

ECONOMIC IMPACT ASSESSMENT

55-89 CHANDOS ST & 58-64 ATCHISON ST,
ST LEONARDS



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PER1131
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EXECUTIVE SUMMARY

The purpose of this report is to provide an economic impact assessment of the planning proposal to alter development controls for 55-89 Chandos Street & 58-64 Atchison Street, St Leonards.

The planning proposal seeks to alter the following:

- Increase maximum building height from part 20m and part 30m to site-specific building heights to allow maximum building height for up to:
 - Tower A (67-89 Chandos Street) from 20m to 101m
 - Tower B (58-64 Atchison Street) from 20m to 85m
 - Tower C (55-65 Chandos Street) from 33m to 67m.
- Introduce a new maximum floor space ratio control to allow up to:
 - Tower A (67-89 Chandos Street) 8.7:1
 - Tower B (58-64 Atchison Street) 9.1:1
 - Tower C (55-65 Chandos Street) 7.9:1.
- Increase the minimum non-residential floor space ratio from part 0.6:1 and 1:1 to:
 - Tower A to 1.6:1
 - No increase in non-residential FSR is proposed for Tower B
 - Tower C to 2.5:1.
- Introduce a new site-specific clause under Division 2 General Provisions to deliver up to 4,000sqm of community facilities across the site.

The planning proposal seeks to facilitate a mixed-use development on the subject site. The indicative concept plan proposed is a high-density mixed-use development spread over three towers and providing:

- 39,741 sq.m of residential apartments (438 units)
- 4,000 sq.m of creative space
- 3,258 sq.m of commercial space
- 1,650 sq.m of retail space.

Our analysis finds a number of key factors to support the proposed amendments and the subject site's redevelopment in accordance with the indicative concept plan.

1. **The existing commercial buildings, which include B and C-Grade commercial office that date back to the 1960s, are approaching the end of their economic life**

There are currently thirteen buildings on the subject site. The site areas for each building are small (on average 434 sq.m), while the site shape and fragmentation prevent large floor plates being developed. Twelve of these buildings are C grade office buildings and one building is B grade. The oldest buildings date back to the 1960s.

Given the sites age and lower grade stock there is an opportunity for the site's redevelopment as a mixed-use development, that can deliver higher quality commercial floorspace.

2. **Large “corporate” tenants are seeking larger floorplates, in which the St Leonards market is at a competitive disadvantage. The St Leonards / Crows Nest Office Market has growing demand from SMEs and medical tenants complementary to Royal North Shore Hospital.**

St Leonards has been at a competitive disadvantage to other office markets in providing large floorplates due to the fragmented nature of land. There is currently a trend in large “corporate” businesses seeking large floorplates, which has contributed to numerous tenants leaving the St Leonards market.

Neighbouring office market of North Sydney, Macquarie Park and Chatswood are now deemed more attractive for traditional office occupiers.

Market evidence indicates that this trend will continue for the foreseeable future and the net withdrawal of office space in the St Leonards / Crows Nest market (negative average take-up rate of -1,118 sq.m per annum since January 2000) will continue, given the following:

- Lack of investment in new office developments or refurbishments is clearly reflected in St Leonards holding the highest proportion of C-Grade stock relative to other Sydney office markets.
- St Leonards has the highest vacancy rate out of all metropolitan Sydney office markets. This reflects higher rents than nearby Macquarie Park and Chatswood, less desirable location than North Sydney, lower grade office stock and lack of amenity relative to other markets, as well as smaller floor plates.
- C grade office stock is being withdrawn from the St Leonards market, either for refurbishment or conversion to mixed-use and residential. This reflects the weak market demand for low grade office space.

These factors represent significant barriers to securing major office tenants that are necessary to support large scale office development.

Furthermore, the subject site's shape and size constrain its development as a large floorplate commercial office stock.

However, this does not preclude new demand for commercial space within the St Leonards and Crows Nest Station Precinct in general. Employment growth in the health, social services and education sectors are forecast.

Further development of the RNSH is expected to drive demand for commercial space in the health care and social services sector. The proposed mixed-use commercial office floorplate on the subject site could incorporate smaller floor plates catering to these tenants, while adding new higher quality commercial office to St Leonards office stock.

3. **There is sufficient proposed and vacant office development to support target employment growth within the St Leonards and Crows Nest Station Precinct.**

Employment targets indicate between 6,900 and 16,400 jobs growth from 2016 to 2036, which is equivalent to between 45,910 sq.m and 101,178 sq.m of additional office space by 2036.

Supply of available office space by 2036 is forecast to be 135,954 sq.m. This is made up of the following:

- Existing vacant office stock (30,274 sq.m)
- Proposed office space NLA (109,600 sq.m) focused around Royal North Shore Hospital, Gore Hill Technology Park and 88 by JQZ as well as 7 other significant developments in the pipeline.

This equates to **a surplus of 34,776 sq.m** of commercial office if the **16,400 job high case** is achieved and **90,044 sq.m** of commercial office if the **6,900 job low case** is achieved of office space by 2036.

- As such, the St Leonards and Crows Nest Station Precinct has sufficient commercial space currently vacant and in the pipeline to achieve the North District Plan's base target (6,900) and high target (16,400) new jobs by 2036.
- Office accommodation that is directed to the Health Care and Social Services sector will support the strategic development and 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.

- 4,000 sq.m of the non-residential space on the proposed development will be creative space, and 3,258 sq.m will be smaller floorplate commercial. This mix will give the development flexibility to meet ongoing commercial floor space needs, in a format and floor plate compatible with demand in the area.

4. The proposed mixed-use development will have the potential to deliver a number of economic benefits to the St Leonards and Crows Nest Station Precinct.

The Indicative Concept Design includes 3,258 sq.m of commercial office space, 4,000 sq.m creative space and 1,650 sq.m of retail space.

A redevelopment in accordance with this Indicative Concept Plan 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 516 total jobs, including 342 direct and 175 indirect jobs.

While this job creation will not fully mitigate the loss of 11,515 sq.m of office NLA in the existing building, which accommodates approximately 442 workers, the project will deliver other significant economic benefits, 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
- Additional retail services and creative space will diversify the job base with non-office based occupations
- The 438 residential apartments would improve the supply of apartments within the St Leonards and Crows Nest Metro Precinct and would potentially accommodate 1,014 additional residents. The increase in residents is estimated to result in an increase of \$20.6 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 2,950 sq.m, 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 99 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16 sq.m).

5. The proposed mixed-use development will have the potential to create public realm and amenity benefits for the St Leonards and Crows Nest Station Precinct.

The development will maintain 4,000 sq.m of creative space, which is an uplift from the 1,500sq.m currently provided on the site. This will provide a number of benefits to the precinct including:

- Improvements to the amenity and activation of St Leonards through the provision of new open space, increased recreational uses, and improved pedestrian circulation.
- A number of arts and events venues (e.g. art galleries, event space, community meeting facilities) which would help attract a large and varied audience to the site and bring new activities to the area. Important facilities would include incubator spaces, shared office spaces and creative retail tenancies.
- Enhancing the vibrancy of the area and attracting new workers, residents and visitors. This will be further supported by TWT's broader placemaking strategy for the development.
- TWT will provide two studio live/work studios within the development with attached work-space for artists based outside of Sydney, at a subsidised rental rate.

INTRODUCTION

Urbis has been appointed to undertake an economic impact assessment of a planning proposal to alter the height limit of 55-89 Chandos Street and 58-64 Atchison Street, St Leonards.

The planning proposal seeks to alter development controls to facilitate the site's redevelopment, these include:

- Increase maximum building height from part 20m and part 30m to site-specific building heights to allow maximum building height for up to:
 - Tower A (67-89 Chandos Street) from 20m to 101m
 - Tower B (58-64 Atchison Street) from 20m to 85m
 - Tower C (55-65 Chandos Street) from 33m to 67m.
- Introduce a new maximum floor space ratio control to allow up to:
 - Tower A (67-89 Chandos Street) 8.7:1
 - Tower B (58-64 Atchison Street) 9.1:1
 - Tower C (55-65 Chandos Street) 7.9:1.
- Increase the minimum non-residential floor space ratio from part 0.6:1 and 1:1 to:
 - Tower A to 1.6:1
 - No increase in non-residential FSR is proposed for Tower B
 - Tower C to 2.5:1.
- Introduce a new site-specific clause under Division 2 General Provisions to deliver up to 4,000sqm of community facilities across the site.

The indicative concept facilitated by this planning proposal includes:

- 39,741 sq.m of residential (at a floor space ratio of 7:1)
- 8,730 sq.m non-residential (FSR 1.6:1) split into creative, retail and office space.

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 and state government policy.
- **Section 2** provides an overview of the Metropolitan Sydney office market, specifically focusing on the performance of the St Leonards / Crows Nest office market over the last decade and investment therein. This section identifies the amount of future commercial floor space that will cater to office employment within the St Leonards and Crows Nest Station Precinct.
- **Section 3** analyses the employment growth in the St Leonards and Crows Nest Station Precinct and estimates the future office NLA required to meet North District Plan job growth targets and Bureau of Transport Statistics employment forecasts (2016). This section forecasts the gap in future supply of office space relative to future demand from office-based jobs.
- **Section 4** conducts an economic benefit analysis of the direct and indirect impacts associated with the proposed development.

Picture 1 – 52 – 64 Atchison Street (Subject Site)



Picture 2 – 67-89 Chandos Street (Subject Site)



Existing Buildings

Subject Site

Table 1.1

Address	Grade	Year Built	Year Refurbished	Storeys	Floorspace (NLA)	Tenants	Car Parking Spaces
55-61 Chandos Street	B	1972	1994	7	3,728 sqm	At Events, Auscontact Association, Bench Media Group, Care in the Cloud, ChemCert, Diagnostech, Eclipse, Global Transport & Automotive Insurance Solutions, Quantum Risk Management Pty Ltd, RPM Global, Secom Australia, The Legends Club, and TWT Property Group	51
63-65 Chandos Street	C			3	521.60 sq.m	Bridging Hope Charity Foundation	7
67-69 Chandos Street	C		1997	3	903 sq.m	-	Y
71-73 Chandos Street	C		1997	3	1,100 sq.m	AIPI/Regentwood, Arcadia, Arts Incubator by Brand X, BitScope, Einsteinz Communications	Y
75-77 Chandos Street	C			2	393 sq.m	Tanya Pearson Classical Coaching Academy & Sydney Youth Ballet	Y
79-81 Chandos Street	C		2002	2	629 sq.m	Clearstate, DNW Group and Emotif Promotional Products	Y
83-85 Chandos Street	C	1969	2010	3	996 sq.m	Boloni Kitchens & Bathrooms, CoCreation and Thetahealing Australia, and Phyt's Australia Organic Skin Care	10
87 Chandos Street	C			1	230 sq.m	Kinetica Physiotherapy	Y
89 Chandos Street	C		1998	3	699 sq.m	a+ Design Group, and S&J Media Group	Y
64 Atchison Street	C	2001		3	521.6 sq.m	North Shore Veterinary Hospital	Y
62 Atchison Street	C			2	319 sq.m	Bakedown Cakery	Y
60 Atchison Street	C	1972		2	585 sq.m	Brand X Studio, Contact Sheet, TWT Creative Precinct	Y
58 Atchison Street	C		1997	3	890 sqm	Brand Dimensions, B-Side Sound, Event Projects, Jazz Workshop Australia, and Lonely Kids Club	Y
Total					11,515.20 sq.m		

Source: Cityscope

1.2. SITE LOCATION, AMENITY AND INFRASTRUCTURE

Map 1.2 shows the subject site in relation to key infrastructure, employment and amenity within the St Leonards Strategic Centre including:

- St Leonards Railway Station (370m to the west)
- Proposed Crows Nest Metro Station (340m to the south east)
- Royal North Shore Hospital (600m to the north west)
- Mater Hospital (1km to the south east)
- TAFE St Leonards Campus (1km to the west)
- Artarmon Industrial Land (800m to the north west)
- Gore Hill Technology Park (1.2km to the west)
- Willoughby Road Restaurants (240m to the south east).

The site is accessible by train (North Shore Line), bus and car. Approximate travel times on public transit to nearby business, education and retail destinations are as follows:

- 15 minutes to Chatswood or North Sydney.
- 20 minutes to Wynyard.
- 25 minutes to Town Hall.
- 25 minutes to Macquarie Park and Macquarie University.
- 40 minutes to Australian Technology Park, Redfern.



1.3. PROPOSED CONCEPT

This report seeks to assess the impact of the planning proposal to alter the subject site's development controls:

- Increase maximum building height from part 20m and part 30m to site-specific building heights to allow maximum building height for up to:
 - Tower A (67-89 Chandos Street) from 20m to 101m
 - Tower B (58-64 Atchison Street) from 20m to 85m
 - Tower C (55-65 Chandos Street) from 33m to 67m.
- Introduce a new maximum floor space ratio control to allow up to:
 - Tower A (67-89 Chandos Street) 8.7:1
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 - Tower C (55-65 Chandos Street) 7.9:1.
- Increase the minimum non-residential floor space ratio from part 0.6:1 and 1:1 to:
 - Tower A to 1.6:1
 - No increase in non-residential FSR is proposed for Tower B
 - Tower C to 2.5:1.
- Introduce a new site-specific clause under Division 2 General Provisions to deliver up to 4,000sqm of community facilities across the site.

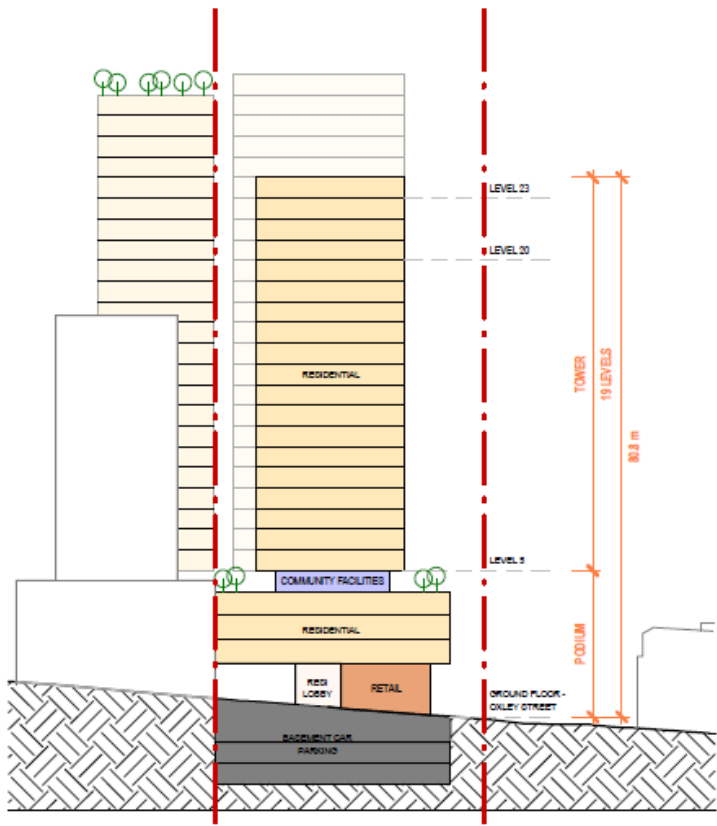
The indicative concept facilitated by the proposed changes to the planning proposal includes:

- 39,741 sq.m of residential equating to 438 apartments (at a floor space ratio of 7:1)
- 8,730 sq.m non-residential (FSR 1.6:1) split into 4,000 sq.m of creative space, 3,258 sq.m of office and 1,650sq.m of retail.

The indicative concept is proposed to be developed as three mixed use towers:

- Tower A: 20,428 sq.m of residential GFA, 4,000 sq.m of creative space GFA, 769 sq.m of retail GFA
- Tower B: 12,215 sq.m of residential GFA, 881 sq.m of retail GFA.
- Tower C: 7,098 sq.m of residential GFA, 3,258 sq.m of commercial GFA.

Figure 1 – Indicative Concept



1.4. RELEVANT PLANNING POLICY

There are a number of relevant strategic studies and plans that have been undertaken that have implications for the ongoing development of the St Leonards Strategic Centre.

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 planning proposal for 55-89 Chandos Street and 58-64 Atchison Street, and identify the planning proposal's potential economic impact on the St Leonards Strategic Centre as an employment precinct.

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 growth of 6,900-16,400 jobs between 2016 and 2036.**

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.*

The District Plan recognises the importance of St Leonards as a key employment centre in Greater Sydney. The District Plan highlights the following key actions relating to employment within St Leonards:

- Leverage the new Sydney Metro Station at Crows Nest to deliver additional employment capacity

- Leverage the Royal North Shore Hospital and Mater Hospital to grow jobs in complementary health services and existing education facilities.
- Grow jobs in the centre
- Promote synergies between the RNSH and other health and education-related activities, in partnership with NSW Health
- Protect the adjoining industrial zoned land for a range of urban services.

St Leonards is identified as a Collaboration Area in the District Plan, with the DPE leading planning in this area in collaboration with the GSC, the three related councils, NSW Health, Transport for NSW, NSW Department of Industry and TAFE NSW.

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 3 shown overleaf. The Planning Study identifies the subject site as part of a 'creative quarter', being as being an important transition between Crows Nest and St Leonards, and states that the site's master plan should:

- Create a vibrant, new precinct that supports creative industries and start-up businesses
- Offers 'Dank Street-style' galleries specialty retail
- Activates and embellishes the Oxley Street linear park
- Offers high quality urban living.



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.

1.5. SUMMARY AND IMPLICATIONS

St Leonards has been identified as a Strategic Centre by the Greater Sydney Region Plan, and as having the following jobs targets by the North District Plan (2018):

- A job target of 54,000-63,500 by 2036, compared to 2016 figures of 47,100 existing jobs.
- This represents growth of 6,900-16,400 jobs between 2016 and 2036.

As such the ongoing employment function of St Leonards is an important consideration in assessing changes to planning controls.

However, beyond the employment considerations, there is a recognition that St Leonards functions beyond purely employment, with the subject site zoned for mixed use and a part of a 'creative quarter', as outlined in the North Sydney Planning Study (2015).

- Create a vibrant, new precinct that supports creative industries and start-up businesses
- Offers 'Dank Street-style' galleries specialty retail
- Activates and embellishes the Oxley Street linear park
- Offers high quality urban living.

As such while economic impact of the planning proposal is a key component of this study, the contribution of the proposed development to other outcomes are considered:

- Increase retail spend of future residents
- Contribution of creative / community facilities to the 'creative quarter'
- Diversity of employment jobs
- Public realm and amenity improvements.

2. OFFICE MARKET REVIEW

This section assesses the strength of the office market in the St Leonards Centre in comparison to other North Shore Centres, Sydney CBD and Parramatta. The key benchmarks for St Leonards include:

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

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 Centre is located around 5km north of the Sydney CBD between the North Sydney, Chatswood and Macquarie Park office markets (Map 2.1). As at July 2018, St Leonards had a total of 306,881 sq.m of office space. That makes it smaller than the North Sydney (810,430 sq.m) and Macquarie Park (869,034 sq.m) office markets, but slightly larger than Chatswood (278,979 sq.m).

St Leonards has the highest vacancy rate (9.9%) out of the comparative Sydney office markets. The vacancy rate has remained high (15-year average of 12.3%) despite declining office stock over the past 5 years as older office stock is withdrawn. The average gross rent for A-grade office space in St Leonards is \$672 per sq.m, which is below North Sydney (\$877) but above Macquarie Park (\$478) and Chatswood (\$631).

Sydney Metropolitan Office Markets

Map 2.1

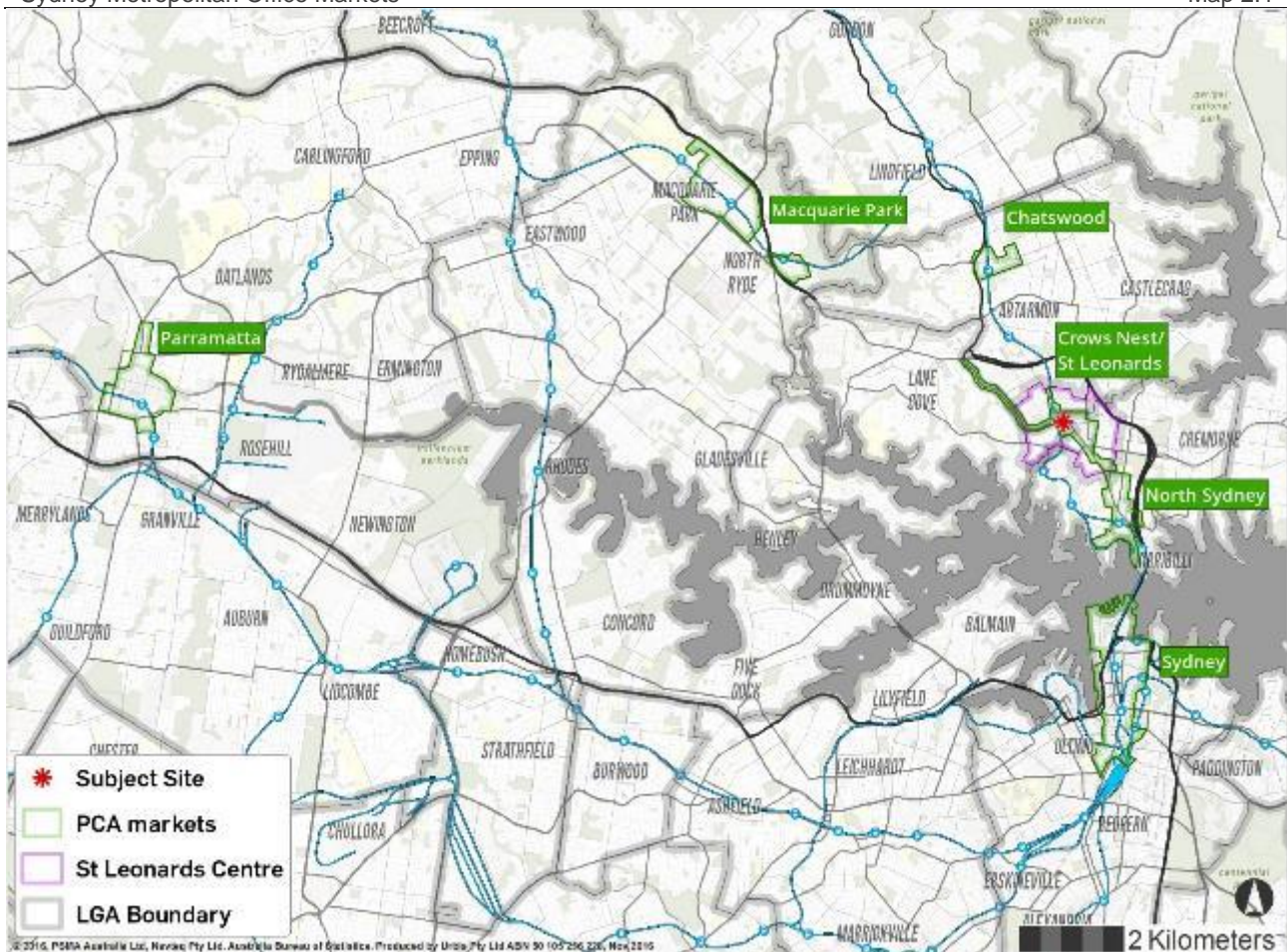


Chart 2.1 illustrates the total quantum of office stock in the St Leonards / Crows Nest market, and the office grade composition since the year 2000. As of July 2018, approximately 46% of office stock in St Leonards / Crows Nest was classified as C or D grade.

C and D grade office space historically accounted for approximately 40% of total office stock in the St Leonards / Crows Nest market, however has fluctuated since 2009.

The increase in 2009 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 grade to C grade stock. The fall between 2017-18 was due to C and D grade stock being withdrawn from the market.

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

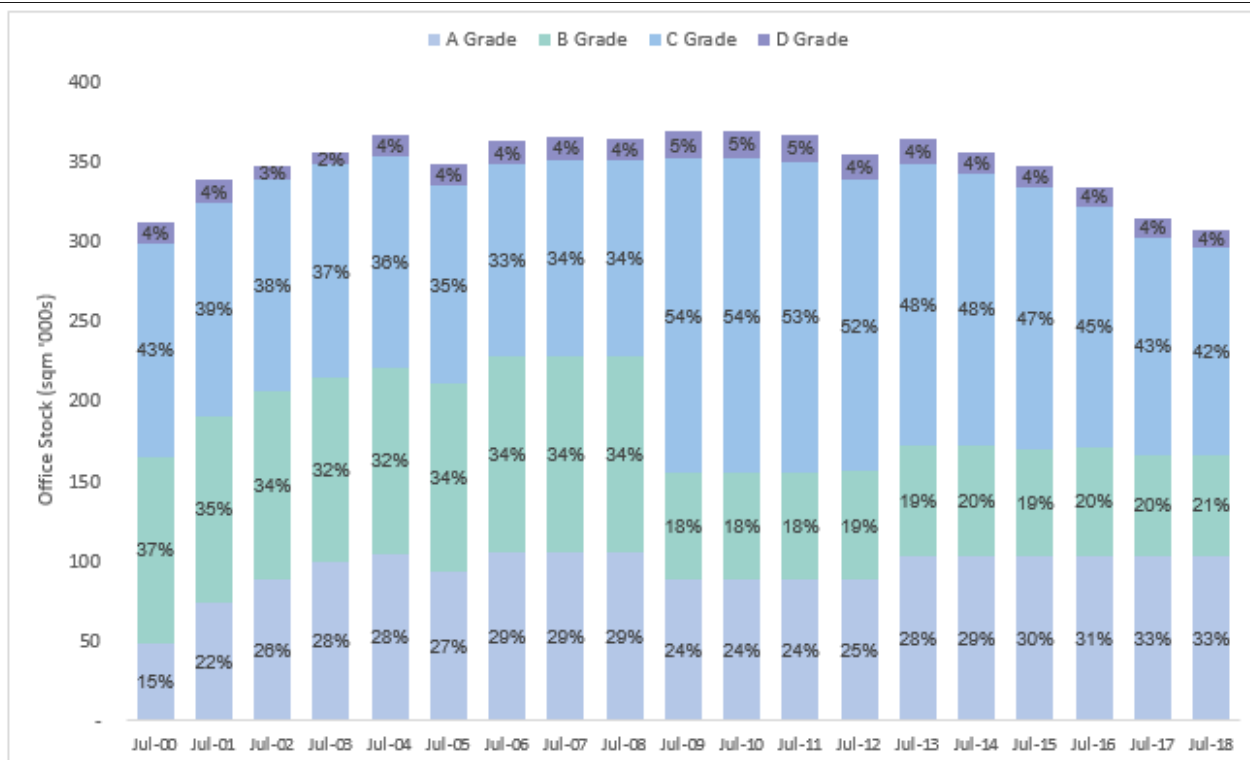
- A decline in total office stock in St Leonards / Crows Nest. The total office stock has decreased by 61,300 sq.m since July 2009 (from about 368,000 sq.m to 307,000 sq.m in July 2018)
- The largest annual decline in office stock occurred in 2016, when stock fell by 29,300 sq.m (8%) in the year to January 2017
- A-grade stock has remained constant since 2013. The overall reduction in office stock was due to the withdrawal of B, C and D-grade stock from the St Leonards / Crows Nest market
- Consequently, the proportion of lower grade stock in St Leonards / Crows Nest has declined from 76% in July 2010 to 67% in July 2018.

It is noted that the subject site currently contributes approximately 7,300 sq.m of net lettable office space that would be measure in the Property Council of Australia Survey as C grade quality, and 3,700 sq.m of B grade.

Office Stock by Grade

St Leonards and Crows Nest

Chart 2.1



Source: PCA Office Market Report 2018; Urbis

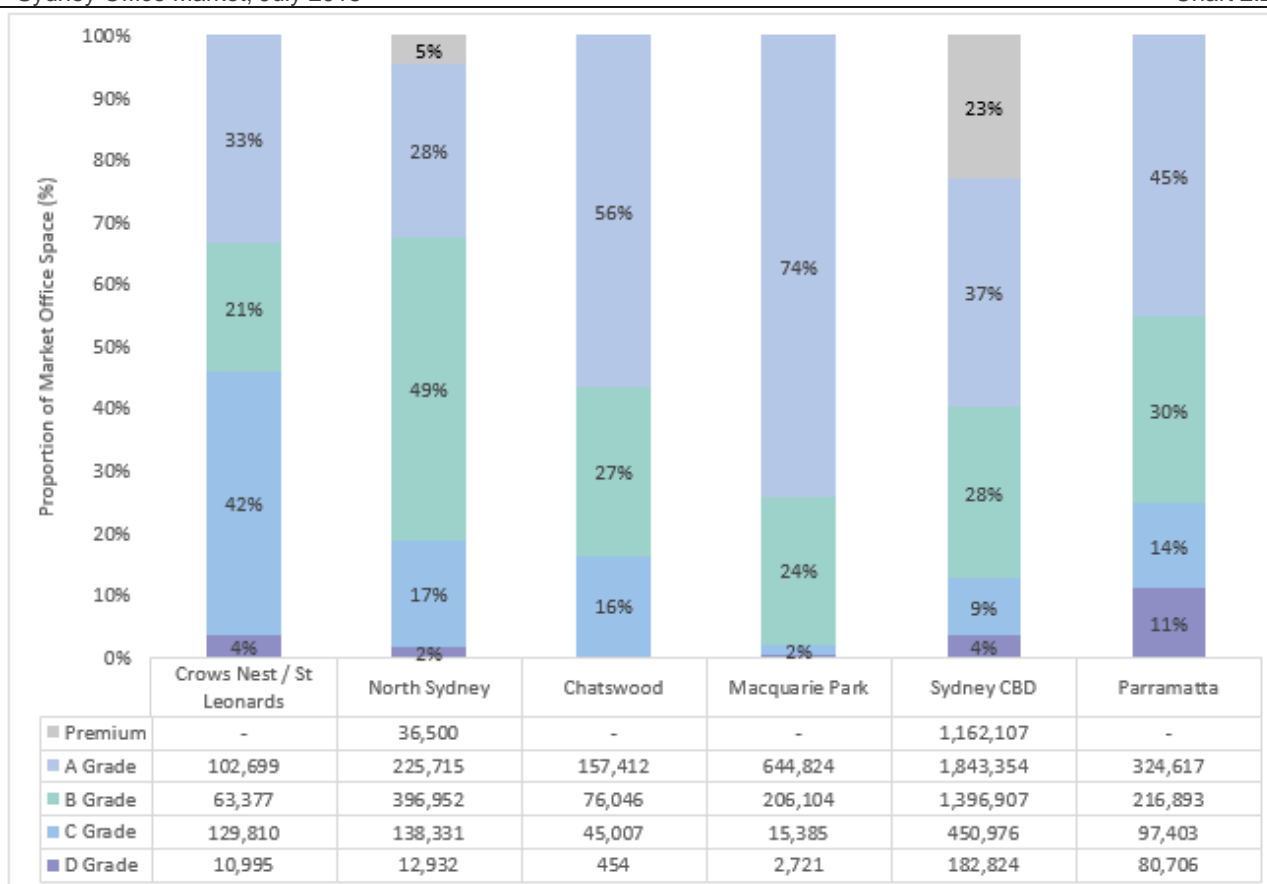
Chart 2.2 shows the distribution of St Leonards / Crows Nest's office stock quality compared to other major commercial centres. It illustrates that:

- C-Grade stock accounts for 42% of office stock in St Leonards./ Crows Nest, which is significantly higher than all other major commercial centres.
- Sydney CBD has the highest proportion of premium office stock at 23%.
- Chatswood and Macquarie Park have large proportions of A-Grade stock.
- North Sydney has the highest proportion of B-Grade stock at 49%.
- 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 2018

Chart 2.2



Source: PCA Office Market Report 2018; Urbis

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

A recent example of this was the relocation of STW group who vacated 11,221 sq m at 72 Christie Street, St Leonards and relocating into the Sydney CBD (North Shore Office Market Overview March 2018, Knight Frank).

2.2. NET ABSORPTION AND VACANCY

Since January 2000, there has been a net absorption of -21,251 sq.m of office floor space in St Leonards / Crows Nest, equating to a negative take-up rate of -1,118 sq.m per annum. In the six months to July 2018, net absorption increased by 3,090 sq.m. This result stemmed two years of negative net absorption. In the two years since July 2016, net absorption was -28,782 sq.m.

In line with the negative net absorption, the vacancy rate in St Leonards / Crows Nest has increased from 8.5% in July 2016 to 9.9% in July 2018.

In Crows Nest / St Leonards there has been an increase in vacancy across A and B grade stock and a decrease in vacancy in C and D grade stock during the last two years. These changes are driven by a range of factors, given that they service different tenant markets:

- The vacancy rate of A grade stock in St Leonards / Crows Nest increased from 2.9% in July 2016 to 14.9% in July 2017, where it has remained high (14.8% in July 2018). This change is mirrored by negative net absorption of A-grade office space of 11,542 sq.m since July 2016. These movements indicate that tenants seeking higher quality office space are moving to other markets. It is unlikely that the subject site would be able to access the A grade commercial market given it is mostly C grade in its current form and the proposed development has generally smaller floorplates.
- The vacancy rate of B grade stock in St Leonards / Crows Nest saw a rapid six-month increase from July 2016 (6.3%) to January 2017 (17.8%). This was likely linked to the negative net absorption of 11,818 sq.m of B-grade stock in the same period. Since then, the B grade vacancy rate has significantly declined back to 8% in line with positive net absorption of 6,191 sq.m.
- The vacancy rate of C grade stock reduced from 12.7% in July 2016 to 7.2% in July 2018. Over the same period, occupied C grade stock decreased by 10,539 sq.m. This suggests the reduction in vacancy rate was due to the withdrawal of vacant C-grade stock, rather than take-up of vacant stock.
- The vacancy rate of D grade stock fell from 14.6% to 6.5% between July 2016 and July 2018. This is now the lowest vacancy rate of all office stock grades in Crows Nest / St Leonards.

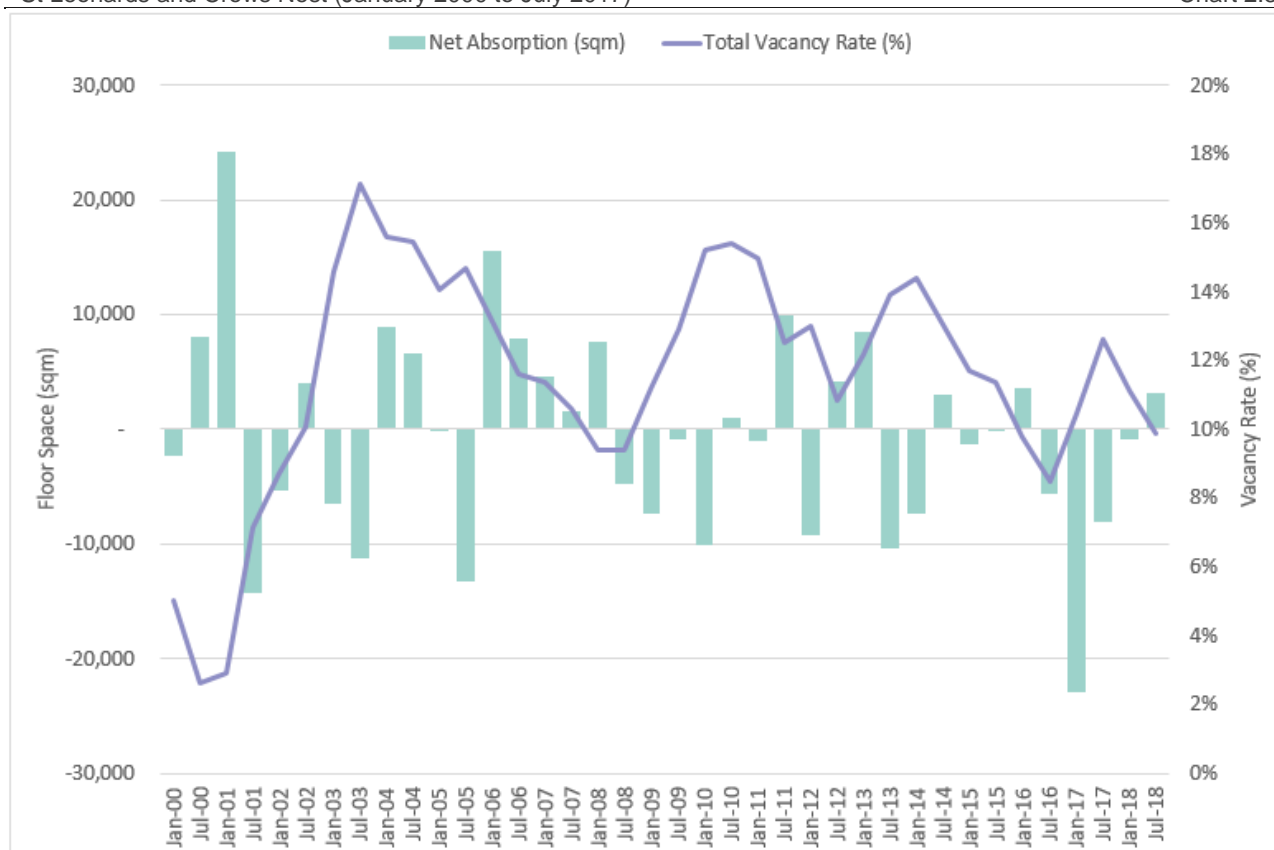
Chart 2.3 shows the trend in vacancy rate of office stock in St Leonards / Crows Nest. The chart shows a declining vacancy rate from 2014 to 2016 and clear reversal of this trend from July 2016 to July 2017. Over the year to July 2018, vacancy rates declined once again to just below 10%. This decline was in line with falling vacancy across other markets, reflecting market-wide factors.

If the historical office market net absorption rate of -1,118 sq.m per annum in St Leonards is maintained, it will result in approximately 22,360 sq.m of additional stock being vacant or withdrawn by 2038 (20 years from 2018).

Net Absorption and Vacancy Rate

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

Chart 2.3



Source: PCA Office Market Report July 2018; Urbis

Chart 2.4 compares office market vacancy amongst Sydney office markets from January 2000 to July 2018, and provides an indication of market demand for commercial office floor space across Metropolitan Sydney's CBDs and centres. St Leonards has consistently displayed high vacancy compared with the major office markets across Sydney.

In July 2018, St Leonards / Crows Nest had the highest vacancy rate at 9.9%. The 15-year average vacancy rate in St Leonards / Crows Nest is 12.3% (July 2003 – July 2018). This is higher than North Sydney (9.2%), Macquarie (9.1%), Chatswood (11.7%), Sydney CBD (7.6%) and Parramatta (7.7%).

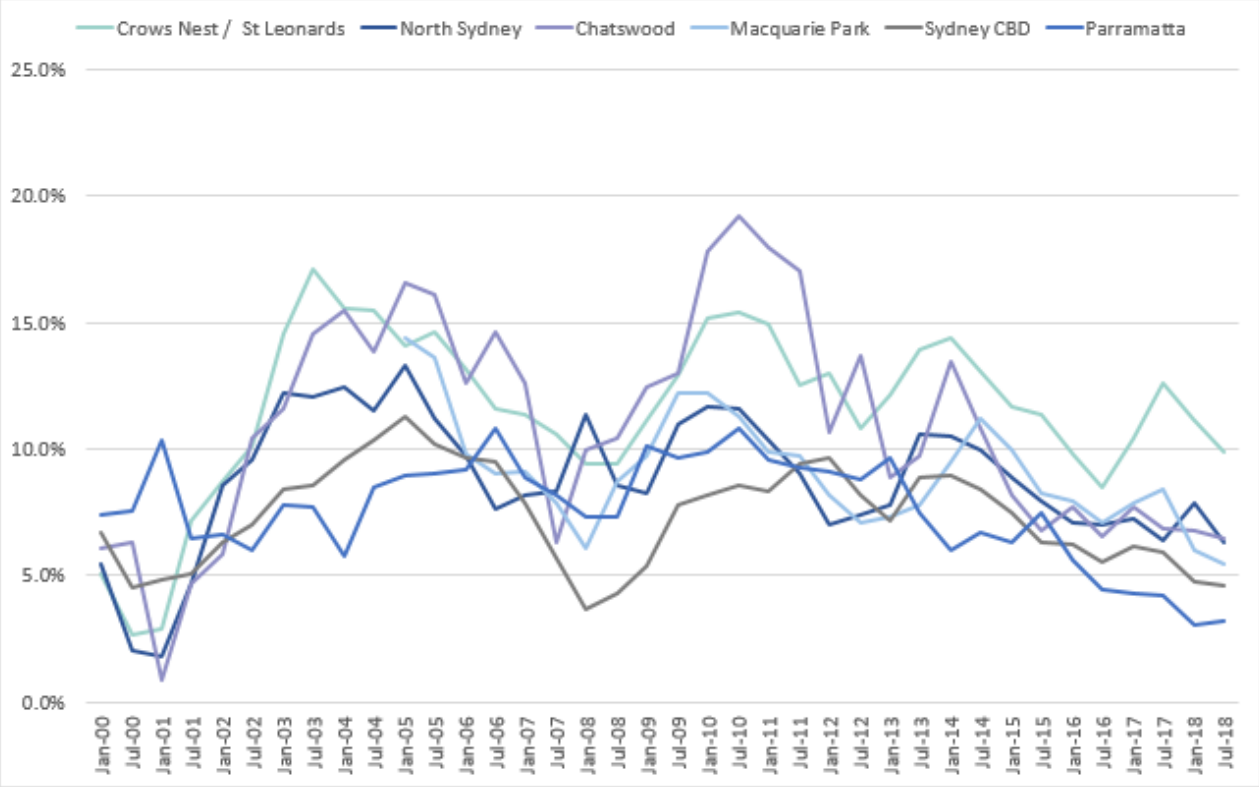
Historically, St Leonards and Chatswood have displayed the weakest office markets as measured by vacancy, whilst also being less competitive due to higher costs compared to the Macquarie Park/North Ryde and other suburban locations. This weakness is due, in part, to the comparative lack of amenity St Leonards offers relative to other office sub-markets (as further explained in Section 2.3).

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

Office Space Vacancy Rate

Sydney Office Market (2000 to 2017)

Chart 2.4



Source: PCA Office Market Report July 2018; Urbis

2.3. MARKET COMPARISON

A comparative review between St Leonards and other commercial precincts within Sydney is outlined below in Table 2.1. The precincts analysed include Sydney CBD, Parramatta, North Sydney, Chatswood, and Macquarie Park Corridor. The following tables have been completed to identify the future characteristics driving tenant and investment interest across different markets. It considers the rents, vacancies, transport connectivity and convenience, future supply, retail and amenity, walkability and mooted developments within each commercial precinct.

The key findings from this competitive review include:

- St Leonards / Crows Nest office market has approximately 306,900 sq.m of commercial floor space as at July 2018. This is more commercial floor space than what is available in the Chatswood market, but less than North Sydney, Macquarie Park, Parramatta and Sydney CBD.
- St Leonards has higher rent than other North Shore locations such as Chatswood and Macquarie Park. Construction, development and acquisition costs are a primary driver of rising rents. The fragmented land ownership of buildings in St Leonards makes it more expensive to consolidate sites. The higher cost in St Leonards drives up the yields required to justify this higher cost, and the subsequent rent sought for office space.
- St Leonards' fragmented land contrasts more suburban locations such as Macquarie Park, which allows for cost efficiency through the development of larger consolidated floor plates.
- Overall, the rental analysis illustrates that the St Leonards / Crows Nest office market has a higher rental cost base compared to locations closer to the CBD, while not having the locational amenity of more central locations such as North Sydney, Sydney CBD or Parramatta. The lack of amenity has a negative impact on St Leonards competitiveness compared to other office market locations.
- St Leonards has the lowest annual net absorption over the last 10 years (the only office market with negative average annual net absorption). It also has the highest long term and current commercial vacancy rate out of all comparative markets. As a result, it has the highest average incentive at (24.5% on gross).
- In terms of public transport, St Leonards 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 (which has ferry and light rail accessibility), and Parramatta and North Sydney (which can be accessed by Ferry).
- St Leonards 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' office market has not continued to attract new office investment, office developments or major refurbishments. In effect, the appeal of St Leonards 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.
- When compared to other office precincts, the retail provision at St Leonards is poor due to the lack of a major retail centre, making it less attractive to workers and potential tenants.
- Macquarie Park has major retail amenity at Macquarie Centre, while North Sydney is serviced by four supermarkets and a substantial fashion offering also having proximity to the Sydney CBD. Chatswood also has two major retail centres, including a Westfield. By comparison, St Leonards has a limited of food and beverage offer within St Leonards Forum, one Coles express, and no discretionary retail.

Market Comparison

Sydney Office Markets

Table 2.1

	Crows Nest / St Leonards	Sydney CBD	Parramatta	North Sydney	Chatswood	Macquarie Park
Indicative Commercial NLA (sq.m) (July 2018)	306,900	5,036,200 ↑	719,600 ↑	810,400 ↑	278,919 ↓	869,034 ↑
Average A Grade Gross Rents (\$ per sq.m, Jan '18)	\$672	\$1100 - \$1300	\$629	\$877	\$631	\$478
Average B, C and D Grade Gross Rents (\$ per sq.m per annum, Jan '18)	\$615	\$800 - \$1000	\$536	\$742	\$547	\$425
Commercial Vacancy Rates (overall) (July 2018)	9.9%	4.6% ↓	3.2% ↓	6.3% ↓	6.5% ↓	5.4% ↓
Long Term Average Vacancy Rates (15 years to July 2018)	12.3%	7.6% ↓	7.7% ↓	9.2% ↓	11.7% ↓	9.1% ↓
Average Annual Net Absorption (10 years to July 2018)	-3,411	42,303 ↑	13,020 ↑	2,803 ↑	1,231 ↑	27,551 ↑
Average Incentives (Gross unless stated otherwise)	24.5% - 24.7%	17% - 24% (Net)	18.4% - 20.6%	19.8% - 23.0%	24.2% - 24.3%	24% - 25% (Net)
Transport Infrastructure	Train Bus Vehicle	Train Bus Vehicle Ferry Light Rail	Train Bus Vehicle Ferry	Train Bus Vehicle Ferry	Train Bus Vehicle	Train Bus Vehicle
Investment in New Transport Infrastructure	Sydney Metro Station at Crows Nest will improve rail accessibility	Light rail under construction and construction of new Metro Stations	Light rail estimated completion date of 2020	Victoria Cross Metro Station	Sydney Metro Station will improve rail accessibility	Sydney Metro Station will improve rail accessibility

Mix of Office Stock	Premium	0%	23%	0%	5%	0%	0%
	A Grade	33%	37%	45%	28%	56%	74%
	B Grade	21%	28%	30%	49%	27%	24%
	C Grade	42%	9%	14%	17%	16%	2%
	D Grade	4%	4%	11%	2%	0%	0%
Typologies		Lower quality mix overall	Broad mix in a large market	Broad mix of non-premium in a large market, high proportion of A grade stock	High proportion of sub-prime space	High focus on A grade stock	Focus on A grade stock with large floorplates - generally newer buildings
Retail Provision (Major Retail Centres/Locations)		The Forum, limited commuter focused centre	Superior retail provision (Pitt St Mall, QVB, The Galleries, Westfield Sydney, & Department Stores)	Superior retail provision (Westfield Parramatta)	Superior Retail Provision (Greenwood Plaza)	Superior retail provision (Westfield Chatswood & Chatswood Chase)	Superior retail provision (Macquarie Centre)
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	Good Four supermarkets now and fashion retail provision in Greenwood Plaza	Superior retail provision, albeit some of the larger centres are slightly removed.	Largest shopping centre in Sydney however poor accessibility for some part so the precinct due to disbursed nature of area.

Public Domain	Poor public domain provision with centre being quite disconnected (although in line for improvements)	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.
Potential Future Office Supply (sq.m)	102,600	350,177	307,842	126,000	N/A	217,545

Source: PCA Office Market Report July 2018; Knight Frank Office Market Overview March 2018 (North Shore, Sydney CBD, Parramatta)

The result of the analysis does not preclude demand for commercial floor space in St Leonards going forward. A growing population will likely be focussed in the health care and social services sector.

In 2016, the health care and social services sector provided 9,831 (21%) jobs in St Leonards / Crows Nest. According to the NSW Bureau of Transport Statistics employment forecasts this figure is projected to grow to 11,341 by 2036. This equates to growth of approximately 1,500 jobs over the next 20 years.

As part of the government-led redevelopment of the Royal North Shore Hospital (RNSH), there is early planning for an additional 20,000 sq.m of office NLA. This development will support significant jobs growth in the health services sector, anchored by the NSW Government.

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

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 further support future growth in the health care and social services sector.

2.4. FUTURE SUPPLY

In addition to the existing supply of office space in St Leonards, there are ten significant developments in the pipeline which contain a combined office floor space of approximately 109,600 sq.m. These are summarised in Table 2.3. A large portion of future office supply will be located within the Gore Hill Technology Park. Building D within Gore Hill Technology Park has been rezoned to B7 Business Park and development approval has been obtained for three towers totalling approximately 46,000 sq.m (pending tenant pre-commitments).

The redevelopment of Royal North Shore Hospital (RNSH) has been an ongoing government-led project since 2006. The original concept plan included scope for 108,000 sq.m of commercial floor space, much of which has already been developed. A modification to this concept plan has been approved for Precinct 4f of the hospital to include 27,000 sq.m NLA for health-related commercial floor space. There are also seven mixed use developments planned within the St Leonards Strategic Centre that include approximately 36,600 sq.m of commercial NLA.

Proposed Office Developments

Crows Nest / St Leonards

Table 2.2

Project	Owner	Stage	Completion Year	Avg. Floorplate (sq.m)	No. Storeys Office-Use	Net Lettable Area (sq.m)
Gore Hill Technology Park	Lindsay Bennelong Development	Development Approval	Mooted	2,000	6 - 8	46,000
St Leonards Square	Mirvac Group	Construction	2020	1,300	3	4,200
Atchison Street Mixed Development	Electroboard	Development Approval	2020	460	5	2,300
Albany Street Mixed Development	Austino Property Group	Construction	2020	1,000	1	1,000
575-583 Pacific Highway Mixed Development	Rozene Pty Ltd & Rosemate Pty Ltd	Rezoning Application	2022	-	8	2,600
Royal North Shore Hospital - Precinct 4	NSW Government	Development Application	2023	2,700	10	27,000
88 by JQZ	JQZ	Development Application	2023	1,287	15	19,300
617-621 Pacific Highway Mixed Use Development	Anason City Developments Pty Ltd	Rezoning Application	2023	900	3	2,700
Christie Street Mixed Development	Altis Property Partners	Rezoning Application	2024	750	6	4,500
Total						109,600

Source: Cordell Connect; Knight Frank North Shore Office Market Review March 2018; NSW Department of Planning & Environment

2.5. SUMMARY AND IMPLICATIONS

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

- A comparative study of competing office markets finds that the St Leonards office market currently has several characteristics that make it less attractive to potential tenants, namely:
 - **Lower quality stock:** A lack of investment into new office developments or major refurbishments, clearly reflected in the high proportion of C-Grade stock relative to other major office markets
 - **Low grade stock withdrawals:** C-Grade and D-Grade stock in St Leonards is being withdrawn from the market, either for refurbishment or conversion to residential and mixed use. This reflects lower market demand for C and D grade office space in the area.
 - **Net office space withdrawal:** negative average take-up rate of -1,118 sq.m per annum since January 2000 indicates that larger corporate tenants prefer higher grade office floor space with large open floorplate.
 - **High vacancy rates:** continuing the long-term trend, July 2018 vacancy rate in St Leonards (9.9%) was the highest out of the Metropolitan Sydney office markets (Chatswood was the next highest at 6.5%). This higher vacancy rate reflects lower market interest than nearby office markets, which can be attributed to several characteristics, including:
 - **Limited amenity:** 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, Westfield Chatswood and Chatswood Chase.
 - **Less affordable rents:** North Ryde / Macquarie Park and Chatswood are both more affordable than St Leonards.
 - **Constrained ability to offer large floor plates.** Large office tenants are trending toward large consolidated floor plates in order to achieve efficiencies. The nature of land ownership in St Leonards is fragmented and constrains ability to offer larger floorplates (unlike Macquarie Park).
- Future supply of office developments in the St Leonards / Crows Nest market is expected to be mainly in the Gore Hill Technology Park, which has capacity to accommodate large floor plate office buildings, and within the Royal North Shore Hospital where NSW Health is a pre-determined anchor tenant. We also note that 88 by JQZ, currently under development application, could supply the most future commercial space in St Leonards outside of the RNSH or Gore Hill Technology Park.

Implications for future development at the subject site include:

- The subject site's location in the core of St Leonards faces significant competitive barriers to attracting major office tenants that would support large scale office development.
- Further development of the RNSH is expected to drive demand for commercial space in the health care and social services sector. A mixed use development on the subject site could incorporate smaller floor plate commercial space aptly catering to such tenants.

3. OFFICE FLOORSPACE DEMAND

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

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.

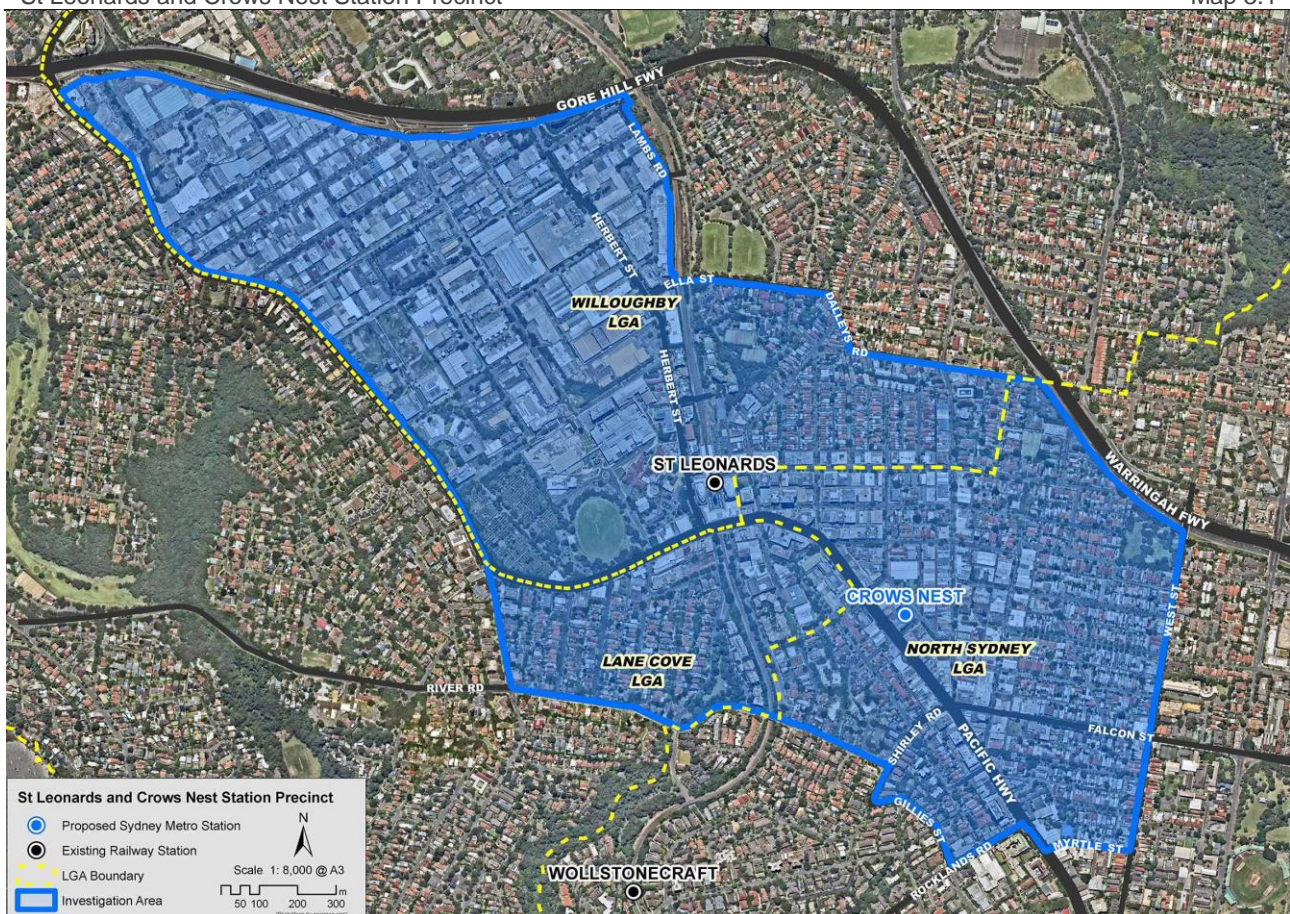
Future demand for commercial floor space in St Leonards / Crows Nest has been estimated by applying floor space (sq.m) / employment ratios to the Bureau of Transport Statistics (BTS) 2016 industry projections and employment targets outlined in The North District Plan (6,900-16,400 additional jobs between 2016 and 2036).

This process involves the following:

1. Analysis of BTS job growth forecasts at the individual industry level.
2. Apply the BTS jobs forecasts by industry sector to The North District Plan targets.
3. Converting jobs growth per industry into jobs growth by land use.
4. Converting forecasted jobs growth by land use into floor space demand.

St Leonards and Crows Nest Station Precinct

Map 3.1



Source: NSW Department of Planning and Environment

3.2. PROJECTED EMPLOYMENT

Chart 3.1 illustrates the projected employment for St Leonards and Crows Nest Station Precinct between 2016 and 2036 and its distribution across different industry sectors using 2016 Bureau of Transport Statistics (BTS) data. It shows that employment within the precinct is projected to increase by approximately 7,133 jobs between 2016 and 2036.

The BTS forecast falls within The North District Plan's (March 2018) low and high employment targets for the St Leonards and Crows Nest Station Precinct, which are 6,900 and 16,400 additional jobs from 2016 to 2036 respectively.

Based on the BTS industry level forecast (outlined overleaf in Table 3.1), employment growth is expected to be focused in the following key sectors:

- **Professional, Scientific & Technical Services** to increase by +2,319 jobs according to BTS forecasts, equating to +2,258 jobs in the base case and +4,741 jobs in the high case of the District Plan Targets.
- **Health Care and Social Assistance** to increase by +1,510 jobs according to BTS forecasts, equating to +1,462 jobs in the base case and +3,448 jobs in the high case of the District Plan Targets.
- **Education and Training** to increase by +639 jobs according to BTS forecasts, equating to +630 jobs in the base case and +1,019 jobs in the high case of the District Plan Targets.

Projected Employment

St Leonards and Crows Nest Station Precinct

Table 3.1

Industry Sector	BTS 2016 Forecast											District Plan Targets		
	2016		2021		2026		2031		2036		2016-36		2016-2036	
	No.	%	No.	%	No.	%	No.	%	No.	%	Total Change	Annual Growth %	Base	High
Professional, Scientific and Technical Services	11,850	25%	12,316	25%	12,908	26%	13,530	26%	14,170	26%	+2319	0.9%	+2258	+4741
Health Care and Social Assistance	9,831	21%	10,159	21%	10,532	21%	11,032	21%	11,341	21%	+1510	0.7%	+1462	+3448
Construction	3,150	7%	3,310	7%	3,455	7%	3,660	7%	3,912	7%	+762	1.1%	+745	+1431
Education and Training	1,585	3%	1,743	4%	1,906	4%	2,066	4%	2,224	4%	+639	1.7%	+630	+1019
Financial and Insurance Services	2,234	5%	2,468	5%	2,578	5%	2,675	5%	2,799	5%	+565	1.1%	+553	+1043
Accommodation and Food Services	1,775	4%	1,868	4%	1,942	4%	2,030	4%	2,113	4%	+338	0.9%	+329	+700
Retail Trade	2,480	5%	2,581	5%	2,627	5%	2,718	5%	2,798	5%	+318	0.6%	+306	+797
Other Services	1,903	4%	1,988	4%	2,042	4%	2,115	4%	2,204	4%	+301	0.7%	+292	+678
Rental, Hiring and Real Estate Services	1,036	2%	1,109	2%	1,172	2%	1,236	2%	1,305	2%	+269	1.2%	+263	+492
Administrative and Support Services	1,465	3%	1,541	3%	1,575	3%	1,629	3%	1,695	3%	+231	0.7%	+223	+520
Arts and Recreation Services	520	1%	574	1%	625	1%	679	1%	735	1%	+215	1.7%	+212	+340
Public Administration and Safety	461	1%	490	1%	507	1%	523	1%	544	1%	+83	0.8%	+81	+176
Electricity, Gas, Water and Waste Services	211	0%	227	0%	245	0%	265	1%	278	1%	+67	1.4%	+66	+114
Mining	65	0%	67	0%	69	0%	71	0%	73	0%	+8	0.6%	+8	+20
Agriculture, Forestry and Fishing	44	0%	45	0%	47	0%	48	0%	49	0%	+5	0.5%	5	13
Wholesale Trade	1,727	4%	1,718	4%	1,730	3%	1,730	3%	1,728	3%	+1	0.0%	-6	296
Information Media and Telecommunications	3,154	7%	3,193	7%	3,156	6%	3,168	6%	3,124	6%	-30	0.0%	-43	+504
Manufacturing	2,343	5%	2,346	5%	2,243	4%	2,243	4%	2,205	4%	-138	-0.3%	-148	238
Transport, Postal and Warehousing	1,264	3%	1,229	3%	1,141	2%	942	2%	933	2%	-331	-1.5%	-335	-172
Total Employment	47,097	100%	48,972	100%	50,498	100%	52,360	100%	54,230	100%	7,133	0.7%	6,900	16,400
White Collar Employment	34,038	73%	35,580	74%	37,000	74%	38,652	75%	40,141	75%	6,103	0.8%	5,931	12,963

Different industry sectors have different needs when it comes to the type of floorspace required to operate their respective organisations. Chart 3.1 (overleaf) illustrates the growth in jobs across different land uses to 2036. This analysis is based on benchmarks that Urbis have derived looking at land use demands by different categories of employment. It provides an indication of the demand for different types of land use within the St Leonards and Crows Nest Station Precinct.

- BTS employment projections (2016) forecast office based jobs to increase by 3,939 jobs over the 20 years through to 2036.
- Based on the same industry sector growth rates, the District Plan low and high job targets will comprise of 3,826 to 8,431 office jobs, over the 20 years through to 2036.

In addition to office based jobs, BTS employment projections forecast growth across a number of other land uses within the St Leonards and Crows Nest Station Precinct, reflecting its transition to a mixed-use centre:

- **Health Care and Social Assistance:** An additional 1,359 jobs between 2016 to 2036, accounting for 19% of job growth in the precinct.
- **Education and Training:** An additional 607 jobs between 2016 to 2036, accounting for 6% of growth in the precinct.

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 care and social assistance (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 other non-office based operations, with the functional benefits of co-locating with its core business greater than the amenity associated with CBD locations.

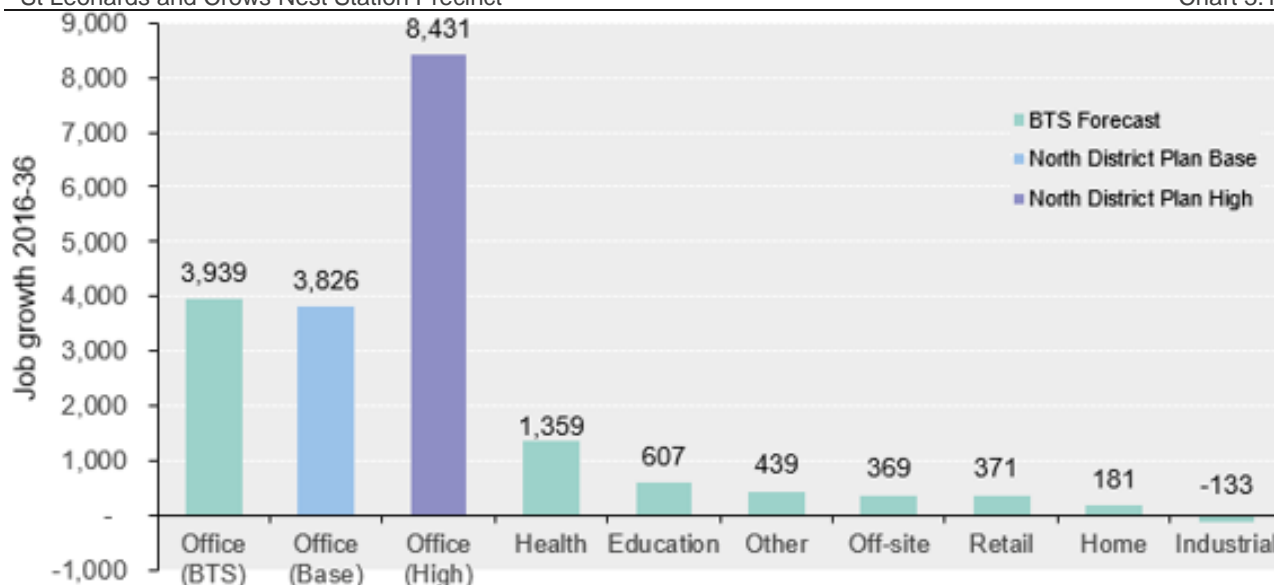
As such these sectors may not require traditional 'corporate' office accommodation and may suit smaller professional suites, or be co-located with other business operations (e.g. factories, warehouses or temporary accommodation on construction sites). This would create demand for flexible commercial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

The proposed development includes 4,000 sq.m GFA of creative space. This space would have the flexibility to accommodate a number of tenant types outside the traditional 'corporate' office market including tenants in arts and recreation, social assistance, education and training.

Jobs Growth by Land Use

St Leonards and Crows Nest Station Precinct

Chart 3.1



Source: BTS, Urbis

3.3. OFFICE SUPPLY/DEMAND FLOORSPEACE ST LEONARDS STRATEGIC CENTRE

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 jobs growth forecasts and North District Plan Targets outlined in Table 3.1. It illustrates that approximately 47,200 sq.m of office floorspace will be required to accommodate the forecasted employment growth outlined in the BTS.

We have considered the following employment projections and targets for the St Leonards and Crows Nest Station Precinct to 2036 using:

- Bureau of Transport Statistics (BTS) 2016 release employment projections.
- North District Plan (March 2018) base and high case employment targets.

Table 3.2 details the relevant employment projections and targets and the benchmarks used to convert these jobs into demand for office floor space by 2036. Projected employment growth indicates a **demand for 47,264 sq.m of additional office floor space by 2036.**

Total Floor Space Demand

St Leonards and Crows Nest Station Precinct

Table 3.2

Land Use	Jobs Growth 2016-36 (per BTS)	Sq.m per Job	Total Floorspace (sq.m)
Office	3,939	12	47,264
Education	607	25	15,178
Health	1,359	10	13,594
Retail	371	25	9,284
Other	439	10	4,391
Industrial	-133	50	-6,654

Source: BTS; Urbis.

According to the Property Council of Australia's (PCA) Office Market Report (OMR) July 2018, there is currently 30,274 sq.m of vacant office space in the Crows Nest / St Leonards market. Combined with the development pipeline of 109,600 sq.m of office floor space in the St Leonards and Crows Nest Station Precinct.

Accounting for the removal of an estimated 11,000 sq.m of office space currently on the subject site, and the addition of 7,080 sq.m of office and creative space GFA proposed on the proposed subject site development, this results in a **total supply of approximately 139,874 sq.m of available office floor space by 2036.**

Table 3.3 shows that against all job projections and targets for the St Leonards and Crows Nest Station Precinct (BTS, North District Plan base and high cases), the proposed supply and vacant supply of office floor space is more than sufficient to meet the demand for office floor space. This is expected to result in a **2036 office floor space surplus of between 34,776 sq.m and 90,044 sq.m.**

Surplus / Deficit of Office Floor Space

St Leonards and Crows Nest Station Precinct, 2016 to 2036

Table 3.3

	Bureau of Transport Forecasts 2036	North District Plan Target (Base)	North District Plan Target (High)
Vacant Existing Office Space	30,274	30,274	30,274
Proposed Office Space (NLA)	109,600	109,600	109,600
Total Existing Vacant and Approved Supply	139,874	139,874	139,874
Withdrawal of existing property on subject site	11,000	11,000	11,000
New office and creative floor space on subject site	7,080	7,080	7,080
Supply of Available Office Floor Space (net of proposed development)	135,954	135,954	135,954
Office Floor Space (sq.m) required to deliver St Leonards Specialised Centre job target (by 2036)	47,264	45,910	101,178
+Surplus / -Deficit (By 2036)	88,690	90,044	34,776

Source: Cordell Connect; PCA Office Market Report July 2018; North District Plan March 2018; BTS; Urbis

3.4. SUMMARY AND IMPLICATIONS

The analysis of historic, existing and future employment in the St Leonards and Crows Nest Station Precinct reflects a surplus of office space. The key findings of our analysis include:

- Projected employment growth of between 6,900 and 16,400 jobs between 2016 and 2036, based on North District Plan growth targets and BTS forecasts.
- This growth is estimated to result in an additional 3,826 to 8,431 office jobs in the St Leonards and Crows Nest Station Precinct by 2036, based on Urbis benchmarks of land-use demand.
- This jobs growth will result in demand of between 45,910 sq.m and 101,178 sq.m of office space in the precinct by 2036.
- There is estimated to be approximately 135,954 sq.m of available office floor space in 2036, including currently vacant office floor space and proposed office floor space from ten projects in the development pipeline in the St Leonards and Crows Nest Station Precinct.
- Overall gap analysis of office space projected for the St Leonards and Crows Nest Station Precinct amounts to a surplus of between 34,776 sq.m and 90,044 sq.m by 2036. This indicates sufficient floor space is being delivered to accommodate jobs growth, even accounting for the proposed net decrease in office space on the subject site.

4. ECONOMIC BENEFITS

This section identifies the potential employment and economic generation associated with a potential redevelopment on the subject site. Specifically, this section addresses the following points:

- Potential employment and economic benefits generated during the construction of the proposed redevelopment
- Potential employment and economic benefits generated in the ongoing operation of the proposed redevelopment
- Retail expenditure of future residents of the proposed 438 new apartments
- Public realm and amenity improvements associated with the development.

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.

REMPAN 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 the proposed mixed-use development will require substantial capital investment which will sustain significant employment in the construction industry throughout the development period. Construction industry activity also has multiplier effects that flow through the local economy – i.e. increased direct jobs support further indirect jobs.

As an indicative estimate for modelling purposes, construction costs associated with the proposed development were provided by TWT. It is estimated that total construction cost will be in the order of \$270 million over a three year development period, equating to an annual construction cost of \$90 million.

Construction Phase Benefits

Proposed Development

Table 4.1

Construction Cost p.a.	(\$M)	90.0	
Employment¹			
Direct Employment	(no.)	160	<i>Indirect Multiplier</i>
Indirect Employment	(no.)	<u>307</u>	2.919
Total Employment	(no.)	467	
Gross Value Added (GVA)²			
Direct GVA	(\$M)	47.7	<i>Indirect Multiplier</i>
Indirect GVA	(\$M)	<u>120.2</u>	3.519
Total GVA	(\$M)	167.9	

1. Reflects construction employment supported each year

2. Expressed as a net present value of future GVA

Source: TWT; REMPLAN; Urbis

During each year of construction, the proposed development is forecast to support an estimated 160 direct jobs and 307 indirect jobs. This represents total number of employees without any conversion to full-time equivalence.

Additionally, the construction of the proposed development is estimated to have the potential to generate \$47.7 million in direct Gross Value Added (GVA) and \$120.2 million in indirect GVA over the three-year development period. GVA essentially represents economic growth for the local region and state.

4.2. ONGOING JOBS

In addition to the jobs and economic growth supported by the construction of the proposed development, once complete, the ongoing operations of the non-residential components will support further jobs and generate additional economic activity (measured as Gross Value Added). The number of direct jobs has been estimated by applying industry benchmarks of jobs per sq.m to the proposed net lettable areas. These direct jobs have then been entered into REMPLAN to produce an estimate of indirect jobs, and direct and indirect GVA.

Table 4.2 outlines the proposed non-residential floorspace and the direct employment that will be supported. As shown below, the ongoing operations of the development are estimated to directly support 342 jobs.

Proposed Non-Residential Floorspace and Employment

Proposed Development

Table 4.2

	GFA	Lettable Floor Area	Job Benchmark	Ongoing Jobs
Commercial Office	3,258 sq.m	2,932 sq.m NLA	13 sq.m NLA / job	226
Retail	1,650 sq.m	1,238 sq.m GLA	16 sq.m GLA / job	77
Creative Space	4,000 sq.m	2,800 sq.m GLA	71 sq.m GLA / job	39
Total	8,908 sq.m	6,970 sq.m		342 Jobs

Source: Urbis; TWT Property Group

As shown in Table 4.3, the 342 ongoing direct jobs will support a further 175 indirect jobs, and contribute an estimated \$15.6 million in direct GVA and \$11.2 million in indirect GVA to the local region each year.

Operation Phase Benefits

Proposed Development

Table 4.3

	Direct Effect	Indirect Effect	Total
Jobs	342	175	517
Average Annual Gross Value Added (\$M)¹	\$15.6	\$11.2	\$26.9

1. GVA is expressed as the average annual net present value of total GVA realised over a 20-year operating period

Source: REMPLAN; Urbis

This job creation will mitigate the loss of approximately 11,000 sq.m of existing commercial NLA, which accommodates approximately 442 workers per TWT estimates (via Hartigan Bolt Tenancy Schedule, May 2018).

Employment Comparison

Proposed Development vs Existing Buildings

Table 4.4

Current Building	Occupied NLA (sq.m)	NLA (sq.m) per job	Direct Ongoing Jobs
Commercial	11,515 sq.m	26	442 Jobs
Proposed Development	NLA or GLA	sq.m per job	Direct Ongoing Jobs
Commercial Office	2,932 sq.m NLA	12 sq.m NLA / job	226
Retail	1,238 sq.m GLA	16 sq.m GLA / job	77
Creative Space	2,800 sq.m GLA	71 sq.m GLA / job	39
Total	6,970 sq.m		342 Jobs

Source: TWT; Urbis

While a higher job outcome could be achieved if the non-residential podium in the proposed development was fully commercial space (8,730 sq.m GFA = 7,857 sq.m NLA @ 12 sq.m per worker equates to 655 jobs), the proposed retail and creative floorspace will deliver amenity and additional services to the St Leonards and Crows Nest Station Precinct. There are a number of benefits of this, including:

- Additional retail services and creative space 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
- Improvements to the public realm via maintaining an arts-focussed precinct 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 the additional retail expenditure from the new residents in the proposed development, we have considered 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 proposed 438 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 1,014 people.

Based on the current spending profile of the market catchment, an average spend per capita of \$20,156 in 2018 has been sourced from MarketInfo 2012. Therefore, additional residents at the site could generate \$20.6 million in retail expenditure (in \$2018), as illustrated in Table 4.5.

Resident Spending by Product Category

Subject Site, based on 1,014 additional residents (\$million 2018)

Table 4.5

Number of Residents	Year	Food Retail	Food Catering	Apparel	Home-ware	Bulky Goods	Leisure/General	Retail Services	Total Retail ¹
1,016 Residents	2023	6.8	4.0	2.5	1.8	2.1	2.3	1.0	20.5

1. Spend per annum

Source: ABS; MarketInfo 2012; Urbis

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

- Potential to improve turnover performance of existing retail precincts near the subject site
- Scope to sustain additional retail floorspace around 2,950 sq.m (for a total retail spend of \$20.6 million per annum), based on an average turnover per sq.m rate of \$7,000 per sq.m
- Creation of additional full-time, part-time and casual retail jobs in the range of around 184 jobs resulting from the development of new floorspace (assuming a typical employment density for specialty retail floorspace of one job per 16 sq.m). The additional retail spend from residents will support the jobs on the subject site as well as additional jobs elsewhere in the St Leonards & Crows Nest Precinct.

4.4. PUBLIC REALM AND AMENITY

In addition to the greater employment and economic activity that will be supported by the proposed development, TWT St Leonards will provide significant benefits to the local community through extensive improvements to the public realm of St Leonards.

TWT has already demonstrated its commitment to developing an inclusive community and arts-focused precinct by making the unoccupied commercial buildings on the subject site available to artists and arts organisations. This TWT Creative Precinct has provided 1,490 sq.m of commercial space to artists, cultural organisations and creative enterprise. This has led to the opening of:

- Six visual arts studios
- A performing arts rehearsal facility
- Two visual art galleries
- A music rehearsal and recording studio
- A photography gallery, showroom and workshop
- A bespoke, custom-made bicycle store and bicycle repair shop.

TWT has further supported this Precinct through investment in:

- Initial construction and fit-out of the spaces
- Management fees
- Staging and marketing open-house “Block Party” events to promote the precinct.
- Commissioning five murals by celebrated Australian street artists on Atchison Lane to encourage greater pedestrian and cyclist usage of the lane.

TWT’s investment in St Leonards has already increased visitation, with a combined audience of 4,000 people attending the five “Block Party” events, as well as provided no-cost access to studio work-space for over 70 artists.

The proposed TWT St Leonards is an extension of this investment which seeks to further improve local amenity, provide a creative space for local artists, and enhance the vibrancy of St Leonards. The draft plans propose the **addition of 2,500 sq.m of land to the public domain** and maintain the **provision of 4,000 sq.m of creative space for arts development and enterprise** which is currently provided in the TWT Creative Precinct.

Improved Amenity and Activation

The proposed development will significantly improve the amenity and activation of St Leonards through the provision of new open space, increased recreational uses, and improved pedestrian circulation.

A public park will provide a flexible lawn space allowing for active games, passive seating and dog walking for the local residents and workers. This will be complemented by a retail and dining terrace located at the ground level of the adjacent building which will improve street-level activation in the area.

In addition to the public park, a predominantly paved plaza will be situated within the central block, forming a forecourt to the surrounding creative precinct. It will be made available for a number of community activities

to maximise public engagement with the precinct, including markets, public entertainment, and pop-up placemaking activities. The proposed development will also include a children's playground and public herb garden for tending and taking by local residents.

The streetscape will also be improved under the proposed development with the planting of additional trees and the creation of paved shared zones to increased pedestrian priority in the area.

Creative Space for Local Artists, Residents and Workers

Central to the proposed development is the establishment of The Creative Precinct. It is intended to provide a space for artists to make, exhibit and sell their work, whilst also accommodating businesses that focus on innovation and design.

The Creative Precinct would be anchored by a number of arts and events venues (e.g. art galleries, event space, community meeting facilities) which would help attract a large and varied audience to the site and bring new activities to the area.

The Creative Precinct would also include:

- **Incubator spaces** for the development of art practice and art works (e.g. visual arts studios, performing arts rehearsal studios, and music rehearsal and recording studios)
- **Shared office spaces** targeting small enterprises in the fields of innovation and emerging technologies, digital and graphic design, gaming, film, animation and screen content, and medical research
- **Creative retail tenancies** situated on the ground floor of all three proposed buildings plus within three independent local gallery spaces. opportunity for local artists and artisans to sell their one-of-a-kind, handmade and bespoke creative products to the public.

Building a Vibrant Community

Overall, the improvements to the amenity and activation of St Leonards under the proposed development are expected to enhance the vibrancy of the area and attract new workers, residents and visitors. This will be further supported by TWT's broader placemaking strategy for the development.

This strategy is expected to involve managing the creative tenants, developing inter-connected marketing strategies and events, and facilitating and coordinating the use of the plaza for markets, public entertainment and pop-ups.

The provision of several live/work studios within the proposed development will also contribute to enhancing the vibrancy of the area. These studios will comprise affordable residences with attached work-space for artists based outside of Sydney, or those struggling to meet the costs of inner-city living.

4.5. SUMMARY AND IMPLICATIONS

The proposed rezoning and development of the subject site has the potential to yield the following economic benefits:

- A total of 160 direct jobs and 307 indirect jobs during the construction phase
- Ongoing employment of 342 direct and 175 indirect jobs from the commercial, retail and creative uses
- While a higher number of jobs could be achieved if the non-residential podium was fully commercial space (524 jobs vs. the existing 442 jobs), the inclusion of a mix of retail and creative space will deliver amenity and services important to the St Leonards Strategic Centre:
 - Additional retail services and creative space 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
 - Improvements to the public realm via maintaining an arts-focussed precinct will make St Leonards a more attractive place to work, improving its appeal to businesses/tenants.

- The total spend associated with an additional 1,014 new residents on the subject site has the potential to improve turnover performance of retail precincts near the subject site by \$20.6 million per annum, supporting an additional 184 retail jobs on the subject site and in the St Leonards & Crows Nest Precinct.

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