12	Car stacker system for 163 cars (per quotation from Hercules Carparking Systems dated 9 May 2016)	1	item	3,960,000.00	3,960,000
4.13	Provision for HV / Substation (residential / commercial)	1	item	500,000.00	500,000
4.14	Stormwater mains and connection	1	item	100,000.00	100,000
4.15	Sub-soil drainage if required	1	item	150,000.00	150,000
4.16	Sewer drainage and connection	1	item	100,000.00	100,000
4.17	Water supply and connection	1	item	55,000.00	55,000
4.18	Communications infrastructure and connection	1	item	20,000.00	20,000
	Estimated Trade Cost				**50,522,020**
4.19	Preliminaries and Margin (24%)	1	item	12,125,284.80	12,125,285
					62,484,585
4.20	Contingency (10%)	1	item	6,248,458.48	6,248,458
	COST ESTIMATE				**68,895,763**
					68,895,763

CostX
MBM Pty Ltd
Client: Grocon
Client Code: 0192-0008

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URBIS

BRISBANE
Level 7, 123 Albert Street
Brisbane QLD 4000
Australia
T +61 7 3007 3800

MELBOURNE
Level 12, 120 Collins Street
Melbourne VIC 3000
Australia
T +61 3 8663 4888

PERTH
Level 14, The Quadrant
1 William Street
Perth WA 6000
Australia
T +61 8 9346 0500

SYDNEY
Level 23, Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000
Australia
T +61 2 8233 9900

URBIS.COM.AU