

**17 Smith Street, Chatswood
Land Use Study**



JONES LANG
LASALLE®

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Woolworths Ltd

1 Woolworths Way
Bella Vista, NSW 2153

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Principal Author: David Snoswell, Local Director

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Introduction

This report has been commissioned by Woolworths Ltd.

Woolworths propose to develop land at 17 Smith Street, Chatswood for a supermarket. This report does not intend to provide an assessment of the merits of this proposal. These issues are comprehensively addressed by Woolworths' planning and economic consultants.

This report provides an assessment of the land use trends impacting on industrial property markets nationally and more specifically in and around Chatswood.

The report is presented under the following headings:

- Chatswood Industrial Market – providing a summary of the land use characteristics of the Zone B (4) Light Industrial zone, including discussion of supply, demand, rents and land values;
- Northern Sydney Industrial Market – providing a broader overview of the northern Sydney industrial market in the context of metropolitan Sydney;
- Industrial Property Trends – providing an overview of the structural changes that have impacted on industrial markets nationally, and in particular on inner suburban industrial markets;
- Chatswood CBD: Land Use Characteristics – providing an overview of the land use mix, recent development activity and future opportunities for supermarket retail development;
- Employment Trends and Industrial Demand – providing an overview of trends in employment by land use in the Willoughby LGA;
- Employment Generation by Land Use – illustrating the different levels of employment that can be expected from different land uses;
- Market Impact of Proposed Development – summarising the main findings of this report.

Executive Summary

Industrial Property Trends

Over the last few years, both the demand for and supply of Australian industrial property has grown significantly, but this hasn't been consistent across submarkets. Much of the demand for traditional industrial uses has been in outer suburban markets, with inner suburban markets either losing employment or changing focus to a more mixed use / mixed business format.

The value of inner city industrial land will see large format industrial uses eventually move out, with the vacated space over time being used for more intensive uses, including retail, offices and a hybrid mix of businesses requiring both office and warehouse space.

Chatswood East Industrial Market

Chatswood East Industrial Precinct is a mid sized light industrial and mixed business precinct in the City of Willoughby.

Key trends identified in the precinct are:

- A relatively high level of recent development activity, including multi-level strata units, self storage and a Bunning warehouse currently under construction;
- Solid demand from bulky goods / showroom uses;
- Very high levels of tenancies currently for lease or sale;
- Land prices for development sites at levels above what can be justified for many industrial occupiers; and
- A shift towards smaller multi-level strata units, with the larger occupiers re-locating to outer metropolitan locations or large integrated business parks.

A review of land uses and vacancy in the Chatswood East industrial precinct revealed the following:

- There are few manufacturing uses remaining in the precinct, with previous manufacturers such as Fawcett Bros/Rosella and Tip Top moving out and being replaced by non-industrial uses;
- The limited "manufacturing" occurring in the precinct is primarily of a service / repair nature and often ancillary to office / showroom / wholesale distribution uses;
- The primary land uses in the precinct are warehouse / storage, showroom, office and retail uses;
- Most large freehold sites have been developed and strata subdivided into small units aimed primarily at small business;

- While many businesses have warehouse requirements, a large proportion of businesses have significant office accommodation (at times over 50% of the floor area);
- Recent development activity has led to a higher density of development, including multi-storey projects with high quality finishes.
- There are in excess of 400 tenancies, including over 300 businesses operating in the precinct and over 100 tenancies currently vacant. This implies a vacancy level in the order of 25% of total tenancies; and
- There are 20 tenancies advertising at least 1,000sqm of space for lease

Chatswood competes with nearby industrial markets, in particular Artarmon, which is considered to be of higher quality than Chatswood.

Promoting Employment in Inner Suburban Industrial Zones

Industrial uses with high warehouse content are relatively low employment generators when compared to office and retail uses.

Policies that encourage the retention of industrial employment lands for industrial only uses are not likely to promote employment growth. Such policies are more likely to lead to under-utilisation of valuable “employment generating” land.

State government’s own projections suggest inner suburban locations such as Willoughby LGA are forecast to lose employment in key industrial sectors such as manufacturing, transport and storage and wholesale trade. Employment growth is more likely to come from promoting a broader mix of employment generating uses in such zones. This should include uses that are expected to witness employment growth over the next 20 years such as a range of property and business services and retail uses.

Impact of Loss of Industrial Land to Retail Uses

Chatswood East is a significant employment zone, and while it is generally referred to as an industrial zone, it is home to a very broad mix of land uses, including wholesalers, retailers, business services, community uses and some high tech industries.

Given the imbalance between supply of industrial units and demand, and the lack of opportunities for new supermarket retailing in this location despite strong demand, Smith Street is well placed to meet this demand without undue impact on the future supply of industrial space.

It is our opinion that:

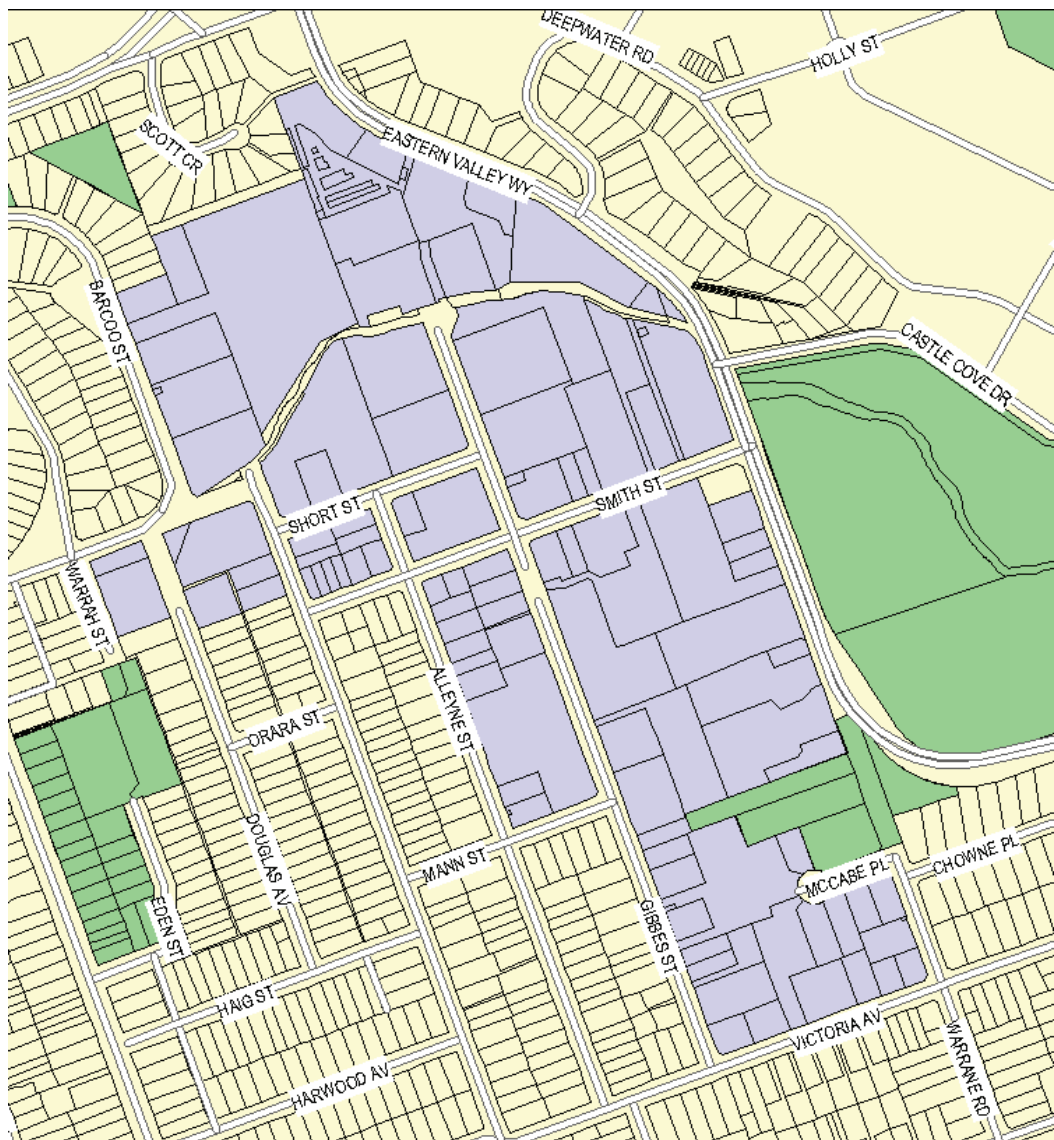
- Demand for industrial / business uses within Chatswood 4(B) Light Industrial Zone is currently low;
- There is currently an over-supply of industrial units in this particular location, which is expected to take considerable time to be absorbed;
- The high land prices in Chatswood East dictate that the form of “industrial” development most likely to be viable is multi-level strata units aimed at small businesses and investors. This would directly compete with recent similar developments, that have struggled to sell / find tenants and further exacerbate the current level of over-supply in the market;
- The structural changes that have and will continue to occur in the industrial market will provide opportunities for a broader mix of uses in Chatswood, which ultimately will contribute to a better mix of employment opportunities; and
- Redevelopment of the subject site for retail uses will provide retail facilities that are under-supplied in Chatswood and nearby suburbs.

1. Chatswood Industrial Market

The Chatswood East 4(B) Zone has undergone major changes in the past two decades, with large tenants moving out and the vacated land holdings being redeveloped and on-sold for small strata titled units. Major institutional owners are no longer well represented in the precinct and have focussed on developing high quality large industrial estates in area such as Artarmon, Macquarie Park, Belrose, French's Forest and further afield in the outer suburban industrial precincts of Sydney.

Figure 1: Zone 4(B) Light Industrial Zone, Chatswood

Source: Jones Lang LaSalle Research & Consulting, MapInfo, City of Willoughby



While Chatswood remains a popular home for well over 300 business enterprises, it currently has a high level of vacancy, and is likely to continue to have an imbalance between supply and demand. Jones Lang LaSalle has identified in excess of 100 vacant tenancies in the 4(B) Zone.

While the weakness in current take-up is partly due to the GFC, the level of vacant tenancies in the market will take a relatively long time to be taken up.

Recent Supply

Recent major supply providing at least 5,000sqm of new floor space in the Chatswood East 4(B) Zone is detailed in Table 1. The Barcoo Street precinct has seen a high level of development, given its relatively small size, with two large corporate parks developed since 2005, both comprising strata title units, and a smaller development also completing in the past five years.

The main two Barcoo Street developments are known as Northlight Corporate Park and Roseville Business Precinct and comprise strata office / warehouse units of around 200-300sqm in size. Northlight was initially developed in 2005 and has a number of vacant units for sale and lease. Roseville Business Precinct completed in 2007 and has struggled to attract either an investment or tenant market. This is partly due to the onset of the GFC, but is also due to a relatively competitive environment, with strong competition for tenants from existing strata units within Chatswood East as well as other industrial precincts, for example Artarmon, French's Forest and Lane Cove West.

Table 1: Supply: Chatswood East 4(B) Zone

Source: Jones Lang LaSalle

Building Name	Address	Suburb	Comp. Date	Total GLA (m2)
Northlight Corporate Park	28 Barcoo Street	Roseville	2005	14,192
Northlight Corporate Park	28 Barcoo Street	Roseville	2006	5,582
Niche	354 Eastern Valley Way	Chatswood	2007	6,075
Roseville Business Precinct	30-32 Barcoo Street	Roseville	2007	5,034
Gibbes St Depot and Industrial Units	25-27 Gibbes Street	Chatswood	2009	15,000
Kennards Self Storage	Gibbes Street/ Mann Street	Chatswood	2009	9,360
Kennards Self Storage	39-49 Alleyne Street	Chatswood	2009	8,599
Bunnings	25 Smith Street	Chatswood	2010	11,000

The main development currently under construction is a new Bunnings Warehouse, fronting Smith Street and just east of the subject Sundell Holden site. This retail development further consolidates the Chatswood East 4(B) Zone as a significant location for bulky goods retailing serving the residential population of Chatswood, Roseville, Castle Cove, Castlecrag, Middle Cove and Willoughby.

Smaller developments have been completed in recent years at 12 Barcoo Street (McCarroll's Hyundai Service Centre) and 10-12 Smith Street (largely vacant office premises).

Demand

The owner-occupier market is an important element of the local industrial market, with strata units providing the opportunity for small businesses.

The area attracts business owners that reside in the local area. Business owners are keen to locate close to their home, even if their business serves a wider market than the local area.

Chatswood competes with Artarmon. While the Artarmon market is considered to be a better quality market, Chatswood is generally more affordable, and provides opportunities for small businesses that may have previously been a home business.

While the precinct does provide opportunities for local businesses that service the local area, many businesses are regional in nature and do not rely on the local market for their customers.

Land Use Audit

An audit of land uses in the Chatswood East 4(B) Zone revealed the following:

- Approximately 100 sites are within the Chatswood East 4(B) Zone, many of which are strata sub-divided;
- There are few manufacturing uses remaining in the precinct, with previous manufacturers such as Fawcett Bros/Rosella and Tip Top moving out and being replaced by non-industrial uses;
- The limited "manufacturing" occurring in the precinct is primarily of a service / repair nature and often ancillary to office / showroom / wholesale distribution uses;
- The primary land uses in the precinct are warehouse / storage, showroom, office and retail uses;
- Most large freehold sites have been developed and strata sub-divided into small units aimed primarily at small business;
- While many businesses have warehouse requirements, a large proportion of businesses have significant office accommodation (at times over 50% of the floor area); and

- Recent development activity has led to a higher density of development, including multi-storey projects with high quality finishes.

The following table highlights selected types of businesses operating in the Chatswood East 4(B) Zone. What is noticeable is the very broad mix of business types and land uses that are occurring in what is currently described as a Light Industrial zone.

Table 2: Selected Business Types: Chatswood East 4(B) Zone

Source: Jones Lang LaSalle

Business Type	Primary Use(s)	Selected Examples
Wholesale showrooms / Distributors	Showrooms	Graham Hall Copiers & Printers; ADI; Reece Trade Centre; Syntec Int'l; Robot Coupe
Security Companies	Office, Warehouse	Assa Abloy; Nationguard Security; Tecsound; CCTV Online Security; Direct Alarm Supplies
Leisure	n.a.	Fitness First Platinum, Exercise Australia, VT1 Gym
Religion	n.a.	Korean Culture Centre & Church; North Shore Christian Centre
Retail	Retail	Bunnings (U/C); Good Guys, Petbarn; Acclaim Office Furniture; North Shore Timber & Hardware, Mr Carpet
Car Service	Service / repair	McCarroll's Lexus / Hyundai; Beaurepaires; Tyre Plus; North Shore Automatic Transmissions
Self Storage	Warehouse	Kennards; Strata Self Storage; Storage King
Trades	Office, Warehouse	Bear Plumbing; Emerald Electrical
Hire companies	Warehouse	Living Edge Furniture Rental; Guests Furniture Hire; Partytime Hire
High Tech Businesses	Office, Warehouse	GEA Colby; John Morris Scientific
IT / electronics Businesses	Retail, Service / repair	Sibnet Electronics; David Leisk Electronics

Clearly, the Chatswood East 4(B) Zone is not a land use zone purely for industrial uses. Very little manufacturing occurs in the zone and even businesses with a major service / repair function are in the minority. The zone is typical of many inner suburban former industrial precincts, with traditional manufacturing uses moving out and paving the way for a more robust mix of employment generating businesses.

Recent demand for industrial units in Chatswood has been weak. Small companies have been quite inactive in Chatswood during the recent market downturn. This downturn has also provided an opportunity for businesses to relocate to what are considered better quality industrial markets such as Lane Cove West and Artarmon.

Small high tech companies have been an important part of the local industrial market, however as these companies expand, there has been a general movement out of Chatswood towards Macquarie Park and other higher profile markets. This trend is expected to continue.

Market Balance

A review of land uses and vacancy in the Chatswood East industrial precinct revealed the following:

- There are in excess of 400 tenancies, including over 300 businesses operating in the precinct and over 100 tenancies currently vacant. This implies a vacancy level in the order of 25% of total tenancies; and
- There are 20 tenancies advertising at least 1,000sqm of space for lease.

There is substantial space currently vacant. Given the relatively weak demand for space in Chatswood East, current levels of vacancy and proximity of other industrial markets that compete favourably for tenants, it is unlikely that further development for industrial uses would be viable without a major commitment from a single tenancy. As we have indicated, the main market for industrial space comes from small owner-occupier tenants; not large tenants. This is partly due to the prevailing product that has been built, which is largely due to the high land values, which dictates that the most viable form of industrial development is multi-storey strata development aimed at a mix of small investors and owner-occupiers.

Rental Values

Based on a sample of properties monitored by Jones Lang LaSalle, prime grade rents in the Northern Sydney industrial market, which includes Chatswood East, average \$167 per sqm p.a. net. Warehouse space typically averages \$135 per sqm p.a. net and office space is in the vicinity of \$220 per sqm p.a. net. These rents relate to larger tenancies of at least 1,000sqm. Outgoings average \$46 per sqm p.a. net.

Small prime quality office / warehouse units are being marketed at around \$200 per sqm p.a. net. As can be seen, per square metre prices are significantly higher for small tenancies. Prices also fluctuate depending on the proportion of office space in the tenancy.

The market in Chatswood comprises both prime and secondary grade space and rents are reasonably consistent with the market average for Northern Sydney. Based on properties currently being marketed, asking rents range from \$140 per sqm p.a. net for lower quality warehouse space with limited office facilities to \$250-\$300 per sqm p.a. net for quality office space. Showroom space is in the order of \$180-\$200 per sqm p.a. net, which is relatively low compared to

competing bulky goods markets, where rents are in the range \$250-\$300 per sqm. p.a. net.

Land Values

There is limited market evidence of land values in Chatswood, with no vacant allotments available. Recent sales activity has been for improved land and strata units. Sales of properties that may be considered for redevelopment have been in the vicinity of \$850-\$900 per sqm of site area. At this high price, industrial development is unlikely to be viable.

The high land values are dictating the type of industrial development that is viable. Most industrial developments in recent years undertaken by the private sector have been small multi-storey strata units with a high proportion of office space (typically 25% and over) aimed at both small investors and owner-occupiers. The exception has been two recent self storage facilities, which are a low employment generator.

Nearby Land Uses

Finally, nearby land uses to the Smith Street site include residential uses, which would no doubt benefit from retail facilities. Land diagonally opposite and south-west of the subject site is predominantly residential. The supermarket would therefore serve the needs of local residents as well as local businesses.

2. Northern Sydney Industrial Market

For the purposes of analysis, the Sydney industrial market is made up of six sub-markets – North, South, Inner West, Outer North West (ONW), Outer Central West (OCW) and Outer South West (OSW). These sub-markets are shown on Map 2.

The study area lies within the North sub-market, which is a very large area extending to the north beyond Hornsby. Key industrial areas that potentially compete with Chatswood include:

- Artarmon/St Leonards
- Lane Cove West
- Brookvale
- French's Forest

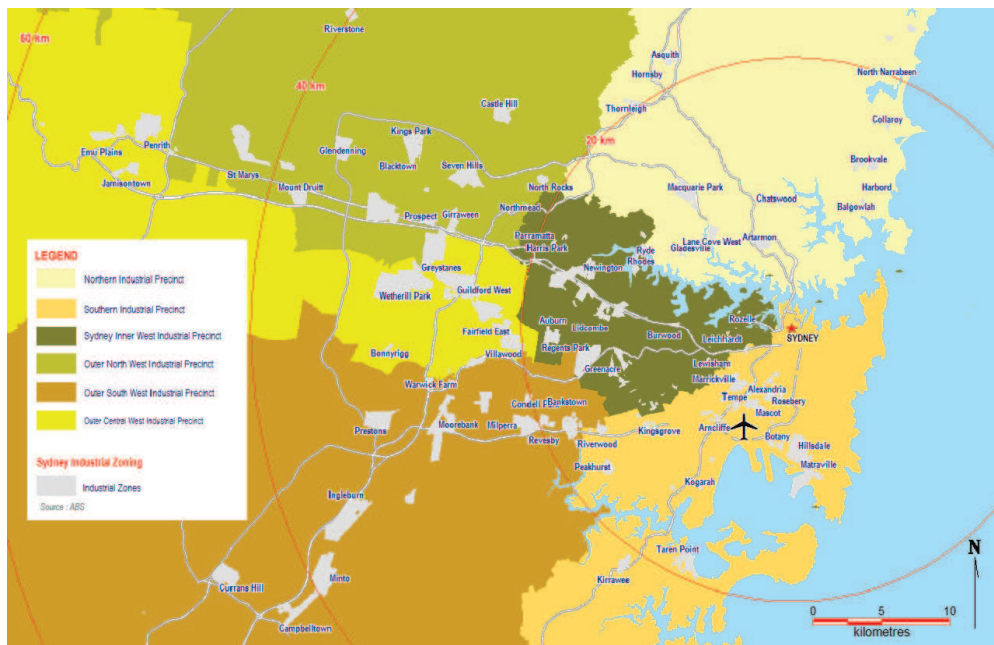
Of these industrial areas, Artarmon is the closest to Chatswood, being approximately 3.5km to the south.

Macquarie Park competes for high tech companies.

Over the past decade, the supply and demand for industrial land / buildings has been concentrated in the three outer west sectors, as these are the only regions capable of offering large vacant developable land parcels at a relatively low cost. The area has also become more accessible with the completion of the M7 Motorway and construction activity has been spurred by the release of land along the M7 route.

Figure 2: Sydney's Industrial Precincts

Source: Jones Lang LaSalle Research & Consulting



Northern Sydney Construction Activity

New supply in the North Sydney sub-market has been relatively high in comparison to recent years, and well above the five year average. Approximately 72,000sqm of new supply was added to the market in 2009, including a high 33,000sqm in Chatswood East.

In 2010 the Cochlear global headquarters will be completed at University Avenue in North Ryde, amounting to 24,343 sqm of high-tech manufacturing, warehouse and office space. This project dominates 2010 supply.

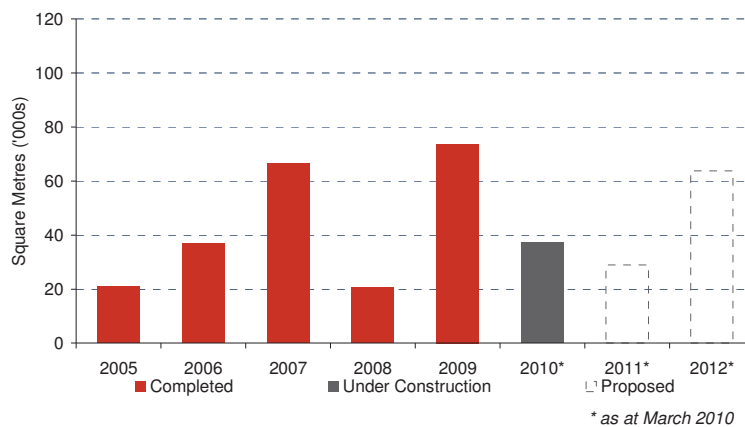
Looking further ahead, the level of proposed activity in 2011 is relatively low, a reflection of weak demand. These projects currently have no pre-commitments, which may see progress delayed.

The industrial component of the Gore Hill Mixed Use Technology Park has the potential to come on line in 2012. The approved development comprises approximately 64,000sqm of floor space and is expected to attract high tech companies looking to locate near like minded businesses. It potentially may pull some businesses from Chatswood, particularly businesses that may outgrow their existing facilities.

Figure 3: Supply: North Sydney Industrial

Source: Jones Lang LaSalle

(Note: Proposed = Plans Approved plus Plans Submitted, Developments 5,000sqm and over monitored)



3. Industrial Property Trends

This section provides an overview of the industrial property trends that have impacted on supply and demand for industrial land nationally and are expected to continue to see industrial markets evolve over time.

Over the last few years, both the demand for and supply of Australian industrial property has grown significantly. The reason for this growth was a number of structural changes in the property needs of industrial occupiers. These are outlined below.

Rise of the Logistics Sector

The change in occupier needs has in part been sparked by changes in technology. Mobile communications as well as improved data and inventory management has seen firms in the transport and storage as well as the wholesale and retail service industries change their business processes.

As a result of these structural changes, the logistics sector has been a major consumer of industrial land in recent years, with the drive for greater efficiency to the supply chain process creating a need for larger, more efficient warehouses. These warehouses allow for greater quantities of stock to be transported with fewer truck movements controlled by less people. Outsourcing of storage and distribution operations is reinforcing this trend, allowing logistics companies to achieve economies of scale by housing several companies' stock in one large building.

Whereas 10 years ago, a 10-20,000 square metre warehouse was considered to be at the larger end of company requirements, buildings of 40-50,000 square metres are not uncommon now.

For these changes to be effected, purpose built facilities need to be available at a reasonable cost. Not surprisingly, the outer metropolitan industrial areas and large industrial estates have featured strongly in this trend as this is where large sites at an affordable price are found.

The development of new facilities on the urban fringe and in large industrial estates has freed up industrial land in the inner and middle suburbs for alternative, more intensive land uses.

From Manufacturing to Warehousing

As well as moving to larger, modern premises to improve efficiencies, another structural shift in the use of industrial property has been changes in the manufacturing sector across Australia.

Over the last 30 years, manufacturing has gone from approximately 20% of GDP to about 11%. That is, its contribution to the economy has halved as manufacturers have had to cope with increased competition from Asia and in recent years, a strong Australian dollar (the higher dollar making exports more expensive and imports

cheaper). One strategy has been to move production offshore and import products that are either already assembled or may only require light assembly. This has resulted in a shift in some manufacturers' property requirements from factory to warehouse space.

Automation has also seen manufacturing plants become less labour intensive, meaning that manufacturing employment has been hit by both off-shoring and greater efficiencies.

These changes have reduced employment densities in industrial areas.

Infrastructure

Infrastructure improvements are one "pull factor" that has increased the appeal of particular regions. In the case of the industrial sector, good quality infrastructure can entice companies to move to outer suburban areas or even regional locations that might have been overlooked in favour of a more central location.

Other "pull factors" to outer suburbs include the availability of serviced land, lower real estate costs and a growing population base, providing both a large workforce and customer base.

Clustering

Clustering of like minded businesses facilitates the creation of business networks and has the potential to generate new market opportunities through collaboration. Again this activity favours relatively large industrial precincts where critical mass of operators together with support services, can be achieved.

Availability of Serviced Land

A supply of affordable, well located land provides the impetus for companies to consider moving premises, particularly those companies with either poorly located properties, facilities that are outdated, or undergoing expansion, contraction or consolidation.

Groups such as Fawcett Bros / Rosella Foods have chosen to move to new purpose built premises, in this case from Gibbes Street Chatswood to Seven Hills, where land is cheaper, development costs are lower and there is room to grow their business.

The Rise of Institutional Investors

Institutional investors and developers are very active in the Sydney industrial market. Institutional investors have been particularly drawn to emerging estates in the outer suburban areas of the metropolitan area, well served by key infrastructure such as motorways and rail.

It is noted that there is limited presence by institutional investors in the Chatswood industrial precinct, with the market attracting smaller investors, including owner-occupiers.

Competing uses in Inner Suburban Areas

Inner suburban industrial areas such as Chatswood have undergone considerable change, due to strong competition from higher order land uses and the lure of larger industrial areas that offer better access, cheaper land and growth opportunities.

In the case of Chatswood, competition for land has come from bulky goods retail uses in Smith Street and Eastern Valley Way as well as some office uses.

New industrial developments have occurred along Eastern Valley Way and Barcoo Street, with recent developments comprising a high office content and targeting the high tech market. The multi-storey nature of these new developments has been positive in that considerably more floor area is now able to be provided in the Chatswood East precinct.

Conclusions

The above trends have seen quite dramatic changes in the industrial sector in recent years, including:

- A continued shift to outer metropolitan areas, where large, low cost industrial land is available;
- A greater emphasis on efficiency in “the freight task”, with accessibility to quality infrastructure (road, rail, sea) and large modern distribution centres key “pull factors; and
- Increased diversification of land uses in the inner suburban industrial areas, including a range of more intensive retail and office uses, and mixed business uses requiring both office space and warehouse space.

These trends are expected to continue and are part of the continuing evolution of industrial land.

While there is government pressure to ensure the vast majority of industrial zoned land is retained for industrial land uses, the evolving nature of the industrial market has seen demand for purely industrial uses diminish in the inner suburbs in favour of larger estates in the middle and outer suburbs. This has effectively freed up such land for a greater mix of employment generating uses, which should better serve the local labour force.

4. Chatswood CBD: Land Use Characteristics

The Chatswood CBD is dominated by three main land uses; retail, residential and commercial office space. Retail activity in Chatswood CBD is primarily east of the railway line and commercial activity is to the west in a narrow strip running north-south along Pacific Highway. Residential development is dominated by large high rise apartment buildings.

Retail

The Chatswood CBD comprises some 175,000sqm of retail space and is anchored by two major regional centres; Westfield Chatswood and Chatswood Chase. These two major centres have combined annual sales turnover in excess of \$940 million while total retail turnover in the Chatswood CBD is likely to be approximately \$1.1 billion. The Chatswood CBD is the largest concentration of retail space in the metropolitan area outside of the Sydney CBD.

There are two full-line supermarkets (Coles at Chatswood Chase and Westfield) serving the Chatswood CBD. An Aldi Food Store at Westfield and an Asian supermarket at Victoria Plaza also provide grocery retailing for local residents and workers.

A Woolworths supermarket is proposed to anchor the Metro Chatswood retail development at the Chatswood Transport Interchange. This centre is yet to open. Its market is likely to come predominantly from CBD residents and commuters, given its location at the transport interchange.

Commercial Offices

Jones Lang LaSalle monitors commercial office space in Chatswood CBD. As at March 2010, the office stock was 299,500sqm. Much of the growth in stock occurred between 1986 and 1995, when the office market grew from 100,000sqm to just over 300,000sqm. Since 1995 the office stock has been relatively stable. In fact no new office building has been added to the market since 1995.

The office stock is concentrated in a few large office buildings, with 50% of the total stock in just eight buildings.

Vacancy levels are relatively high, with the vacancy rate as at March 2010 being 17.9%.

Residential Market

The residential market has been reasonably strong in the Chatswood CBD. Analysis of the Chatswood CBD has revealed over 2,200 residential units in the CBD, primarily in high rise apartment complexes.

Development Activity and Opportunities

In terms of recent development activity, there are two major developments in the Chatswood CBD:

- The Concourse development (formerly known as Civic Place)
- Chatswood Railway Station / Transport Precinct Project

The Concourse development is under construction and on completion in late 2011 will comprise:

- Serviced apartments
- A library of over 5,000 sqm
- A concert hall with seating for 1,000 people,
- A theatre with seating for 500 people
- A civic hall of 530 sqm
- Cafes, restaurants, retail spaces totalling 3,300 sqm.

Chatswood Railway Station is proposed to incorporate the following elements:

- Three residential towers with 550 apartments
- Metro Chatswood retail totalling 11,500 sqm

There are limited sites available within Chatswood CBD for development. Sites identified include:

- 7 Railway Street – Part of the Pacific Place Development. 4,913sqm
- Archer Street – a vacant site of 1,242sqm owned by Council.
- 63A Archer Street – Vacant land of 2,102sqm. Has been approved for a mixed use development comprising ground floor retail and apartments.
- 607 Pacific Highway – A former service station site, which has previously been earmarked for a major residential tower.
- Chatswood Toyota site, 712 & 728 Pacific Highway. These two sites have a combined site area of 5,793sqm. Neighbouring sites are used for car showrooms, offices and apartment buildings. Retail development in this location has tended to be a secondary use or showroom retail, with major retail nearby fronting Victoria Avenue.
- Albert Avenue and Thomas Street car parks, owned by Council and totalling 4,028sqm site area. Proposed to be on-sold to a developer, who has lodged application for a mixed-use commercial, retail and residential development

comprising an office tower and a residential tower. The development comprises a 26-storey commercial office buildings with a total gross floor area of 24,550 sqm and a 31-storey apartment building comprising 169 apartments and a 2,390 sqm retail plaza.

Recent proposals and developments have been primarily for residential apartment buildings, with residential uses outbidding commercial development.

Retail development has primarily been extensions to the two major shopping centres or as part of comprehensive mixed use developments. Retail activity has also focussed on the Victoria Avenue spine, leading up to the Railway Station.

The land prices in Chatswood CBD dictate the form of development, and effectively rule out a supermarket anchored retail development. Recent sales of development sites have been above \$4,000 per sqm.

Conclusions

Chatswood CBD has two full-line supermarkets (both Coles) and a further supermarket of 2,700sqm is planned at Metro Chatswood, which is likely to serve workers / commuters and CBD residents, given its location and format.

There is considerable competition from a range of other land uses within Chatswood CBD and limited sites are available.

Recent development trends suggests that residential development with limited retail facilities at ground floor level is likely to be more attractive to developers than either office or pure retail developments.

Furthermore, few development sites are identified in the Chatswood CBD that would be large enough to support a supermarket.

5. Employment Trends and Industrial Demand

This section provides an assessment of recent trends in employment with a particular focus on industry sectors that are prominent in industrial zones.

Table 3 provides trends in employment within the Chatswood LGA between 1996 and 2006. The key industrial land uses (Manufacturing, Wholesale Trade and Transport and Storage) have declined in terms of overall numbers. This trend is repeated across the vast majority of inner and middle suburban industrial areas and is a reflection of the structural changes occurring in the industrial property markets nationally.

Table 3: Employment in Chatswood LGA by Industry Classification, 1996-2006

Source: Jones Lang LaSalle, Australian Bureau of Statistics

Industry	1996	2001	2006	Change 1996-2006	Change 2001-2006
Agriculture, Forestry and Fishing	31	82	77	46	-5
Mining	84	42	76	-8	34
Manufacturing	3,997	4,641	3,233	-764	-1,408
Electricity, Gas and Water Supply	317	399	453	136	54
Construction	1,936	1,965	2,567	631	602
Wholesale Trade	4,716	3,661	2,997	-1,719	-664
Retail Trade	6,935	7,528	6,158	-777	-1,370
Accommodation, Cafes and Restaurants	1,231	1,463	1,838	607	375
Transport and Storage	889	982	1,366	477	384
Communication Services	1,961	4,910	5,805	3,844	895
Finance and Insurance	3,484	2,687	3,079	-405	392
Property & Business Services	9,508	11,004	9,147	-361	-1,857
Government Administration and Defence	1,781	851	1,738	-43	887
Education	2,039	1,999	2,301	262	302
Health, Community, Cultural & Recreational Services	7,920	8,019	7,845	-75	-174
Other, Not stated	2,062	1,953	2,746	684	793
Total	10,320	11,027	10,651	100.0%	100.0%
Key Industrial Land Uses	9,602	9,284	7,596	-2,006	-1,688

The NSW Government's Transport Data Centre provides forecasts of employment change across the Sydney metropolitan area by industry category. In the inner suburban local government areas such as Willoughby LGA, the key areas of employment growth are forecast to

come from retailing and key office based employment sectors, in particular Finance, Insurance, Property and Business Services. There is also expected to be strong growth in food catering, which is highly correlated to the above sectors. Conversely, industrial sectors such as manufacturing, wholesale trade and transport and storage are expected to continue to lose employment in the inner suburban locations, primarily to industrial areas in outer suburban areas.

While there is a strong state government desire to retain local employment, the fact is that industrial uses have been declining in importance as an employment generator and industrial employment zones that deliver a broader mix of employment generating uses will be most successful in retaining and potentially growing employment numbers.

6. Employment Generation by Land Use

This section highlights the expected levels of employment generation for a range of uses that are typically found in industrial zones. Jones Lang LaSalle has previously conducted surveys of industrial zones in Southern Sydney and researched employment densities for different uses.

Modern industrial premises are relatively low employment generators. This is particularly the case for warehouses and distribution centres. Furthermore, manufacturing is becoming increasingly automated with labour intensive manufacturing moving offshore.

In order to either retain current levels of employment or increase employment in existing industrial zones, a more flexible approach to the range of uses permitted within industrial zones may need to be considered.

It is noted that bulky goods retailing, while providing significantly higher employment densities than most transport and storage uses, is a relatively low employment generator compared to manufacturing and other retail uses such as supermarkets.

Table 4: Comparison of Employment Generation by Land Use

Source: Jones Lang LaSalle

Use	Employees per 1,000sqm Floor Area
Offices	50-60
Retail Shops (incl. supermarkets)	35-40
High Tech Industrial	30-35
Service Trade Premises	20-25
Manufacturing	10-20
Wholesaling	8-12
Bulky Goods Retailing	8-12
Transport & Storage	4-5

Note: employment based on Full Time Equivalent employees

7. Market Impact of Proposed Development

This section summarises the market impact of developing a supermarket at the subject site.

Employment Growth

The supermarket is projected to employ considerably more employees than the existing Sundell Holden Service Centre, with retail uses such as supermarkets generating higher levels of employment than industrial uses.

Supply of Industrial Land

While this development will see a service industry use replaced with a retail use, we note the following:

- There is well over 100 vacant premises within the Chatswood East precinct, including 20 tenancies with in excess of 1,000sqm of space currently available;
- Current demand for light industrial uses is weak, with a major imbalance in the market (high levels of supply; low levels of demand);
- Nearby uses include a mix of non-industrial uses, including bulky goods premises;
- Structural changes within the industrial sector will continue to see a general movement of industrial uses to lower cost locations, providing opportunities for a broader range of land uses in the Chatswood East precinct.

Development Opportunities

Given the current level of over-supply, it is our view that industrial development would not be a viable alternative use for this site.

Furthermore, the high land values have pushed recent industrial development towards multi-storey strata unit developments, of which there is an over-supply of in the Chatswood East precinct.

Chatswood CBD

We do not consider this development competes with or has a significant impact on the Chatswood CBD. This is supported by the Economic Impact Assessment undertaken by Location IQ.

Furthermore, there is limited opportunities to locate supermarkets that serve the “convenience retail” market within the Chatswood CBD. Development sites are limited and a supermarket is unable to compete with high rise apartments and mixed use developments for such sites.