601 PACIFIC HIGHWAY

ECONOMIC IMPACT ASSESSMENT

JUNE 2018
PREPARED FOR STOCKLAND

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EXECUTIVE SUMMARY

The purpose of this report is to provide an Economic Impact Assessment associated with the rezoning of 601 Pacific Highway, St Leonards from B3 Commercial Core to B4 Mixed Use.

The rezoning seeks to reflect the NSW Department of Planning & Environment's vision to achieve higher densities in this location, enhance the economic role of the centre, and contribute to the evolution of St Leonards to a more mixed use precinct. The rezoning therefore seeks to:

- Rezone the land to B4 Mixed Use
- Apply a new height control
- Apply a minimum non-residential floor space.

An Indicative Concept Design has been prepared to demonstrate *one way* the site could be redeveloped in the future using these proposed controls. The Indicative Concept Design reflects a high density mixed-use development that provides:

- Four levels of commercial office tenancies
- Ground floor specialty retail tenancies
- Space for a community use, such as a childcare facility
- A tower containing residential apartments (circa 516 shown in the Indicative Concept Design).

Our analysis finds that there are a number of key factors that would support the subject site's rezoning to B4 Mixed Use and for a future redevelopment of the site in accordance with the Indicative Concept Design:

1. **Corporate tenants are seeking larger floorplates to consolidate operations onto a single floor.**

601 Pacific Highway is currently rated as an A grade building. In the St Leonards office market, A grade spaces have a high vacancy rate of 12.6% and have seen a net reduction of 31,026 sq.m occupied office space between July-16 and July-17.

The floorplates within the existing building is smaller than the average being offered by new stock in nearby office markets such as Macquarie Park / North Ryde, negatively impacting the ability of the existing building to attract corporate tenants. The building as it currently stands is not competitive compared to product offered in other markets.

2. **St Leonards is transitioning from a corporate office market to a health and medical focused precinct.**

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. A net withdrawal of office floorspace in the St Leonards office market over the past 16 years (-4,172 sq.m per annum since July 2007), indicates that many larger corporate tenants prefer other locations.

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. The following market evidence indicates that this trend will continue for the foreseeable future:

- A lack of investment in new 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.
- C-Grade stock in the St Leonards / Crows Nest submarket is being withdrawn from the market, either for refurbishment or conversion to residential, reflecting low market demand for C and D-Grade office space in the area.
- Continuing a long-term trend, other competing office markets have significantly lower vacancy rates when compared to the St Leonards / Crows Nest market (12.6%), namely North Sydney (6.4%), Macquarie Park (8.5%) and Chatswood (6.9%) (data as at July 201).

- The higher office vacancy rate in St Leonards / Crows Nest reflects its inferior competitive positioning compared to other centres, which can largely be attributed to several characteristics:
  – Smaller floorplates compared to North Ryde / Macquarie Park and better rated stock, due to larger consolidated development sites (Macquarie Park floorplates average 1,893 sq.m).
  – St Leonards Forum offers some food and beverage retail and a single Coles supermarket. This offer is relatively limited in comparison to the amenity provided at major retail centres such as Macquarie Centre at Macquarie Park, and Westfield and Chatswood Chase at Chatswood.
  – More affordable rents elsewhere (Macquarie Park and Chatswood are both more affordable than St Leonards; See Table 2.1 on Page 13).
  – There is currently an observable trend for larger organisations to occupy space in larger floor plate formats, 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 office development sites in St Leonards, constrains 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, which will be the core focus for major office tenants.

This analysis does not preclude new demand for commercial space within the St Leonards Strategic Centre. Employment growth in the Health and Social Services sector between 2011 and 2016 identified it as the burgeoning sector in St Leonards.

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. This can be accommodated with and around the RNSH campus and surrounds, and can appropriately be located within mixed use buildings closer to the 'core' of St Leonards Strategic Centre.

3. **There is sufficient proposed and vacant office development to support employment growth within the St Leonards Strategic Centre.**

With significant proposed supply of office floorspace at Gore Hill Technology Park (46,000 sq.m) and RNSH (32,000 sq.m), the forecast demand for new office floorspace can be sufficiently accommodated within the existing vacant floorspace and proposed supply:

- Between 2016 and 2036, employment is projected to grow by around 7,000 additional jobs within the St Leonards Centre. Based on Bureau of Transport Statistics (BTS) forecasts, Urbis estimates that approximately 2,244 of these jobs will be office-based, requiring office floor space.
- Urbis estimates that office floorspace employment density is conservatively around 15 sq.m per employee and forecasts continued office floorspace rationalisation amongst office tenants. This indicates that there will be new employment in St Leonards that would require 57,000 sq.m of office space.
- Given the Gore Hill RNSH supply, there is projected to be a surplus of office floorspace of 60,360 sq.m by 2036 within the St Leonards Centre.
- As such, the St Leonards Strategic Centre has sufficient commercial space currently vacant and being developed to achieve the Draft District Plan's target of 7,000 new jobs over 20 years.
- 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 that can be accommodated in mixed use formats.
- A rezoning of the subject site has the potential to deliver over 11,000 sq.m of new non-residential floor space, which can be allocated to an appropriate mix of commercial, retail and community uses. This

mix ensures ongoing commercial floorspace needs are met, but that other important objectives can also be achieved (such as street level activation and social infrastructure demands).

- A redevelopment in accordance with the Indicative Concept Design would deliver at least 7,511 sq.m of commercial floorspace as part of a mixed-use scheme, in a format and floor plate that is compatible with demand in the area.

4. **A mixed-use development in line with the proposed rezoning and Indicative Concept Design would have the potential to deliver a number of economic benefits to the St Leonards Strategic Centre.**

The Indicative Concept Design includes 7,511 sq.m of commercial office space (across 4 levels), an 1,858 sq.m childcare facility (across 2 levels) and 1,791 sq.m of ground floor specialty retail space.

A redevelopment in accordance with this Indicative Concept Design would result in a number of direct economic benefits, during the construction stage and during ongoing operations. These include:

- A total of 148 direct and 211 indirect construction jobs, which equate to 359 one-year equivalent construction jobs
- Ongoing employment of around 1,316 total jobs, including 831 direct and 485 indirect jobs.

This job creation would almost fully mitigate the loss of 12,600 sq.m of office NLA in the existing building, which if fully occupied and based on a 15 sq.m per worker could accommodate up to 833 workers.

A redevelopment in accordance with this Indicative Concept Design would partially mitigate the employment loss associated with the conversion of the site, and provide the opportunity for significant improvement, namely:

- Improving the quality of the commercial floorspace, and therefore accommodate a higher worker density
- Designing the commercial floorspace to better suit tenant needs and demand, including a more flexible floorplate better suited to growing industries
- Improved public domain and ground floor activation, reinvigorating the precinct for workers and residents
- Delivering additional services to the St Leonards Strategic Centre:
  - A childcare facility of 1,858 sq.m
  - Specialty retail facilities of 1,791 sq.m.
- Additional childcare places will make St Leonards a more attractive place to work, improving its appeal to businesses/tenants
- Additional retail services and childcare will diversify the job base with non-office based occupations
- The residential would improve the supply of apartments within the St Leonards Strategic Centre and would potentially accommodate 1,187 additional residents. The increase in residents is estimated to result in an increase of $10.2 million retail spend into the centre per annum:
  - Potential to improve turnover performance of existing retail precincts near the subject site.
  - Scope to sustain additional retail floorspace around 1,790 sq.m (for a total retail spend of $10.2million 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 109 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16 sq.m).

INTRODUCTION

Urbis has been appointed to undertake an economic assessment of the proposed rezoning of the site at 601 Pacific Highway, St Leonards (the subject site) to a B4 Mixed Use zone. An Indicative Concept Design that has been prepared to support the rezoning, would result in a mixed-use site that has the potential to provide a genuine vertical village comprising a mix of office, retail, social infrastructure and residential uses.

The rest of the report is structured as follows:

- **Section 1** provides an overview of the study area and local context, identifying the key land use drivers, amenity and relevant local / state government policy.
- **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, identifying the quantum of new commercial floorspace that will provide employment capacity within the St Leonards CBD.
- **Section 3** conducts an analysis of historic, existing and future employment within St Leonards and North Sydney LGA that underpin ongoing demand for office floorspace, estimating future commercial floorspace demand compared to the identified pipeline for commercial property projects.
- **Section 4** conducts an economic benefit analysis of the direct and indirect impacts and benefits associated with the proposed rezoning.
- **Section 5** reviews case studies of mixed use developments delivering both housing and jobs within centres, illustrating how mixed-use development may be accommodated within Strategic Centres.

1. STUDY BACKGROUND

The purpose of this report is to provide an employment assessment of the planning proposal to rezone 601 Pacific Highway, St Leonards to B4 Mixed Use.

The subject site covers an area of 2,844 sq.m and fronts Pacific Highway, and comprises approximately 12,600 sq.m NLA of commercial space, with an average floorplate of 910 sq.m.

The building was previously 100% occupied by IBM, who recently relocated 50% of their staff. This appears to be partially driven by the desire to co-locate operations more efficiently, which were spread across multiple floors at 601 Pacific Highway due to the buildings relatively small 910 sq.m floorplate.

The average annual net absorption of stock in the St Leonards/Crows Nest office market has been -50,203 sq.m over the past ten years (since July 2007). Other major commercial centres in the North Shore market have attracted significantly more market interest compared to St Leonards/Crows Nest, with the take up of 303,386 sq.m at Macquarie Park, 30,381 sq.m at North Sydney and 9,624 sq.m at over the same time period.

The low take-up rate observed within the St Leonards/Crows Nest market is reflective of its less competitive positioning relative to other North Shore office markets. This is reflected by the inability of the Gore Hill Technology Park buildings D1 – D3 to secure anchor tenants over the last 5 years.

Despite this, St Leonards is evolving into a health services hub. Health industry tenants are better suited to co-locating in the developing health hub and in the redevelopment of the RNSH Precinct, rather than in traditional corporate office buildings away from the core health use.

Meanwhile, traditional office based tenants are more likely to seek out larger floorplates in centres such as Sydney, North Sydney and North Ryde / Macquarie Park, rather than the subject site, which only offers a relatively small floorplate.

Overall, the St Leonards Strategic Centre's employment growth moving forward will be oriented towards health and medical uses around the Royal North Shore Hospital. An outcome of this trend, to more health and medical uses, will be an increase demand for smaller commercial spaces catering to health-related and allied heath tenants, which can be appropriately accommodated in podiums of mixed-use developments.

Stockland is investigating the potential for a rezoning of the site to a zone that would facilitate a future redevelopment that can better reflect market demand within the St Leonards Centre, including:

- Commercial floorspace in the building's podium with a larger floor plate format
- Childcare
- Retail
- Additional housing supply near North Shore employment centres.

Furthermore, the NSW Department of Planning & Environment's Interim Statement for the St Leonards/Grows Nest strategic investigation suggests that while commercial floor space should be incorporated in the mixed-use evolution of St Leonards Strategic Centre, commercial floorspace can suitably be accommodated through a minimum non-residential floor space component of a mixed-use building.

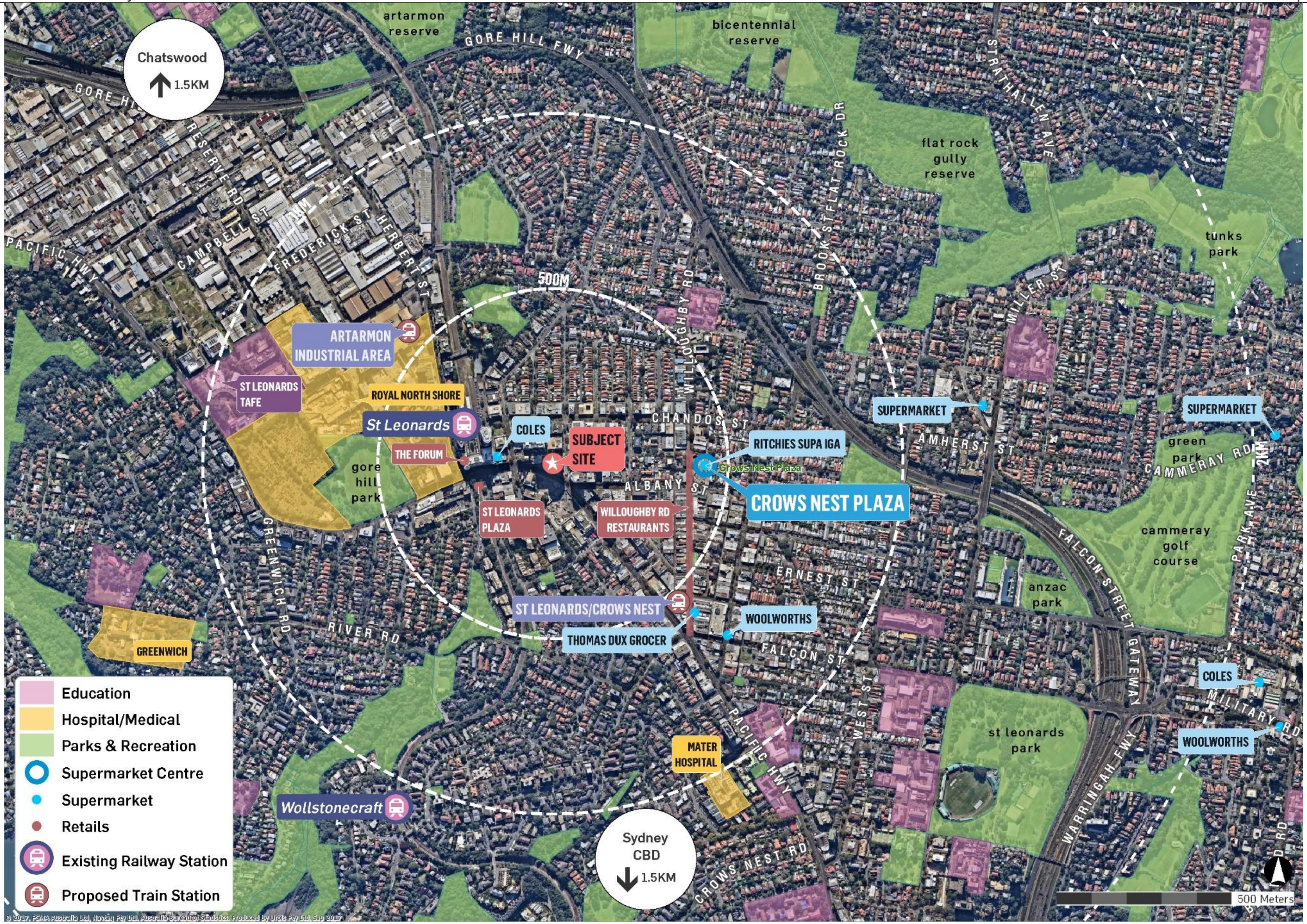
1.1. SITE LOCATION AND LAND USE DRIVERS

The subject site is located at 601 Pacific Highway, St Leonards within the North Sydney LGA, and close to the Lane Cove LGA boundary.

The subject site covers an area of 2,844 sq.m and is bound by Atchison Street, Mitchell Street and Pacific Highway, as shown in Maps 1.1 and Map 2.1.

The subject site is close to key locations within the St Leonards Centre, namely:

- St Leonards railway station, 180 metres north-west
- St Leonards Plaza, 220 metres south-west
- St Leonards Forum retail, 240 metres west
- The proposed Crows Nest Metro Station, 400 metres south-east
- Gore Hill Oval, 500 metres west
- Royal North Shore Hospital, 600 metres north-west
- Mater Hospital, 1 km south
- St Leonards TAFE, 1.4 km north-west.


Chatswood
1.5KM
artarmon reserve
GORE HILL FWY
bicentennial reserve
flat rock gully reserve
tunks park
500M
1KM
2KM
ARTARMON INDUSTRIAL AREA
ST LEONARDS TAFE
ROYAL NORTH SHORE
St Leonards
COLES
SUBJECT SITE
THE FORUM
gore hill park
RITCHIES SUPA IGA
Crows Nest Plaza
CROWS NEST PLAZA
ST LEONARDS PLAZA
WILLOUGHBY RD RESTAURANTS
SUPERMARKET
SUPERMARKET
green park
cammeray golf course
anzac park
ST LEONARDS/CROWS NEST
THOMAS DUX GROCER
WOOLWORTHS
GREENWICH
COLES
WOOLWORTHS
MATER HOSPITAL
st leonards park
Wollstonecraft
Sydney CBD
1.5KM
500 Meters
PACIFIC HWY
GORE HILL
RESERVE RD
CAMPBELL ST
FREDERICK ST
HERBERT ST
GREENWICH RD
RIVER RD
WILLOUGHBY RD
CHANDOS ST
ALBANY ST
ERNEST ST
FALCON ST
BROOK ST
FLAT ROCK DR
STRATHALLEN AVE
MILLER ST
AMHERST ST
CAMMERAY RD
PARK AVE
FALCON STREET GATEWAY
MILITARY RD
WARRINGAH FWY
WEST ST
PACIFIC HWY
CROWS NEST RD
Education
Hospital/Medical
Parks & Recreation
Supermarket Centre
Supermarket
Retails
Existing Railway Station
Proposed Train Station

1.2. REZONING DESCRIPTION

The rezoning seeks to reflect the NSW Department of Planning & Environment's vision to achieve higher densities in this location, with an evolution to more mixed development. The rezoning seeks:

- Rezone the land to B4 Mixed Use
- Apply a new height control
- Apply a minimum non-residential floor space.

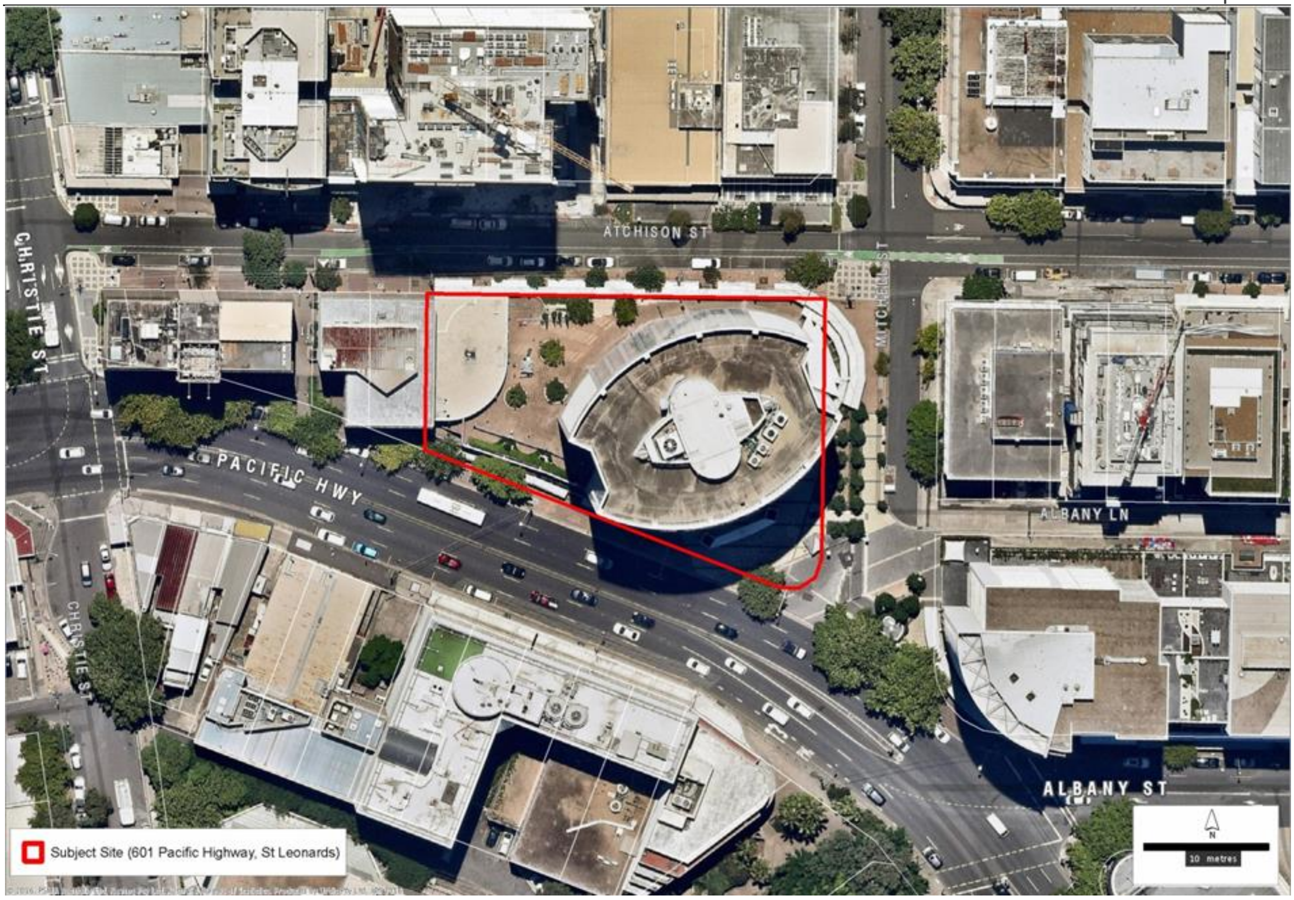
An Indicative Concept Design has been prepared to demonstrate *one way* in which the site could be redeveloped utilising these new controls. The Indicative Concept Design represents a high density mixed-use development that provides:

- 7,511 sq.m of commercial office, across four levels
- 1,791 sq.m of ground floor specialty retail spaces
- 1,858 sq.m childcare facility
- A tower containing residential apartments (circa 516 shown in the Indicative Concept Design)
- 5 level basement car parking, containing 255 car spaces.

The non-residential floorspace is accommodated within a 7-storey podium (including ground floor),.

Site Location and Context

Map 1.2



1.3. RELEVANT PLANNING POLICY

Greater Sydney Region Plan – A Metropolis of Three Cities (2018)

The Greater Sydney Region Plan released March 2018, details St Leonards as:

- A strategic centre - enabling access to a wide range of goods, services and jobs, containing the St Leonards 'commercial office precinct'.
- A health and education precinct – identified to create internationally competitive health, education and, research and innovation precincts.
- Forming part of the Eastern Economic Corridor – where infrastructure upgrades are proposed to improve accessibility between well-established economic agglomerations to significantly increase the size of the labour market which can access the corridor by public transport, boosting productivity.

As detailed, the aim for St Leonards is to:

- Retain and grow employment uses in St Leonards and Crows Nest
- Work with council to retain a commercial core in St Leonards for long-term employment growth
- Work with council to provide capacity for additional mixed-use development in St Leonards including offices, health, retail, services and housing
- Growing investment, business opportunities and jobs in the St Leonards strategic centre
- Support health-related land uses and infrastructure around Royal North Shore Hospital
- Work with council to investigate potential future employment and housing opportunities associated with a Sydney Rapid Transit train station at St Leonards / Crows Nest.

As such, an employment analysis is required to investigate the proposed rezoning of 601 Pacific Highway and clarify that any such rezoning will not negatively impact the St Leonards Strategic Centre as an employment precinct.

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

North District Plan (2018)

The site is located within North District of Greater Sydney. A more prescriptive policy setting expressed above in the Region Plan is reiterated in the District Plan. The North District Plan contains the following key metrics:

- Housing target – The North District has a housing target of an additional 92,000 dwellings by 2036, with a total forecast dwelling count of 464,500.
- Job target – St Leonards is listed as having a job target of 54,000-63,500 by 2036, compared to 2016 figures of 47,100 existing jobs. This represents a minimum target of 7,000 new jobs over 20 years.

The key Planning Priorities of the North District Plan focus the objectives of the Greater Sydney Region Plan specific to the North District:

- *Growing investment, business opportunities and jobs in strategic centres*
- *Providing housing supply, choice and affordability, with access to jobs and services*
- *Delivering integrated land use and transport planning and a 30-minute city*
- *Growing and investing in health and education precincts*
- *Supporting growth of targeted industry sectors.*

St Leonards and Crows Nest Planning Study – Precinct 2 and 3

On 29 November 2010, North Sydney Council resolved to undertake a Planning Study of the St Leonards / Crows Nest area. The following objectives were some of the major drivers for the study:

- New open space in St Leonards / Crows Nest
- Increased investment in St Leonards and decreased commercial vacancy rates, with particular focus on the rejuvenation of the Pacific Highway between St Leonards train station and the intersection of Pacific Highway and Willoughby Road
- Improved connectivity, particularly between St Leonards / Pacific Highway and Willoughby Road
- Improved urban design and street level amenity particularly in St Leonards and along the Pacific Highway
- Improved building design and residential amenity in St Leonards.

The subject site is located within Precinct 2 shown below.

Whilst the site was not identified within this Study for change of use, it was identified as a Tall Building site.

St Leonards / Crows Nest Planning Study – Precinct Plans Map 1.3

St Leonards and Crows Nest Station Precinct Interim Statement (2017)

Subsequent to the above study, the St Leonards and Crows Nest Station Precinct Interim Statement (the Statement) was released late 2017. This document provided the current direction of the Department of Planning and Environment in its strategic planning of the St Leonards / Crows Nest Precinct.

The Statement defined the site as located within the 'St Leonards Centre' Character Area. This Character Area was designated to;

- *"Support a mix of commercial, retail, community, residential and public domain uses that complement St Leonards and Crows Nest;*
- *Prioritise employment growth and leverage off government investment in infrastructure to increase employment capacity.*
- *Ensure the Precinct strengthens its role as a high performing employment area and remains a major contributor to the knowledge, health and innovation economy in NSW."*

The Department of Planning and Environment have identified this as a mixed use, high-density centre where employment capacity and diversity is maintained, using minimum employment floor space controls, together with improvements to the public domain, and provision made for social, civic and community needs.

2017 St Leonards and Crows Nest Strategic Employment Review

SGS Economics and Planning (SGS) was engaged by the NSW Department of Planning and Environment to prepare a Strategic Employment Review for the St Leonards, Crows Nest and Artarmon precinct.

The SGS study assesses the extent to which the employment floorspace in the area sufficiently meets the projected and changing demand out to 2036.

Urbis has reviewed the SGS study and found the following:

- SGS has identified **excess demand of 28,000 sq.m** of office floorspace in the St Leonards/Crows Nest precinct by 2036. This figure does not include floorspace required for health and education uses.
- SGS has also identified an **excess demand of 123,800 sq.m** of health and education floorspace in the St Leonards/Crows Nest precinct by 2036. Demand will be accommodated within Royal North Shore Hospital (RNSH) and Mater Hospital precincts, with potential to house ancillary floorspace within existing office buildings in St Leonards.

Urbis has identified an excess supply of 76,000 sq.m of office floorspace in the St Leonards/Crows Nest precinct by 2036. As such, the impact of any office space withdrawal from the subject site would be limited (noting the rezoning would nevertheless require new commercial space to be provided as part of any redevelopment). The variance in results can be partially explained by SGS not accounting for the pipeline of office development within St Leonards and surrounding markets. This would have considerable impact on the potential surplus or gap in office floorspace demand going forward.

The SGS forecast methodology for estimating demand relies heavily on accessibility being a key driver for employment uplift in the precinct. SGS has not accounted for other demand drivers such quality of stock, floorplate size, proximity to amenity, and increased competition from other markets that will also benefit from improved accessibility.

Despite differing methodologies for assessing land use demand within St Leonards, Urbis and SGS arrive at similar conclusions regarding the St Leonards CBD:

- That the redevelopment of the RNSH will attract medical / health related jobs to the centre
- That commercial only development within the St Leonards precinct is:
  - Unviable in the short-term
  - Faces strong competition from surrounding centres for tenants
  - Attracts smaller tenants seeking more affordable product, rather than large anchor tenants.

Urbis does not consider these trends to be short-term in nature, as they reflect the changing character of the St Leonards Strategic Centre to both a mixed-use and specialised health precinct.

Urbis agree with SGS' Draft Economic Planning Directions recommendation on *'investigate catalysing by residential in genuine mixed-use redevelopment',* where residential development underpins the viability of delivering new commercial stock in a mixed-use format.

2. OFFICE MARKET REVIEW

The analysis in this section indicates the level of tenant and business interest in the St Leonards Strategic Centre. The prospect of achieving the employment forecasts discussed previously and the viability of leasing large scale commercial buildings in St Leonards will also be explored.

2.1. SYDNEY OFFICE MARKETS – SIZE AND POSITION

The St Leonards Strategic Centre is located around 5 km north of the Sydney CBD and encapsulates the St Leonards/Crows Nest office market (as defined by the Property Council of Australia), between the North Sydney, Chatswood and Macquarie Park office markets (Map 2.1). As at July 2017, St Leonards had a total of 314,000 sq.m of office space, making it smaller than the North Sydney (822,500 sq.m) and Macquarie Park (873,700 sq.m) office markets, but larger than Chatswood (278,900 sq.m).

Compared to these markets, St Leonards/Crows Nest has the highest vacancy rate at 12.6% despite older office accommodation being withdrawn from the market over the past four years. It has an average net face rent of $514 per sq.m, placing it behind North Sydney ($650 per sq.m) but ahead of Chatswood ($437 per sq.m) and Macquarie Park ($347 per sq.m).

St Leonards Strategic Centre - Landscape | Map 2.1

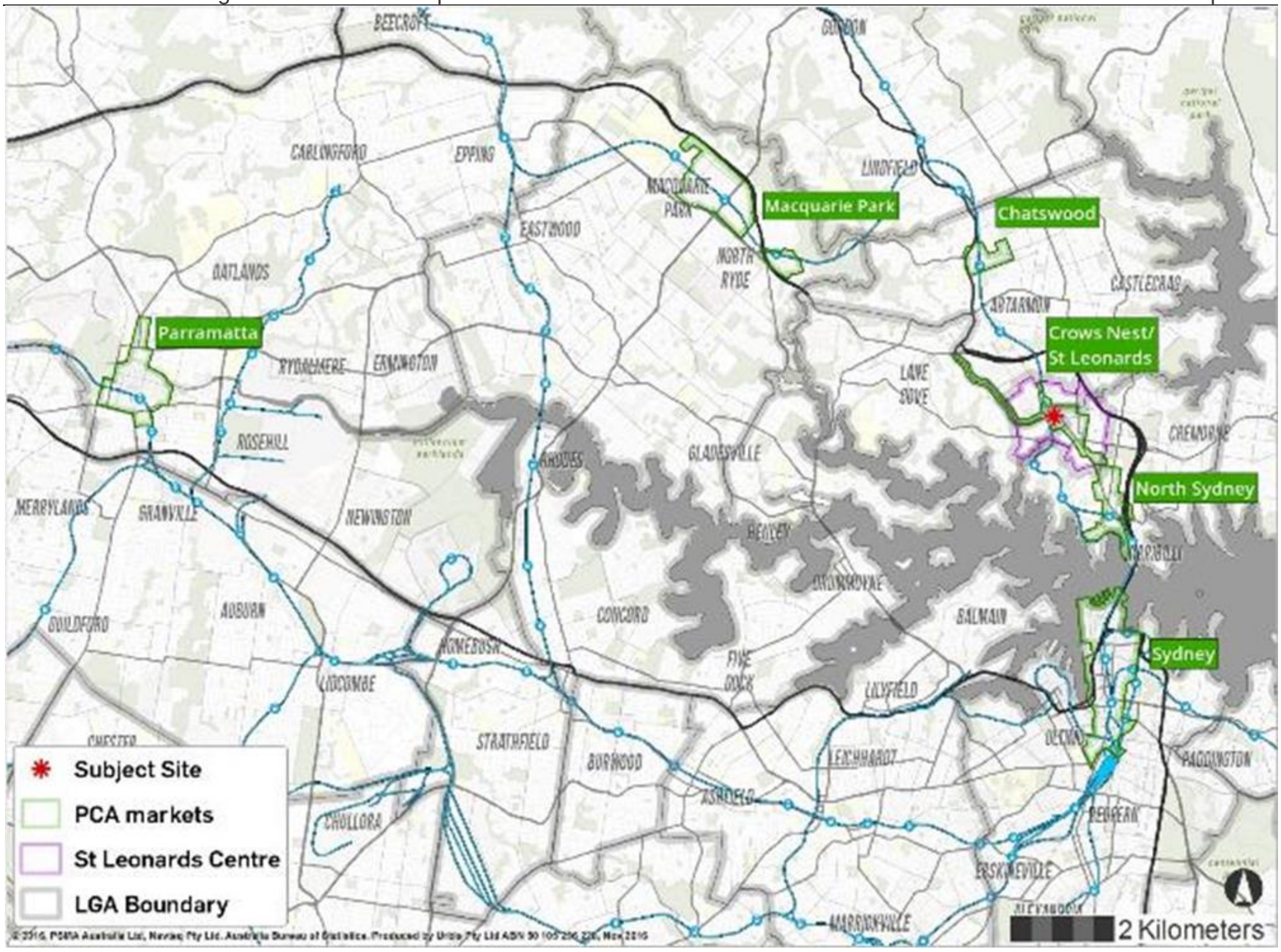


Chart 2.1 illustrates the total office stock within the St Leonards/Crows Nest market, and the shift in grade since 2000. In July 2017, approximately 47% of office stock in St Leonards/Crows Nest was classified as C or D Grade.

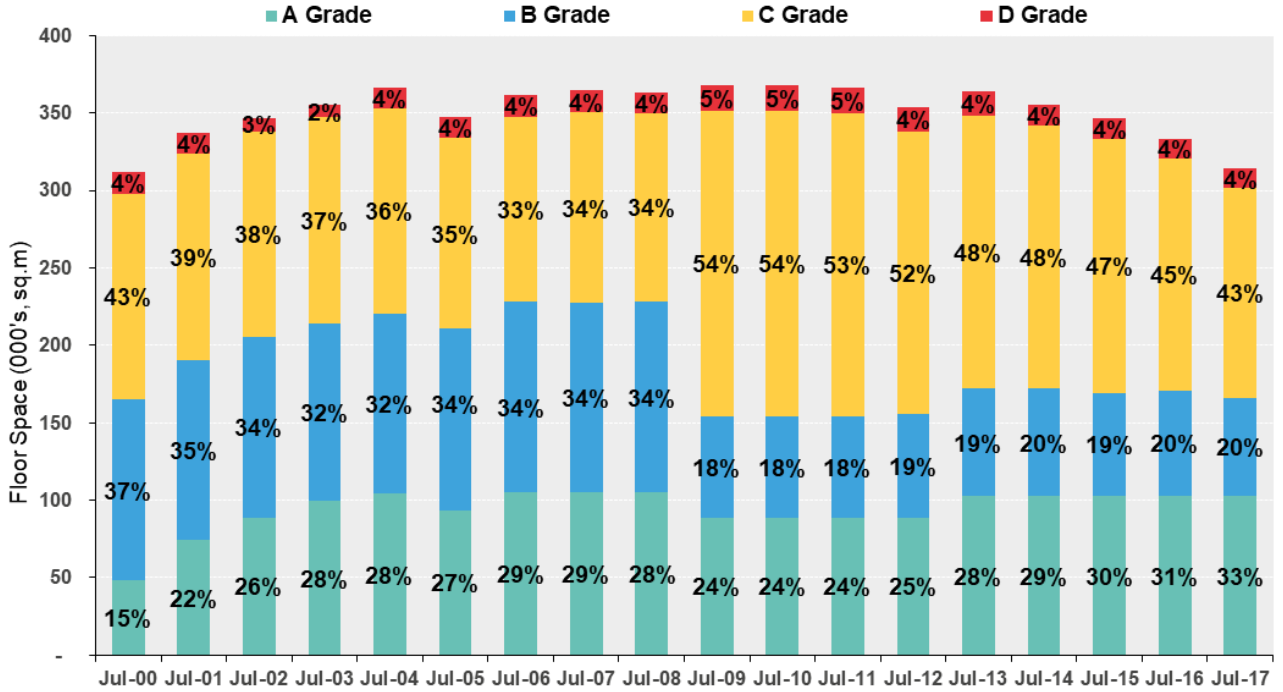
C and D grade office space has historically accounted for approximately a third of total office stock in the St Leonards/Crows Nest market, however has increased since July 2009. The increase was due to a large proportion of the St Leonards office stock being re-rated against the Property Council of 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 a total of 54,200 sq.m, from 368,200 sq.m in January 2010 to 314,000 sq.m in July 2017.
- The most significant decline occurred in the last 12 months, with total office stock falling by 19,600 sq.m since July 2016.
- The reduction in total office stock was due to the withdrawal of B and 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 59% in July 2010 to 47% in July 2017.

Office Stock, by Grade

St Leonards and Crows Nest — Chart 2.1



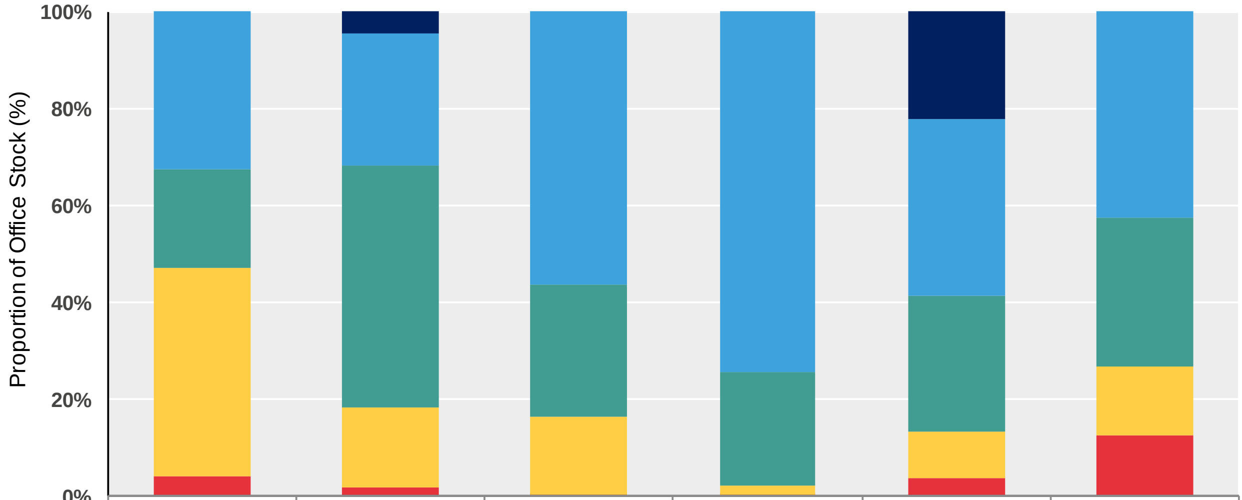
Source: PCA Office Market Report 2017; Urbis

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

- C-Grade stock accounts for 43% of the stock in St Leonards/Crows Nest, significantly higher than all other major commercial centres
- Sydney CBD has the highest proportion of premium grade office stock at 22%
- Chatswood and Macquarie Park have large proportions of A-Grade stock at 56% and 74% respectively
- North Sydney has the highest percentage of B-Grade stock at 50%
- Parramatta has a relatively high proportion of D-Grade stock compared to other major commercial centres.

Grade of Office Space, by Location

Sydney Office Market, July 2017 Chart 2.2



	St Leonards/Crows Nest	North Sydney	Chatswood	Macquarie Park	Sydney CBD	Parramatta
Premium	0	36,500	0	0	1,124,107	0
A Grade	102,699	224,307	157,412	650,050	1,864,975	299,617
B Grade	63,377	410,504	76,046	205,537	1,416,735	219,303
C Grade	135,372	138,253	45,007	15,385	496,363	100,373
D Grade	12,569	12,932	454	2,721	184,136	87,039

Source : Urbis; PCA Office Market Report July 2017

2.2. NET ABSORPTION AND VACANCY

Chart 2.3 illustrates St Leonards' net absorption of office floorspace from January 2000 to July 2017. It shows that net absorption fell during 2013/14, by approximately 17,841sq.m. This impacted vacancy rates significantly, which climbed from 10.7% in July 2012 to 14.3% in January 2014.

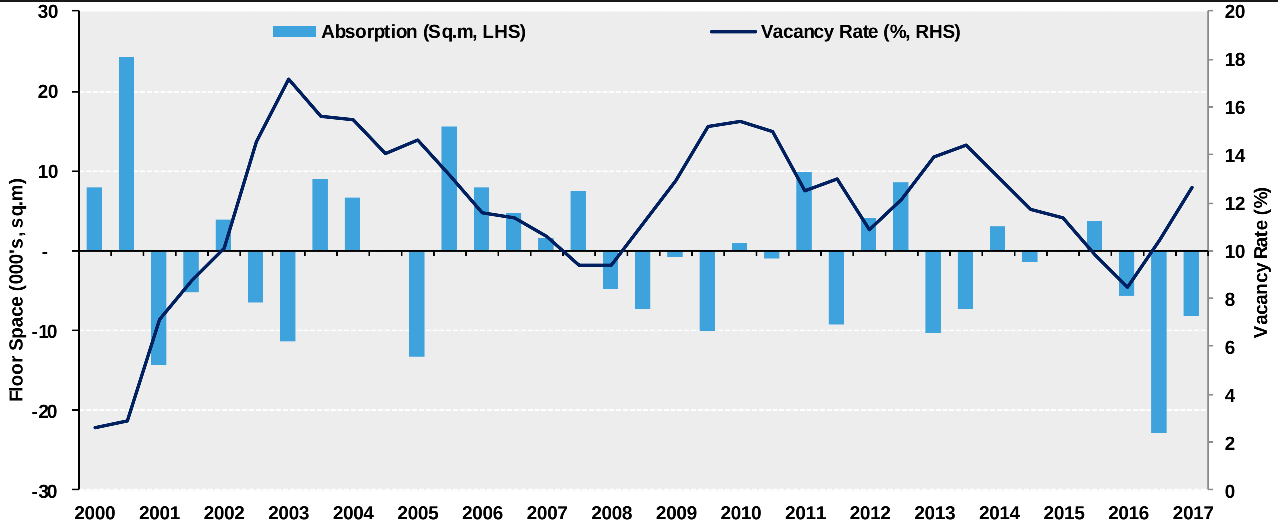
More recently, the largest drop in net absorption was seen in January 2017 with a decline of 22,878 sq.m of floorspace. In effect, the vacancy rate rose from 8.5% (July 2016) to 10.5% (January 2017) and sits at 12.6% as at July 2017.

It is noted that negative net absorption outstrips withdrawals of office stock, where in the last year, negative net absorption equated to 31,026 sq.m compared to 20,014 sq.m withdrawn from the commercial market.

The withdrawal of stock in line with negative net absorption indicates that developers are responding to trends in tenant demand as they leave the St Leonards market for newer offices with larger floorplates.

Net Absorption and Vacancy Rate

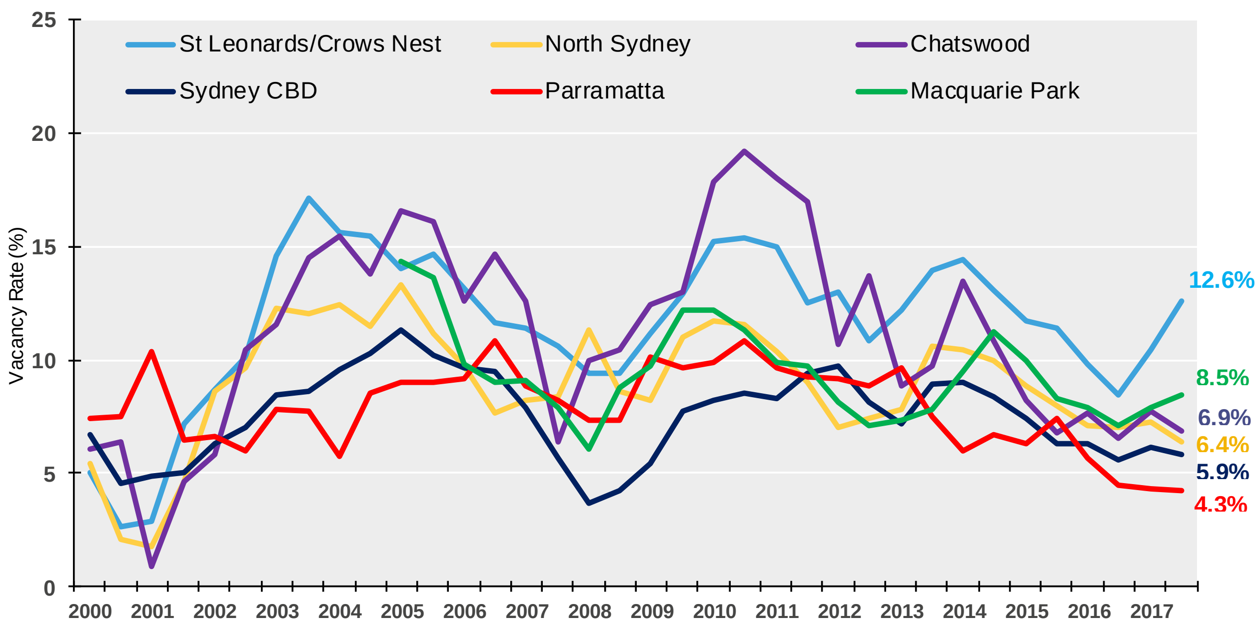
St Leonards and Crows Nest (January 2000 to July 2017) Chart 2.3



Source: PCA Office Market Report July 2017; Urbis

Office Space Vacancy Rate

Sydney Office Market (2000 to 2017) Chart 2.4



Source: PCA Office Market Report July 2017; Urbis

Chart 2.4 provides a comparison of the vacancy rates amongst different office markets across Sydney from January 2000 to July 2017, indicating the relative strength of different Metropolitan Sydney office markets. Currently St Leonards has the highest vacancy rate at 12.6%. The relatively high rate follows a period which saw the St Leonards' office market vacancy decrease from 15% in January 2010 to 11% in July 2012, due largely to a withdrawal of office of 19,300 sq.m. However, despite the withdrawal of office floor space, the vacancy rate has not remained at this lower rate, demonstrating the trend that tenants are choosing alternative centres. Historically, St Leonards and Chatswood have displayed the highest office vacancy, reflecting their higher rental cost and smaller average floorplates compared to commercial offices in Macquarie Park.

2.3. MARKET COMPARISON

A comparative review between St Leonards/Crows Nest and other commercial precincts within Sydney is outlined below in Table 2.1 to Table 2.3. The precincts analysed include Sydney CBD, Parramatta, North Sydney, Chatswood, Macquarie Park Corridor, Barangaroo and Australian Technology Park (ATP). The following tables have been compiled to identify the future characteristics driving tenant and investment interest across different markets. It considers the rents, vacancies, transport connectivity and convenience, car parking, future supply, retail and amenity, walkability and mooted developments within each commercial precinct. The comparative review is summarised in the tables below. The key findings include:

- St Leonards/Crows Nest market has approximately 314,000 sq.m of vacant commercial floorspace, which is more than what is available in the Chatswood, Barangaroo and ATP markets as of July 2017. Conversely, St Leonards has less commercial space compared to Parramatta, Macquarie Park, North Sydney and the Sydney CBD.

- St Leonards/Crows Nest has higher rent comparable to North Shore locations such as Chatswood and Macquarie Park. Construction, development and acquisition costs are a primary driver of rising rents. The higher cost in St Leonards/Crows Nest drives up the yields required to justify this higher cost, and the subsequent rent sought for office space.

- St Leonards/Crows Nest's fragmented land contrasts outer suburban locations such as Macquarie Park which allows for the development of larger consolidated floor plates, in turn delivering cost and operational efficiencies to tenants.

- Overall, the rental analysis illustrates that the St Leonards/Crows Nest office market has a higher rental cost base compared to outer locations, while not having the locational amenity of more central locations such as North Sydney, Sydney CBD or Chatswood. The lack of amenity has a negative impact on St Leonards' competitiveness compared to other office market locations.

- St Leonards/Crows Nest has the highest long term and current commercial vacancy rate out of all precincts. As a result, it has the lowest annual net absorption rate and the highest average incentive.

- In terms of public transport, St Leonards/Crows Nest is accessible by train, bus and the future Metro line. The transport infrastructure is similar to other office precincts with the exception of the Sydney CBD, Parramatta and Barangaroo, which also can be accessed by ferry.

- St Leonards/Crows Nest has a much higher proportion of C and D grade stock when compared to other Sydney office markets. It is evident from the age of the office stock that the St Leonards/Crows Nest office market has not continued to attract new office investment, office developments or major refurbishments. In effect, the appeal of St Leonards /Crows Nest to the office tenant market continues to diminish, compared to other centres that have attracted a higher level of investment in new higher-grade stock. These trends are likely to continue, with future demand expected to be focused on smaller health tenants seeking space in close proximity to the RNSH, rather than corporate tenants.

- When compared to other office precincts, the retail provision of St Leonards/Crows Nest is poor due to the lack of a major retail centre, making it less attractive to workers and potential tenants in relation to other office precincts.

- ATP is undergoing development with additional floorspace to be anchored by the Commonwealth Bank and 75,000 sq.m for technology users. This will deliver additional office floorspace in a better connected and located market than St Leonards.

Market Comparison

Sydney Office Markets

Table 2.1

	St Leonards /Crows Nest	Sydney CBD	Parramatta	North Sydney	Chatswood	Macquarie Park	Barangaroo	Australian Technology Park
Indicative Commercial NLA (sq.m) (July 2017)	314,017	↑ 5,086,316	↑ 706,332	↑ 882,496	↓ 278,919	↑ 873,693	↓ 292,660	↓ 222,000
Average A Grade Rents ($ per sq.m) net	$542	↑ $1,000 - $1,300	↑ $606	↑ $721	↓ $484	↓ $372	N/A	N/A
Average B, C and D Grade Rents ($ per sq.m per annum)	$485	↑ $700 - $900	↑ $505	↑ $578	↓ $421	↓ $322	N/A	N/A
Commercial Vacancy Rates (overall) (July 2017)	12.6%	↓ 5.9%	↓ 4.3%	↓ 6.4%	↓ 6.9%	↓ 8.5%	↓ 6.6%*	N/A
Long Term Average Vacancy Rates (15 years to July 2017)	12.6%	↓ 7.8%	↓ 7.9%	↓ 9.5%	↓ 12.1%	↓ 9.4%	N/A	N/A
Average Annual Net Absorption (10 years to July 2017)	-4,172	↑ 39,344	↑ 12,882	↑ 2,902	↑ 1,131	↑ 29,496	N/A	N/A
Average Incentives	27.0%	↓ 20.0% - 29.0%	↓ 18.4% - 21.0%	↓ 23.7%	↔ 26.7%	↓ 26%	N/A	N/A
Average Percentage of White Collar Employees (within a 5 km radius)	90%	↔ 88%	↓ 66%	↔ 89%	↔ 89%	↓ 83%	↔ 88%	N/A
Transport Infrastructure	Trains Bus Vehicle	Trains ↑ Bus ↑ Vehicle ↑ Ferry ↑ Light Rail ↑	Trains ↑ Bus ↔ Vehicle ↑ Ferry ↑	Trains ↔ Bus ↑ Vehicle ↑	Trains ↔ Bus ↑ Vehicle ↑	Trains ↔ Bus ↔ Vehicle ↑	Trains ↑ Bus ↔ Vehicle ↑ Ferry ↑	Trains ↔ Bus ↔ Vehicle ↔

Source: PCA Office Market Report July 2017, Knight Frank Office Market Overview; North Shore, Sydney CBD, Parramatta 2017

** Vacancy Rate of Sydney CBD Western Precinct used as a proxy for the Barangaroo vacancy rate*

N/A = information unavailable

Market Comparison

Sydney Office Markets

Table 2.2

		St Leonards /Crows Nest	Sydney CBD	Parramatta	North Sydney	Chatswood	Macquarie Park	Barangaroo	Australian Technology Park
Investment in New Transport Infrastructure		Sydney Metro Station at Crows Nest will improve rail accessibility	Light rail under construction	Light rail proposed to commence 2018	Victoria Cross Station	Sydney Metro Station will improve rail accessibility	Sydney Metro Station will improve rail accessibility	Sydney Metro Station will improve rail accessibility	Sydney Metro Rail Stage 2– proposed station at Waterloo will provide additional connectivity to the ATP precinct
Mix of Office Stock	Premium	0%	22%	0%	4%	0%	0%	100%	ATP will be undergo redevelopment and renewal, with additional A grade stock being produced. CBA is expected to occupy of 93,000sq.m of new stock
	A Grade	33%	37%	42%	27%	56%	74%	0%	
	B Grade	20%	28%	31%	50%	27%	24%	0%	
	C Grade	43%	10%	14%	17%	16%	2%	0%	
	D Grade	4%	4%	12%	2%	0%	0%	0%	
	Typologies	Lower quality mix overall	Broad mix in a large market	Broad mix in a large market	High proportion of sub-prime space	High focus on A grade stock	Focus on A grade stock with large floorplates - generally newer buildings	Focus on Premium grade stock	
Retail Provision (Major Retail Centres/Locations)		The Forum	↑ Superior (Pitt St Mall & Department Stores)	↑ Superior (Westfield Parramatta)	↑ Superior (Greenwood Plaza)	↑ Superior (Access to Westfield Chatswood & Chatswood Chase)	↑ Superior (Access to Macquarie Centre)	↑ Superior (Waterfront detail promenade with focus on food and beverage offerings)	↓ Lacks a major retail centre

Source: PCA Office Market Report July 2017, Knight Frank Office Market Overview; North Shore, Sydney CBD, Parramatta 2017

** Vacancy Rate of Sydney CBD Western Precinct used as a proxy for the Barangaroo vacancy rate*

N/A = information unavailable

Market Comparison

Sydney Office Market

Table 2.3

	St Leonards /Crows Nest	Sydney CBD	Parramatta	North Sydney	Chatswood	Macquarie Park	Barangaroo	Australian Technology Park
Accessibility to Retail	Lack of connectivity.	↑ Good very central for most of the CBD with the exception of the Western Corridor which is more distant and has poorer quality retail.	↑ Good very central.	Average retail provision with some topography issues.	↑ Superior retail provision, albeit sightly removed.	Poor disbursed nature of area.	↑ Good planned to be co-located with office development.	Limited access to retail amenities. Surrounding uses include residential, commercial, industrial and limited strip retail.
Public Domain	Poor public domain provision with centre being quite disconnected. Improvements are proposed for St Leonards Forum South.	High quality open space provision (Martin Place, Hyde Park, Pitt St Mall, Darling Harbour etc).	Access to improving public areas such as Church Street and river access.	Limited open space opportunities spearated by Highway.	Similar to North Sydney however does have access to public domain in the Interchange, Westfield and Chatswood Chase.	Poor public domain provision due to lower densities and large distances.	High quality open space provision with access to Barangaroo Point Reserve and harbour waterfronts via a waterfront promenade.	Significant public domain improvements planned including enhanced streetscapes, landscaping and planting upgrades and public furniture and art.
Car Parking Provision (Source: Local Council)	1 space per 110 sq.m. of net floor area	↔ Ranging from 1 per 75 sq.m. to 175 sq.m. of GFA	↓ 1 space per 50 sq.m. of GFA	↔ 1 space per 100 sq.m. of non-residential floor space	↑ 1 space per 200 sq.m. of net floor area	↓ 1 space per 40 sq.m. of GFA	A total of 2,274 car in the Concept Plan for Barangaroo. Including 652 for commercial use	Currently 600 spaces (up to 1,600 permitted).
Potential Future Office Supply (sq.m)	76,000	339,226	216,000	87,720	N/A	252,691	N/A	N/A

Source: PCA Office Market Report July 2017, Knight Frank Office Market Overview; North Shore, Sydney CBD, Parramatta 2017

** Vacancy Rate of Sydney CBD Western Precinct used as a proxy for the Barangaroo vacancy rate*

N/A = information unavailable

The result of the analysis does not preclude demand for commercial space within St Leonards moving forward. Rather, a growing proportion will be focused in the health care and social services sector, which will be well provided for with the redevelopment of the RNSH.

In addition to the RNSH, there may be opportunity to attract specialised health businesses into the area, which do not necessarily require a large corporate office format. An example is the Primary Health Care Pty Ltd, occupying 4,500 sq.m in the St Leonards Forum.

Employment growth in health and social services sector between 2011 and 2016 reflects a broader trend of a growing health sector within St Leonards Strategic Centre. In 2016, the health care and social services sector provided 9,687 jobs and is forecasted to grow to 11,200 positions by 2031 (jobs growth of approximately 1,500 over this period).

The high proportion of health services jobs in the St Leonards Strategic Centre is aligned to the presence of the RNSH and medical services businesses located along the Pacific Highway.

With the RNSH redevelopment, including the addition of 32,000 sq.m of commercial GFA, further employment growth in this sector is expected. The pre-lease of 20,000 sq.m (NLA) of this space to the NSW Government will support jobs growth in this sector as well as anchor the development of this commercial space.

Health sector tenants typically demand small professional suites which can be accommodated in a mixed-use format. The provision of this type of stock within the St Leonards Strategic Centre and near the RNSH will support future growth in the health care and social services sector.

2.4. OFFICE FLOORPLATE

There is an observable trend for larger organisations to occupy space in larger floor plate formats in A-Grade office developments in office precincts within metropolitan Sydney. This 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. This applies specifically to larger corporates seeking to relocate back-office operations into more affordable suburban office markets which are the capacity to occupy larger floor plates.

Table 2.4 illustrates the average floor plate size of office projects completed in the last 10 years in St Leonards, Sydney CBD, Parramatta, North Sydney and Macquarie Park Corridor.

601 Pacific Highway, with a current floor plate size of 910 s.qm, has a relatively small floor plate compared to the average floor plate size of completed office products in the last ten years in other office precincts.

St Leonards has the second smallest average floor plate size out of the five precincts with an average floor plate size of 1,200 sq.m. The fragmented nature of land ownership constrains its ability to offer consolidated floor plate products to larger tenants in the area. <u>The result is an inability to create a critical mass of commercial buildings that would attract corporate tenants and Business to Business (B2B) operations</u>.

Macquarie Park Corridor, for example, has been able to better service this trend and market by leveraging its large and often vacant land lots to develop new office stock with floor plates that have an average size of 1,893 sq.m in the last 10 years. These larger floor plates help attract a broader range of tenants, including larger anchor tenants which has resulted in a high annual absorption rate and low vacancy rate in the area.

Average Floorplate Size of Office Projects

Sydney Precincts, 2005 to 2017 — Table 2.4

Precincts	Projects Completed	Average Floorplate (NLA sq.m)
St Leonards/ Crows Nest	2	1,200
Sydney CBD	25	1,429
Parramatta	8	1,430
North Sydney	4	1,092
Macquarie Park Corridor	22	1,893

Source: Property Council Australia; Urbis

2.5. SUMMARY AND IMPLICATIONS

Our key findings for the St Leonards/Crows Nest 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.
- C-Grade stock in the St Leonards/Crows Nest submarket is, however, being withdrawn from the market, either for refurbishment or conversion to residential, reflecting low market demand for C and D-Grade office space in the area.
- Net absorption in St Leonards/Crows Nest fell by 31,026 sq.m over the 12 months to January 2017, and the vacancy rate increased from 8.5% to 12.6%. This was largely driven by a number of office demolitions in this period, particularly of B and C-Grade office stock. The vacancy rate of B-Grade stock saw the largest increase, to 17.8% in January 2017, indicating that tenants of the demolished offices preferred to relocate to other office markets.
- Continuing a long-term trend, other competing office markets had lower vacancy rates at July 2017 than the St Leonards/Crows Nest market (12.6%), namely North Sydney (6.4%), North Ryde/Macquarie (8.5%) and Chatswood (6.9%). This lower vacancy reflects stronger market interest, which can largely be attributed to 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, Westfield and Chatswood Chase.
  - More affordable rents (North Ryde / Macquarie Park and Chatswood are both more affordable than St Leonards).
  - Superior location (North Sydney) with respect to the Sydney CBD.
  - Outside of health based tenants, St Leonards/Crows Nest lacks agglomeration opportunities for tenants (that Macquarie Park Corridor has for instance with Macquarie University).
- 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.

Looking ahead, growing demand for commercial space in the health care and social services sector will occur with the redevelopment of the Royal North Shore Hospital.

There is also an opportunity to provide for emerging enterprise and creative industries in St Leonards/Crows Nest, all of which also better suited to smaller and more bespoke spaces within a mixed-use environment.

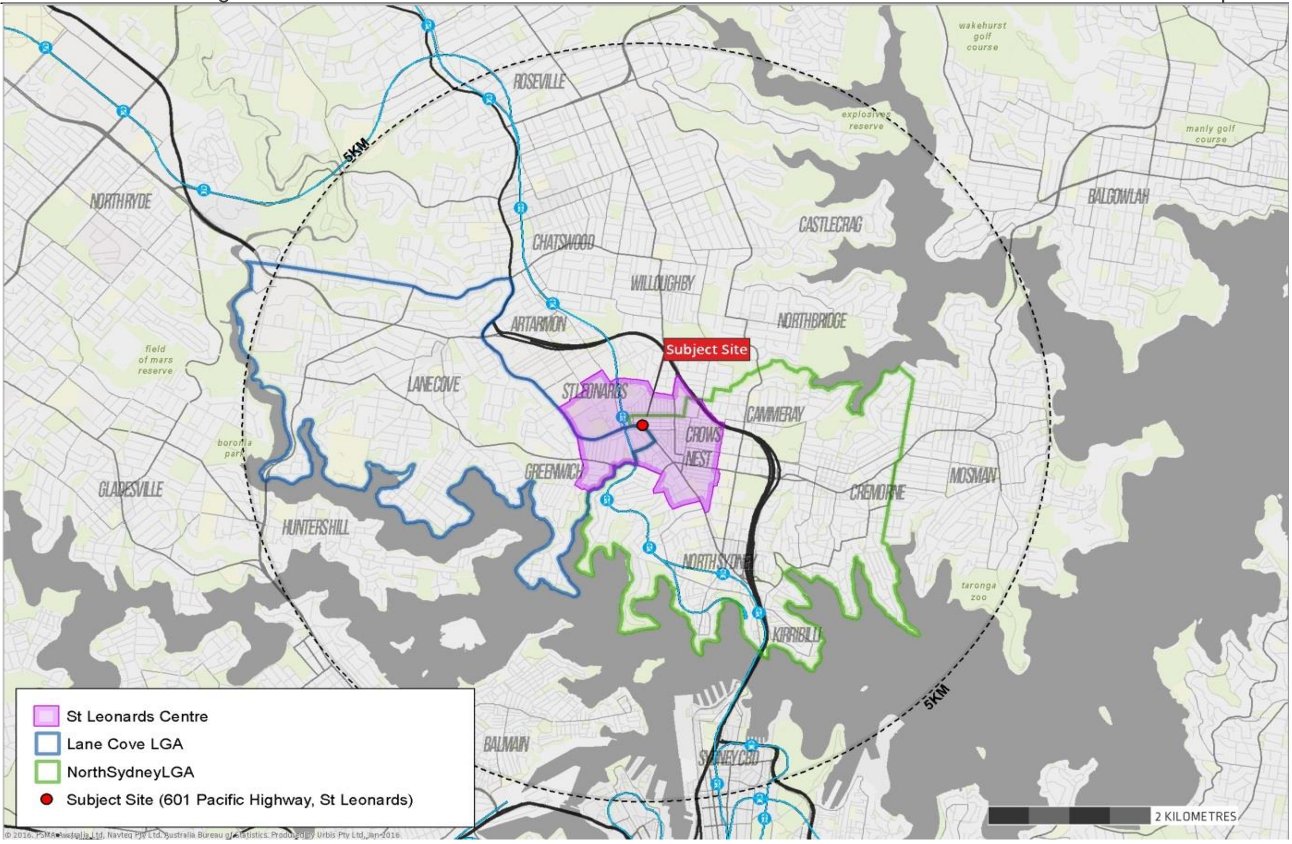
3. OFFICE FLOORSPACE DEMAND

The following section identifies the current and future demand for commercial floorspace in the St Leonards Strategic Centre. The extent to which additional floorspace will be required is reliant on economic and employment growth.

3.1. ST LEONARDS STRATEGIC GROWTH

The St Leonards Strategic Centre has been identified by the NSW Department of Planning and Environment and is depicted in Map 3.1.

St Leonards Strategic Centre | Map 3.1



Future demand for commercial floorspace in the St Leonards Strategic Centre has been estimated by applying floorspace (sq.m) / employment ratios to the Bureau of Transport and Statistics (BTS) 2016 industry projections, providing an estimate of future floorspace demand from jobs growth.

This process involves the following:

1. Analysis of job growth forecasts at the individual industry level
2. Converting jobs growth per industry into jobs growth by land use
3. Converting forecasted jobs growth by land use into floor space demand.

3.2. EMPLOYMENT GROWTH

Table 3.1 illustrates the projected employment for St Leonards Strategic Centre between 2016 and 2036 and its distribution across different industry sectors using Bureau of Transport Statistics (BTS) data.

BTS employment forecasts are official NSW State Government forecasts, and have been used in reports commissioned by North Sydney Council (St Leonards/Crows Nest Market Feasibility Study authored by SGS Economics and Planning) and by Urbis in relation to the St Leonards Centre previously.

It shows that employment within the St Leonards Strategic Centre is projected to increase by approximately 7,000 jobs between 2016 and 2036.

The key growth sectors outlined in Table 3.1 are expected to add the following jobs:

- **Professional, Scientific & Technical Services**, increasing by +2,244 jobs, equal to 0.9% growth per annum
- **Health Care and Social Assistance**, increasing by +1,522 jobs, equal to 0.7% growth per annum
- **Education and Training**, increasing by +690 jobs, equal to 1.7% growth per annum.

Forecast Employment

St Leonards Strategic Centre by Industry, 2016 to 2036 — Table 3.1

	2016		Forecast 2021		2026		2031		2036		2016-36	
Industry Sector	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Total Change**	**Annual Growth %**
Agriculture, Forestry and Fishing	29	0%	30	0%	31	0%	32	0%	33	0%	3	0.5%
Mining	65	0%	67	0%	69	0%	71	0%	73	0%	8	0.6%
Manufacturing	2,119	5%	2,134	5%	2,041	4%	2,048	4%	2,014	4%	-105	-0.3%
Electricity, Gas, Water and Waste Services	188	0%	202	0%	218	0%	236	0%	247	0%	59	1.4%
Construction	2,925	7%	3,074	7%	3,208	7%	3,399	7%	3,634	7%	709	1.1%
Wholesale Trade	1,424	3%	1,417	3%	1,424	3%	1,422	3%	1,419	3%	-5	0.0%
Retail Trade	1,993	5%	2,076	5%	2,116	5%	2,191	5%	2,257	4%	265	0.6%
Accommodation and Food Services	1,726	4%	1,817	4%	1,889	4%	1,974	4%	2,055	4%	328	0.9%
Transport, Postal and Warehousing	1,063	2%	1,033	2%	958	2%	790	2%	782	2%	-281	-1.5%
Information Media and Telecommunications	2,028	5%	2,057	5%	2,037	4%	2,047	4%	2,021	4%	-7	0.0%
Financial and Insurance Services	2,221	5%	2,454	5%	2,564	5%	2,660	5%	2,784	6%	563	1.1%
Rental, Hiring and Real Estate Services	910	2%	974	2%	1,029	2%	1,085	2%	1,145	2%	236	1.2%
Professional, Scientific and Technical Services	11,217	26%	11,676	26%	12,243	26%	12,842	26%	13,461	27%	2,244	0.9%
Administrative and Support Services	1,376	3%	1,448	3%	1,479	3%	1,530	3%	1,591	3%	215	0.7%
Public Administration and Safety	472	1%	501	1%	518	1%	535	1%	557	1%	85	0.8%
Education and Training	1,705	4%	1,875	4%	2,051	4%	2,224	5%	2,395	5%	690	1.7%
Health Care and Social Assistance	9,687	22%	10,018	22%	10,393	22%	10,894	22%	11,209	22%	1,522	0.7%
Arts and Recreation Services	512	1%	565	1%	615	1%	668	1%	723	1%	212	1.7%
Other Services	1,711	4%	1,787	4%	1,835	4%	1,900	4%	1,979	4%	269	0.7%
Total Employment	**43,369**	**100%**	**45,204**	**100%**	**46,719**	**100%**	**48,548**	**100%**	**50,379**	**100%**	**7,010**	**0.8%**

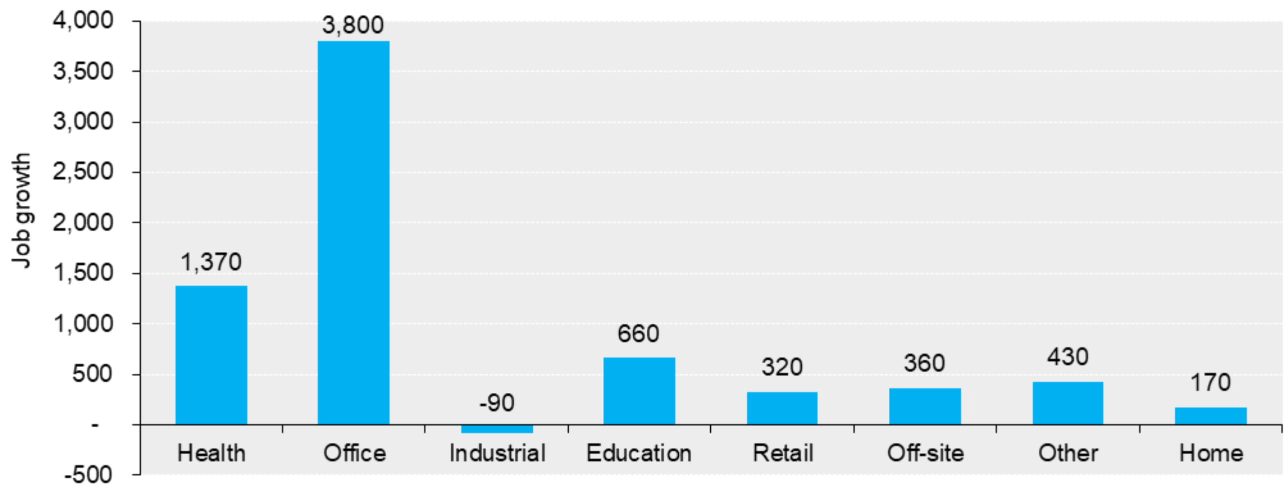
Source: BTS 2014 Release; Urbis

Different industry sectors have different needs when it comes to the type of floorspace required to operate their respective organisations.

Jobs growth by industry sector has been assigned to land use below in Chart 3.1, to provide an indication of the demand for different types of land use within the St Leonards Centre.

Jobs by Land Use

St Leonards Strategic Centre, 2016 to 2036 — Chart 3.1



Source: Bureau of Transport Statistics 2014; Urbis

Office based employment is expected to comprise a number of different industry sectors. Industry sectors that have the majority of their operations located in non-office floorspace still require a proportion of office floorspace, including:

- Health services (10% office floorspace)
- Urban services (10% office floorspace)
- Construction (5% office floorspace)
- Education and training (5% office floorspace)
- Arts and recreation (30% office floorspace)

These sectors may be better suited to co-locating office based employment with its other non-office based operations, with the functional benefits of co-locating with its core business greater than the amenity associated with CBD locations.

As such, these sectors may not require traditional ‘corporate’ office accommodation and may suite smaller professional suites, or co-located with other business operations (e.g. factories, warehouses or temporary accommodation on construction sites). This would create demand for flexible commercial space that could be accommodated in the podium of mixed use developments, which have the flexibility to accommodate a mix of tenant types.

3.3. TOTAL SUPPLY/ DEMAND – FLOORSPACE

To determine the office floorspace demand that will arise from jobs growth for the St Leonards Strategic Centre, Urbis has derived employment floorspace densities, from the typical sq.m per employee by land use.

Table 3.2 outlines the indicative floorspace required to accommodate growth in jobs outlined in Table 3.1. It illustrates that approximately 57,000 sq.m of office floorspace will be required to accommodate the forecasted employment growth outlined in the BTS.

Office floorspace employment density is expected to be 15 sq.m per job, a conservative figure. The floorspace demand assessment for office provided in Chart 3.1 uses this employment density assumption.

The floorspace demand assessment for traditional office space provided in Table 2.1 uses this employment density assumption. However, it is acknowledged that newer formal commercial office space can be design and configured to attracted a higher jobs density through contemporary design and changing workplace behaviours.

It is important to note that these forecasts have assumed that the BTS employment forecasts for St Leonards Strategic Centre will be achieved.

Total Floorspace Demand

St Leonards Strategic Centre, 2016 to 2036 Table 3.2

Land Use	Jobs Growth 2016-36	Sq.m per Job	Total Floorspace (sq.m)
Office	3,800	15	57,000
Education	660	25	16,500
Health	1,370	10	13,700
Retail	320	25	8,000
Other	430	10	4,300
Industrial	-90	50	-4,500

Source: Bureau of Transport Statistics 2016; Urbis

3.4. NEW SUPPLY

In addition to the existing supply of office space in St Leonards, there are eight proposed developments containing commercial floorspace summarised in Table 3.3, amounting to a pipeline of approximately 82,850 sq.m.

The progression of Gore Hill D1, D2 and D3 developments in the St Leonards area is dependent on tenant pre-commitments.

There are six major mixed use developments projected for the St Leonards landscape accounting for approximately 16,850 sq.m of commercial NLA.

Proposed Office Developments

St Leonards/Crows Nest

Table 3.3

Project	Address	Owner	Stage	Completion Date	Average Floorplate (sq.m)	Building Height (Storeys)	Office Net Lettable Area sq.m
Gore Hill Technology Park - Building D1, D2 and D3	219-247 Pacific Highway	Lindsay Bennelong Development	Development Approval	2020	2,000	6 - 8	46,000
Royal North Shore Hospital Master Plan	Bounded by Pacific Highway, Westbourne St and Herbert St	NSW Government	Early Planning	2019	N/A	N/A	20,000
St Leonards Square	472-494 Pacific Highway	Mirvac Group	Construction	2020	1,300	3	3,000
Atchinson Street Mixed Development	18-20 Atchinson Street	Electroboard	DA Applied	Mooted	N/A	N/A	2,300
Albany Street Mixed Development	7-19 Albany Street	N/A	Construction	2020	N/A	1	1,000
Christie Street Mixed Development	100 Christie Street	Altis Property Partners	Development Approval	2020	1,050	36	5,250
Pacific Highway Mixed Development	575-583 Pacific Hwy	Rozene Pty Ltd & Rosemate Pty Ltd	Rezoning Application	2022	N/A	8	2,600
617-621 Pacific Highway	617-621 Pacific Highway	Anason City Developments Pty Ltd	Rezoning Application	N/A	960	3	2,700
Total							**82,850**

Source: Cordells Connect; Urbis

3.5. OFFICE SUPPLY/ DEMAND FLOORSPACE ST LEONARDS CENTRE

According to the Property Council of Australia's (PCA) Office Market Report (OMR) July 2017, there is currently 39,600 sq.m of vacant office space in the St Leonards/Crows Nest market. Combined with the approved development pipeline (82,850 sq.m) in Table 3.3, there is a total of 117,361 sq.m of vacant and approved commercial space.

If we take into account the withdrawal of the subject site from the supply of office space (deduction of 12,600 sq.m NLA), Table 3.4 shows that the St Leonards Specialised Centre will still have ample supply of office floorspace to deliver on job targets to 2036.

Furthermore, much of this demand will be focused around the RNSH.

Surplus/Deficit of Office Floorspace

St Leonards Strategic Centre, 2016 to 2036 — Table 3.4

	Job Growth (2016 to 2036)
Vacant Existing Floor Space	39,600
Proposed Commercial Developments	82,850
Existing Vacant and Approved Supply	**122,450**
Withdrawal of existing property on subject site	- 12,600
New commercial floorspace on subject site	+ 7,511
Supply of Available Office Floorspace (net of proposed rezoning)	**+117,361**
Office Floorspace (sq.m) required to deliver St Leonards Specialised Centre job target (by 2036)	57,000
+Surplus / -Deficit (By 2036)	**+ 60,360**

Source: Cordells; Bureau of Transport Statistics 2016; Urbis

3.6. SUMMARY AND IMPLICATIONS

The analysis of historic, existing and future employment in the St Leonards Strategic Centre reflects a surplus of office space. Key findings include:

- Employment forecast growth of 7,000 jobs between 2016 to 2036
- Professional, scientific and technical services are projected to grow by 2,244 jobs or 0.9% growth per annum.
- An estimate of 57,000 sq.m of office space is required to cater for the growth in jobs that require commercial floorspace
- There is approximately 82,850 sq.m of commercial floorspace from seven proposed developments that is in the pipeline to enter the St Leonards office market by 2022
- The overall gap analysis of office space projected for the St Leonards Strategic Centre amounts to a surplus of 60,360 sq.m by 2036, indicating sufficient office floorspace is being delivered to accommodate jobs growth.

4. ECONOMIC BENEFITS

This section identifies the potential employment and economic generation associated with a potential redevelopment on the subject site. It considers the minimum benefits associated with the application of a Minimum Non-Residential FSR control, as well as a more detailed analysis of the benefits that would arise from a potential future redevelopment in accordance with the Indicative Concept Design. Specifically, this section addresses the following points:

- Potential employment and economic benefits generated during the construction of a proposed redevelopment
- Potential employment and economic benefits generated in the ongoing operation of a proposed redevelopment
- Qualitative assessment of additional economic benefits.

Modelling included in this report uses REMPLAN to assess current and potential economic impacts. REMPLAN is an Input-Output model that captures inter-industry relationships within an economy. It can assess the area-specific direct and flow-on implications across industry sectors in terms of employment, wages and salaries, output and value-added (Gross Regional Product). A region can be defined at a national, state or Local Government Area level.

REMPLAN base data is drawn from the Australian Bureau of Statistics and other government agencies. It provides highly reliable, up-to-date, and defensible economic modelling across any state or region in Australia.

Previous modelling of economic impacts has used ABS Input-Output tables from 1996-97. The multipliers are close to 20 years old and are less accurate in estimating impacts on the economy, particularly due to:

- Productivity changes throughout the economy over the past 20 years
- The changing industry make-up of the Australian economy since 1997 – for example the decline in manufacturing and the rise in financial services.

4.1. CONSTRUCTION JOBS

Construction of a mixed-use development on the subject site 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.

An estimated total construction cost for a development in line with the Indicative Concept Design would be in the order of $350 million over 4.5 years (55 months), equating to an annual construction cost of $76.36 million. A summary of the construction cost is included in the following table.

Estimated Construction Costs for Indicative Concept Design

Proposed Development — Table 4.1

Construction Cost (p.a.)	**($M)**	**76.36**	
Employment			
Direct Employment	(no.)	148	*Indirect Multiplier*
Indirect Employment	(no.)	211	2.426
Total Employment	**(no.)**	**359**	
Gross Value Added (GVA)*			
Direct GVA	($M)	22.39	*Indirect Multiplier*
Indirect GVA	($M)	31.83	2.421
Total GVA	**($M)**	**54.22**	

Source: Stockland; Urbis

The construction of the Indicative Concept Design at the subject site is estimated to have the potential to generate $22.39 million in direct Gross Value Added (GVA) per year, and $31.83 million in indirect GVA. Employment represents total number of employees without any conversions to full-time equivalence. The construction project is forecast to generate an estimated 148 direct jobs and 211 indirect jobs each year of the project.

4.2. ONGOING JOBS

The ongoing operations of the non-residential components of the Indicative Concept Design will create jobs and generate economic activity in Gross Value Added (GVA). The number of direct jobs was estimated using industry benchmarks on jobs per net lettable area. Direct jobs are entered into REMPLAN to produce an estimate of indirect jobs, and direct and indirect GVA.

A future potential development on the subject site (in accordance with the Indicative Concept Design) would include space for retail, commercial office, and childcare facilities which are estimated to generate 831 total jobs from ongoing operations as shown in Table 4.2.

New commercial office jobs are expected to be accommodated at a higher efficiency than the existing building, achieving a 10 sq.m per worker rate (based on Stockland's estimated floor area to worker efficiency).

This job creation will partially mitigate the loss of 12,600 sq.m of office NLA, which if fully occupied and based on a 15 sq.m per worker could contain up to 840 workers (it is noted that the existing building is highly inefficient and therefore reflective of a more conservative ration of 1/15 sq.m).

Proposed Indicative Concept Design

601 Pacific Highway, St Leonards — Table 4.2

	GFA	Lettable Floor Area[1]	Job Benchmark	Ongoing Jobs
Retail	1,791 sq.m	1,612 sq.m GLA	16.5 sq.m GLA / job	98
Childcare	1,858 sq.m		71.4 sq.m GFA / job	26
Commercial Office	7,511 sq.m	7,065 sq.m NLA	10 sq.m NLA / job	707
Total	**11,160 sq.m GFA**			**831**

Annual Economic Activity – based on Indicative Concept Design

601 Pacific Highway, St Leonards — Table 4.3

	Direct Effect	Indirect Effect	Total
Jobs	831	485	1,316
Economic Generation GVA p.a ($M)	$105.51	$77.51	$183.02

Source: REMPLAN Economy; Urbis

1 *Urbis have converted GFA to NLA and GLA based on a 90% efficiency ratio*

2 *Retail and Commercial job benchmarks are based on Lettable area, while Childcare is based on a Gross area*

Employment Comparison

Current Building vs. Indicative Concept Design — Table 4.4

Existing Development Approval	Rooms	Jobs per room	Direct Ongoing Jobs
Current Building	**Occupied NLA (sq.m)**	NLA **(sq.m) per job**	**Direct Ongoing Jobs**
Commercial Office	12,600	15	**840**
Indicative Concept Design	**Floor Area**	**Job per Floor Area**	**Direct Ongoing Jobs**
Retail	1,612 sq.m GLA	16.5 GLA / job	98
Childcare	1,858 sq.m GFA	71.4 GFA / job	26
Commercial Office	7,065 sq.m NLA	10 NLA / job	707
Total	**10,686**		**831**

Source: Urbis
1Estimated based on 90% to Net Lettable Area and current 60% occupancy of building

While a higher job outcome could be achieved if the non-residential podium in the Indicative Concept Design was fully commercial space (11,160 sq.m GFA = 10,044 sq.m NLA @ 10 sq.m per worker equates to 1,004 jobs), fully mitigating the loss of the existing 12,600 sq.m of NLA, the proposed retail and childcare floorspace will deliver amenity and additional services to the St Leonards Strategic Centre. There are a number of benefits of this, including:

- Additional retail services and childcare will diversify the job base with non-office based occupations
- Improved public domain and ground floor activation, reinvigorating the precinct for workers and residents
- Providing activation for the Centre during day and night
- Additional childcare places will make St Leonards a more attractive place to work, improving its appeal to businesses/tenants.

4.3. RETAIL EXPENDITURE

For the purpose of estimating additional retail expenditure as a result of new housing as depicted in the Indicative Concept Design, we consider a market catchment from where new residents or potential purchasers are likely to be drawn. 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.

Migration analysis finds that new residents in St Leonards as at 2011 were migrating from a local Lower North Shore catchment, predominantly contained in the Mosman, North Sydney, Lane Cove and Willoughby LGAs. The combination of these LGAs has thus been identified as the main catchment area for the proposed rezoning, and the market catchment for this retail expenditure assessment.

Based on the Indicative Concept Design, comprising of 516 residential dwellings and the average household size of apartments in the market catchment (i.e. 2.3), the indicative number of residents that could be accommodated across the subject site is 1,187 people.

Based on the current spending profile of the market catchment, an average spend per capita of $19,820 in 2017 has been sourced from MarketInfo 2012. Therefore, additional at the site could generate $10.2 million in retail expenditure (in $2017), as illustrated in Table 4.5.

Resident Spending by Product Category

Subject Site, based on 1,187 additional residents ($million $2017) Table 4.5

Number of Residents	Year	Food Retail	Food Catering	Apparel	Home-wares	Bulky Goods	Leisure/ General	Retail Services	Total Retail[1]
1,187 Residents	**2020**	3.4	2.0	1.2	0.9	1.0	1.2	0.5	**10.2**

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 1,790 sq.m (for a total retail spend of $10.2million 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 109 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16 sq.m).

4.4. SUMMARY AND IMPLICATIONS

The proposed rezoning of 601 Pacific Highway, and an assessment of the Indicative Concept Design, demonstrates that the project could yield the following economic benefits:

- A total of 148 direct jobs and 211 indirect jobs from the construction phase
- Ongoing employment of 831 direct and 485 indirect jobs from the retail, childcare and commercial uses
- While a higher number of jobs could be achieved if the non-residential podium was fully commercial space (1,004 jobs vs. the existing 840 jobs), the inclusion of a mix of retail and childcare will deliver amenity and services important to the St Leonards Strategic Centre:
  - Additional retail services and childcare will diversify the job base with non-office based occupations
  - Improved street level activation, during day and night
  - Additional childcare places will make St Leonards a more attractive place to work, improving its appeal to tenants.
- The total spend associated with an additional 1,187 new residents on the subject site has the potential to improve turnover performance of retail precincts near the subject site by $10.2 million per annum creating an additional 109 retail jobs.

5. COMMERCIAL MIXED-USE CASE STUDIES

Case studies in the appendix provide examples of mixed-use developments within Australian CBD locations that have comprised a significant number of residential apartments and office floorspace as well as other uses.

Analysis has been undertaken to understand how mixed-use development may be accommodated within Strategic Centres. Mixed-use developments can be either:

- **Vertically separated:** Buildings with multiple uses contained in the same building. These projects are relatively rare due to some of the potential conflicts between commercial and residential uses in the same building.

- **Horizontally separated:** Developments with multiple buildings on the same site with office and residential uses generally contained in separate buildings. These developments are generally located on much larger sites and often have a podium/piazza of retail/ commercial uses to integrate the development.

Key findings from the case studies and implication for the subject site include:

- **Design Quality:** The residential apartments developed in Riparian Plaza (Riverside, Brisbane) and Lumiere (George Street, Sydney) are generally of a very high quality to reduce potential impacts with adjacent office space. This indicates that consideration must be given to the quality and design of the residential dwellings within the subject building to avoid conflict with other uses within the building.

- **Transport Infrastructure:** Transport infrastructure can play an important role in a successful mixed-use development as evident by The Forum in St Leonards. The availability of public transport can better handle and facilitate access to and from the mixed-use development by the workers and residents. The subject building is located within a 300 metre walk to St Leonards railway station and is serviced by a number of bus routes. It is well positioned to leverage off the existing transport infrastructure in St Leonards once it is converted into its mixed-use concept. There is also a metro station planned for Crows Nest, which will improve the transport accessibility of the St Leonards Centre.

- **Activation:** Successful mixed-use developments have the potential to rejuvenate a precinct as evident by the World Square development which revitalised the southern end of the Sydney CBD. The mixed-use concept of the subject building has the potential to activate the east west corridor between St Leonards Station and Crows Nest Village due to its retail, commercial and residential component and promote further development within the area.

6. SUMMARY AND IMPLICATIONS

This planning proposal seeks the rezoning of the subject site, specifically proposing to:

- Rezone the land to B4 Mixed Use
- Apply a new height control
- Apply a minimum non-residential floor space.

Our analysis finds a number of key employment and economic factors that support the subject site's rezoning:

- St Leonards Strategic Centre is transitioning from a corporate office market to a health and medical focused precinct:
  - A net withdrawal of office floorspace in the St Leonards office market over the past 16 years (-4,172 sq.m per annum since July 2007), indicates that many larger corporate tenants prefer other locations
  - Continuing a long-term trend, other competing office markets had lower vacancy rates at July 2017 than the St Leonards/Crows Nest market (12.6%), namely North Sydney (6.4%), North Ryde/Macquarie (8.5%) and Chatswood (6.9%)
  - 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.
- St Leonards Strategic Centre employment targets can be met with the existing pipeline of commercial development and vacancy:
  - Employment forecast growth of 7,000 jobs between 2016 and 2036. While professional, scientific and technical services are projected to grow by 2,244 jobs or 0.9% growth per annum
  - An estimate of 57,000 sq.m of office space is required to cater for the growth in jobs that require commercial floorspace
  - There is approximately 82,850 sq.m of commercial floorspace from seven proposed developments that is in the pipeline to enter the St Leonards office market by 2022
  - The combination of St Leonards' existing vacant commercial floorspace and pipeline of commercial development will be sufficient to accommodate employment forecasts, and will amount to a surplus of 60,360 sq.m by 2036
  - As such the St Leonards Strategic Centre has sufficient commercial space currently vacant and being developed to achieve the Draft District Plan's target of 7,000 new jobs over 20 years.
- A mixed-use development in line with the proposed rezoning and as reflected in the Indicative Concept Design has the potential to deliver a number of economic benefits to the St Leonards Strategic Centre:
  - A redevelopment of 601 Pacific Highway in accordance with the Indicative Concept Design would yield a total of 148 direct jobs and 211 indirect jobs from the construction phase
  - Ongoing employment would account for 730 direct and 414 indirect jobs from the retail, childcare and commercial uses
  - The total spend associated with an additional 1,187 new residents on the subject site has the potential to improve turnover performance of retail precincts near the subject site by $10.2 million
  - Additional retail services and childcare will not only diversify the job base with non-office based occupations
  - Childcare is important social infrastructure that will make St Leonards a more attractive place to work.

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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 MIXED USE CASE STUDIES

Riparian Plaza

Developer	Bloomberg
Address	71 Eagle Street, Brisbane
Location Characteristics	The subject site is located on the eastern end of the Brisbane CBD on the Brisbane River. The site is located adjacent to the Eagle Street Pier ferry stop and about 500 m south-west of the Central Train Station.
Completed	November 2005
Property Description	The Riparian Plaza is a 53-storey mixed use building, with 11 car park levels from the ground up, 25 commercial levels and 12 residential levels originally housing 50 penthouse apartments. Plant rooms and recreational facilities are located on the other levels. The building has a total floor area of approximately 55,000 sq.m.
Commercial	The premium commercial office is located over 25 levels with a GLA of 30,500 sq.m and floorplate of around 1,200 sq.m.
Residential	50 apartments on the upper 12 levels. The apartments are prestige properties and have attached a high proportion of affluent owner occupiers.
Built Form	Riparian Plaza was designed by architect Harry Seidler. Most office spaces have river views, due to the 45-degree angle to the river. Each penthouse has its own curvilinear, projecting terrace that faces the river. The cantilevering balconies have a highly sculptured shape and it is not immediately evident that they are balconies.
Funding Mechanism	Bloomberg developed the project with the intention of owning the office space and selling the apartments off-the-plan. Construction commenced in January 2002 with the aim of completing construction by September 2003. Significant project delays meant the project wasn't finished until late 2005. 75% of the residential apartments had been sold by January 2003. In November 2001, law firm Clayton Utz announced it would be taking up almost 20% of Riparian's 25,000 sq.m of commercial office space. Clayton Utz was the only company publicly announcing they had pre-committed to the building before construction started. It is understood other companies had pre-committed to the project before construction started though overall pre-commitments were relatively low with a relatively high level of speculation.

Riparian Plaza	
Viability of Uses	The office component represented the majority of the project and was critical to the viability of the development. While the residential apartments were a prestige product, the construction cost associated with developing additional floors meant the residential component did not significantly improve the viability of the project.
Office Tenants	Major office tenants making pre-commitments included Clayton Utz, Wilson HTM, Blake Dawson Waldron and Servcorp. Blake Dawson Waldron was forced to exit from their pre-commitment due to the significant construction delays and an inability to extend their existing lease.
Market Conditions at Development	Vacancy rates for A-Grade and premium office space in the Brisbane CBD had declined from a peak of around 10% in early 1997 down to around 3% in early 2000, when the project was in the planning phase. Riparian Plaza provided the first, new, premium office space available in the Brisbane CBD for a decade. Brisbane Square completed in 2006, was the next major office building constructed in Brisbane. Residential apartment price growth in Brisbane had been relatively stagnant from 1998 to 2002. Despite the limited price growth, the project was targeted at the luxury market, with an aim to create a new market for Brisbane. The Australian economy had recorded strong growth in the late 1990s averaging gross domestic product growth of over 4% per annum. As the project was in the final planning phase, the economy slowed down in 2000/01 with growth of around 2%.
Key Learning for Subject Site	Riparian Plaza is an example of commercial office and residential being located in the same building in a CBD location. The development has been designed to a premium standard and comprises prime office space and luxury penthouse apartments. The high residential standard reduces the issues of ‘laundry drying on the balcony’ that has been cited as having the potential to reduce the attractiveness of the area to commercial tenants. Consideration must be given to the quality and design of the residential dwellings within the subject building to avoid conflict with other uses within the building.

St Leonards Forum

Developer	Winten Group
Address	201 Pacific Highway, St Leonards
Location Characteristics	The Forum is located in St Leonards, approximately 5km north-west of the Sydney CBD. The development is built directly over St Leonards train station and represents a transport orientated development.
Completed	Stage 1: Forum – Completed in 2000 Stage 2: Forum West - Completed in 2002
Property Description	The Forum is an example of a horizontal mixed-use development with separate commercial and residential buildings connected by a retail podium. The Forum comprises three commercial office buildings with over 32,000 sq.m of office space, two residential towers containing 773 apartments, a Coles supermarket and 34 food and retail shops. The buildings surround a large open plaza incorporating retail, the Station concourse and public space.
Commercial	The A-Grade commercial office is located over 25 levels with 32,000 sq.m and floorplate of around 1,200 sq.m.
Residential	Forum Tower is a 38 storey residential building with 483 apartments. Forum West is a 25 storey residential building with 290 apartments.
Built Form	The Forum was designed by PTW Architects and was planned as a town centre. The residential apartments have open balconies, which has the potential to negatively impact the adjacent office tenants.
Funding Mechanism	Winten Property Group structured the project so that the non-residential components could be sold at a later date. Winten Property Group sold the first two office buildings (fully leased) to Challenger International in October 2000 for around $155 million. The Forum West office building was sold by Winten Property Group in 2004 to Manchester Unity (with rental guarantees), which had its headquarters in the building. The residential apartments were marketed by Winten Property Group and started selling off the plan in 1998.
Viability of Uses	Residential apartments started selling off the plan in 1998 and recorded relatively strong sales. As at February 2002, 235 out of 290 apartments in the Forum West development had been sold off-the-plan, with the development completed in mid-2002. Pre-commitments were secured for the office components of the development with the first two buildings in Stage 1 fully leased by Cisco Systems and UUnet. The pre-commitments were required before construction commenced.

St Leonards Forum	
Office Tenants	Pre-commitments were secured for the office components of the development with the first two buildings in Stage 1 fully leased by Cisco Systems and UUnet. The development initially attracted technology companies, which matched the business mix in the St Leonards/Gore Hill area. In recent years, St Leonards has struggled as an office centre with increased competition from nearby centres such as North Ryde and Macquarie Park. This has resulted in office vacancies and buildings being converted to residential. Medical group Primary Health Care has moved into 4,164 sq.m of space in August 2015 on a seven-year lease with an annual rent of about $470/ sq.m. This reflects the strength of the area as a medical hub surrounding the Royal North Shore Hospital. The Forum is located in relatively close proximity to RNSH and is located on the train station that services the hospital.
Market Conditions at Development	The office vacancy rate in Crows Nest/ St Leonards fell from a high of 15.5% in July 1992 to 2.8% in July 1998 when the project was commencing construction. Upon completion of the office development, the whole office component was tenanted, which resulted in the vacancy rate falling to 1.1% in 2001. Following the recession in the early 1990s, the Australian economy recorded strong growth averaging 4% per annum between 1993 and 1998, while the project was in the planning phase. This created a strong environment for investment in St Leonards.
Key Learning for Subject Site	The Forum has been a relatively successful mixed-use development close to a major train station. The development tried to build critical mass to establish the St Leonards centre though has experienced competition from other centres such as North Ryde and Chatswood. The development is an example of how a mixed-use development can be successfully developed next to a key transport node with a mix of retail, residential and office uses. Furthermore, the site has been able to adapt and attract some health based tenants given its close proximity to the RNSH.

Lumiere

Developer	Frasers Property
Address	501 George Street, Sydney
Location Characteristics	The subject site is located adjacent Town Hall in Sydney's mid-town precinct. It is opposite St Andrew's Cathedral and HSBC Centre.
Completed	December 2007
Property Description	Lumiere is a 56 level residential and commercial building. It has a five level podium with three levels of retail space called Regent Place and one level of office suites called Lumiere Commercial. Lumiere Residences has 456 apartments built above the Regent Place podium.
Commercial	Lumiere Commercial has 19 office suites with a NLA of 1,400 sq.m.
Residential	Lumiere Residences has 456 apartments over 41 levels.
Built Form	Lumiere was designed by Foster and Partners as a sustainable, high-density urban form combining home, work, commerce and leisure in the heart of Sydney's CBD. Residential towers are built on top of a sandstone-faced podium which offers a variety of retail amenities. The apartments have winter gardens instead of balconies. A 50 m swimming pool is suspended over the lobby.
Funding Mechanism	Residential dominated the project with apartments sold off-the-plan prior to construction commencing in early 2005. As of February 2007, 230 apartments had been sold, equating to slightly more than half of the project. This indicates that the project was speculative in nature when construction commenced, with less well below 50% pre-commitments. It is noted that the project occurred prior to the Global Financial Crisis, when funding was less restrictive. Since the completion of the development, Frasers Property has sold some office tenancies.
Viability of Uses	The 1,400 sq.m of office space was relatively insignificant in the overall financial viability of the development. The office tenancies were leased once the development was completed, which is typically the case for small office spaces.
Office Tenants	Frasers Property and other smaller professional services firms have offices within Lumiere.

Lumiere	
Market Conditions at Development	The Lumiere building was completed in 2007, before the Global Financial Crisis significantly impacted the development sector. Economic growth in Australia increased from a low of 2% in 2000/01 to 4.2% in 2003/04 and remained over 3% during the planning phase of the project. The Sydney CBD office market recorded significant development between July 2004 and July 2006, with over 300,000 sq.m completed. This resulted in an increase in vacancy rates to around 9% in July 2006, indicating the market was around equilibrium. The residential apartment market in Sydney peaked in around 2004 after a sustained period of strong price growth since 1996. Prices declined in 2005 and 2006 before the Global Financial Crisis continued the period of no growth.
Key Learning for Subject Site	Lumiere has been designed to a high quality with extensive use of tinted glass in the façade. This creates an 'androgynous' feel to the building with some difficulty in determining whether it is a residential or commercial building from first glance, a deliberate design element to allow the building to fit in with the surrounding commercial building forms. The use of winter gardens improve the built form of the residential component and reduce visual amenity issues on surrounding office buildings such as laundry being placed on balconies. While the development is mixed use, it did not provide A-Grade office space and is primarily a residential building.

World Square

Developer	Multiplex (now Brookfield Multiplex), Meriton
Address	644-694 George Street, Sydney
Location Characteristics	The subject site is an entire block (around 2 hectares) in the in the Sydney CBD bounded by George Street, Liverpool Street, Pitt Street and Goulburn Street.
Completed	2007 (The Ernst & Young Tower and World Tower were completed in 2004)
Property Description	World Square consists of one hotel, one shopping centre, two commercial towers, one residential tower and one commercial/residential tower. World Square comprises office (90,000 sq.m), residential (around 800 apartments), a hotel (420 rooms) and retail (16,000 sq.m).
Commercial	Ernst & Young Tower is a 55 level office tower with a commercial NLA of 62,250 sq.m Latitude East is a 12 level commercial office building with a commercial NLA of 23,103 sq.m and an average floorplate size of 2,500. World Tower is a 75 level commercial/residential tower with 77 commercial suites
Residential	Hordern Tower is a 55 level residential building with 278 apartments and recreational facilities including a 25 m pool, spa, sauna, gym and squash court. World Tower is a 75 level commercial/residential tower with 517 residential apartments and 115 serviced apartments
Built Form	World Tower was designed to a high standard with the architecture similar to the adjacent Ernst & Young office tower.
Funding Mechanism	The project was developed in several stages, which allowed separate buildings to be tenanted before construction began. The office and residential components were generally developed separately with Multiplex undertaking the retail/office buildings and Meriton developing the residential. Ernst & Young Tower was developed with Ernst & Young pre-committing to around 36,000 sq.m. When construction commenced, the stage had achieved around 60-65% pre-commitment, with the remainder of the building leased towards the end of construction and soon after the building opened. The Australian Tax Office (ATO) pre-committed to the Latitude East building and signed a 15 year lease agreement, plus three five year options. Construction of the building commenced after the pre-commitment.

World Square

Viability of Uses	Ernst & Young was secured as a major pre-commitment for the Ernst & Young Tower, accounting for almost 60% of the building. The ATO pre-committed to the full Latitude East building to justify development. As the residential and office components were undertaken separately by different developers, the residential components were not used to support the viability of the office components. As such, large pre-commitments of over 55% were required to get the developers off the ground.
Office Tenants	Ernst & Young and ATO
Market Conditions at Development	The Sydney CBD office market reached a low vacancy rate of 4.1% in July 2001. Vacancy rates had remained low at around at around 5% from 1998 to 2002, despite the completion of almost 450,000 sq.m of office space. The Sydney CBD office vacancy rate peaked at 10.5% in January 2005, which coincided with the completion of the Ernst & Young Tower. Economic growth in Australia slowed down from 5% in 1998/99 to 2% in 2000/01. Real gross domestic product remained relatively stable at between 3-4% over the next few years when the project was in the planning phase.
Key Learning for Subject Site	World Square was a major urban redevelopment of a site that had been dormant for almost 20 years. The development has rejuvenated the southern end of the Sydney CBD with a successful mixed-use development including office, residential, retail and hotel. It is noted that World Square is a large site of around two hectares and was developed in several stages involving residential, office, retail and hotels.

Freshwater Place


Developer	Australand
Address	Freshwater Place, Southbank
Location Characteristics	The subject site is located on the banks of the Yarra River within a few minutes walk to the Melbourne CBD.
Completed	2 Southbank Boulevard – early 2005 Twenty 8 Freshwater Place - December 2008
Property Description	Freshwater Place is a commercial, residential and retail mixed use development. It has a residential tower and a commercial tower above a retail and commercial use podium.
Commercial	Freshwater Place has a premium grade commercial tower called 2 Southbank Boulevard providing 55,000 sq.m of commercial space. Freshwater Place has another premium grade commercial tower called Twenty 8 Freshwater Place providing 34,000 sq.m over 25 levels.
Residential	A 60 storey residential tower with around 550 apartment units. The residential tower has three sections: podium, mid rise and high rise.
Built Form	Freshwater Place was built with premium grade finishes and it has superb views of the Yarra River, the CBD skyline and Port Phillip Bay. The residential tower looks relatively commercial in its design with the residents likely to be relatively affluent.
Funding Mechanism	Australand looked to fund the residential and office components separately with pre-sales for the residential apartments and a large office pre-commitment secured for the first stage. Australand pre-signed PricewaterhouseCoopers (PwC) as the anchor tenant for the 2 Southbank Boulevard office e building before construction commenced. PwC initially committed to 23,000 square metres with an option over 8,000 sq.m. The residential development was launched in early 2002 and by October 2002 had sold almost half of the apartments with around 45% of the value of the property had been accounted for in sales. This was sufficient to justify the commencement of construction.

Freshwater Place	
	Twenty 8 Freshwater Place was a speculative development with no major tenants pre-committing before construction commenced. To reduce risks, Australand sold a half share to the GPT Wholesale Fund for $115 million in August 2007.
Viability of Uses	The guaranteed pre-commitment of 23,000 sq.m equated to 42% of the office space within 2 Southbank Boulevard. This was considered the minimum pre-commitment required to commence construction. The residential component of the project was not used to ‘subsidise’ the office component. Residential pre-sales of around 50% were achieved at the start of construction (around the minimum required), indicating that residential sales were not used to support the office component.
Office Tenants	2 Southbank Boulevard is anchored by PricewaterhouseCoopers. Other key tenants include Microsoft, Heinz, Vanguard and SP AusNet. Twenty 8 Freshwater Place tenants include MMG, CPA and Parsons Brinckerhoff. There have not been major issues in attracting major tenants to the building. The residential tower looks relatively commercial in its design and the prestige nature attracted affluent residents.
Market Conditions at Development	The Southbank office vacancy rate fell to a low of 4.2% in July 2002, when the development was in the planning phase. The adjacent Melbourne CBD market was also relatively tight, having fallen to under 6% in July 2002. The Melbourne apartment market recorded strong a period of lower growth between 1996 and 2001. The residential market started to pick up in 2002 though was still relatively soft as Australand was selling the apartments in 2002. This economic growth in Australia slowed down from 5% in 1998/99 to 2% in 2000/01. Real gross domestic product remained relatively stable at between 3-4% over the next few years when the project was in the planning phase.
Key Learning for Subject Site	The development is of a premium quality including both the commercial and residential component. This has resulted in the attraction of major corporate headquarters including PricewaterhouseCoopers, Microsoft, Heinz and Vanguard. It is unlikely that the subject building will attract major corporate headquarters given the office market conditions and the trend of major corporate tenants locating in the Sydney CBD and Macquarie Park.

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