

Peer review of Urbis Employment Potential Report: Stage 1



Final report

Ryde City Council
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Independent insight.



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1 INTRODUCTION

1.1 Background

SGS was engaged by SJB Planning to complete a *prima facie* peer review of the report 'Employment Potential of Proposed development: 11 Wicks Road, 29 Epping Road, 31-35 Epping Road,' prepared by Urbis in December 2013 for Harvey Norman.

The site in question is located in the Macquarie Park Corridor (MPC), which is identified as a 'specialised precinct' in the *Draft Metropolitan Strategy for Sydney to 2031*. It is also part of the Global Economic Corridor, which spans from East (Port Botany), to North (North Sydney, Chastwood, and Macquarie Park), to North West (Norwest, and Westmead) of Metro-Sydney. Macquarie Park is therefore recognised as being of State and National significance for knowledge based industries, and future employment generation. City of Ryde indicates that the MPC contains around 800,000 sqm of commercial floorspace with capacity to reach 2 million sqm.

The proposal is for a mixed use development at 111 Wicks Road, 29 Epping Road, 31-35 Epping Road; Macquarie Park. The table below summarises key aspects of the proposal.

TABLE 1. PROPOSED DEVELOPMENT

Element	111 Wicks Road		31-35 Epping Road		29 Epping Road	
Land use	Residential Hotel Cafe		Commercial Bulky goods retail		Commercial Child care	
Indicative yield	Apartments	170				
	Hotel rooms	200				
Gross floor area	Apartments	17,000 sq.m	Bulky Goods	8,663 sq.m	Commercial	2,720 sq.m
	Hotel	10,000 sq.m	Comemrcial	10,860 sq.m	Child care	510 sq.m
	Café	150 sq.m				
Building heights	27 storeys		3-12 storeys Single storey cafe		6 storeys	

Source: AJ&C Concept Masterplan November 2013; in Urbis, Review of Employment Potential Report, December 2013; page 5
Notes: please note that the updated Planning Proposal has a different floorspace composition. This difference is highlighted in the peer-review.

The main purpose of the Urbis report is to 'assess the contribution of the proposed development of the site at Macquarie Park (111 Wicks Road, 29 Epping Road, 31-35 Epping Road) towards meeting employment targets for the Macquarie Park Corridor (MPC)' (page 7).

Whilst the employment potential report does not explicitly note this, the *Macquarie Park Planning Proposal – Supplementary report January 2014*; also produced by Urbis, notes that the proposed development is over the Floor Space Ratio (FSR) controls permitted for the site (LEP 2010 FSR 1.5:1 and LEP 2010 - Amendment No. 1; Bonus FSR 2:1). The planning proposal states that the proposed floorspace would require an FSR of 2.45:1. In addition, a currently prohibited land-use (residential) is being proposed on this site which is currently zoned B3 (Commercial Core).

The Urbis report is structured into six sections:

1. Context
2. Macquarie Park Corridor Office Market Overview
3. Macquarie Park Corridor Employment Targets
4. Subject Site – Employment Potential
5. Economic Benefits of the Proposed Development
6. Conclusion

1.2 Scope of review

As outlined in the brief, this review has a particular emphasis on:

- **Data sources used.** The source data is important for each aspect of the study. We will take particular care to examine the source data used in calculating the employment potential of the proposed developments.
- **Assumptions used in the modelling.** Even where source data and methods are accurate, assessment results can be skewed by other critical assumptions used in the modelling. We will test for the validity and reasonableness of the assumptions in the modelling.
- **Interpretation of results.** The conclusions drawn by different experts can vary widely even where ostensibly the same data is being examined. We will take care to review any conclusions drawn from the analysis in light of the balance of evidence presented in the documents. Any undue bias will be highlighted.

Each of the six sections is reviewed, and comments and recommendations are made in line with the above criteria.

The peer review is based on the concept plan incorporated in the Urbis report. It should therefore, be noted that the concept plan may differ from the *actual* form of development. Moreover, it should be noted that the modelling assumptions adopted by Urbis are based solely on the concept plan and as a result the *actual* employment generation may differ from that based on the concept plan.

2 OFFICE MARKET OVERVIEW

2.1 Employment profile and office market

This section of the Urbis report outlines that the Ryde LGA is moving towards a knowledge-based economy and that the MPC has a strong performing office market, with high levels of supply and demand for A-grade space, with an important role as a high-quality office employment precinct for the Ryde LGA and for Metropolitan Sydney.

The increasing share of 'Information Media and Telecommunications' employment over the past decade (2001-11) in Ryde LGA is used as an indicator of the increasing importance of office employment in Ryde LGA. The report also states that MPC is home to 'a broad mix of tenants', and that the attraction of these tenants 'has been underpinned by ongoing investment infrastructure development'. In addition, the report also notes that MPC's 'role as a major suburban office location is reflected in the NSW Government's Sydney Metropolitan Strategy' which identifies it as a 'specialised precinct' (page 13).

The Urbis report reveals that the MPC has attracted significant investment in A-grade stock over the period between 2007 and 2013 and that the proportion of A-grade stock in Macquarie Park is higher than the proportion elsewhere in major Sydney employment centres (page 15).

The report argues that the 'higher vacancy amongst C grade stock, albeit it off a small base further highlights that demand for office space within the MPC is largely for higher quality stock'. Importantly, it indicates that 'continued investment and development within this grade of office space (such as the proposed development) will be necessary to continue to attract major businesses / employers into the area underpinning future jobs growth within the MPC' (page 16). It then goes on to suggest that this will translate into ongoing development of underutilised sites, which is consistent with the redevelopment of the site, which is adding an additional 13,600 square metres of office floorspace.

SGS comments:

Is the method appropriate to support the main argument?

The main argument in this section is that due to growth in professional services jobs, office development is increasing in importance in the Ryde LGA and that the MPC – as a 'specialised precinct'; is an important office precinct with high levels of supply and demand for A-grade space. The method taken by Urbis to prove this point – examining the historical and current employment profile, vacancy rates and absorption as well as comparing the quality of stock against other competitors – is acceptable.

Are the data and/or assumptions appropriate?

The data sources used – including the Property Council of Australia, the Australian Bureau of Statistics, the Bureau of Transport Statistics and the draft Metropolitan Strategy –are appropriate.

Is the interpretation of the results appropriate?

Although some charts have been incorrectly labelled, the data appears to have been interpreted appropriately. The main argument regarding the growth in Professional services is valid. It implies that commercial floorspace and other Business Park type uses are expected grow in importance.

2.2 Affordability

The Urbis report argues that ‘rental cost is a significant consideration for tenants in deciding where to locate their business’. It indicates how the MPC is comparatively cheaper than competitor office locations, which makes it more attractive to larger tenants seeking to consolidate operations (Table 2).

The report also argues that ‘lower rental cost in the MPC is primarily driven by the (lower) cost of construction of office development’ compared to competitor sites. This is followed by the argument that ‘higher cost(s) (area) driving up yields required to justify development, and the subsequent rent sought for office space’ (page 17). In other words, Urbis argue that high costs, high rent, and high development yield go hand-in-hand.

Urbis also argue that ‘to maintain the cost advantage, ongoing development of office floorspace within the MPC will be required’, and that the office component of the proposal would ‘contribute to the supply of office space’ (page 17).

TABLE 2. MPC RENTAL COMPARISON

Targeted Jobs by Land Use 2011 to 2031, MPC		
Market	Grade / Quality	Average Net Facing Rent (\$)
North Ryde/Mac Park	A	\$330
	B	\$283
	Total	\$316
St Leonards	A	\$488
	B	\$383
	Total	\$419
North Sydney	A	\$606
	B	\$489
	Total	\$519
Chatswood	A	\$413
	B	\$359
	Total	\$389
Parramatta	A	\$378
	B	\$284
	Total	\$336

Source: Urbis, Knight Frank Research. Urbis, *Employment potential of proposed development*, December 2013; Page 17.

SGS comments:***Is the method appropriate to support the main argument?***

The key argument in this section is that rental prices impact on a precinct's attractiveness for future office investment. SGS supports this point. Urbis highlight the rental prices at MPC compared to other locations. This is an appropriate method to reveal affordability. The report states that low rent is driven by low construction costs. SGS agrees that construction costs would be a contributor, but that low relative land values would also be driving affordability in the MPC. It is plausible that Urbis consider land costs as part of the construction cost – but it is not clear that this is the case. Whilst in principle we agree with the low cost argument (e.g. basement parking in inner-city locations vs. at-grade or multi-level parking in MPC), the report does not provide any evidence to support it. Moreover, we believe that lower costs (as opposed to pure *construction costs*) are likely to be driven by lower land values.

SGS notes that the high cost, high rent, and high yield argument is incongruent with the high yield nature of the proposal. If Macquarie Park does in fact experience lower construction costs (which has not been backed by evidence), and lower rents (as demonstrated in the table above); then it follows that a low development yield is feasible. From a purely feasibility point of view, this argument then raises the question of the necessity of the proposed high yield nature of the development; and in particular the necessity for residential development.

Are the data and/or assumptions appropriate?

The data source used is appropriate, though data on the relative construction and land costs of the MPC could have been provided to indicate how these components are affecting the rental price.

Is the interpretation of the results appropriate?

The interpretation of the data is appropriate. The arguments and results supporting the data are *somewhat* inconsistent. This implies that the case for high yield development (and in particular residential uses) is weak.

2.3 Office development pipeline

This section outlines the potential supply of office floorspace in the development pipeline, indicating that there is between 510,000 and 1,100,000 square metres of commercial floorspace at various stages in the pipeline, from contract leasing stage to those projects that have just been mooted (page 18).

The report (page 18) also indicates that the timing of delivery of these projects will be subject to a number of factors including:

- Market conditions, and demand for floorspace
- Achieving pre-commitment from anchor tenants
- Acquiring project financing
- Achieving development approval

SGS comments:***Is the method appropriate to support the main argument?***

This section argues that there is additional supply to fulfil the future role of the corridor and respond to demand for the MPC. Assessing the development pipeline is an appropriate measure of the MPC potential future supply.

Are the data and/or assumptions appropriate?

Cordell Connect is a good database for outlining the development pipeline. However, it is possible that some of the data presented as 'Future office development' may not be entirely office space. For instance, the 88 Talavera Road site of 31,000 sqm appears to be mixed-use with significant residential floor space on the site (Macquarie Residencies operated by Meriton). While the data is collated by Cordell Connect, a few checks need to be completed to ascertain the actual amount of commercial floorspace on mixed-use sites. Cordell Connect generally provide a description of 'type of development', which was not included in the report. This could have been used to develop a better estimate of development in the pipeline.

Is the interpretation of the results appropriate?

The interpretation of the data is limited to the extent that it does not discuss the proportion of the development pipeline that will actually 'come online' by 2031 (the time frame of the target). Of the 507,500 square metres in the pipeline, only 95,400 square metres (or 19%) is confirmed as currently being constructed or seeking tenants. The remaining 412,100 square metres is either approved, subject to an existing development application, mooted or at early planning stage. As indicated by Urbis, project financing and pre-commitment are important in affecting the timing of new supply. It is common for planned and approved office space to remain unconstructed for years until there are sufficient tenant pre-commitments; or to not be built at all. It should have been stated that only a proportion of these development would be constructed. An estimate of this percentage should have been reported. This could be done by either contacting the developers, landowners, or local real estate agents. Alternatively, the data source, Cordell Connect has additional details on development potential and also has a category of development called 'abandoned' and 'deferred' (which was not reported). This might provide an indication of the number or proportion of development in the pipeline that may come to fruition. The overestimation of future supply is potentially misleading.

Whilst we acknowledge that a residential market analysis is outside the scope of Urbis' brief, it appears that the residential component has been ignored altogether in considering available commercial supply. This omission is inappropriate since the residential component may adversely impact future supply of office floorspace in MPC. For instance, large scale residential development in commercial core areas can undermine the integrity of commercial areas and 'crowd out' future commercial redevelopment. It increases surrounding landowners' expectations of attracting higher prices from residential development, often resulting in land price increases that may render commercial office unfeasible. In other words, the opportunity cost of residential development – future supply of commercial office space and its associated jobs; has been completely ignored. These issues have not been addressed and no evidence has been provided to alleviate these concerns. Taken together, these issues imply that the case for the rezoning the site is weak.

3 EMPLOYMENT TARGETS

The Urbis report cites the Sydney Metropolitan Strategy employment targets for the MPC for an additional 13,500 jobs (totalling 61,000) by 2031. Urbis forecast that around 8,300 of these jobs will be provided within commercial office floorspace, based on their own employment benchmarks (Table 3 below). Using this figure and applying a job density measure of one job per 20 square metres for office floorspace results in projected demand for around 166,000 square metres of additional commercial floorspace over the period (page 24).

TABLE 3. OFFICE BASED JOBS GROWTH ESTIMATE

Office based jobs growth Macquarie Park Corridor 2011-2031			
Industry Sector	2011-2031 Growth	% Demand for Office Floorspace	Office Based Jobs
Professional, Scientific and Technical Services	8,600	98%	8,380
Health Care and Social Assistance	2,100	10%	210
Wholesale Trade	2,000	0%	0
Education and Training	1,400	5%	70
Construction	1,400	5%	70
Retail Trade	1,100	0%	0
Balance	-2,900	14%	-410
Total	13,500	61%	8,300

Source: Urbis, *Employment potential of proposed development*, December 2013; Page 23.

The Urbis report suggests that the 166,000 square metres of office floorspace required to meet the forecast 8,300 office based jobs at MPC will be met and substantially exceeded by the existing pipeline of commercial projects (Table 4).

TABLE 4. DEMAND FOR FLOORSPACE

Demand for office floorspace based on Sydney Metropolitan Plan employment target 2011 to 2031, MPC	
	2011-2031 Growth
Additional jobs target	+13,500
Office-based jobs	+8,300
% of Total Jobs	61%
Employment Density	20 sq.m per employee
New Demand for Office Floorspace	+166,000 sq.m
Office floorspace pipeline (including Macquarie University Concept Plan)	1,100,000 sq.m*
Pipeline supply vs. target	+934,000 sq.m

Source: Urbis, *Employment potential of proposed development*, December 2013; Page 24.

SGS comments:***Is the method appropriate to support the main argument?***

The here argument is that the forecast demand for MPC will be met and exceeded by the planned supply. The demand estimates provided by Urbis appear to be based on sound reasoning. Though, again, the estimate of the supply pipeline could be more accurate by assessing the proportion of the pipeline that is likely to be completed.

Are the data and/or assumptions appropriate?

In terms of the data appropriateness, firstly, the BTS Journey to Work and Employment Forecasts data is an appropriate source for 2011 employment in MPC. The Sydney Metropolitan Strategy is also the correct source for the minimum target for 2031. However, the report fails to note that the Strategy is still at the *draft* stage. In addition, the report does not reveal how the DP&I 2031 target was decomposed into different industries. Presumably, the BTS forecast industry profile for 2031 was applied to the target.

Secondly, SGS broadly agrees with the 'demand for office floorspace' and 'employment density' benchmarks used by Urbis, though evidence on how Urbis calculated the former assumption would be ideal in an appendix.

The employment density figure has been derived from historical Melbourne Census of Land Use and Employment (2012) and City of Sydney Floorspace and Employment Survey (2007), converted from NLA to GFA. SGS sense-checked this ratio against the actual MPC employment density. The employment density of the MPC is around 1 job per 17 square metres of floorspace (800,000 sqm of current floorspace divided by the current jobs estimate of 47,500 jobs); which would translate into around the 1 job per 20 square metre benchmark once converted to GFA.

Is the interpretation of the results appropriate?

For the most part, the interpretation of the results is reasonable. Again, they do not demonstrate how much of this supply pipeline will eventuate. Nonetheless, it is an appropriate indication that there is sufficient *potential* supply to meet the forecast demand, based on the Urbis calculations.

It is worth noting that from a methodological perspective, the use of office-based job densities (20 sqm per office job) might not be accurate to test the employment target. For instance, if Harvey Norman (or other commercial office tenants) were to move out, then the new tenants may not be office-related users. The alternative tenant may in fact adopt a lower (or much higher) job density. This could imply that the floorspace demand forecast might be overestimated (or underestimated). One way to resolve this would be to use a job density figure that captures the distribution different users current in Macquarie Park – a weighted average job density figure based on the current profile of users. In any case, given that the supply vs. target figure is quite large (suggesting that there is sufficient floorspace capacity), the impact of choosing an office job density is likely be minor.

4 EMPLOYMENT POTENTIAL

4.1 Potential employment impact of proposed development

Urbis have considered the employment impact of the proposed development by calculating the following:

- Existing employment on the subject site
- An assessment of the employment potential of the proposed scheme based on benchmarking comparable developments and information supplied by the proponent.
- The theoretical employment yield that could be achieved on the subject site under the current LEP planning controls - based on achieving the maximum permissible floor space ratio

The Urbis assessment (page 26) indicates that:

- The proposed development will result in a twelve-fold increase in the number of jobs across the site. The number of jobs created (920) would be close to the maximum theoretical employment capacity (estimated to be 1,100 jobs) of the site under the current planning controls. The net additional employment that would be generated on the subject site (845 jobs) would equate to 6% of the total employment target for the Macquarie Park Corridor. This would deliver in excess of one year's supply of targeted new jobs in a single development.
- The proposed development could also deliver around 8% of the total office floorspace required to meet the employment target for the MPC.

Table 5 and Table 6 reveal the calculation of the employment potential of the proposed development.

TABLE 5. CALCULATED EMPLOYMENT POTENTIAL SUMMARY

Employment Potential Summary – Subject Site (operational employment)			
Existing	Jobs under proposed Scheme	Net additional jobs	Maximum jobs under current planning controls
75	920	+845	1,100

Source: Urbis, *Employment potential of proposed development*, December 2013; Page 26.

TABLE 6. CALCULATED EMPLOYMENT POTENTIAL

Employment Potential – Proposed Development			
Use	Size	Employment Density (FTE jobs)	Jobs
Domayne	8,683 sq.m	1 job per 145 sq.m	60
Office (Harvey Norman HQ)	10,880 sq.m	1 job per 18 sq.m	600
Office	2,720 sq.m	1 job per 20 sq.m	135
Hotel	200 rooms	1 job per 2 guest rooms	100
Cafe	150 sq.m	1 job per 25 sq.m	6
Child Care	510 sq.m	1 job per 25 sq.m	20
Total			920

Source: Urbis, *Employment potential of proposed development*, December 2013; Page 28.

Subsequent to the report, Urbis have updated the employment potential numbers as shown below. An additional 150 jobs is expected on the site.

TABLE 7. UPDATED EMPLOYMENT POTENTIAL (JOBS)

	Previous	Updated	Source
Hotel	100	120	Planned hotel operator
Harvey Norman - HQ Office	600	725	Harvey Norman
Office	135	135	Unchanged
Café	6	6	Unchanged
Childcare	20	20	Unchanged
Domayne	60	60	Unchanged
Domayne loading dock	0	5	Harvey Norman
Total jobs	921	1,071	

Source: Email communication from Urbis, March 2013.

4.2 Ryde LEP planning controls - employment potential

The Urbis report tests the employment potential under the current controls. As reported in page 30 of the study, it used the following process:

- With a site area of 1.97 hectares and a 1.5:1 FSR there is a maximum floorspace potential of 29,645 square metres gross floor area.
- Assuming the retention of the existing Domayne store (8,663 square metres) this means that an additional 20,982 square metres gross floor area could be accommodated on the site until the maximum FSR is achieved.
- On the basis that the balance of the site were to be developed for office floorspace (which typically provides the highest employment densities), the theoretical employment capacity of the site under current planning controls is **1,100 jobs**.

The Urbis report (page 30) suggests that the City of Ryde Draft LEP Amendment No.1 allows bonus height and FSR incentives for sites within Macquarie Park, as follows:

- Bonus floorspace of up to 2:1 FSR
- Maximum building height up to 45 metres

Although, these controls are not tested by the Urbis report, it declares that 'any additional floorspace uplift through the draft LEP amendment would depend on the extent to which the requisite financial contributions affect the viability of further expansion'.

SGS comments:***Is the method appropriate to support the main argument?***

The main argument forwarded in this section is that the employment potential associated with the planning proposal is close to the maximum development potential under the current controls. The method of comparing the two figures is an appropriate one to support the argument. However, there are issues with the data/assumptions used and interpretation.

Are the data and/or assumptions appropriate?

The argument that the proposed development could deliver around 6% of the MPC employment target and 8% of the office floorspace target is consistent with the figures outlined in previous sections. However, there are several issues with the data and calculations used to support the above premise.

Firstly, the employment potential estimates use Gross Floor Area, rather than Net Lettable Area. This would lead to an overestimation of both the job potential of the proposal and the maximum job potential under current controls. Although, given that it applies the same approach to both cases, it is probably okay.

While the process to test the maximum potential is acceptable, the calculations are incorrect and potentially misleading. Firstly, the Urbis report only compares the employment potential of the proposal against the maximum potential FSR of 1.5:1, when in fact the maximum is indicated as 2:1 (bonus FSR). Secondly, the maximum achievable GFA under current controls (29,645 sqm) is substantially different to the total amount of floorspace (both office and non-office) associated with the proposal (49,903 sqm). The proposed amount of floorspace is much higher than both the 1.5:1 and the 2:1 maximum potential scenarios demonstrated in the table below. Neither does the *employment potential report* provide evidence to support the need for violating the controls, nor is there any acknowledgment of this fact.

However, we note that *planning proposal* (also produced by Urbis) does note the breach of controls, and recognises that the proposed development would require an FSR of 2.45:1. Justification for the FSR breach (and the accompanying request for re-zoning) has not been reviewed by SGS as it is outside the scope of this peer-review. In addition, it should be noted that the *planning proposal* document (see Appendix C: AJ+C report page 31) proposes total floorspace of 46,889 sqm. This is different to the figure in the *employment potential report* (49,903 sqm). It would appear that this difference is due to a typographical error attributable to the overestimation of residential and hotel floorspace by approximately 3,000 sqm.

SGS has also estimated the employment potential of the 1:5 and 2:1 FSR scenarios (columns three and four), and another scenario that assumes the same amount of floorspace as the development (column two), but applies an office job density¹ (1 job to 20 square metres) to test what the resultant job potential would be if the non-office components were in fact office floorspace.

¹ 1 job to 20 square metres as used in the Urbis report.

The results in Table 8 indicate that the maximum office job potential under the controls is actually closer to 1,600 (1543 + 60 jobs at Domayne). Using the same amount of floorspace as the proposal (41,240 square metres), the employment potential is closer to 2,100 (although the proposal is well above the maximum FSR).

TABLE 8. PROPOSAL VS. EMPLOYMENT POTENTIAL TEST

Proposed use	Development proposal (sqm)	1.5: FSR potential (sqm)	2:1 FSR potential (sqm)
Domayne	8,663	8,663	8,663
Office (Harvey Norman HQ)	10,860		
Office	2,720		
Hotel	10,000	20,982	30,864
Apartments	17,000		
Café	150		
Child care	510		
Total	49,903	29,645	39,527
Total (excl. Domayne)	41,240	20,982	30,864
Office Job potential @ 20 sqm per job	2,029	1,049	1,543

We also reviewed the updates to the employment potential figures provided by Urbis. The staff-to-room ratio has increased from 0.5 staff per room to 0.6 staff per room. We believe this is still within acceptable staff to room ratios for hotels of the proposed nature. Urbis have also updated the number of jobs on the Harvey Norman Headquarters site (floorspace per job reduces from 18 per sqm to 15 per sqm), and additional jobs associated with the Domayne loading dock –both based on information from Harvey Norman. Given that sources of information, these updates are acceptable. The ratio for Harvey Norman is a somewhat low, but it is still within reason. Overall, the total job yield from the site (including Domayne) has increased from 921 to 1071 – an increase of 150 jobs.

Is the interpretation of the results appropriate?

Based on the method and data used, the interpretation of the results is okay. However, given the errors in calculation (mismatch of maximum potential and actual proposed floorspace), the interpretation is not entirely accurate.

In addition, from a methodological perspective, the use of actual employment with a high office job density assumption (albeit, sourced from Harvey Norman), might be inappropriate for the overall objective of this study – testing the employment potential of the site. For instance, if Harvey Norman were to move out (within the time-frame of the job target), then its replacement may not adopt a job to floorspace ratio as low as 15 sqm per job. It may in fact adopt the average floorspace ratio of 20 sqm per job or higher. It follows that the use of *actual* employment numbers may therefore overestimate the employment *potential* of the site. If one were to take a cautious view regarding employment density, then it would imply that commercial employment capacity needs to be retained in the MPC.

5 ECONOMIC BENEFITS OF THE PROPOSED DEVELOPMENT

The Urbis report (page 33) indicates the following economic benefits associated with the development:

- Development of an underutilised site in an orderly and efficient manner.
- Potential to deliver around 920 jobs - a twelve fold increase of 845 jobs compared to current employment.
- Potential to deliver 650 construction jobs and 1,020 supplier jobs linked to construction activity.
- Attracting Harvey Norman's head office - a leading Australian business to locate at Macquarie Park will further strengthen and enhance the reputation of the area as a location of choice for potential 'blue chip' employers.
- The provision of a 200 room hotel which will effectively replace the hotel rooms that would be lost by the redevelopment of the Stamford Hotel site. Providing good quality hotel accommodation is an essential component of a successful large scale business park.
- We understand that the receipts from the development of the residential apartments will provide the necessary funds to enable the development of the hotel that would otherwise be of marginal viability.
- Linked to the above, the provision of the Harvey Norman head office on site is expected to result in a significant number of visitors and franchisees from interstate and overseas creating demand for hotel accommodation. The provision of a hotel is therefore very important as part of the Harvey Norman HQ relocation.
- The provision of up to 170 residential apartments to contribute toward City of Ryde's housing target of 12,000 additional dwellings between 2004 and 2031 (based on the draft Inner North Subregional Strategy) within walking distance of major employment, retail and further education facilities and excellent public transport connectivity.
- The addition of ancillary café and child care uses to meet the daily needs of workers on site.
- Improved integration with adjoining planned residential uses through the creation of a mixed use environment.

SGS comments:

Is the method appropriate to support the main argument?

The argument is that there will be a range of different economic benefits associated with the development. While SGS broadly agrees with some of the points made, there are others that are inappropriate to assess the economic benefit.

Economic benefit vs. economic impact: There is a question of methodological appropriateness of this section of the report. The title reads 'Economic benefits of the proposed development' which implies that the assessment would be in line with Cost-Benefit Analysis principles – an assessment of the worth of the project from the NSW society perspective. This is perhaps the most appropriate framework to assess the proposal. However, the list of benefits in the report (such as construction multiplier jobs), include those that are more in line with impact assessment than benefit assessment. The report fails to distinguish between these two concepts.

Base case of assessment: The Urbis report states the economic benefits against an implicit 'base case' of 'no development' on the site or elsewhere in the system. This is a false base case. The real alternative to the proposal would be either the redevelopment of the site as pure commercial office, which could be achieved with even higher employment yields, or the redeployment of capital elsewhere in the system.

Construction jobs: Using multiplier jobs demonstrates the 'economic impact' of the development, rather than the 'economic benefit' as these new jobs are unlikely to be 'net new' jobs. It may be the case the current capacity in the economy would be able to absorb the labour demand of this development with little new job generation. The multiplier used in the Urbis report is reasonable.

Hotel: Based on the evidence presented, the hotel is primarily indicated as a benefit to Harvey Norman, and only of little benefit to the MPC. The report argues that providing good quality hotel accommodation is 'an essential component of a successful business park' – but this claim is not backed by any evidence. In contrast, the report demonstrates how the hotel would be useful to Harvey Norman's operations.

Subsidising the hotel: The report argues that the residential development will effectively subsidise the hotel; which is argued to be infeasible. Given that the development of the hotel has not been effectively argued as an economic benefit to the system, the subsidisation of the hotel cannot be seen as an economic benefit either. Moreover, no evidence has been provided to support the claim that the hotel would not be feasible without the residential development.

Residential development: Whilst we acknowledge that it is outside the scope of Urbis' brief, we note that there has been next to no analysis of the housing market and the necessity for residential development on the site. We broadly agree that the provision of apartments in an accessible location, close to employment, can be viewed as an economic benefit for future residents. However, large scale residential development in commercial core areas can undermine the integrity of commercial areas and 'crowd out' future commercial redevelopment. It increases surrounding landowners' expectations of attracting higher prices from residential development, often resulting in land prices that can render commercial office unfeasible. As a consequence, landowners could complain that commercial is no longer feasible (and sometimes rightly so) and build political pressure for rezoning to residential development. Hence, why allowing residential development in commercial core areas is sometimes described as 'the thin edge of the wedge' or 'a death by a thousand cuts'.

Is the data and interpretation of the results appropriate?

Data sourced from previous sections have already been reviewed. There is very little documentation of data sources unique to this section of the Urbis report, so it is difficult to determine whether the assertions are true. Based on the lack of new data cited and the identified methodological issues, the appropriateness of the interpretation is unclear.

6 CONCLUSIONS

SGS was engaged by SJB Planning to complete a *prima facie* peer review of the report 'Employment Potential of Proposed development: 11 Wicks Road, 29 Epping Road, 31-35 Epping Road,' prepared by Urbis in December 2013 for Harvey Norman. The main purpose of the Urbis report is to 'assess the contribution of the proposed development of the site at Macquarie Park (111 Wicks Road, 29 Epping Road, 31-35 Epping Road) towards meeting employment targets for the Macquarie Park Corridor (MPC)'.

Overall, we find the approach taken in this study appropriate to assess the contribution of the proposed development to the employment target. In particular, the market assessment (supply, job growth, and vacancy) is appropriate for a study of this nature.

With particular emphasis on the employment potential calculations, we broadly agree with the 'demand for office floorspace' and 'employment density' benchmarks used by Urbis. In addition, given the sources of information used and the reasonable nature of the jobs per sqm ratios, we find that the updated job yield (increase from 921 to 1071) is reasonable.

Broadly, we find that the data used, and interpretations in this study are appropriate. However, we note the following issues:

- **Possible overestimation of supply.** The report uses Cordell Connect's data base to demonstrate that there is sufficient supply to meet the target. However, it is possible that some of the data presented as 'Future office development' *may* not be entirely office space. For instance, the 88 Talavera Road site of 31,000 sqm appears to be mixed-use with significant residential floor space on the site (Macquarie Residencies operated by Meriton). This is an example of a site currently zoned for mixed use being used for largely non-commercial uses. In addition, the report does not discuss the proportion of development in the pipeline that will actually 'come online' by 2031 (the time frame of the target).
- **Weak case for residential development.** Whilst we acknowledge that it is outside the scope of Urbis' brief, we note that there has been next to no analysis of the housing market and the necessity for residential development on the site. We broadly agree that the provision of apartments in an accessible location, close to employment, can be viewed as an economic benefit for future residents wanting to locate in the area. However, we note that there are many similarly suitable sites (currently zoned mixed-use) in locations around the site in question. In addition, large scale residential development in commercial core areas can undermine the integrity of commercial areas and 'crowd out' future commercial redevelopment.
- **Weak case for high yield.** One of the proposed developments is 27-storey development with a residential component which is inconsistent with the current character of the precinct. If Macquarie Park does in fact experience lower construction costs and lower rent, then it follows that a low development yield is feasible. From a pure feasibility point of view, this then raises the question of the necessity of the proposed high yield development.

- **Inconsistency in maximum achievable GFA.** The maximum achievable GFA under current controls (29,645 sqm) is lower than the total amount of floorspace (both office and non-office) associated with the proposal (49,903 sqm). The proposed amount of floorspace is much higher than both the 1.5:1 and the 2:1 maximum potential. There is no acknowledgment of this breach of FSR controls in the *employment potential report*. However, we note that *planning proposal* (also produced by Urbis) does note the breach of controls, and recognises that the proposed development would require an FSR of 2.45:1.
- **The report does not consider the current form and use in MPC.** The report does not recognise the fact that the proposed development is vastly different –both in development form, and land-use; to any other current development in the commercial core zoned areas in MPC. Moreover, there is no appreciation of the impact of the proposed development form (and its use) on a ‘specialised centre’ such as MPC and more broadly, the Global Economic Corridor (GEC).
- **Inappropriate base case in economic benefit assessment.** The Urbis report states the economic benefits against an implicit ‘base case’ of ‘no development’ on the site or elsewhere in the system. This is a false base case. The real alternative to the proposal would be either the redevelopment of the site as pure commercial office, which could be achieved with even higher employment yields, or the redeployment of capital elsewhere in the system.

Collectively, these issues imply that the case for rezoning to allow a currently prohibited use (residential) is weak. The lack of evidence to support the infeasibility of the hotel, inaccurate assessment of commercial floorspace supply, lack of residential market analysis, lack of appreciation of the role of MPC in GEC are some of the key reasons to support this view.

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Strategic implications for Macquarie Park: Stage 2



Final report

Ryde City Council
March 2014

Independent insight.



This report has been prepared for City of Ryde Council. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

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1 INTRODUCTION

1.1 Background

SGS was engaged by SJB Planning to complete a two stage study to peer review the report 'Employment Potential of Proposed development: 11 Wicks Road, 29 Epping Road, 31-35 Epping Road,' prepared by Urbis in December 2013. The study comprises of two stages:

- Stage 1: Peer review - Prima facie peer review of the Employment Potential of Proposed Development Report produced by Urbis (completed)
- Stage 2: Strategic analysis – Understanding the implications of introducing residential development into the Macquarie Park Corridor, in the context of its place in the Global Economic Corridor (this report).

The subject site measures 1.97 hectares, and is located in the South Eastern edge of Macquarie Park, close to North Ryde railway station. The site is strategically located in the Macquarie Park Corridor (MPC) - identified as a 'specialised precinct' in the *Draft Metropolitan Strategy for Sydney to 2031*. MPC is also part of the Global Economic Corridor (GEC), which spans from East (Port Botany), to North (North Sydney, Chastwood, and Macquarie Park), to North West (Norwest, and Westmead) of Metro-Sydney. Macquarie Park is therefore recognised as being of State and National significance for knowledge based industries, and future employment generation. City of Ryde indicates that the MPC contains around 800,000 sqm of commercial floorspace with capacity to reach 2 million sqm.

FIGURE 1. LOCATION OF SUBJECT SITE



Source: Urbis, *Review of Employment Potential Report*, December 2013

The proposal is for a mixed use development at 111 Wicks Road, 29 Epping Road, 31-35 Epping Road; Macquarie Park. The table below summarises key aspects of the proposal.

TABLE 1. PROPOSED DEVELOPMENT

Element	111 Wicks Road		31-35 Epping Road		29 Epping Road	
Land use	Residential Hotel Cafe		Commercial Bulky goods retail		Commercial Child care	
Indicative yield	Apartments	170				
	Hotel rooms	200				
Gross floor area	Apartments	17,000 sq.m	Bulky Goods	8,663 sq.m	Commercial	2,720 sq.m
	Hotel	10,000 sq.m	Comemrcial	10,860 sq.m	Child care	510 sq.m
	Café	150 sq.m				
Building heights	27 storeys		3-12 storeys Single storey cafe		6 storeys	

Source: AJ&C Concept Masterplan November 2013; in Urbis, *Review of Employment Potential Report*, December 2013.

1.2 Structure of report

The aim of Stage 2 of the SGS study for Ryde Council is to assess the strategic importance of the MPC, and implications of introducing residential development into the MPC, in the context of its role in the GEC. A variety of analytical tools are used to assess the strategic importance of MPC, with the view that this study (Stages 1 and 2) would assist Council in assessing the rezoning request (to allow residential development), made in the *Macquarie Park Planning Proposal – Supplementary report January 2014* produced by Urbis.

The report is structured as follows:

Introduction: this section sets the context of the study, and provides information about the subject site and proposed development.

Economic drivers: This section brings together previous SGS research to identify elements of successful business park and also summarises findings from consultation with two key businesses located in Macquarie Park.

Policy analysis: This section reviews key strategies and policy documents relevant to Macquarie Park and the subject site. In addition, a review of best practice tools and approaches to protect employment lands are also discusses.

Strategic analysis: This section comprises of three analytical components:

- An assessment of the market for business park uses in the GEC with a focus on the implications for MPC future land-use demand
- A broad assessment of the competitive offer of MPC (and thereby the subject site) in the context of competitor locations in the GEC;
- A qualitative analysis of the costs and benefits of competing land-uses (commercial vs. residential) in MPC.

Case studies: This section brings together existing literature on two case studies – Chatswood CBD; which is part of the GEC, and Hornsby town centre; which is outside the GEC. The aim of this section is to present the impact of allowing residential development in previously commercial core areas.

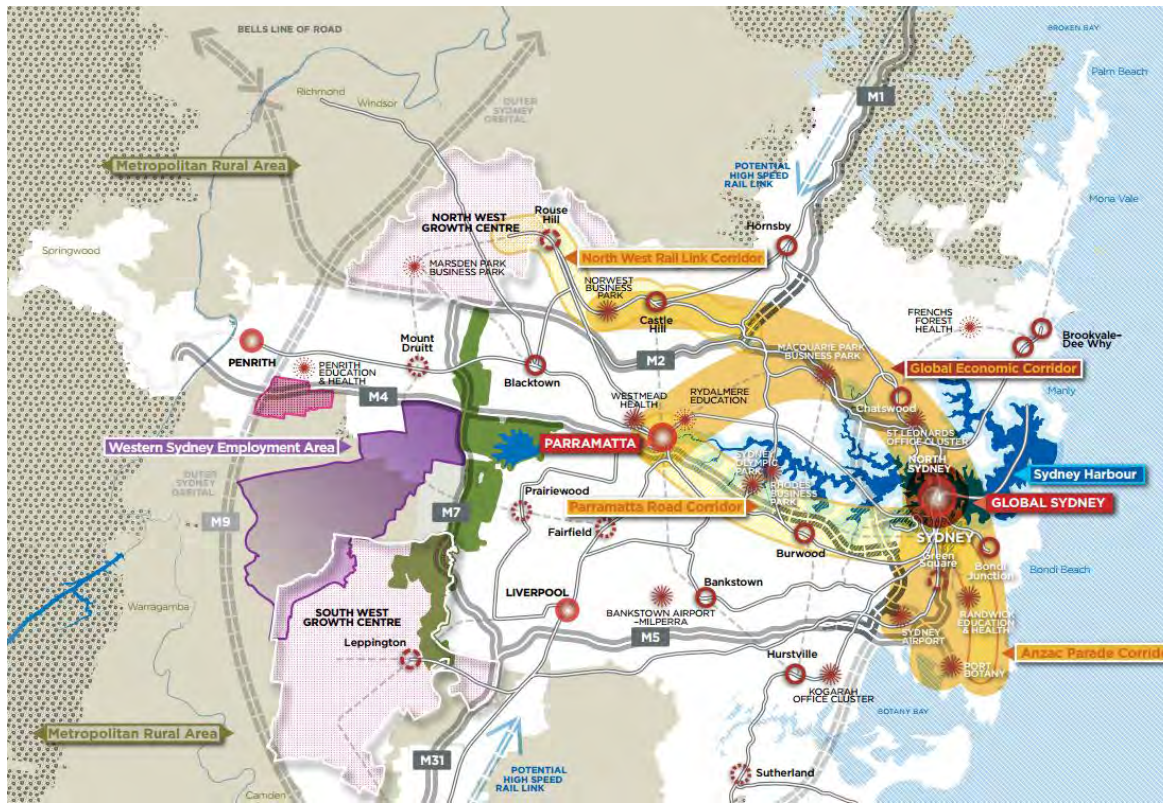
Conclusion: This section draw the key results from each section, and concludes the study.

2 ECONOMIC DRIVERS

2.1 Introduction

Macquarie Park Corridor (MPC) is identified as a ‘specialised precinct’ in the *Draft Metropolitan Strategy for Sydney to 2031* and is also part of the Global Economic Corridor (GEC), which spans from East (Port Botany), to North (North Sydney, Chastwood, and Macquarie Park), to North West (Norwest, and Westmead) of Metro-Sydney (see figure below). Macquarie Park is therefore recognised as being of State and National significance for knowledge based industries, and future employment generation. Its strategic location and research links gives it a unique position in the GEC, and adds to its brand value and competitive offer.

FIGURE 2. SYDNEY GLOBAL ECONOMIC CORRIDOR



Source: Draft Metropolitan Strategy for Sydney to 2031, NSW Government (2013)

The Corridor (see highlight area in figure below) is a nationally significant research and business centre, specialising in the communications, medical research, pharmaceutical and IT&T sectors. It is located on over 200 ha of commercial land use. Of the total land use, 98 ha are occupied by Macquarie University¹. With over 800,000 sqm of commercial floor space and the capacity to reach over 2 million sqm, Macquarie Park is well placed to be a hub for future employment generation. With three accessible and vibrant railway station areas (Macquarie University, Macquarie Park, and North Ryde stations), MPC is a well connected centre transporting students, workers and residents to and from the area. In addition, Macquarie Shopping Centre – a regional shopping which a regional catchment; is also located in the Corridor.

As noted in the DCP², the vision for the Corridor is as follows:

'Macquarie Park will mature into a premium location for globally competitive businesses with strong links to the university and research institutions and an enhanced sense of identity. The Corridor will be characterised by a high-quality, well-designed, safe and liveable environment that reflects the natural setting, with three accessible and vibrant railway station areas providing focal points. Residential and business areas will be better integrated and an improved lifestyle will be forged for all those who live, work and study in the area.'

FIGURE 3. MACQUARIE PARK CORRIDOR



Source: City of Ryde Council, *Development Control Plan*, 2010

¹ See <http://www.ryde.nsw.gov.au/Development/Town+Centres/Macquarie+Park+Corridor>

² City of Ryde Council, *Development Control Plan*, 2010

Business parks attract users that lie along the industrial-commercial land-use spectrum, rather than pure commercial office or pure industrial users. They usually comprise a mix of commercial/industrial, retail, recreational/leisure and residential land uses, and in some cases 'special uses' such as university campuses and R&D facilities. Facilities such as hotels and meeting/conference facilities are also a common feature of some business parks.

The MPC fits in well with this definition. In addition to Macquarie University and CSIRO centre, it is a centre for pharmaceutical, technology, electronics and telecommunications businesses, including Microsoft, Sony, Optus, Johnson & Johnson and Schneider Electric. Currently, the Corridor comprises of a three different zones located in specific areas. These include, B4 (mixed-use) which permits residential and retail, B3 (commercial core) which permits retail, office and business (no residential), and B7 (business park) which permits office, light industrial, and business (no residential or retail) uses.

2.2 Elements of a successful business park

While the Corridor is home to varying types of permissible uses, in this section we identify several factors that influence the relative success of a high-tech business park. These include:

- Access
- Business/industry mix
- Planning provisions
- Infrastructure
- Ownership and management.³

Access

Proximity to a highly-skilled workforce is a key feature of successful business parks. Macquarie Park and Norwest Business Park are both located in relative proximity to the executive workforce of Sydney's northern suburbs.

Accessibility to services and facilities in other activity centres is also seen as desirable, as well as access to the CBD, the airport and port. While public transport access is an important consideration, access via an arterial road network into the metropolitan system is critical.

Business parks should tie in with the wider regional economy. The need to provide for appropriate forms of industrial, commercial, retail and residential development that contribute to the economic and community development of the area/region is important to the success of the business park. Newly established or developing business parks should not conflict with the established network of activity centres and employment nodes.

³ SGS Economics and Planning 2006, "Park Ridge Industry Opportunity Analysis", Report prepared for Logan City Council, findings based on case studies of business parks across Australia and other secondary sources.

Business / Industry Mix

Business parks usually comprise a mix of commercial/industrial, retail, recreational/leisure and residential land uses, and in some cases 'special uses' such as university campuses and R&D facilities. Facilities such as hotels and meeting/conference facilities are also a common feature of some business parks.

'High quality' and high profile commercial uses feature prominently in successful business parks, where they can benefit from strong links between businesses, research and education providers (for access to skilled workers and the potential for commercialisation of research with strong economic outcomes).⁴

Macquarie Park hosts regional headquarters of major corporations, 'advanced manufacturing' activities and 'high tech' businesses. R&D activities feature prominently, and Macquarie University is an 'anchor tenant' for the business park, feeding a strong interface between the University and local businesses.

Planning Provisions

Planning provisions and management are generally geared to encourage the development of more advanced, high value industrial and commercial uses as opposed to more traditional light manufacturing and other industries. Although business parks are sometimes located in some major residential developments, such as Springfield and North Lakes in South East Queensland, in other business parks, residential development is excluded.

Many tenants in business parks provide existing and potential new businesses with a choice of locations, lot sizes and configurations, building types and ancillary services & facilities. The variety of choices, along with critical infrastructure and supportive planning approvals processes, make any location within a business park an attractive investment proposition. For example, Schneider Electric recently consolidated its nine Sydney offices into a large, five green star-rated office in Macquarie Park, in line with its company ethos.

Planning provisions encourage the preferred industry use and mix of tenants in a business park (knowledge based, advanced, high tech, etc.). In some cases, development applicants are required to liaise with the management authority/property owner of the business park before lodging a development application with Council. This is designed to inform the applicant on the requirements for the use, character and quality of proposed developments prior to the formal application process. Such up-front 'negotiation' is intended to help 'fast track' development approvals through Council.

Competitive property prices can also be achieved as a result of planning provisions which restrict speculative purchases and land banking and which encourage a high level of owner-occupation. (For example, in some cases development approval is a condition of purchase, which discourages speculative purchases).

⁴ State Science and Technology Institute, (2006), A Resource Guide for Technology-based Economic Development, viewed 18th October 2007, <http://www.ssti.org/Publications/Onlinepubs/resource_guide.pdf>

Infrastructure

Transport access is an important element of successful business parks. While not all business parks are well connected by efficient and effective public transport, this is generally seen to be desirable as it is an important attractor for potential investors and their staff as well as prospective tenants.

Business park management generally pays attention to the importance of movement and accessibility for businesses, residents and workers within the business park and to/from other areas. Integration with existing transportation networks is considered ideal.

While public transport access is desirable, access via an arterial road network into the metropolitan system is critical. Fast and reliable transportation links to the city's port and airport are also important considerations. Quality information and communications technology infrastructure (e.g. broadband, wireless, satellite technology) are critical to the success of a business park looking to attract high quality, high profile, job generating business tenants.

Ownership and Management

It is common for a business park to be a managed estate or precinct in single ownership. Development is usually guided by a clearly stated vision or set of stated objectives and development principles. This provides a clear signal to prospective investors about the sorts of activities that are encouraged (and permitted) to locate in the business park.

The management authority usually (often a private development company) controls development of the business park. Although, in some cases (for example, Norwest Business Park), there is a high level of involvement from the local Council and in such cases a highly cooperative relationship between management and Council is necessary.

2.3 Consultation

SGS interviewed two companies located in the Corridor to identify the economic drivers (which were discussed above) that influence why they locate where they do. The contacts interviewed⁵ were:

- BOC: David Rudkin, General Manager Business Services, Region South Pacific
- Sonic Healthcare: Vanessa Hindmarsh, Property Manager.

BOC employs 750 people at Macquarie Park, and supplies compresses and bulk gases, chemical and equipment worldwide. The company's office is located at 10 Julius Avenue, North Ryde, and BOC's lease has been renewed for a further 12 years.

Accessibility to services and facilities in other economic nodes and activity centres is a key concern for BOC, and the renewal of their lease was with the significant expectation that *traffic congestion* in the area will decrease with improved infrastructure.

In contrast, *competitive rent* was identified as positive of the location. The key infrastructure required by BOC is *fast and frequent train and bus services* to transport its many employees, but proximity to suppliers and freight corridors is not a concern for the company.

BOC identified that a high density residential development near their office in Macquarie Park would have no direct effect on their decision to locate in the area, nor would it cause them to seek an alternate location.

Sonic Healthcare employs 1,300 staff at 14 Giffnock Avenue, Macquarie Park. They provide laboratory pathology and radiology services and are a top 50 company on the ASX. Sonic Healthcare has been based in the Ryde area since the 1970s, and moved to Macquarie Park in the 1990s. However, their operations are not location-specific and "the company can operate from any suburb".

Proximity to suppliers and similar companies was not a key factor in the decision to locate in Macquarie Park, and a residential development near the Sonic Healthcare office would have no effect on the decision to locate the firm in Macquarie Park. Like BOC, Sonic Healthcare identified that a major disadvantage of Macquarie Park's location is *congestion for workers who commute via car*.

And similar to BOC, Sonic Healthcare identified *competitive rent* as positive for locating in the area.

Table 2 summarises the findings of the consultation with regards to locational factors that influenced the firms' decision to locate in Macquarie Park.

⁵ SGS attempted to interview representatives from Optus, Konica Minolta, Astra Zenika, Novartis, CFC and Cochlea, but was unsuccessful.

TABLE 2. LOCATIONAL FACTORS CONSIDERED BY FIRMS IN MACQUARIE PARK

Locational factors	BOC Gases	Sonic Healthcare
Access - by public transport and private car		
Proximity to other firms, research, education - for access to skilled workers and the potential for commercialisation of research, with strong economic outcomes		
Accessibility to services and facilities in other economic nodes and activity centres	Yes	
Single ownership structure that allows for a management and planning process that controls the types of industries allowed to locate in the business park		
Supportive governance from City of Ryde - supportive and efficient planning process that provides certainty for investors		
Quality 'hard' infrastructure including broadband communications and IT		
Proximity to high quality workforce i.e. executive workforce of Sydney's northern suburbs	Yes	
Lifestyle attributes including strong cultural, community and recreational infrastructure		
Choice of lot size and configuration, building types and ancillary services		
Competitive property prices compared with Sydney CBD, North Sydney	Yes	Yes
Proximity to residential development		

Source: The above table was compiled by SGS from interviewee responses.

2.4 Key consultation findings

During consultation, residential development was not identified as having a direct negative influence on firms locating in Macquarie Park⁶. However, the indirect consequences of increased residential development *may* have a tangible impact on a firm's decision to locate in Macquarie Park.

Both BOC and Sonic Healthcare identified *congestion* as a major concern. Congestion may intensify with increased residents locating in commercial areas of Macquarie Park. Similarly, both companies identified *competitive rents* as a reason they located their business in Macquarie Park. Repeated requests for residential/mixed use re-zoning in commercial core areas may put upward pressure on commercial property rents and land-values, thereby adversely impacting on affordability.

There are also other factors which BOC identified as having an influence on firms' decisions to locate in an area. These include proximity to a high quality workforce and the accessibility of other economic activity centres.

⁶ It is likely that these responses are a reflection of the existing surroundings of residential development in Macquarie Park. It *may* be the case that residential development in current commercial core areas may elicit a different response.

3 POLICY ANALYSIS

3.1 Document review

This section outlines the key government strategies and policies applying to the Macquarie Park Precinct. The following policies and strategies were reviewed:

- Draft Metropolitan Strategy (2013)
- The Metropolitan Plan for Sydney 2036 (2010)
- The Metropolitan Strategy for Sydney: City of Cities (2005)
- Draft Inner North Sub-regional Strategy (2007)
- The City of Ryde Local Planning Strategy

The focus of this review is on understanding the strategic importance of the MPC employment lands in the context of the Global Economic Corridor.

The ‘Macquarie Park Employment Area’ was established in the mid-1960s, conceived along the same lines as the hi-tech employment area surrounding Stanford University in Palo Alto, California, commonly referred to as “Silicon Valley”⁷. During the 1970s, several large companies established their headquarters in Macquarie Park and provided the catalyst and momentum for future development of the area. Macquarie Park has gained a reputation as one of Australia’s leading hi-tech industrial areas, attracting companies specialised in the computing, medical, pharmaceutical, communications and electronics industries. A recent report⁸ estimates that it has the 10th highest economic output in Australia, behind North Sydney (9th) and Adelaide (8th), and attracts headquarters for Australian companies and branch headquarters for international companies.

The Metropolitan Strategy for Sydney: City of Cities (2005)

The Metropolitan Strategy for Sydney: City of Cities identified Macquarie Park as a ‘specialised centre’, which forms part of Sydney’s Global Economic Corridor (GEC). The concept of the Global Economic Corridor embodies the importance of a series of centres and employment areas in Sydney that generate much of Sydney’s income and employment. The GEC extends from Sydney Airport and Port Botany in the South to Macquarie Park in the North, via Sydney CBD, North Sydney and Chatswood.

A key aim of the 2005 Strategy was to build on the strengths of the GEC, growing 150,000 new jobs in this corridor up to 2031; representing 30% of all new jobs in Sydney.

⁷ Frances Pollon, *The Book of Sydney Suburbs*, Angus & Robertson Publishers, 1990

⁸ PwC, *Australia uncovered – a new lens for understanding our evolving economy*, March 2014

The strategy indicates that the strength of the GEC is based on good historical planning decisions that designated and protected Macquarie Park as a key employment area in post war planning documents (p. 108). The strategy includes an action to 'protect and strengthen the primary role of economic corridors' and to 'establish a stronger corridors planning and development initiative' (p. 108). Under this action, there is an emphasis for positive strategic planning that reinforces the role of commercial development and to ensure that residential does not undermine the integrity of commercial areas. It goes on to indicate that it is important that demand for residential uses (and the turnover of commercial uses) does not squeeze out 'vital economic activities within the City to Airport corridor' (p. 108). Chatswood is cited as an example of a commercial area where further commercial development opportunities have been limited due to residential development. Residential development is also posing a threat in Port Botany, with increased congestion as residential development intensifies in this area.

The strategy suggests that a 'Stronger Corridors Initiative' should be established to cover the North Sydney to Macquarie Park and City to Airport corridors (p. 109) to protect economic assets and manage potential conflict. However, there was no evidence of the development of such an initiative.

Draft Inner North Sub-regional Strategy (2007)

The *Draft Inner North Sub-regional Strategy* (DINSS) translates the 2005 Metropolitan Strategy from the regional level to the sub-regional level. One of the key directions of the DINSS was to 'strengthen north Sydney to Macquarie Park Corridor' and to 'promote Macquarie Park as Australia's leading business park'. It outlines a job target of an additional 23,100 jobs by 2031; reaching a total of 55,300 jobs. The DINSS estimates that the current supply of commercial floorspace in Macquarie Park is 800,000 square metres.

The future of Macquarie Park is 'to continue to evolve as Australia's leading technology-park, with jobs growth, further investment and improved public transport accessibility.' The DINSS reveals that a Draft Strategy for the North Sydney to Macquarie Park corridor should be prepared to include actions which underpin its economic role (p. 47).

Metropolitan Plan for Sydney 2036 (2010)

The 2010 *Metropolitan Plan for Sydney 2036* reiterates the critical role the GEC plays in the metropolitan economy. It outlines a job target for an additional 19,000 jobs by 2036; reaching 58,000 jobs by 2036.

The *Metro Plan* again states that a strategic planning framework should be established to plan for future demand (p. 137). Action E2.5 of the plan underlines the importance of strengthening clusters of activity in specialised centres, particularly for high growth and high value sectors (p. 138).

Draft Metropolitan Strategy (2013)

The 2013 draft Metropolitan Strategy again emphasises the priority continued economic clustering in the GEC to support globally competitive industries. Under the draft strategy the Macquarie Park forms a part of a new Central Subregion. The objectives for the Macquarie Park Specialised Precinct, under the Central subregion are:

- continue to develop as a metropolitan-scale office park with a technology focus in the Global Economic Corridor, supporting and supported by the growth of Macquarie University Research Park, Macquarie Hospital, Macquarie Centre, Macquarie Park and Riverside Corporate Park (and Hospital)
- expand office space to increase productivity advantages and prioritise office space over housing
- provide capacity for at least 16,000 additional jobs to 2031 (p. 84).

Under the 'Balanced Growth' section of the draft strategy, the second objective is to 'strengthen and grow Sydney's centres' (p. 14). A key policy move under this objective is to 'maintain a strong employment focus in specialised precincts' (p. 14). Macquarie Park has an updated job target of an additional 16,000 jobs; reaching 61,000 jobs by 2031 (p. 43).

Ryde Local Planning Study

The City of Ryde Local Planning Study (LPS) was prepared in 2010, with the purpose being:

- to guide future growth in Ryde over the next 10 years through a range of land use planning initiatives;
- to inform the comprehensive Local Environmental Plan (LEP2011);
- to review and respond to the directions and actions of the Metropolitan Strategy and Draft Inner North Sub-regional Strategy, in particular to respond to the 12,000 dwelling target and 21,000 jobs target set for the City of Ryde by the Draft Inner North Sub-regional Strategy (p. 4).

The document covered the following areas:

- Introduction
- Centres and Corridors
- Small Centres
- Housing
- Environment and Open Space
- Cultural Heritage
- Employment
- Transport
- Strategic Directions

In response to the DINSS the City of Ryde suggest that more emphasis should be placed on 'the importance of the Macquarie Park Corridor and its transition from being a car dependent commercial centre to a vibrant, public transport orientated mixed-use centre' (p. 8)

The LPS reveals that the forecast growth in the Macquarie Park - North Ryde corridor (derived from the City of Ryde S94 Contributions Plan 2007) is expected to be around 1.25 million square metres of floorspace by 2034 (p. 29).

While the development capacity of planning controls for the Macquarie Park precinct was not completed, the LPS nevertheless suggests that ‘target and current growth projections will be accommodated’ (p. 30).

The LPS indicates a key direction for the Macquarie Park Corridor ‘continues to be developed into a premium business location through the implementation of the current planning framework’ (p. 31) and that the role of Macquarie Park as a major commercial centre continue to be supported ‘through the implementation of the current planning framework’ (p. 32).

The Housing component of the study notes that ‘the City of Ryde can meet the 12,000 dwelling target by 2031 through dwellings approved since January 2004 and dwellings which have the potential to be delivered through either existing planning controls or planning controls currently in preparation’ (p. 4-25). In other words, the study notes that under current controls, there is sufficient zoned land to meet the housing target.

In addition, the study recognised the need to provide a diverse range of housing within the LGA including residential units. It identified 5 town centres which are to function as genuine mixed use precincts. With regards to Macquarie Park, it is considered that sufficient residential units are provided in the existing B4 Mixed Use zones around Herring Road and the North Ryde Station Precinct.

Summary of strategies

Macquarie Park was identified as a ‘specialised centre’ with existing economic clusters of high growth and high technology industries that should be protected and nurtured through effective strategic planning.

The success of Macquarie Park as a major employment centre is based on good historical planning. The continued growth of the Macquarie Park Corridor as a major employment centre in Sydney relies on protecting and strengthening its commercial role, and maintaining a critical mass of commercial - achieved through the prioritising of commercial over residential development. Chatswood (explored in the case studies section of this report) was given as an example of a commercial precinct where residential development has ‘squeezed out’ commercial development opportunities.

3.2 Continual supply of employment lands in MPC

In the politics and planning of urban land supply, the focus is predominantly on the provision of residential land, with industrial land receiving less attention, and commercial land the least. However, decisions regarding the amount and location of land available for commercial use significantly influence the location, size and scale of business activities (Productivity Commission, 2011). Strategic commercial land use planning is therefore a critical component in minimising the risk of an under-supply or over-supply of commercial space. Given the wide reaching and irreversible (or at least costly/ time consuming) nature of reversing planning decisions, strategic land use planning is also a necessary process in the consideration of any potential rezoning or development of non-employment generating uses in commercial zones. Changes to permissible uses should ideally take place in the context of a land-use study, and not on an ad-hoc basis, as it may alter the expectations of the market.

While both State and Local governments engage in land supply planning, the Productivity Commission⁹ notes that when local government is left to manage planning, commercial floor space provision *may* be ‘duplicated’, allocated in sub-optimal locations, or under allocated because the net effect of land supply is overlooked. The Productivity Commission notes that strategic commercial land supply planning is best undertaken with a sound appreciation of the centres connection to the wider region. In the context of MPC, this implies that Council should account for the MPC’s importance and strategic positioning in the context of the GEC.

In developing a strategic land use plan, the first task is to clearly articulate both the broad and specific objectives that underpin the plan. This can be as broad as metropolitan-wide employment targets, or as specific as particular commercial zones or the targeted mode share for journeys to work.

Accurate forecasting of future demand is fundamental to a successful strategic plan for commercial land supply. Long-term demand or ‘underlying demand’ for commercial floor space can be forecast from expected changes in population, retail and employment numbers. However, while underlying demand indicates the commercial floor space that is likely needed in the long-term, ‘effective demand’ is the demand for such floor space under current market conditions and returns on investment. Effective demand is more commonly understood as the property cycle.

This distinction between underlying and effective demand creates a ‘disconnect’ between the ‘price value’ and the ‘use value’ of the land, which has implications for commercial floor space supply (Productivity Commission, 2011). For example, a region may be forecast to see substantial population growth resulting in a long-term demand for commercial floor space, however, due to current market conditions the construction of such floor space may not be considered financially feasible. In situations such as these, development pressure often exists to respond to the shorter-term effective demand through the rezoning of commercial zones or the permitting of non-commercial uses. However, responding simply to effective demand and current development pressures without due consideration of the underlying demand runs the risk of facilitating an undersupply of employment generating floor space in the future. This is particularly relevant to decisions over large strategic sites, as in any given location there is almost always few suitable sites for large scale commercial development.

Business parks users lie along the industrial-office land-use spectrum, rather than pure commercial office or pure industrial users. Macquarie Park is no different – both high tech light industrial and high tech commercial tenants locate in the Corridor. In broad terms, the risk to pure commercial areas is residential encroachment, and the risk to pure industrial areas is bulky-good retail and dispersed uses (and in some cases, residential development). Given the unique nature of the Corridor, commercial core and business park zoned areas are likely to be under pressure from competing uses. Not accounting for the strategic importance of MPC in the GEC would be sub-optimal and counter to the objectives of the business park itself. For these reasons, careful and conscientious planning is required for the MPC. And particular attention should be given to its strategic role in the GEC, and its importance at a State and National level.

⁹ Productivity Commission, *Urban land supply – policies and strategies*, 2011

4 STRATEGIC ANALYSIS

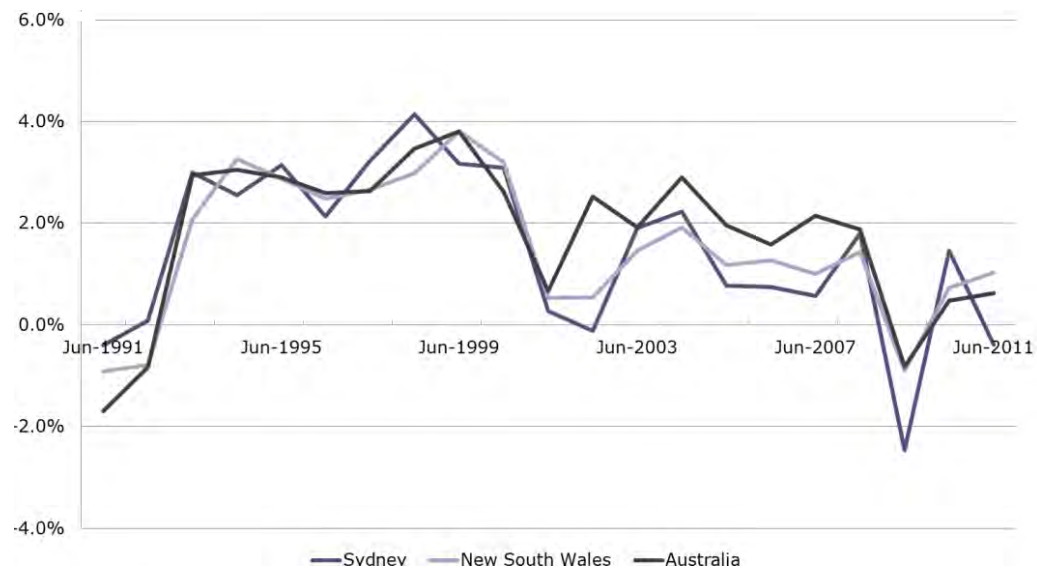
4.1 Assessment of market for business park uses in the GEC

The economic geography of Sydney is evolving. Manufacturing industries constitute a smaller share of employment whilst knowledge and service industries are more important than ever. In this context, sites such as the MPC (and others along the GEC) are of increasing importance for current and future employment (and output) generation. In this section, we identify key trends in the market for business park uses, taking into consideration current and future market conditions along the GEC. This analysis takes on a broader perspective, given the GEC’s significance at a State and National level.

Macroeconomics and the market for GEC commercial floorspace

Figure 4 shows that in terms of per capita growth in GDP, Sydney tracked national growth during the 1990s; since 2000, the city’s economy has been slowing down and its growth rate has decoupled from those of New South Wales and Australia.

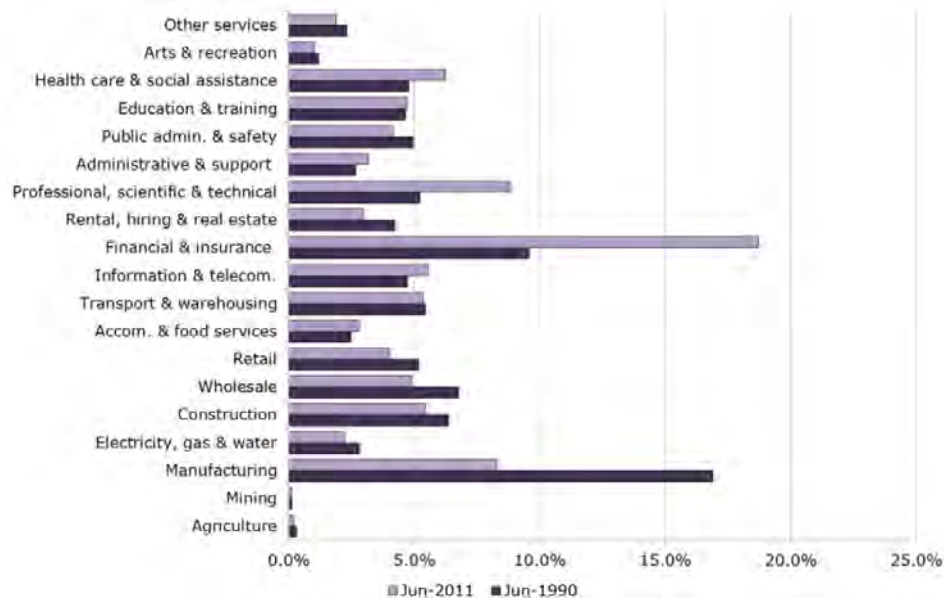
FIGURE 4. SYDNEY GDP PER CAPITA GROWTH



Source: SGS Economics and Planning, 2012, using 2011 ABS data

While the mining regions and other cities expanded on the back of infrastructure investments and very rapid relative population growth, Sydney lost ground. The preponderance of the finance and insurance sector located in Sydney (as shown in Figure 5) exacerbated Sydney economy’s contraction during the global financial crisis.

FIGURE 5. SYDNEY INDUSTRY SHARE OF ECONOMY

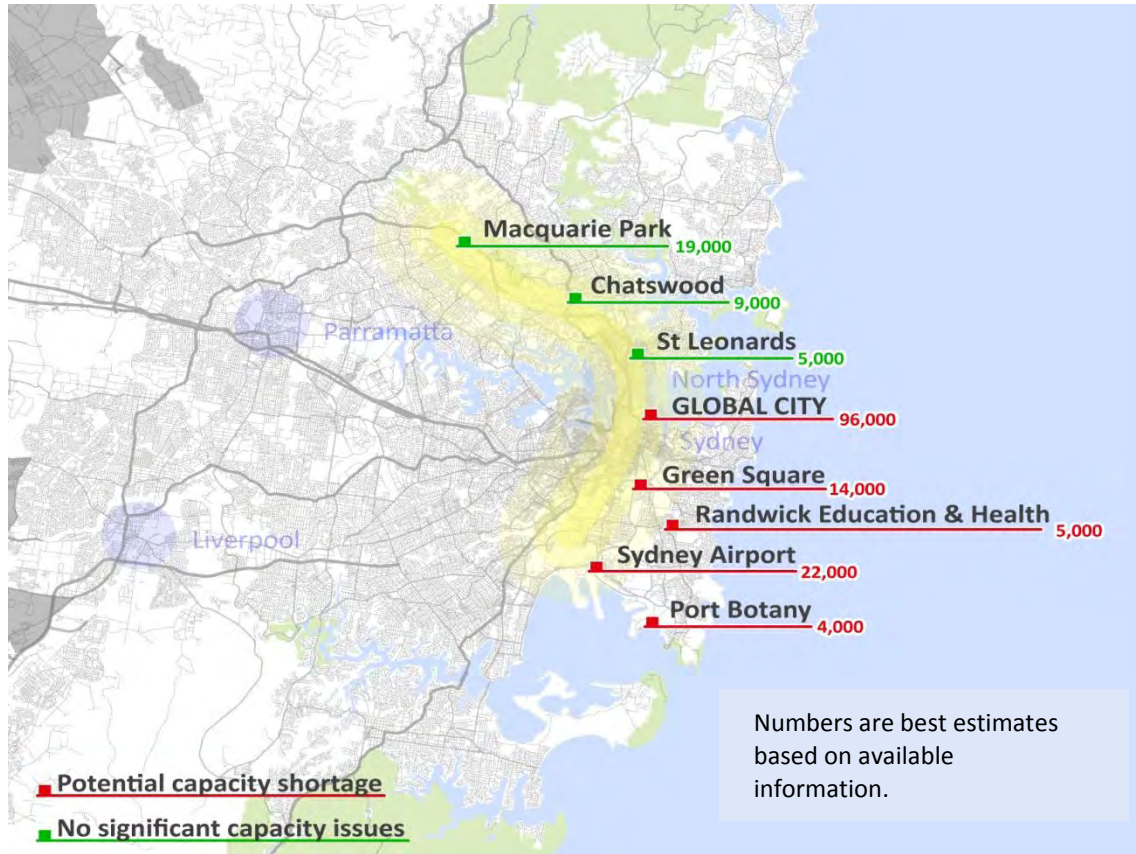


Source: SGS Economics and Planning, using 2011 ABS data for Sydney Statistical Division

Sydney’s knowledge intensive services are concentrated in the global economic corridor – an area that stretches from Port Botany, through Randwick, Green Square, the CBD, North Sydney, Chatswood to Macquarie Park (and since 2013 Norwest Business Park and Westmead). If we examine the capacity targets for these areas published in the Sydney Metropolitan Strategy against documented capacity, we see that capacity shortages are possible over the next 25 years (see Figure 6) – particularly in the southern centres in the GEC.

These shortages may have implications for the Northern centres located along the GEC. Macquarie Park is likely to be one of the key locations well-positioned to absorb excess demand from centres closer to the CBD. Chatswood and St Leonards are other locations likely to sustain market demand for GEC floorspace.

FIGURE 6. POTENTIAL CAPACITY FOR EMPLOYMENT IN GEC CENTRES



Source: SGS, *Planning directions for metropolitan Sydney*, September 2013.

Note that these are best estimates produced by collating information from a range of sources. They are only high-level indications, and should only be interpreted in such a manner.

In particular, there is a shortage of long term commercial space in the Sydney CBD, though the extent of this is debated. The Property Council of Australia (2005) notes that the CBD is small by international standards and tightly constrained. Capacity estimates prepared by the PCA find that the commercial core of Sydney will 'run out' of office space in 12 to 15 years. The City of Sydney has undertaken more recent studies¹⁰ and concludes that across the City there is capacity to accommodate up to 86 percent of an employment target of 97,000 for the LGA (2006 to 2036) under the controls proposed by the City Plan (Draft LEP 2010). The City of Sydney found that there is up to 20 years of supply available in central Sydney.

It is noteworthy that the City of Sydney studies do not indicate an excess of capacity against targets in current or proposed controls (confirming the directions identified by Figure 6) implying a limit to the 'contestability' in the market.

To address supply constraints, in 2005 the PCA recommended¹¹:

- increasing commercial FSR in the CBD in line with that of residential development
- establishing a commercial-only zone where residential development is excluded
- a staged release of new commercial space in Barangaroo
- promoting the redevelopment of lower grade commercial buildings
- enhancing the public transport system; and
- reforming strata title laws¹².

Preston Rowe Paterson suggest that increasing demand for commercial space is expected to be accommodated by the Barangaroo project, which from 2013 will provide approximately 343,356 sqm of commercial space¹³. Knight Frank's recent 'Sydney CBD office market overview' highlighted an absence of any new developments in Sydney CBD completing in 2012¹⁴.

¹⁰ City of Sydney, Capacity Study 2008, viewed 31 August 2012, <www.cityofsydney.nsw.gov.au/Development/documents/CityPlan/CityCapacityStudy110302.pdf> and,

City of Sydney, Capacity Study 2008, City Plan Supplement, August 2010, viewed 31 August 2012, <www.cityofsydney.nsw.gov.au/Council/documents/meetings/2010/Committee/Planning/060910/Draft%20City%20Plan%20LEP%20-%20referral%20to%20DoP%20for%20exhibition%20-%20AttachmentI.pdf>

¹¹ Property Council of Australia: Securing the Commercial Future of the Sydney CBD (May 2005), viewed 18 June 2012 <www.propertyoz.com.au/library/SUB%2005%20Sydney%20CBD%20Commercial%20Future.pdf>

¹² The PCA have recently commented that they would not wish to move towards the situation in Melbourne where very large capacity levels drive a boom and bust cycle. Rather, the aim should be to moderate amounts so that capacity is sufficient to meet projected growth in demand.

¹³ Preston Rowe Paterson 'Property market report: Sydney commercial office market' 2011, viewed 18 June 2012 <www.prpaustralia.com.au/contentUploaded/ResearchReports/Sydney%20Commercial%20Jun%20Qtr%202011.pdf>.

The Barangaroo Review (August 2011) assumes commercial floorspace of 356,425 square metres (63 percent of total built form) <www.nsw.gov.au/sites/default/files/pdf/Barangaroo%20Review_FINALREPORT_08082011.pdf>

¹⁴ Knight Frank 'Sydney CBD office market overview' 2012, viewed 18 June 2012 <www.knightfrank.com.au/content/upload/files/Reports/Research_Office_Space/sydcdb1205.pdf>

North Sydney may be able to accommodate some 'spill over' demand from the CBD but it must be acknowledged that North Sydney tends to serve different market segment so capacity there is not the answer. There is also very high demand forecast for the centres between the CBD and Sydney Airport with Green Square, Randwick Specialised Centre and Sydney Airport Specialised Centre. Although complete capacity data for the corridor is not available, it appears that capacity shortages may exist in the city and proximate centres. This is fuelled by continued strong demand for land that is close to the city, the port and the airport. To the north of the harbour, there are fewer capacity issues. Macquarie Park, Chatswood and St Leonards appear to have more stable growth and have capacity at current growth rates.

Implications for Macquarie Park

The above analysis of the market for commercial floorspace suggests that it is likely that there will be floorspace shortages (or excess demand) for centres closer to the city in the long term. Given the prevailing structure of Sydney's economic geography, centres placed along the Global Economic Corridor are considered prime locations by the market. Amongst these centres, those that are proximate to the City appear to be most likely to face capacity shortages in the medium to long term.

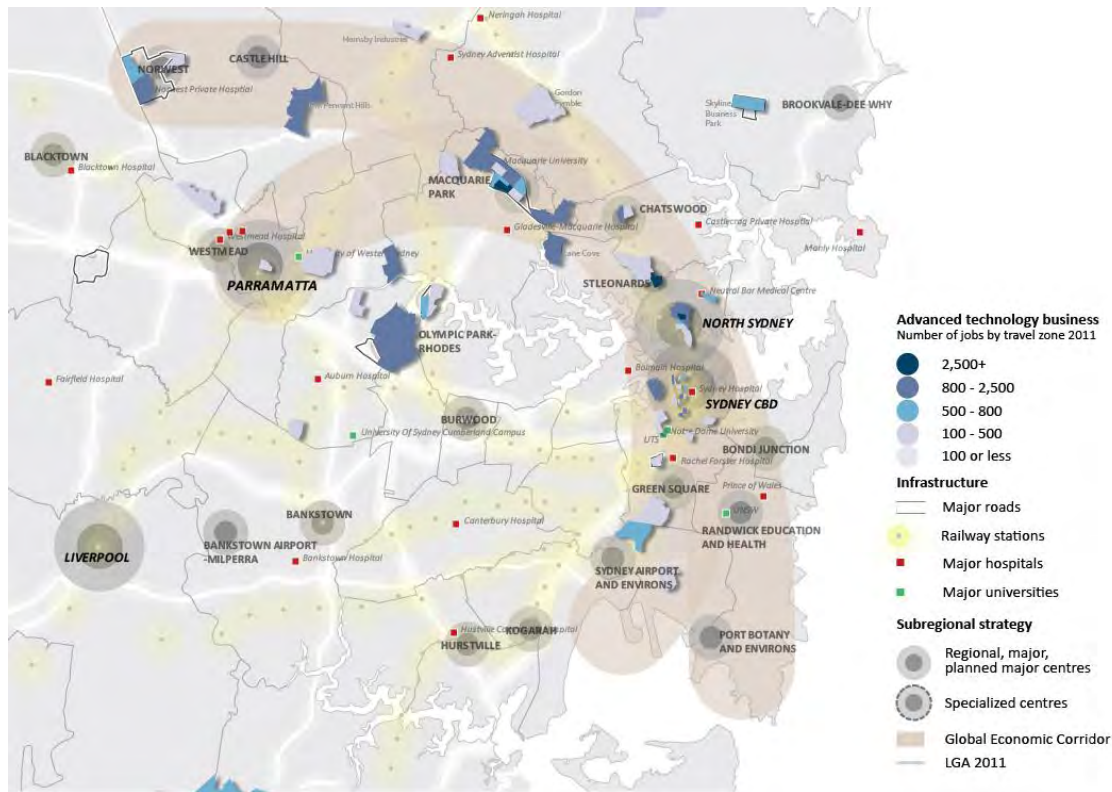
Given lower rent, good accessibility and host of other attributes, Macquarie Park appears to be one of the key locations expected to *absorb* excess demand from other centres closer to the CBD. Chatswood and St Leonards are other locations expected to sustain market demand for GEC floorspace. However, compared to these two locations, Macquarie Park has set of attributes that gives it a unique position in the market - lower rent (as demonstrated in the Urbis employment potential report), direct links to Macquarie University, and comparable transport linkages. It is, therefore likely that in the medium term market demand for Macquarie Park commercial floorspace would be stable; and in the longer term (as centres closer to the CBD face shortages) market demand for its floorspace would be high. Given current capacity levels and its recognition as a 'specialised precinct', MPC is well positioned to accommodate this additional demand for commercial floorspace.

4.2 Competitive offer of the site in MPC

The aim of this analysis is to ascertain the appropriateness of the proposed development and the proposed uses; with a sound appreciation of the relative positioning of the site within the GEC. For this, we have undertaken a broad assessment of the competitive offer of the site by qualitatively assessing the character of the precinct relative to other commercial areas within the Global Economic Corridor (GEC). In addition, we have used spatial analysis to identify key attributes associated with each of the precincts in the GEC. The figure below shows high tech jobs¹⁵, key precincts, and key infrastructure components along the GEC. This has been used to assess the spatial aspects associated with each precinct.

¹⁵ The following 18 industries (4 digit ANZSIC) are defined as 'High tech' by SGS: Human Pharmaceutical and Medicinal Product Manufacturing, Veterinary Pharmaceutical and Medicinal Product Manufacturing, Photographic, Optical and Ophthalmic Equipment Manufacturing, Medical and Surgical Equipment Manufacturing, Other Professional and Scientific Equipment Manufacturing, Communication Equipment Manufacturing, Other Electronic Equipment Manufacturing, Wired Telecommunications Network Operation, Other Telecommunications Network Operation, Other Telecommunications Services, Internet Service Providers and Web Search Portals, Data Processing and Web Hosting Services, Electronic Information Storage Services, Scientific Research Services, Engineering Design and Engineering Consulting Services, Scientific Testing and Analysis Services, and Computer System Design and Related Services.

FIGURE 7. HIGH TECH JOBS AND KEY INFRASTRUCTURE IN THE GEC



Source: SGS, 2014; using BTS employment data, 2011.

Notes: Eighteen 4 digit ANZSIC industries which have been identified as advanced technology business by SGS.

The matrix below reflects our assessment of the current relative attractiveness of each commercial centre (within the Global Economic Corridor) for business park uses. For instance, in terms of ‘low rent/land prices’, we assess that North Sydney has a low level of attractiveness as it has high rent. In contrast, Macquarie Park is of high attractiveness since it currently has low rent/land values. Low attractiveness is given a score of one, while high attractiveness is scored three. In total 10 attributes are assessed, garnering a potential maximum score of 30 points.

It should be noted that, particularly in regards to Norwest, announced major projects, - such as the north-west rail link would have substantial implications on the attractiveness of these centres but the impact of such future investments is not reflected in the rankings. In addition, it should be noted that this strategic assessment is based on each centre’s attractiveness for business park uses. Other uses may require different (or additional) attributes for assessment.

TABLE 3. CURRENT RELATIVE ATTRACTIVENESS OF COMPARABLE GEC CENTRES

Attribute	North Sydney	St Leonards	Chatswood	Macquarie	Norwest	Parramatta
Low rent / land price	Low	Low	Medium	High	High	High
Car parking availability and cost	Low	Low	Low	Medium	High	Medium.
Access to retail amenity	High	Medium	High	Medium	Low	High
Access to research links	Low	Low	Low	High	Low	High
Access to public transport	High	High	High	High	Low	Medium
Proximity to skilled workforce	High	High	High	Medium	Low	Medium
Access to major roadways	High	High	High	High	High	High
Availability of appropriately sized sites	Low	Low	Low	Medium	High	Medium
Current/ future high growth industries	High	Medium	Medium	High	Medium	Medium
Identified as critical employment hub	High	High	High	High	High	High
Total score (out of 30)	22	20	22	26	21	25

Source: Evaluated by SGS Economics and planning, based on publicly available information and spatial analysis.

Notes: 'Current/future high growth industries' refers to the existence of, and potential for, 'high-tech' and knowledge-based industries. Spatial analysis is used to assess this attribute. 'Proximity to skilled work workforce' is defined in terms of proximity to residents with a university degree, and/or residents with high incomes. Low = 1 point, Medium = 2 points, High = 3 points. Therefore, the higher the total score, the more attractive the precinct.

As the above table illustrates, the characteristics of Macquarie Park rank it as having the highest competitive offer (scoring 26 out of a possible 30 points) when compared to the other centres within the GEC. Of particular note is Macquarie Park's integration with both major rail and road infrastructure, as well as its strong linkages with leading research facilities -Macquarie University and CSIRO research centre. In addition, rent in Macquarie Park is considerably lower than in North Sydney, providing a competitive edge when attracting certain types of commercial businesses.

Regardless of the *magnitude* of the difference in attractiveness between the centres in GEC, this analysis makes clear that Macquarie Park has a unique set of attributes that places it at the 'top-of-the-pack'. Its low rent/land value, links to research facilities, good public transport access, and good access to major roadways gives it a long term competitive advantage. It therefore follows that protecting the future supply of employment lands in MPC is key to protecting its relative standing in the GEC.

4.3 Analysis of competing land-uses

Given the demand for competing land-uses in the corridor and its surrounding areas, we have constructed a broad analytical framework to qualitatively identify costs and benefits of competing land uses in the business park. This framework is aimed at assisting Council in developing a clear indication of the suitability of the proposed (currently prohibited) land-use.

The table below sets out broad costs and benefits of alternative land-uses in the context of the site in question. Grey refers to residential (the currently prohibited use), while green refers to commercial (currently allowed use).

TABLE 4. COMPETING LAND-USE ANALYSIS

Aspect being considered	Benefits of each type of land-use	Costs of each type of land-use
MPC character as a business park and commercial 'sense of address'	Commercial development would be consistent with the MPC's character and commercial 'sense of address' and enhance it.	No substantial cost associated with commercial development. However, retailers may miss out on potential increase in turnover related to residents' consumption— this is likely to be minor since most existing retailers in the MPC rely on office workers for critical mass. In addition, MPC already has regional shopping centre (Macquarie Shopping Centre) with catchment beyond the corridor.
	Residential development may activate the precinct by providing critical mass for retail firms.	Residential development is not consistent with the current zoning and MPC's character as a business park. It also has the potential to adversely impact the 'sense of commercial' address of MPC.
Role and function of MPC for Ryde LGA	Commercial development would assist in meeting the job targets, and would enhance the relative position and brand of MPC, and reaffirm its role as a supplier of premium grade office space. This would assist Ryde LGA in future employment generation, and generate related rate revenues.	Given current capacity levels, additional commercial development is not likely to negatively impact on existing commercial development.
	Residential development would bring associated rate revenues (likely to be higher than commercial) to Ryde Council.	Residential development would not contribute to the job target for Ryde and it is inconsistent with the role and function of MPC for Ryde. In addition, it may 'crowd-out' future commercial development. In addition, there is sufficient currently zoned land to meet the housing target (see Local Planning Study).
Role and function of MPC in GEC	Commercial development would assist in the supply of commercial floorspace and job generation in the GEC. This is of particular importance since MPC has been identified as a 'specialised centre'. In addition, the retention of land, and sustaining of MPC's brand value is integral to GEC retaining its position at both the State and National level. Development that is consistent with the role and function of MPC and GEC is self-reinforcing, and is likely to assist in maintaining MPC's relative position.	No apparent costs associated with commercial development. Land value expectations would not be impacted.
	There is no apparent benefit associated with residential development as it is not consistent with the role and function of MPC in GEC.	Residential development would not fit in with the role and function of MPC in GEC. Given repeated requests for rezoning to residential, it may drive up land value expectations – reducing affordability for commercial uses, and it may adversely impact the branding and relative position of MPC in GEC at a State and National level.

Aspect being considered	Benefits of each type of land-use	Costs of each type of land-use
Job generation capability – current and future	Commercial development would assist in current employment generation on-site. Firms with links to those locating in the MPC may wish to co-locate in MPC or proximate locations.	No costs associated with commercial development.
	Residential development may contribute to off-site job generation - mainly in population driven industries such as retail.	Residential development is unlikely to generate substantial number of jobs on site.
Changes to surrounding land values	Commercial development is likely to keep land-value expectations low. This is a benefit since relative land-prices are a key factor in keeping relative-rent prices low - an essential characteristic for viable commercial development. This would ensure MPC's attractiveness in the GEC.	Land-owners would forego increases in land-values and capital gains associated with residential rezoning.
	Residential development is likely to increase land-value expectations - this would be reflected by increased requests to allow residential development in MPC. These land-value increases are benefits accruing to land-owners.	Requests for residential rezoning are likely to put upward pressure on current and future land values in the MPC. This may compromise the affordability, feasibility and relative position of commercial development in MPC; and may have flow-on effects adversely impacting employment generation in GEC.

Implication of strategic assessments

Taken together, the three analytical assessments of MPC's strategic importance suggest that there is a strong case to preserve its role as a hub for future employment. Given its State (and National) importance, the Corridor needs careful and proactive planning to protect employment lands for future employment generation. The strategic analysis also indicates that the case for allowing a currently prohibited use (residential) is weak, due to the availability of supply in comparable and proximate locations, and due to MPC's importance in the GEC.

5 CASE STUDIES

With fluctuations in the property cycle and the relative attractiveness of residential, commercial and industrial development varying over time, pressure to allow one use in zones dedicated to another is a regular occurrence. Within the immediate surrounds of Macquarie Park, two commercial centres – Chatswood and Hornsby – have seen increases in residential development within their traditional commercial cores. This section of the report will draw from the experience of both these locations to provide insight into the drivers behind, and impact of residential development in traditionally commercial zones.

Chatswood CBD

FIGURE 8. CHATSWOOD CBD



Source: SGS, 2014. Note that the identified Travel Zones are used for the chart below (changes in dwellings and jobs)

Located 10 kilometres north of the Sydney CBD, Chatswood forms part of the Sydney's Global Economic Corridor that arches from Sydney Airport in the east, via the CBD, Chatswood and Macquarie Park, to Parramatta in the west. It is well positioned on major rail and road transport infrastructure and is designated as a Major Centre within the Inner North Subregion. Chatswood is directly east of Macquarie Park and has a direct train line connecting the two precincts.

The suburb of Chatswood is a mixed use area, with residential, industrial and commercial land use. However, a majority of commercial and retail uses are located within the Chatswood CBD, generally defined by the area between the railway line and the Pacific Highway.

The Chatswood CBD has long been identified as a strategic hub for office employment, with large scale commercial office development dating back to the 1980s. Chatswood is also a long established retail destination, with two major centres, Chatswood Chase and Westfield also establishing in the 1980s.

While Chatswood is a traditional hub for office and retail development, the retail sector has fared particularly well in recent decades. With over 200,000 square metres of retail space, Chatswood is the single largest retail centre outside the Sydney CBD, with a catchment that extends from North Sydney to Hornsby and east to the northern beaches. The two major shopping centres attract over 20 million shopper visits a year¹⁶.

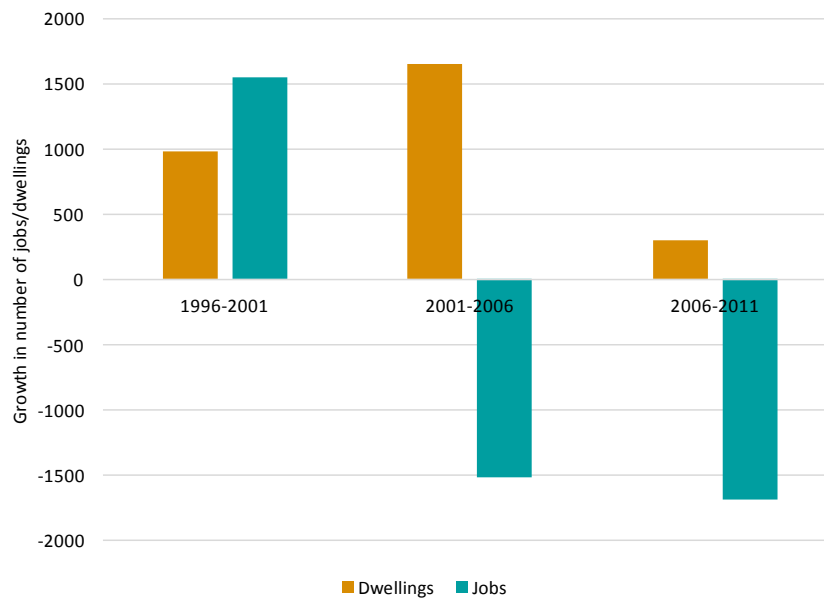
The strength of the retail sector is reflected in Chatswood's employment growth estimates as per the Subregional strategy of the Sydney metropolitan strategy. Of the 7,300 new jobs targeted for the LGA, economic analysis estimates that 82 percent of those jobs are likely to occur in the retail precinct around Chatswood Chase and Westfield, while only 10 percent are likely to occur in the Chatswood office precinct¹⁷.

The modest growth forecast for jobs within the CBD office precinct is reflective of a longer trend that has seen jobs leave the centre, particularly since the early 2000s. As the figure below illustrates, the Chatswood centre gained jobs between the census periods 1996 to 2001, but since 2001 has lost over 3,000 jobs – the majority of these would be commercial office related.

¹⁶ Willoughby City Council (2013) Discussion Paper – Economy: Willoughby Strategic Strategy

¹⁷ *ibid*

FIGURE 9. FIVE YEARLY CHANGES IN DWELLINGS AND JOBS 1996-2011



Source: ABS, Census 1996, 2001, 2006 and 2011. SGS Calculations

This loss of jobs appears to reflect both a weaker commercial market and increasing pressure for floor space within the CBD from the residential sector.

From the mid-1990s Chatswood City Centre saw the development of residential and particularly high density residential, in amongst the existing commercial and retail uses¹⁸. The initial decision to allow residential development in the commercial core was, in large part, a response to urban consolidation targets set by the State Government. Once permitted, residential development occurred at a pace more rapid than anticipated, with strong market demand from the residential sector outbidding the commercial sector for redevelopment of prime sites.

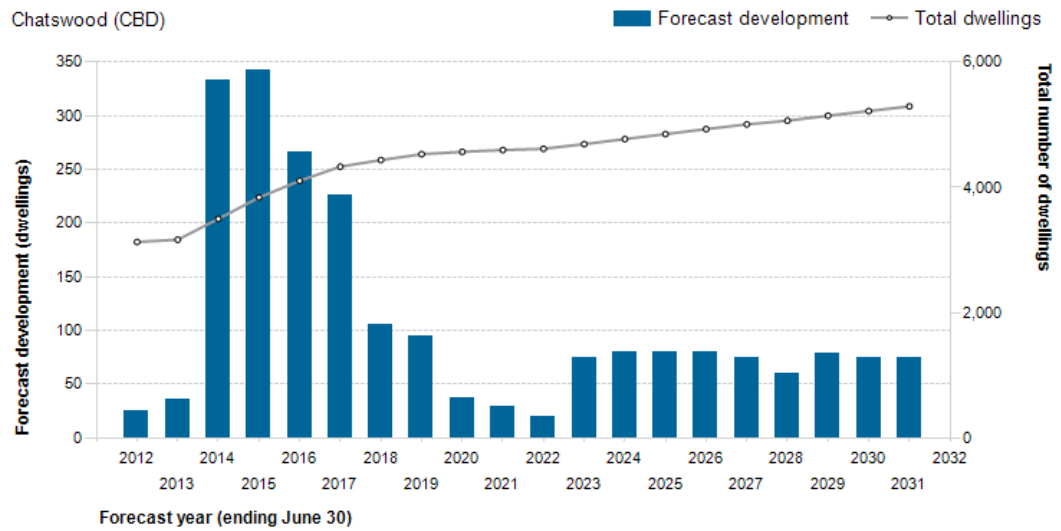
The influx of high density residential developments into Chatswood CBD was acknowledged by Council as a threat to the viability of the commercial centre, and in 1999 Council amended planning controls to limit the amount of residential floor space¹⁹. However, despite Council's amendment to the planning controls, high density residential developments have regularly been approved on prime commercial sites by the State Government under the previous Part 3A of the Environmental Planning and Assessment Act.

While slowed by the Global Financial Crisis in the short-term, high density residential development is considered the highest and best use in the current property market in Chatswood. There is considerable pressure from the development industry to convert floor space within the Chatswood CBD to non-employment generating uses, and as Figure 10 demonstrates, there are a large number of residential developments forecast for the Chatswood CBD in the coming years.

¹⁸ Ibid

¹⁹ Willoughby City Council (2013) Discussion Paper – Economy: Willoughby Strategic Strategy

FIGURE 10: FORECAST RESIDENTIAL DEVELOPMENT - CHATSWOOD CBD



Population and household forecasts, 2011 to 2031, prepared by .id the population experts, February 2011.



Source: Access and id, 2014

Redevelopment pressure has been exacerbated by changing office market conditions, business requirements and business confidence. For example changing business requirements, particularly in the form of demand for large floor-plate purpose-built offices has lead to a degree of floor space leakage to business parks in north-west Sydney, including locations such as Macquarie Park and North Ryde²⁰.

With the continued rise of high density residential development in the Chatswood CBD, Willoughby Council commissioned economic analysis of the centre in 2010. The consultant report concluded that the level of residential development within the Chatswood CBD had “occurred to the extent that the area between the railway line and Pacific Highway may well fall short of realising its full potential as a major sub regional commercial centre”²¹. Furthermore, it noted that the centre would certainly fall short of its potential if high rise residential development was permitted to continue unabated at the expense of commercial, as a critical mass of business floor space was required for the centre to maintain its attractiveness as a prestigious business destination.

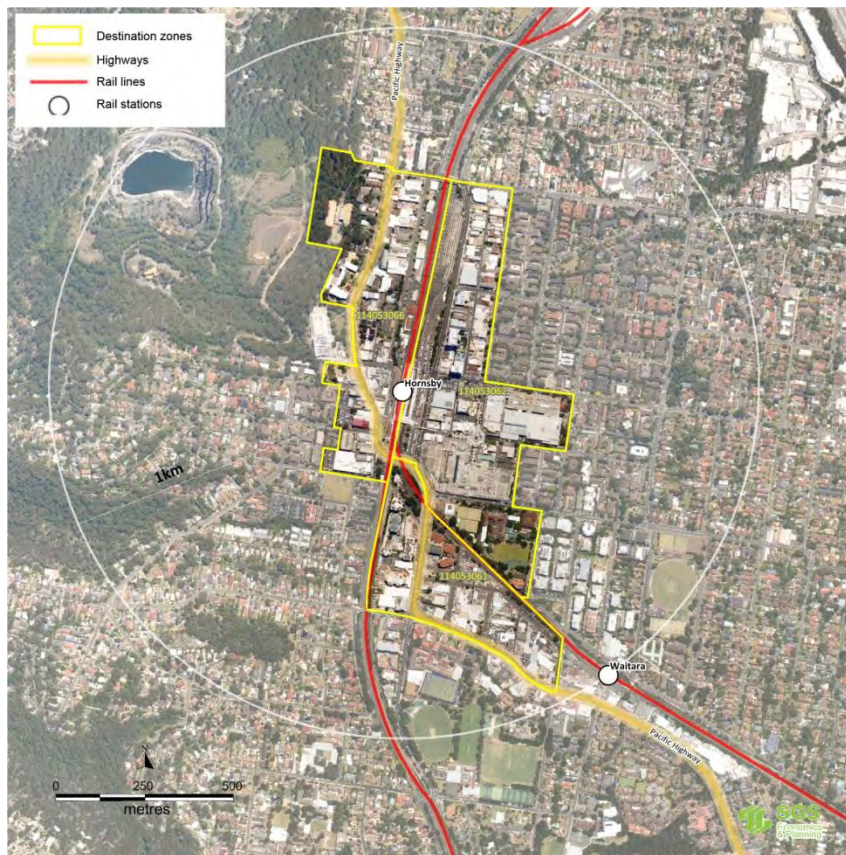
In response, the Willoughby Local Environmental Plan 2012 includes planning provisions to support the retention of the Chatswood CBD office core, with increased densities offered as an incentive to promote the redevelopment of underdeveloped and obsolete sites for employment uses.

²⁰ Ibid

²¹ Hill PDA in Willoughby City Council (2013) Discussion Paper – Economy: Willoughby Strategic Strategy

Hornsby Town Centre

FIGURE 11. HORNSBY TOWN CENTRE



Source: SGS, 2014

Hornsby Town Centre is located on the upper north shore of Sydney, some 25 kilometres from the Sydney CBD. It is the economic and administrative centre of the much larger Hornsby Shire which stretches north to the Hawkesbury River and constitutes large areas of native bushland. Hornsby is approximately 10 kilometres north of Macquarie Park and it is not part of the Global Economic Corridor.

The centre itself is identified as a Major Centre in NSW's commercial hierarchy, with the majority of commercial development within the vicinity of the Hornsby Mall and train station. Much like Chatswood, Hornsby has a large retail presence, with Westfield building one of Australia's first suburban shopping malls there in 1961²².

²² Hornsby Shire Council (2014) History of Hornsby Shire, accessed from <http://www.hornsby.nsw.gov.au/library/resources-and-research/local-history/history-of-hornsby-shire>

Residential growth around the centre has been high, over the last decade. High density housing in particular, has been popular around the train station and along the corridor between Hornsby and Waitara, with low vacancies and solid appreciation in values, especially for one and two bedroom apartments²³.

Concern with the level of residential development in the traditional commercial core was identified by Council in the early 2000s, with the view that such development was infringing on the opportunities for commercial floor space expansion, and ultimately the role of the centre as an employment hub²⁴. In response, Council proposed that the remaining sites within the centre suitable for commercial development have their zoning amended to prohibit multi-unit housing. This was seen as a long-term strategy to reserve the limited opportunities for employment generating land uses.

However, demand for commercial floor space has remained weak, and particularly following the Global Financial Crisis. Resale data illustrates a 15-20 percent decrease in commercial tenancy since 2006/07. A recent report noted that “whilst the commercial office market moves in cycles, the outlook for the Precinct and its sustainability as an expanding commercial market does not appear promising at the present time”²⁵.

The report emphasised that:

‘latent demand for non-shopfront commercial floorspace can be forecast from population, retail and employment numbers. However this may not necessarily translate to effective demand because of market conditions and because the required returns from investment in commercial property cannot be achieved... It should be noted that the Precinct will only be redeveloped if such a redevelopment would also be financially feasible’²⁶

With purely commercial development within Hornsby considered non-viable in the present and foreseeable property market, the report’s author recommends Council adopt a broad approach, supporting a mix of commercial with residential and retail uses, potentially at higher densities. Such mixed development could allow for the construction of some commercial development through considerable cross subsidisation from other land uses. In other words, when market for commercial floorspace is weak, the Council should consider mixed used developments.

²³ Hill PDA (2012) Preliminary Hornsby West Feasibility Analysis

²⁴ Shire of Hornsby (2003) Executive Managers Report No. PLN178/03 – Employment Strategies in Hornsby Shire, accessed from

²⁵ Hill PDA (2012) Preliminary Hornsby West Feasibility Analysis

²⁶ *ibid*

6 CONCLUSION

SGS was engaged by SJB Planning to conduct a two stage study to peer review the report 'Employment Potential of Proposed development: 11 Wicks Road, 29 Epping Road, 31-35 Epping Road,' prepared by Urbis in December 2013. Stage 1 was a peer review of the Urbis study, while Stage 2 (this report) assess the strategic implications of residential land uses being introduced into the Macquarie Park Corridor.

The proposal is for a mixed use development at 111 Wicks Road, 29 Epping Road, 31-35 Epping Road; Macquarie Park. Currently zoned 'commercial core', residential development is one of the prohibited uses on this site which is located at the South Eastern edge of Macquarie Park, close to North Ryde railway station. The site is strategically located in the Macquarie Park Corridor (MPC) -identified as a 'specialised precinct' in the *Draft Metropolitan Strategy for Sydney to 2031* and is also part of the Global Economic Corridor (GEC). Macquarie Park is therefore recognised as being of State and National significance for knowledge based industries, and future employment generation.

Drivers and barriers to a successful business park

Five factors were identified by SGS as key to the relative success of a business park. These include:

- Access
- Business/industry mix
- Planning provisions
- Infrastructure
- Ownership and management.

Consultation was conducted with two tenants of Macquarie Park - BOC and Sonic Healthcare; to understand the drivers of their locational choice. Both BOC and Sonic Healthcare noted that competitive rent was a positive about their current location.

Continual supply of employment lands

This distinction between underlying and effective demand creates a ‘disconnect’ between the ‘price value’ and the ‘use value’ of the land, which has implications for commercial floor space supply. Shorter-term effective demand (via population growth) may drive requests for the rezoning of commercial zones or the permitting of non-commercial uses. However, responding simply to effective demand and current development pressures without due consideration of the underlying demand runs the risk of facilitating an undersupply of employment generating floor space in the future.

Given the unique nature of the Corridor, commercial core and business park zoned areas are likely to be under pressure from competing uses. Not accounting for the strategic importance of MPC in the GEC would be sub-optimal and counter to the objectives of the business park itself.

Strategic importance of the Macquarie Park corridor

The review of relevant policy documents reveals that Macquarie Park was identified as a ‘specialised centre’ with existing economic clusters of high growth and high technology industries that should be protected and nurtured through effective strategic planning. The continued growth of the Macquarie Park Corridor as a major employment centre in Sydney relies on protecting and strengthening its commercial role, and maintaining a critical mass of commercial - achieved through the prioritising of commercial over residential development.

Three analytical tools were used to understand the strategic importance of MPC in the GEC – assessment of the market for commercial floorspace in GEC, assessment of MPC’s competitive offer, and the broad costs and benefits of alternative land-uses on the subject site. All three assessments were largely qualitative, and focused on MPC’s role as a key centre in the GEC. The key findings from these assessments are below:

- *The market assessment* foreshadowed future shortages in the centres closer to the CBD – implying strong latent demand in the medium to long term for Macquarie Park.
- *The competitive offer analysis* highlighted that MPC was at the ‘top-of-the-pack’ in terms of attractiveness for business park uses.
- *The assessment of competing land-uses* indicated that there is likely to be minimal benefits from residential development on the subject site (due to existing capacity in surrounding areas), and that residential development may ‘crowd out’ future commercial development through increased land value expectations. In other words, the case for allowing residential land-use is weak.

Taken together, these three assessments suggest that there is a strong case to preserve MPC’s role as a hub for future employment. Given its State (and National) importance, Macquarie Park needs careful and proactive planning to protect employment lands for future employment generation.

We also conducted two case studies – Chastwood and Hornsby; to examine the historical precedence of residential encroachment into commercial areas. Chatswood – which is part of the GEC; is a prime example of this phenomenon. Strong dwelling demand in the area was associated with commercial offices being substituted with residential development. A similar narrative transpired in Hornsby, albeit under slightly different market conditions.

The influx of high density residential developments into Chatswood CBD was acknowledged by Council as a threat to the viability of the commercial centre, and in 1999 Willoughby Council acted to limit the amount of residential floor space in Chatswood CBD. More recently, the Willoughby Local Environmental Plan 2012 includes planning provisions to support the retention of the Chatswood CBD office core, with increased densities offered as an incentive to promote the redevelopment of underdeveloped and obsolete sites for employment uses.

Overall

In summary, this SGS study brings together existing literature, policy documents, and analytical tools to assess the strategic importance of MPC with a sound appreciation of its role and position in the GEC. The study finds that the case for residential development on current commercial core areas (such as the one proposed by the Urbis planning proposal) is weak due to current capacity levels in existing residential areas, and due to negative effects associated with allowing residential encroachment.

From a policy perspective, this study emphasises the need for proactive and conscientious planning policy to ensure the retention and protection of employment land (and in the case of MPC - uniquely positioned business park floorspace) that is strategically important to the State. The case study of Chatswood CBD (which is also part of the GEC) aptly highlights this need. Having experienced significant growth in residential development in commercial core areas, Willoughby Council has had to respond by introducing controls to retain and protect its commercial core floorspace.

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