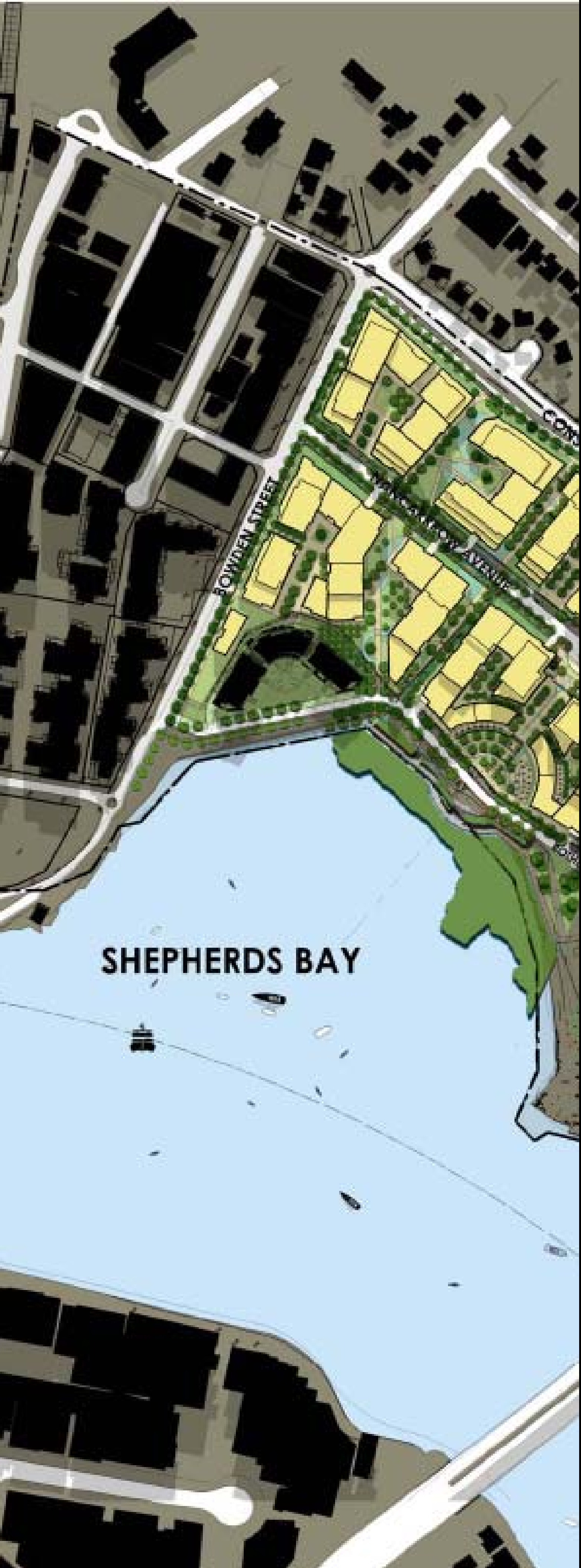

Shepherds Bay Concept Plan Market Assessment

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October 2010

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This document is for discussion purposes only unless signed and dated by a Principal of Hill PDA.

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1. INTRODUCTION

1.1 Purpose of the Study

Hill PDA was commissioned by Place Design Group on behalf of Robertson+Marks Architects to provide a market assessment of the former Meadowbank Employment Area (MEA). The purpose of the Study is to provide Robertson+Marks Architects with robust findings which will accompany a Concept Plan application for the Shepherds Bay Urban Renewal project under Part 3A of the Environmental Planning and Assessment Act 1979 (Major Projects and Infrastructure).

Existing planning controls in the MEA support mixed commercial and residential land uses. With ongoing and proposed commercial developments in the Ryde LGA, specifically in Top Ryde and Macquarie Park, there will be significant capacity for commercial demand, reducing demand elsewhere in the LGA.

The Shepherds Bay Urban Renewal project is proposed to be developed over more than 10ha of land straddling the Shepherds Bay foreshore (The Site), bounded by Constitution Road in the north, Bowden and Belmore Streets on the west and east respectively.

It is understood that the Concept Plan proposes the following mixed use development:

- Residential buildings ranging from 4 to 18 storeys in height and a signature tower, all accommodating some 250,000sqm GFA;
- Public open space in excess of 4,000sqm;
- Commercial GFA of 10,000sqm comprising a mix of retail and commercial uses;
- Parking spaces for approximately 4,500 vehicles, subject to the mix of land uses.

This market assessment is intended to support a planning application by addressing the demand (present and future) for commercial and residential land uses. Market research, investigations and findings were carried out in July 2010 and are current at the same.

1.2 Scope of the Study

In formulating our advice and recommendations, we have relied on information provided to us including, but not limited to the following:

- MacroPlan Australia, Employment Land Assessment Meadowbank Employment Area, August 2007;
- City of Ryde, Meadowbank Employment Area Development Control Plan (DCP) 2010;
- Robertson + Marks Architects, Meadowbank - Existing Land Uses and Site Information; and
- Robertson + Marks Architects, Shepherds Bay Urban Renewal Proposed Development.

The Site of the proposed development is shown in the following diagram.

Figure 1 - Proposed Redevelopment Scheme

Source: Robertson+Marks Architects, August 2010

This Study will address the demand for commercial and residential land uses in the following structure:

- From a review of available information, provide an overview of the existing land uses on The Site and the MEA.
- Summarise recommendations, as relevant, on land use of the MEA from previous studies.
- Identify an employment profile of the occupants of MEA. This provides a better understanding of the social and economic characteristics of the occupants therein.
- An analysis of the commercial property market providing information on changing trends in office and retail developments in recent years and consequently identifying future trends and drivers of this market sector. Conduct an appraisal of Meadowbank and other suburban office markets providing an understanding as to overall demand and attractiveness, also investigating new and proposed commercial developments and their impacts on the demand for floorspace on The Site and the MEA.

- An analysis of the residential property market evaluating broad trends such as population growth, key demographics and their implication on future residential development, particularly in the Inner North subregion, Ryde LGA and Meadowbank. Conduct an appraisal of the existing residential market of Meadowbank and surrounding suburbs, making comparisons to the wider Ryde area and Sydney SD to provide an understanding of the nature of the existing residential market, its attractiveness and overall demand. Investigate also new and proposed residential developments in the area.
- Conclusion and recommendations on the appropriateness of residential land uses on The Site.

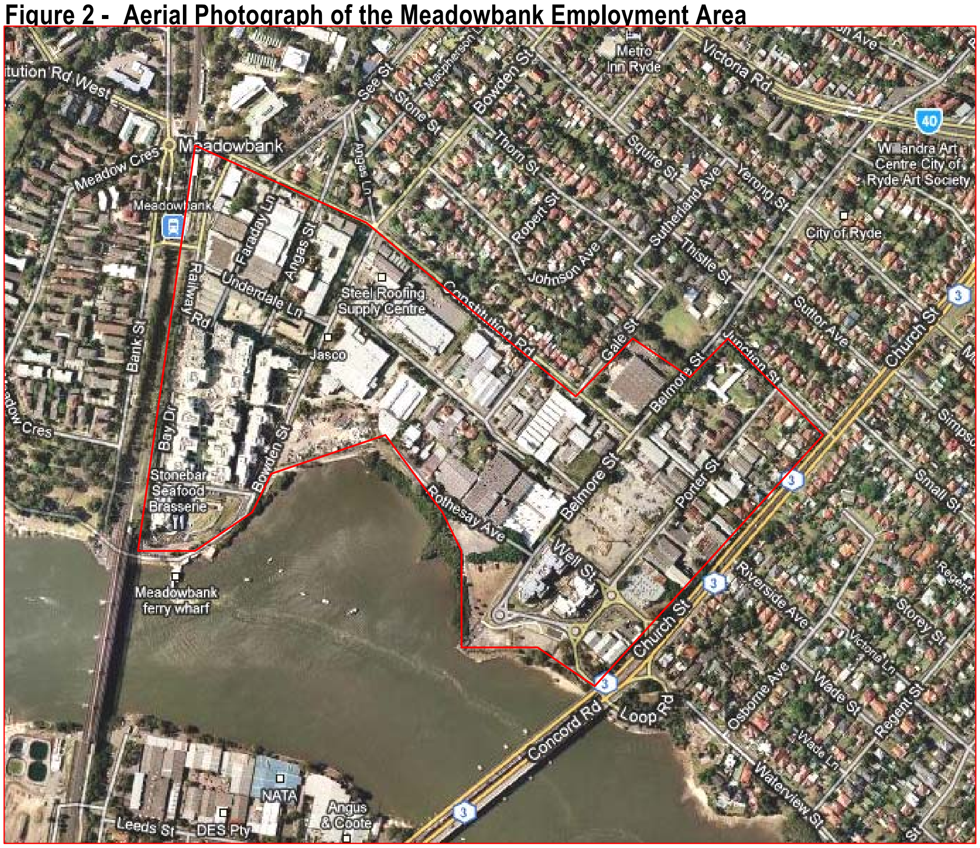
1.3 Meadowbank Employment Area (MEA)

The Meadowbank Employment Area (MEA) is strategically located on the border of the Meadowbank and Ryde suburbs, sandwiched in the west and east by Bowden and Church Streets respectively. The MEA is bounded by Constitution Road, Gale Street, Belmore Street and Junction Street in the north and Shepherds Bay in the south. The Meadowbank train station and TAFE college are adjacent to the west.

The MEA is well serviced by road and rail, located close to Victoria Road and Church Street on the southern boundary of the Ryde LGA boundary with easy access to shopping centres and services within the LGA as well as Sydney and its surrounds.

The boundaries of the MEA are depicted in the diagram below.

Figure 2 - Aerial Photograph of the Meadowbank Employment Area



Source: © 2010 Google Imagery

The MEA has traditionally been occupied by heavy industrial uses although in 2004 it was rezoned to allow commercial and medium density residential. According to a MacroPlan study in 2004, the MEA comprises some 20ha of land zoned for employment uses but is under utilised.

In recent years there have been significant redevelopment of sites within the MEA to residential apartments, 'Waterpoint' and 'Bay One' are such notable developments. Water views are enjoyed by many of these apartments.

It is understood that a change from heavy to light industrial and commercial uses is planned for key locations in the MEA, also to allow for a substantial increase in medium density housing particularly near the railway station.

The Site

'The Site' is currently improved with various low density commercial/industrial buildings up to two storeys. According to information provided on existing land uses, the following floorspace is comprised within The Site that is proposed for redevelopment:

Table 1 - Existing Land Uses on The Site

Street	Estimated Floorspace (sqm)	Occupied Floorspace (sqm)	Vacancy
Bowden Street	15,068	15,068	0%
Nancarrow Avenue	13,184	11,636	12%
Constitution Road	11,395	11,395	0%
Belmore Street	28,000	0	100%
Rothesay Avenue	3,129	3,129	0%
Parsonage Street	1,473	1,473	0%
Total	**72,249**	**42,701**	**41%**

Source: Robertson + Marks Architects

The high vacancy rate of 41% on The Site is primarily due to the vacant status of 41-45 Belmore Street, which has been granted development consent for development into 87 residential units and ground floor retail.

As discussed in section 3.3 below, the ageing commercial stock elsewhere in the MEA are also faced with muted interest from tenants.

1.4 Background Studies & Documents

Employment Land Assessment

In 2004 the City of Ryde commissioned MacroPlan to provide advice on the revised planning controls for the MEA. MacroPlan was required to:

- Assess the opportunities for the supply of retail, commercial and industrial floorspace within the MEA;
- Provide commentary on an appropriate future land use regime.

The study resulted in the following findings:

- A number of primary commercial centres[1] provide employment for white collar workers[2] in the LGA, namely:
  - North Ryde/Macquarie Park corridor - 783,257sqm serving 39,000 workers;
  - Rhodes - 141,467sqm serving 7,000 workers;
  - Sydney Olympic Park/Homebush Bay - 101,261sqm serving 5,000 workers;
  - Norwest - 311,631sqm serving 15,500 workers;
  - Parramatta - 682,595sqm serving 34,000 workers.
- Relative to the need for white collar jobs as generated by resident workers in Ryde, the supply of commercial floorspace is more than adequate.
- Due to Ryde's strategic location in Sydney's North West growth centre, the demand for office floorspace is projected to continue to grow, however it was felt that expansion plans at Macquarie Park and other centres including Rhodes and Olympic Park would adequately cater to the needs of the industry.
- A high level retail demand assessment concluded that with existing retail floorspace and expansion plans in Top Ryde and Macquarie Centre, there was adequate supply of retail floorspace offer at the major-regional and regional retail hierarchy; Meadowbank was seen to offer opportunity for local retail, particularly around the train station, waterfront and key streets.

The following conclusions and recommendations were made:

- Existing retail and commercial nodes provide an adequate mix of retailing and employment opportunities for current and future expected residents of the LGA.
- MEA was not seen to fit the profile of a commercial centre with its limited access to a major freeway network or high frequency of public transportation. It was also seen to compete directly with other suburban centres like Olympic Park, Parramatta, Rhodes and Macquarie Park that had more direct access to either primary road or well serviced rail links. Consequently large scale commercial should be discouraged however "high amenity office with small warehouse" could be accommodated on a small scale.
- The continuation of industrial uses in MEA was not deemed sustainable in the long term, particularly due to competition from better locations with cheaper land and rents and new residential development in the area.
- Notwithstanding the above, MEA was suggested to present as an opportunity for neighbourhood style retail to service the Meadowbank local area and staff and students of TAFE college.
- Co-location of small office units with residential uses to accommodate local residents wishing to work close to home.

Meadowbank Employment Area Planning Documents

The Meadowbank Employment Area DCP 2010 adopted by the City of Ryde acknowledges the effect of a shift towards a knowledge-based, high-tech economy on traditional forms of manufacturing and light industry. This

[1] Hill PDA updated figures from Property Council of Australia, January 2010
[2] Employment yields are based on MacroPlan adopted benchmarks of 20sqm office floorspace per worker

document envisages a shift in focus to that of commercial and light industrial uses, medium density residential to be a significant feature of the area.

Opportunities for incubator and knowledge-based industries will be encouraged as part of the high tech corridor from North Ryde through Meadowbank to Homebush Bay. Retail uses will be accommodated specifically to service the needs of residents, workers and visitors with active ground floor uses required. Adaptive reuse reflecting the industrial past should be considered where possible.

The proposed planning framework will comprise the following principles:

- Facilitate urban consolidation through the development of a transit-oriented community.
- Accommodate the development of a high quality mixed land-use pattern containing a range of local employment opportunities, choice of housing and transport mode. The area as a whole shall not become a predominantly residential environment.
- Facilitate development density, mix and location to capitalise on public transport infrastructure.
- Facilitate environmental enhancement and remediation through the accommodation of economically viable land use.
- Establish a pattern of land use that is compatible with the local and regional environment and enables enhanced accessibility to transport opportunities.
- Accommodation of a mix of land uses in a manner that protects residential amenity while promoting economic viability.
- The transition is to occur gradually over time, therefore, existing users and occupiers will be allowed to continue current activities in accordance with the lawful development consent applying to the land.
- Accommodation a level of small-scale supporting retail activity designed specifically to service, within precincts, the needs of residents, workers and visitors to the area.

Planning considerations for the MEA are categorised into 9 precincts, each differentiated by land use, urban form and distinct character. Mixed use development will be embraced, particular emphasis on the integration of both residential and employment related uses.

2. ECONOMIC CONTEXT

The Australian Economy

Australia was slow to enter the global economic downturn and continues to be less affected than many of its trading partners. Australia's recent economic success has been on the back of an international minerals boom. Further, the country's financial system was less affected by the GFC. Australia also relies heavily on China and that country has been insulated to some extent from being pulled down by conditions in the US by its own internal programme of economic expansion and the unique nature of its political/economic system.

Nevertheless, Australia has some underlying internal economic weaknesses that are currently being tested. Household debt in Australia has rapidly risen from a stable level of about 40% of household income up to the early 1990s to a level in excess of 150% today. This fourfold increase has been largely on the back of interest rate falls and strong growth in property values, but it has resulted in a widespread housing affordability problem that has contingent impacts on household propensity to consume. It appears that part of the profile of consumption expansion over the period has been on the back of household debt growth and this growth is unlikely to continue into the future.

Australia's unemployment rate peaked at 5.8% in mid 2009 and has since fallen to 5.4% and is trending downwards. This should be placed in perspective with rates in excess of 10% in each of the recessions of the early 1980s and early 1990s. At 5.4% unemployment is currently lower than at any point in the 25 years to July 2004. Generally unemployment has not been a major problem in Australia through the GFC despite reaching a six year high point.

The Australian government was quick to respond to the poor economic conditions. Interest rates have been lowered dramatically, direct payments have been made to households and individuals, infrastructure expenditure has been expanded, and support has been extended to the finance and business sectors. The commitment of the Australian government to stabilising the economy is an important component in rebuilding confidence. Like other world economies, Australia continues to face the problem of high levels of household and private debt, however this may be managed by sensitive government control. In the long term, there is confidence that economic cycles do not stagnate in their negative phases and once appropriate adjustments have been enacted in the economy, the longer term will be solid.

NSW Economy and Property Market

NSW has the greatest number and diversity of businesses of all states in Australia. It is currently home to 32.5% of Australia's population and is responsible for 32% of Australia's Gross Domestic Product. However recent growth in other Australian states has diluted NSW's premier status. Further, the state's jobless rate now exceeds the national average and business investment levels are less than a quarter of the national average[3]. Sydney represents about 62% of the NSW population and it is Australia's largest city. It is also Australia's only global city which in the past has benefited from growth, especially in the finance industry.

[3] Unemployment in NSW in January 2010 was 5.8% compared to 5.4% for Australia (ABS Labour Force by State 6202004)

The property sector reflects both the relative absolute strength of the NSW economy and its recent relative underperformance. Sydney residential property values have a long history of being the most expensive in Australia, but in recent years other cities experienced stronger growth. Since about 2004 Sydney property growth has underperformed the Australian average and this has been particularly marked since 2004.

Generally it is recognised that values around Australia are being capped by affordability ceilings that have not previously limited price growth. This constraint has impacted on the most expensive markets first, and partially explains Sydney's recent underperformance. As other cities close in on Sydney prices they are also reaching affordability ceilings.

The affordability problem has already resulted in a growing gap between real and effective demand for property. Real demand is based on the relationship between household growth and dwelling supply and it has been steadily increasing. Effective demand is household capacity to pay for real estate and is limited by income growth and debt servicing costs. Generally effective demand has stalled due to the confluence of several factors including property values, indebtedness, household structure and interest rates. It is difficult for real demand to effect price growth in the absence of effective demand unless the community is willing to accept an overall drop in general standard of living.

Overall, NSW remains strong and solid, however recognition must be made of the strong relative performance in other states. Recent policy support for growth is likely to begin to take hold once the overall economy has settled from the GFC which should mean improved longer term performance for NSW. The overall size of the NSW economy and the significance of Sydney within it both point to robust longer term prospects for Sydney.

2.1 Commercial Property Market

The impact of the GFC is evident in the property sector particularly the slowdown in the number of transactions/deals and increased incentives. This is a result of businesses taking a more cautious approach to decisions such as expansion and relocation. Even so, a drive for greater efficiencies has seen a number of businesses moving to cheaper space and/or locations where all operations can be consolidated, with particularly relevant examples being CSR relocation to Macquarie Park (refer to discussion in section 4).

The GFC aside, over the past 30 years the most prevalent trend for the commercial property sector has been office occupiers moving from established centres to business parks in out-of-centre locations. Although a decline in office space in established centres was expected as a result of the oversupply in the 1980's followed by the recession of the early 1990's, the trend has continued through the buoyant period and the more recent GFC, with an increased share of office space development moving to out-of-centre locations. These out-of-centre locations have in some cases proved so successful that they have become centres in their own right (e.g. Norwest Specialised Centre).

The leakage of office space from established major centres and suburban centres to business parks has been recognised as a real and serious threat to the balance of the established centres as noted in the Metropolitan Strategy: *"Business parks are competing with traditional high density centres such as North Sydney, making it more difficult for centres in rapidly growing sub regions to attract office based jobs".*

Research undertaken by Hill PDA has revealed that many businesses relocated to business parks to lower rental costs, as rents within established centres threatened to grow well above inflation. As well as reducing overheads, which has recently become increasingly important, business parks also provide occupiers with purpose built buildings, a range of amenities and plenty of onsite parking for employees and visitors in an attractive location. Stand alone, purpose built buildings enable major occupiers to achieve a sense of identity that would be difficult and in some cases impossible to achieve in established centres, where buildings tend to have multiple tenancies.

These occupier preferences are clearly visible in successful office parks including Macquarie Park which has resulted in the total amount of office space in North Ryde increasing to 783,257sqm[4] (even exceeding the Parramatta CBD with a total of 680,000sqm) and becoming a centre in its own right.

There are key characteristics common to successful business parks include:

- The dominance of offices with some research and development and warehousing components;
- A-grade space at a relatively cheaper rent provided in purpose built buildings with plentiful onsite parking;
- Flexible footprints, often in excess of 1,000sqm-1,500sqm allowing space to easily adapt to changes in operations such as the restructuring of the business, the increased number of people working from home or integration of warehousing;
- Lower densities with floorspace ratios in the order of 1:1 - 3:1 which enables low cost construction and increased opportunity for single occupation;
- Onsite tenant amenities such as gyms, food and drink outlets and crèches;
- A prestigious and marketable image attracting businesses of a similar calibre delivering efficiencies through agglomeration; and
- Newer buildings that can more easily achieve ESD standards that are becoming increasingly important to occupiers[5] with changes to legislation, rising energy costs and awareness of corporate responsibility.

Positive sentiment is appearing to return to the commercial property market on the back of rising vacancies and incentives during 2009. More particularly, the suburban office market is expected to continue to see steady growth while it offers cost savings to potential occupiers.

2.2 Residential Property Market

Australia has one of the highest rates of home ownership in the world. Much of the high rate can be attributed to a rapidly increasing standard of living and to high rates of population growth in the immediate post WWII period, and more recently, to ageing of the population.

The key drivers to Sydney's residential property market are:

- Interest rates underpinning affordability;

[4] Colliers International, Sydney Metropolitan Office, Autumn 2010
[5] Perspectives on Sustainability, Jones Lang LaSalle, 2009

- High cost of ownership forcing more people to rent maintaining a strong demand for rental properties;
- Downsizing of empty nesters, and home owners under pressure of large mortgage repayments; and
- Strong population growth from international migration and natural increase.

Australia has been experiencing a period of exceptional population growth with current rates of growth exceeding that in the decades preceding this one. In the year ending 31 December 2009, Australia's estimated resident population had increased by 433,000 people to 22.2 million, a 2% increase from December 2008. This followed growth of 460,000 people (2.2%) between December 2007 and December 2008. Contrast this with the annual growth rate in the two decades prior to 2006 which averaged 1.3% per year. The recent growth rate of around 2% per annum also exceeds that of nearly all other developed countries[6].

As household sizes trend downwards and lone person households increase rapidly compared to other household types, more dwellings are needed, particularly to cater to the ageing population who are more likely to be in a lone person household.

It is widely acknowledged that development has not kept pace with demand, contributing to a tight rental market and rising house prices. In order to meet the increasing housing needs of the growing population, State and local governments have implemented various measures to ensure an affordable, well planned and sustainable supply of housing in the state. Planning incentives have been aimed at the affordable housing sector facilitated by the Affordable Rental Housing State Environmental Planning Policy (SEPP) while sites for development (urban infill and Greenfield) are identified prior to consideration for rezoning. Key sites are rezoned with increased densities around town centres and city transport nodes for redevelopment in draft LEPs prepared by Councils in complying with the Department's Standard Instrument LEP template.

Despite initiatives to stimulate dwelling supply, the number of development commencements is still below that required to meet dwelling numbers commensurate with population growth. Redevelopment activity is constrained by the availability of suitable sites and project feasibility. Acquisition of sites in multiple ownerships can result in increased cost and protracted development periods; in recent times there has been the additional factor of credit cost and its availability.

In attempting to deliver a solution and prevent the frustrating of site acquisitions in strategic locations, the State government has mooted the setting up of a development authority with compulsory acquisition powers to acquire and rezone private land for redevelopment. The new legislation is expected to be introduced sometime in 2010.

[6] Australian Bureau of Statistics, Population growth: past, present and future, June 2010

3. DEMAND FOR COMMERCIAL FLOORSPACE

3.1 Existing Employment by Industry and Location

The Transport Data Centre (TDC) distinguishes MEA into two travel zones (i.e. 2518 Meadowbank Station (East) and Ferry Wharf and 2522 Ryde Council Depot). Note that the proposed Shepherds Bay development is located within travel zone 2522. As of 2006 jobs generated by travel zone 2518 comprised 43% Education and Training, owing to the location of TAFE college there.

In accordance with both these travel zones, over 1,800 jobs were generated in 2006[7]. The top five employment generating industries shown in Table 1 below were Education and Training (26% of all jobs), Wholesale Trade (12% of all jobs), followed by Manufacturing and Construction (both 11% of all jobs).

The top five employment generating industries for travel zone 2522 were Health Care and Social Assistance (17% of jobs), Construction (16% of jobs), Wholesale Trade (16% of jobs), Manufacturing and Administrative and Support Services (each 11% of jobs).

Table 2 - Estimated Jobs by Industry within MEA (2006)

Employment by Industry	MEA Total		2518[1]		2522[2]	
Agriculture, Forestry and Fishing	3	0%	0	0%	3	0%
Mining	4	0%	0	0%	4	1%
Manufacturing	203	11%	115	10%	88	11%
Electricity, Gas, Water and Waste Services	96	5%	85	8%	11	1%
Construction	213	11%	87	8%	126	16%
Wholesale Trade	229	12%	120	11%	109	14%
Retail Trade	40	2%	30	3%	10	1%
Accommodation and Food Services	12	1%	8	1%	4	1%
Transport, Postal and Warehousing	22	1%	9	1%	13	2%
Information Media and Telecommunications	43	2%	21	2%	22	3%
Financial and Insurance Services	15	1%	8	1%	7	1%
Rental, Hiring and Real Estate Services	12	1%	3	0%	9	1%
Professional, Scientific and Technical Services	72	4%	50	5%	22	3%
Administrative and Support Services	112	6%	27	2%	85	11%
Public Administration and Safety	58	3%	21	2%	37	5%
Education and Training	487	26%	478	43%	9	1%
Health Care and Social Assistance	144	8%	14	1%	130	17%
Arts and Recreation Services	6	0%	0	0%	6	1%
Other Services	92	5%	22	2%	70	9%
Inadequately described	21	1%	9	1%	12	2%
Total Employment	**1,884**	**100%**	**1,107**	**100%**	**777**	**100%**

Source: TDC, Employment Forecasts October 2009
Note 1: 2518 Meadowbank Station (East) and Ferry Wharf
Note 2: 2522 (Ryde Council Depot)

[7] Please note that the TDC estimate of jobs generated in the LGA differs from the ABS estimate as the TDC factors in an undercount for the ABS census

3.2 Trends and Drivers

Looking ahead to the next 30 years we consider it unlikely that occupier preferences will alter significantly. We do however forecast that the following factors will become increasingly important and as such influence the nature and location of office developments.

Continued Demand for Commercial Floorspace

Deindustrialisation is a trend that has/is continuing to result in the decline of industrial jobs. This trend is a global trend owing to the greater efficiencies of technology and mechanisation. Conversely, the increasing affluence of Sydney's population and growth of the New Economy (otherwise referred to as a knowledge and ideas based economy) is expected to strengthen demand for commercial floorspace.

Barkham (2002) notes that *"Service sector organisations, both public and private sector, are the main users of office space."* The key long term trend in office development has therefore been the growth in the service and knowledge sectors. These sectors relate to civil service and public sector administration; banking insurance and finance; private sector administration (corporate headquarters etc); business services (law, accountancy and consultancy) and consumer services (health, education, media etc).

In the 1970's there were predictions that with technological advances, a much larger proportion of people within the service and knowledge sectors would work from home, reducing employers overheads and demand for office floorspace. This phenomenon has not been realised, with technology increasing the amount of out of hours work taking place at home but more than 80%[8] of the persons employed across Australia still work in business premises. Rather than a move away from businesses premises, technological advances have contributed towards a greater choice of locations and higher densities of employment within offices with wireless networks and the like facilitating initiatives such as 'hot-desking'.

Sustainable Communities

With rising fuel prices and the introduction of mandatory energy efficiency disclosure for large commercial buildings (>2,000sqm) by the Federal Government in the second half of 2010 sustainability will become an increasingly important driver of price and demand[9]. Sustainability is already a key driver, with the Jones Lang LaSalle survey (2009) finding that whilst only 37% of corporate occupiers were willing to pay rental premiums of between 1-10% for sustainable floor space but almost 90% considered green building certification when selecting premises.

The Jones Lang LaSalle Survey confirms the own view that energy efficient buildings are becoming the norm and moving forward sustainability will need to go further. This may result in the more efficient use of brownfield land through higher density development and the integration of employment opportunities across a broader range of centres in Sydney to minimise the need to travel between home and places of work.

Furthermore, with strategic planning policies (global and regional) focused on the delivery of sustainable communities, the ability to deliver new business parks in out-of-centre locations is becoming difficult. As a result, there is evidence that

[8] ABS Locations of Work Survey 2005

[9] The Jones Lang Lasalle 2009 global survey on Corporate Real Estate and sustainability indicates that an increasing number of corporate executives consider sustainability to be a critical business issue.

investors and developers are beginning to revisit traditional centres which offer a greater variety and choice of shops and services together with higher levels of accessibility by sustainable modes of transport.

As a consequence, there is gradual pressure building for the delivery and operation of green and sustainable buildings.

Work Life Balance / Lifestyle Choices

An increase in the number of working hours per household has resulted in time pressures for the workforce. Linked to this is the impact of a greater proportion of dual earning households that means less time for family responsibilities. The employment rate for women in Australia has steadily increased from 29% in 1954 to 47% in 1980 to 61% in 2000[10] with almost half of these having dependent children. In addition a large number of workers are responsible for caring for an ageing population (population aged 65 years and over projected to rise from 12.2% in 1999 to 22% in 2030 and 26% in 2050[11]).

As a result work places that enable workers to conveniently combine paid work, leisure and family responsibilities are becoming increasingly attractive. Some business parks, Norwest and Macquarie Park included, have endeavoured to emulate these features to some degree but do not provide the scale and mix to compete with a vibrant CBD location. Emerging designs for Barangaroo embrace this concept encouraging a vibrant mix of uses including shops, parks and retail that are attractive to both residents and office workers who are increasingly time poor.

When looking for empirical evidence of the financial benefits, we have looked to Chiswick Park (London, UK) developed by Stanhope. The entire concept for the design and marketing of Chiswick Park hangs off the idea: Enjoy Work.

"If people enjoy work, they do better work. If they do better work, you have a better business": Stanhope.

To achieve this Chiswick Park comprises high quality buildings with plentiful natural light and ventilation in a garden setting that includes a lake and pathways, together with outdoor event space and tenant facilities including a variety of retail units and a health club.

The benefits to employers include nurturing a *"can do attitude"*, increased productivity and a lower than average turnover of staff.

Benefits to the developer are a well let development (excluding new space less than 6% vacancy[12]) attracting high calibre tenants (including Singapore Airlines, Discovery Channel and France Telecom) and continued growth during the GFC with an additional 15,375sqm of speculative floor-space coming on line.

It is considered that the need for offices to be conveniently located to a vibrant mix will become increasingly important to office workers and as a result tenant occupiers. As such, work places that enable workers to conveniently combine paid work, leisure and family responsibilities are likely to be more successful.

[10] ABS 2004

[11] ABS 2000

[12] Enjoy-Work.com, February 2010

The MEA does not benefit from a wide range and choice of shops and services of the retail core offering tenant amenity, and although the Meadowbank train station is within close proximity, it is not a major transport interchange. The prevailing high vacancy rates currently witnessed is testament to dwindling tenant demand for existing space; any renewal of the area into a competitive commercial precinct will need to be underscored by the foregoing fundamentals.

3.3 Market Demand in the MEA

The MEA comprises a mix of commercial/industrial uses, with occupiers including smash repairers, electrical suppliers, etc. Most of the current stock is secondary grade and ageing, a mix of commercial buildings and older style warehouses and light industrial buildings providing ancillary office accommodation.

Discussions with leasing agents in the area reveal that interest in the area has been lukewarm, many lessors having to reduce face rents to retain tenants. This has helped arrest what would otherwise be a higher overall vacancy in the area. Prevailing rents are between $75/sqm and $150/sqm depending on quality and type of accommodation.

Notable sales in the area have been predominantly by developers of sites capable of redevelopment. A marked difference can be observed between the prices paid for sites acquired with a view of redevelopment and those sites acquired for a continued use. Examples of this two-tier market that has emerged are:

Table 3 - Recent Sales of Sites in MEA

Address	Site Area (sqm)	Sale Price	Sale Date	Comments
127 Bowden Street Meadowbank	1,734	$3,250,000 (1,874/sqm)	Dec 2009	Currently a 3 storey commercial/industrial building to the north of the Waterpoint development. Purchased by Shepherd's Bay Properties Pty Ltd conceivably with a view of future development. There is no current development application or consent. The site was previously purchased by Telstra in April 2009 for $2.153m and before that in 1999 for $2.15m. A difference of about 50% may be observed between the sale prices in April and December 2009.
6 Nancarrow Avenue Ryde	706	$1,800,000 ($2,549/sqm)	Mar 2009	Currently a 1 storey commercial building within 'the Site'. Purchased by Bayonne Projects. The site was previously purchased in 1998 for $345,000, indicating a phenomenal five-fold increase in 10 years. The development potential of this site has underpinned its increase in capital value.
10 Nancarrow Avenue Ryde	1,003	$2,350,000 ($2,343/sqm)	July 2009	Currently a 1 storey commercial building. Purchased by Bayone Projects.
14 Nancarrow Avenue Ryde	2,491	$6,750,000 ($2,710/sqm	Jan 2008	Currently improved with several commercial/ industrial buildings. Purchased by Bayone Projects.
29 Nancarrow Avenue Ryde	1,840	$2,600,000 ($1,413/sqm)	Apr 2009	Improved with three 2 storey commercial/industrial buildings. Purchased by an owner occupier smash repairer trading as Ells Auto Body Centre. These improvements are more substantial than the above sales, i.e. 6-14 Nancarrow Avenue, however the sale price of $1,413/sqm is significantly lower than the above prices which exceed $2,000/sqm.
731 Victoria Road Ryde	1,480	$1,750,000 ($1,182/sqm)	July 2009	Zoned Commercial and located on the corner of Little Church Street. Improvements on the site are minimal.

Source: RP data, Hill PDA research 2010

As shown in the table above, the anticipation of impending renewal of the area into residential has seen land values increase to between $2,300/sqm and $2,700/sqm. Sites purchased on a continued use basis have typically sold at prices between $1,100/sqm and $1,500/sqm (between 50% and 60% of those acquired for redevelopment).

Anecdotal evidence also shows that there is market expectation that the MEA will entirely be redeveloped into mixed use (residential and local commercial), translating into a reluctance by commercial tenants to commit to long term leases and accept demolition clauses, also a 'wait-and-see' attitude by owners who are not committing capital expenditure to upgrade or refurbish the existing stock which is tired and ageing, following a perceived prospect of redevelopment just on the horizon.

3.4 Commercial Markets

In this section we provide an overview of micro-economic trends and drivers influencing the office markets within the Inner North subregion with a specific focus on MEA. This section compares key indicators such as the availability of space, vacancy rates, take-up rates, rents and sales values to competing office markets in the Inner North subregion. These factors are important as they provide a better understanding of the strength of the existing market and its desirability to prospective developers.

Outlined in the table below are relevant market indicators for the competing office markets discussed in this section:

Table 4 - Office Market Indicators

Market	Total Stock (sqm)	Grade	Vacancy	Average Net Face Rent ($/sqm)	Average Incentive	Average Capital Value ($/sqm)	Average Market Yield
North Ryde/ Macquarie Park	783,257	A	13.7%	$300-$310	28%-32%	$3,750-$4,000	7.50%-8.50%
		B	8.4%	$245-$250	35%-40%	$2,500-$2,800	8.50%-9.50%
Homebush	101,261	A	1.6%	$300-$330	10%-15%	$3,600-$4,750	8.00%-8.75%
Rhodes	141,467	A	4.4%	$320-$340	10%-15%	$3,800-$4,500	8.00%-8.75%
Norwest	311,631	A	11.0%	$330-$340	15%-25%	$3,500-$3,500	8.50%-9.50%
Parramatta	682,557	A	2.4%	$330-$385	20%-25%	$3,250-$4,500	8.00%-9.00%
		B	9.0%	$250-$280	20%-25%	$2,750-$3,500	9.00%-10.50%
Chatswood	283,900	A	20.1%	$330-$395	30%-35%	$4,000-$4,750	8.25%-9.50%
		B	18.9%	$240-$290	30%-35%	$2,500-$3,100	9.25%-10.00%
North Sydney	837,750	Prime	3.0%	$520-$670	25%-28%	$7,200-$9,250	7.00%-7.50%
		A	8.1%	$420-$570	26%-30%	$5,200-$7,000	7.50%-8.50%
		B	13.5%	$280-$390	28%-33%	$3,100-$4,300	8.50%-9.50%

Source: Colliers International, Autumn 2010

Demand for prime space is comparatively strong, with vacancy levels for secondary, B-grade stock typically exceeding that of A-grade stock.

North Ryde/Macquarie Park

North Ryde, particularly Macquarie Park have emerged in recent years as a strong competitor in the suburban office market, providing more competitive rates in newer and more efficiently designed buildings with larger floorplates.

The completion of the Epping-Chatswood Rail Link in 2009 with new stations at Macquarie University, Macquarie Park and North Ryde has improved accessibility and lifted the profile of the area.

Macquarie Park's position in Sydney's commercial market is growing from strength to strength, the integration of the new rail line with the CityRail network further improving its accessibility and connectivity with the rest of Sydney. Designs according to ESD principles have also made buildings completed here attractive to tenants and investors alike.

This sub-market has grown in size by about 50% over the past four years, many speculative developments completed over the 2008/2009 period. A high percentage (67%) of the stock comprises of prime (modern and A-grade) space. Although vacancy rates are relatively high (12.2%[13]), they should ease with no further speculation or uncommitted supply mooted for the next two years. Over 180,000sqm has been granted development approval however they are unlikely to proceed without pre-commitments.

Two prominent additions to Macquarie Park include that of Triniti Business Campus (39 Delhi Road) and 78 Waterloo Road. The Triniti Business Campus comprises three towers, T1, T2 and T3, the first two completed in October 2008 with a majority of the space pre-committed. T3 was completed in October 2009, offering 28,000sqm of pre-committed A-grade space. CSR initially committed to almost 6,000sqm at $320/sqm net (20%-30% incentives), it is understood that they now occupy half the building having relocated from Chatswood. The Triniti development may be considered to have performed well amidst unfavourable market conditions; the adjoining site has consent for an office building and will commence with pre-commitments.

78 Waterloo Road was completed in June 2009 offering around 15,000sqm over 8 levels. It is understood that only 4,000sqm was pre-committed with a further 9,000sqm leased to a single tenant on completion. Approximately 1,000sqm is available for lease at $320/sqm net (negotiable). Strong enquiry is reported.

Macquarie Park has had a significant impact on the demand for commercial space elsewhere in other suburban markets, Chatswood in particular, tenants citing competitive prices and flexibility offered by the space therein overriding the impact of the lack of staff amenity. Whilst accessibility has recently been improved, when compared to more central locations, it is also a shortcoming of the area. Notwithstanding, Macquarie Park's expansion is likely to continue unabated from 2011. Rents and incentives are expected to recover through 2010/2011[14].

<u>Homebush/Rhodes</u>

The Homebush and Rhodes suburban markets are relatively small, together offering some 242,728sqm of floorspace of prime office space. A lack of new supply and healthy tenant demand has resulted in relatively low vacancy rates (1.6% and 4.4% respectively) and among the lowest incentives (10-15%) in Sydney.

8 Australia Avenue was completed in January 2010 and offers some 5,800sqm of office space and ground floor retail. It is understood that all the space was pre-leased following strong demand.

Rhodes Waterside development comprises the Rhodes Waterside Shopping Centre and three A-grade office buildings along Rider Boulevard. 1 Rider Boulevard and the shopping centre were completed in 2004, rents range

[13] North Ryde/Macquarie Park vacancy rates have held steady in the six months to January 2010, Property Council of Australia
[14] CBRE, Sydney Metropolitan Office Marketview, First Quarter 2010

from $280/sqm to $290/sqm net. 3 Rider Boulevard was completed late in 2005 with current rents around $320/sqm net. 5 Rider Boulevard is the most recent addition, completed late in 2008 and was 100% leased within 3 months of practical completion with a good amount of pre-commitment. Rents range from $320/sqm to $340/sqm net. Tenant demand is overall noted to be strong.

Rhodes Corporate Park (1 Homebush Bay Drive) adjoins Rhodes Waterside and is fully leased. Rents are around $325/sqm net. It is understood that further commercial development is planned for release in the future.

Approximately 60,000sqm of floorspace is granted development consent/planned and will commence subject to pre-commitments.

<u>Norwest</u>

The 377ha Norwest Business Park since its inception in the mid 2000's has performed well, the only major commercial centre in the North West subregion. Two developments are due for completion in 2010, delivering some 30,000sqm of floorspace, i.e. Atlas (cnr Windsor Road and Norwest Boulevard), Norwest C3 (3 Columbia Court, Baulkham Hills) and Vantage Norwest (7-9 Irvine Place, Bella Vista).

The Atlas development comprises some 9,000sqm-10,000sqm of office space and almost 5,000sqm of quasi-showroom space, currently under construction and is due for completion in April 2011. Pre-sales and leasing commenced about 18 months ago with about 60% of the space already pre-committed. Rents achieved are around $345/sqm net with incentives at comparatively low levels, i.e. 10% to 12%. Interest received is from both investors and owner occupiers, much from local businesses relocating or starting-up. Overall demand for this development has been keen.

Norwest C3 comprises three 4 storey inter-connected buildings offering some 15,000sqm of office space. The development is almost complete however it is understood that the developer has been unable to complete it.

Vantage Norwest is currently under construction and will offer 12,000sqm of space for lease. Leasing has only just commenced with keen interest reported. Rents sought are in the region of $300/sqm net with a preference to lease entire floors (i.e. 2,000sqm).

Anecdotal evidence suggests that whilst overall demand in the area has been encouraging, it has cooled slightly with incentives increasing from 10%-15% to 20% in some cases. Traffic concerns have been cited to be a negative factor for some tenants.

<u>Parramatta</u>

The strength of the Parramatta office market is underpinned by the demand from the government and community sectors (leasing nearly 70% of space in the 12 months to March 2010[15]).

Although vacancy rates approached 10% in January 2010, demand for quality prime office space is still strong, with A-grade commercial property tight at a vacancy rate of 2.4%, negative tenant demand reported in the C and D grades. The B-grade market showed strong demand with vacancy rates declining to 9% in January 2010 from

[15] Savills Research, March 2010

12.6% in the 12 months prior. There is much ageing stock in Parramatta, with leasing demand poor and an owner-resistance to upgrade and refurbish without any tenant pre-commitment. This is likely to see these rents soften even further.

Sustained demand from State and Federal Government agency relocations will provide the market with continued impetus in the long term. As older stock ages further and becomes characterised by physical and functional obsolescence, developers will start to capitalise on redevelopment and urban renewal opportunities.

Chatswood

The Chatswood commercial sub-market has struggled comparative to the rest of the North Shore, supply having been generally static with no new additions since 2001 with vacancies and incentives rising noticeably in contrast to declining rents and capital values following the GFC. Unlike other suburban markets where demand for prime space remained tight, in Chatswood the vacancy rates for A-grade and B-grade space rose to 20.1% and 18.9% respectively.

Although still considered a 'prestige office market' with rents and prices above those of North Ryde/Macquarie Park and Norwest, Chatswood's market share has been leaking to competing sub-markets like North Ryde/Macquarie Park and to a smaller extent North Sydney.

Falling demand commensurate with falling effective rents and rising vacancies (from 9.8% to 11.8%) was witnessed across the North Shore office market as a whole, expectedly in tandem with but lagging the Sydney CBD, its own vacancies rising from 7.8% to 8.1% in the six months to January 2010. During the same period Chatswood recorded an overall vacancy of almost 18%, up from 13% in the previous six months[16].

There is much ageing secondary stock in Chatswood, with leasing demand reportedly poor and an owner-resistance to upgrade and refurbish without any tenant pre-commitment. This is likely to see rents for secondary grade space soften even further.

The mix and presence of residential uses in the Chatswood office precinct has resulted in a focus that is not purely commercial like say North Sydney, detracting from its key attributes as a major office location with excellent transport infrastructure. Despite offering excellent staff amenity, there is anecdotal evidence to suggest this is a significant factor for the lack of tenant demand in Chatswood, as occupiers deem the introduction of residential uses as lowering the prestige associated with the location as a business hub as well as potential conflicting interests.

New and Proposed Commercial Developments

'Waterpoint' in Meadowbank is primarily a residential development however it does offer around 3,000sqm of office space. The space is for sale at between $3,000/sqm and $4,000/sqm with asking rents in the region of $280/sqm and $400/sqm depending on size and location within the development. Transactions have not been occurring at a high rate with marketing agents reporting a weak overall demand.

[16] Property Council of Australia, January 2010

The following is a list of commercial projects in North Ryde, Rhodes and Homebush (approved and proposed) with many deferred pending the securing of pre-commitments.

Table 5 - Commercial Development Pipeline

Development	Precinct	NLA	Status	Completion Date
Rhodes Corporate Park - Building F	Rhodes	16,900sqm	DA approved	Subject to pre-commitments
Precinct, Riverside Corporate Park 105 Delhi Road	North Ryde	9,430sqm	DA approved	Construction on hold
Former Peter Board High School site 144 Wicks Road	North Ryde	28,000sqm	Possible	Development application
17-23 Talavera Road	North Ryde	18,500sqm	DA approved	Subject to pre-commitments
27-37 Delhi Road	Macquarie Park	32,000sqm	DA approved	Subject to pre-commitments
88 Talavera Road	Macquarie Park	32,000sqm	DA approved	Site cleared
Epicentre 6-8 Julius Avenue	Macquarie Park	34,194sqm	DA approved	Subject to pre-commitments
3-4 Eden Park Drive	Macquarie Park	18,121sqm	DA approved	Subject to pre-commitments
IQ, 34 Waterloo Road	Macquarie Park	33,292sqm	DA approved	
Pinnacle D&E 376 Lane Cove Road	Macquarie Park	16,000sqm	Possible	
394 Lane Cove Road	Macquarie Park	40,000sqm	Possible	
112 Talavera Road	Macquarie Park	10,000sqm	DA approved	
Triniti Phase 2, Lighthouse	Macquarie Park	32,000sqm	DA approved	
80 Waterloo Road	Macquarie Park	13,768sqm	Possible	
271 Lane Cove Road	Macquarie Park	10,000sqm	DA approved	
16 Byfield Street	Macquarie Park	10,000sqm	Mooted	
Top Ryde Commercial Buildings A&B	Ryde	11,000sqm	DA approved	
22 Giffnock Avenue	North Ryde	7,000sqm	Mooted	
6-8 Giffnock Avenue	North Ryde	8,000sqm	Mooted	
The Boulevard Sarah Durack Avenue and Olympic Boulevard	Homebush	14,000sqm	DA approved	Subject to pre-commitments
Prime 10 Herb Elliott Avenue	Homebush	22,000sqm	DA approved	Subject to pre-commitments
5b Uhrig Road	Homebush	7,500sqm	Mooted	
Cnr Brookhollow Road and Norwest Boulevard	Norwest	23,000sqm	DA approved	Subject to pre-commitments
Circa Norbrik Drive	Norwest	60,000sqm	Mooted	
Top Ryde City 109-129 Blaxland Road	Ryde	11,000sqm	Development Approval	Construction to commence in 2011
		517,705sqm		

Source: Colliers research, Autumn 2010 and Hill PDA research, 2010

There was considerable planned supply intended for release to the market prior to the global and national financial events of the last 18 months, with many development applications receiving consent. Many of these proposals, particularly commercial projects in North Ryde/Macquarie Park were put on hold for a variety of reasons including difficulty faced by developers in securing credit from lenders mandating at least 50% pre-commitments. It is now reported that many old industrial buildings that were earmarked for redevelopment have been re-listed on the market for lease failing to secure development funding. As many as 16 buildings with some 51,000sqm of space (46% warehouse space) are available for lease and pushing vacancy levels up for lower-grade properties.[17]

The above supply pipeline is an indication of the remaining capacity many commercial markets have, offering alternative commercial accommodation; the pace of development will eventually slow as capacity is approached.

The Top Ryde City project is located within 2 kilometres of MEA. This ambitious development when completed will offer 80,000sqm of retail space including 200 specialty stores, Myer, Woolworths, Big W, Franklins and Aldi, aimed at establishing an integrated fashion, leisure and entertainment precinct also containing a gymnasium, bowling alley and cinema complex. The development will be serviced by over 3,000 car spaces and there will be 425 apartments and 11,000sqm of commercial space.

3.5 Industrial Markets

Following the GFC a slowdown in global demand impacted the manufacturing and industrial sectors and consequently their demand for property. This reduction in demand for pre-commitments and the continuing difficulty in securing credit have caused land values to decline, in some cases by as much as 40%-50% over the past 12 to 18 months.

The tightening of lending criteria and the scarcity of debt funding is not likely to abate with industrial construction activity to remain flat in the short term. An upshot of this has been the purchasing of brownfield sites for refurbish of the buildings to a higher quality, enabling developers to avoid the high cost of risk and capital expenditure associated with a new build.

The following are market indicators for Sydney's industrial markets:

Table 6 - Industrial Market Indicators

Market	Grade	Net Face Rent ($/sqm)	Average Incentive	Average Capital Value ($/sqm)	Market Yield
Southern (Botany, Mascot, Alexandria, Rosebery)	Prime	$125-$175*	8.33%-10.00%	$1,450-$2,200	7.75%-8.25%
	Secondary	$90-$115	8.33%-10.00%	$950-$1,350	8.50%-9.50%
South West (Moorebank, Prestons, Chipping Norton)	Prime	$95-$105	10%	$1,100-$1,300	8.00%-8.25%
	Secondary	$65-$95	10%	$750-$1,100	8.75%-9.75%
Outer South West (Minto, Ingleburn, Smeaton Grange)	Prime	$75-$100	10%	$850-$1,150	8.50%-9.00%
	Secondary	$65-$80	10%	$650-$850	9.50%-10.00%
Central West (Homebush, Rydalmere, Silverwater, Granville, Auburn)	Prime	$100-$130	10%	$1,150-$1,400	7.75%-8.25%
	Secondary	$70-$100	10%	$700-$1,150	8.75%-9.75%
West (Eastern Creek, Erskine Park, Arndell Park, Wetherill Park, Smithfield, Yennora, Girraween)	Prime	$95-$115	10%	$1,100-$1,450	7.75%-8.25%
	Secondary	$70-$95	10%	$700-$1,100	8.75%-9.75%
North West (Seven Hills, Kings Park, Blacktown, Baulkham Hills)	Prime	$95-$115	10%	$1,100-$1,350	8.00%-8.50%
	Secondary	$70-$90	10%	$700-$950	9.00%-9.75%
North Shore (Lane Cove, Artarmon, St Leonards, Brookvale)	Prime	$120-$150	15%-20%	$1,400-$1,900	7.75%-8.25%
	Secondary	$105-$135	15%-20%	$1,200-$1,600	8.50%-9.00%

Note * includes industrial estates with high office content
Source: Savills research, Quarter 2 2010

[17] SMH Weekend 24-25/07/2010 citing analysis by CBRE

Following new Development Plans by Council aimed at "changing an aging industrial area into a vibrant, mixed-use community overlooking the Parramatta River…" and several site sales, owner expectation of land values in the MEA has been driven up by the higher and better land use of residential. This is demonstrated in Table 3 where a two-tier market has emerged on the back of development potential associated with sites in the MEA. These land values have increased to exceed $2,000/sqm and far exceed the average capital values of industrial lands. As such, owner expectation of land values does not support commercial or industrial redevelopment.

3.6 Key Findings

The commercial property market, not unlike other property markets moves in cycles. The current depressed state of Sydney's commercial market is a result of an overall fall in demand for additional commercial space and a shift in occupier preferences as they seek out competitive deals.

When assessing the viability of a site, developers will not unexpectedly arrive at a conclusion that a residential use of the land will return a higher residual land value, hence representing a *higher and better valuation use* than commercial. This is primarily due to the difference in end sale values, residential selling for upwards of $6,500/sqm while commercial end sale values not exceeding $4,500/sqm, the build cost is not markedly different[18].

The outlook for MEA and sustainability as a commercial market do not appear promising. Its 'weak' position in the market is generally brought about on the following fronts:

- A global trend of decline in industrial employment and the continued growth of a knowledge and ideas-based economy resulting in a strengthened demand for commercial floorspace; the success of commercial precincts necessarily underpinned by adequate infrastructure and a vibrant mix of uses facilitating a work life balance for workers.
- As the viability of developing commercial office space returns, development is likely to occur in areas where there is capacity for new builds, i.e. North Ryde/Macquarie Park, Homebush, Norwest and Rhodes. As capacity in these locations is approached and in the absence of locations with comparable infrastructure, this leaves occupiers to turn their sights on other older, established centres such as Chatswood, Crows Nest/St Leonards where there are large amounts of ageing and stock becoming obsolete.
- There is already a perception that a shift in land use focus has occurred in MEA, a view held by owners and tenants alike. Anecdotal evidence also shows that many prospective tenants are reluctant to commit to long leases and are not generally agreeable to demolition clauses in their leases. Owners on the other hand are not committing to capital expenditure to existing improvements, in anticipation of the potential for redevelopment. Recent site sales demonstrate higher land value expectations and have the prospect of hindering prospective commercial development, even if in a recovering commercial market.

[18] Hill PDA's own research from various sources including RP Data and Red Square

4. Demand for Dwellings

The ABS conservatively forecasts that the Sydney Metropolitan Area will gain an additional 1.5 million residents by 2036 thus raising concerns as to how and where Sydney could grow to accommodate this growth. The higher end of the forecast is 1.9 million additional residents by 2036.

The NSW Department of Planning (DoP) is using the midpoint of these forecasts for the review of the Metropolitan Plan and the subsequent review of the dwelling targets for each of Sydney's Subregions. The target established for the Inner North Subregion by the Metropolitan Strategy 2005 was 30,000 dwellings by 2031. The target was refined by the Inner North Subregion Draft Subregional Strategy for each applicable LGA in the Subregion. Accordingly the target for the Ryde was established as 12,000 additional dwellings between 2001 and 2031. Applying an average household size of 2.5[19], this translates into 30,000 additional residents over the 30 year period or an additional 1,000 residents in the LGA per annum.

The Metropolitan Strategy is presently under review by the DoP. The review has revised the dwelling targets for each subregion in Sydney. The revised dwelling target for the Inner North Subregion is 39,400 between 2006 and 2036[20]. Applying the same proportion to each LGA, this translates to a target of an additional 15,760 dwellings for the Ryde LGA between 2006 and 2036. Applying the average household size of 2.5, this translates into 39,400 additional residents over the 30 year period or an additional 1,300 residents in the LGA per annum.

The primary driver of demand for residential dwellings is population growth. As discussed in section 2.2 of this Study, the most recent population forecasts for Sydney have increased growth expectations anticipating an additional 1.7 million people will be living in Sydney by 2036. In addition to population growth, other drivers of housing demand relate to lifestyle trends including the ageing of the population, declining family sizes and fertility rates. Combined these factors are reducing household occupancy rates and in turn increasing demand for housing in Sydney (particularly smaller housing types) above the demand generated by population growth alone. In fact, the implications of these trends are such that even if Sydney did not experience any population growth, more dwellings would be needed over time[21].

4.1 Market Considerations

The NSW residential property market has commenced its recovery from the Global Financial Crisis. Government stimulus handouts, the increase in the first home owners grant and lower interest rates assisted in the resurgence of the residential property market in the state.

The boost to the First Home Owners Grant proved significant in 2009 as it provided support in sales volumes in both houses and units, particularly in the sub $500,000 price bracket. This increased demand subsequently increased the median house and unit values in this price range. The proportion of first home buyers entering the market has

[19] Average household dwelling occupancy for Ryde LGA recorded by the ABS 2006
[20] Metropolitan Strategy Review, Sydney Towards 2036, NSW Government 2010
[21] Ibid

noticeably fallen since late 2009 when the boost to the grant ceased. The grants did however cause significant momentum in the residential market, especially amongst young investors.

The Sydney residential property market performed strongly in 2009. According to Residex, there were 45,832 house sales and 46,917 unit sales in Sydney throughout 2009. This represents an increase from 2008 of 21.9% for houses and 25.6% for units. These are the highest annual sales volume figures since 2003 when the market was peaking. Much of these sales are attributable to cashed-up first home buyers.

Rental data from Housing NSW indicates that there has been rental growth in both houses and units in 2009. As at the March quarter 2010, a typical 1 bedroom unit achieved $385/week - an annual increase of 6.9%. A typical 2 bedroom unit achieved $410/week - an annual increase of 2.5%. Similarly, both 2 and 3 bedroom houses recorded rental growth in the year to March 2010 - 9.4% increase ($350/week) and 8.6% increase ($380/week) respectively.

According to the Real Estate Institute of NSW (REINSW), the overall Sydney rental vacancy rate as at May 2010 was 1.2%. This was slightly lower than the April 2010 figure of 1.3%. A healthy vacancy rate is in the 3% to 4% range. Table 3 below summarises Sydney's residential vacancy rates. It can be seen that across Sydney rental markets are tightly held with the Middle Ring suburbs tightening significantly (1.3% from 2.3% in the six months prior). The Ryde LGA is in Sydney's Middle Ring suburbs (10-25km from Sydney CBD).

Table 7 - Sydney Residential Vacancy Rates, November 2009

	May 2010	November 2009
Sydney	1.2%	1.6%
Inner Ring (0-10km from CBD)	1.2%	1.5%
Middle Ring (10-25km from CBD)	1.3%	2.3%
Outer Ring (>25km from CBD)	1.2%	1.1%

Source: REINSW, July 2010

The REINSW commented in its July 2010 media release: "The rental crisis facing workers and families across NSW will only ever be solved through coordinated and targeted action by the NSW Government."

4.2 Meadowbank and its Surrounds

Sydney's Northern suburbs are accessible via the major roads that service the area, namely Homebush Bay Drive/Concord Road/Devlin Street and Victoria Road. Parts of the area are known for the quiet tree-lined, leafy and suburban streets as well as the many parks and reserves while parts are known to have developed from semi-industrial working-class hubs. Suburbs south of Victoria Road have waterfronts to numerous coves and bays that characterise the harbour city of Sydney. Each of the suburbs has their own town/village centre which contains general shopping and retail outlets, restaurants, cafés and small local businesses.

Following the urban renewal of sites in Meadowbank in recent years, the suburb has become increasingly a destination for young adult professionals because of its proximity to employment opportunities, the Sydney CBD and lifestyle opportunities on offer. In fact the Ryde LGA residential property market performed well through the GFC, recording growth in median values and outperforming many other regions in Sydney. The presence of employment opportunities in nearby business parks including Rhodes, Homebush and North Ryde has contributed to a large key worker population.

Medium and high density homes form a majority of the dwellings in the Meadowbank property market. In 2006, flats and apartments made up some 83.5% of total dwellings. According to the 2006 Census data, the average household size is 1.9 persons, with renters typically outnumbering owner occupiers. Occupancy rates are good with little turnover or prolonged vacant periods observed in rental properties.

According to the NSW Department of Housing December quarter report, median prices for all dwellings in the Meadowbank/West Ryde postal area increased impressively by an annual rate of 34.4%, non-strata dwellings by 8.2% and strata dwellings by 19.8%. The 'high' increase is conceivably due to the high proportion of new unit sales.

Table 7 below shows the median sales prices for residential property (strata and non strata) for the 2114 postcode and Ryde LGA, benchmarked against the Sydney Statistical Division. Note: 2114 postcode includes the suburbs of Meadowbank, West Ryde, Melrose Park, Denistone and Denistone West.

Table 8 - Median Sale Prices

	2114 postcode		Ryde LGA		Sydney SD	
	Dec 2009	**Annual Growth**	**Dec 2009**	**Annual Growth**	**Dec 2009**	**Annual Growth**
All Dwellings	$520,000	34.4%	$632,000	36.9%	$498,000	21.3%
Strata	$368,000	8.2%	$815,000	16.4%	$571,000	24.3%
Non Strata	$770,000	19.8%	$425,000	14.9%	$438,000	16.8%

Source: Housing NSW - Rent and Sales Report Issue No.91 (March 2010)

It can be seen from the table that growth was recorded across all dwellings, particularly in the 2114 postcode.

Sales Activity

Residential unit sales in Meadowbank are significant as a proportion to dwelling sales[22]. Purchaser activity of established dwellings in the residential market has also been encouraging. Research from discussions with marketing agents active in the area has revealed that buyer enquiry is from both investors seeking to capitalise on the strong rental conditions and owner occupiers currently living/renting within the local area. In 2009 first home buyers formed a large proportion of the purchasers of 1 and 2 bedroom apartments.

Meadowbank has seen the release of some more than 1,300 units into the market with the completion of major projects Bay One and Waterpoint.

The Waterpoint development was an ambitious project, 5 stages spanning some 7 years. There are almost 800 apartments within this development, all selling without much difficulty. There was keen interest reportedly received from owner occupiers in the first stages and investor interest increasing in subsequent stages. Leasing activity for these apartments has also been strong, with interest from students, families and young professionals. First home buyers were especially keen on one and two bedroom units ($430,000-$470,000 for 1bedders, $530,000-$550,000 for 2bedders). Three-bedroom units were sold for between $700,000 and $800,000. Units with water views sold for considerably more than the above. As already mentioned, the commercial space within the development was comparatively more difficult to market.

[22] 361/3152 house/unit sales in the last 12 months, Australian Property Monitors, May 2010

The Bay One development at Shepherds Bay is an ongoing project, to deliver almost 500 units when complete in 2010. This project was staged over three phases (Bay One, Bay View and Top View), the two phases understood to be completed and occupied, the last stage due for construction completion late in 2010.

The Billbergia Village Quay in Rhodes went on sale in 2008 with only two of the 256 apartments remaining. Purchasers comprised both owner occupiers and investors with first home buyers forming a large proportion. One bedroom units were sold from $390,000, two-bedroom units from $520,000 to $530,000 and three-bedroom units from $650,000.

Rental conditions are strong thereby attracting investors hoping to capitalise on tenant demand. A two-tier market appears to have emerged, with older style one-bedroom units currently renting on average $300/week and two-bedroom units at $360/week and new one-bedroom units currently renting on average $400/week and two-bedroom units at $500/week.

Older units (pre-2000) which are generally smaller sell for between $5,000/sqm and $6,500/sqm, with newer units (generally larger) selling for more, from $5,000/sqm to $9,000/sqm.

Development Activity

Development activity in many suburbs of Sydney has been primarily of refurbishment or alteration work to existing/established buildings, whether dwellings or places of business. Following the GFC, there was been a noticeable decline in residential construction activity and development applications submitted for approval, indicative of market and developer sentiment and the difficulty in procuring development finance.

There has been a lack of residential development (englobo) site sales in recent times, indicative of a lack of developer confidence. This may be attributed largely to a combination of factors, the disparity between the high cost of development and low realisable end sale values, longer than expected marketing periods and more recently the difficulty in obtaining credit. This is a problem not unique to the Northern suburbs alone but is prevalent throughout the Sydney metropolitan area. Until recently, high construction costs coupled with developer contributions have eroded developer profits and margins, providing an effective disincentive in many cases.

The following developments have been recorded as planned in Meadowbank, Rhodes and its surrounds including Homebush Bay, some have been granted with development consent.

Table 9 - Residential Development Pipeline

Address	No. of Units	Status	Remarks
Bay One 96 Belmore Street Meadowbank	484	Ongoing	Comprising 3 phases over six blocks, this project is due for completion late 2010. The first four blocks (in Bay One and Bay View) have been completed, most of the units have been sold. Top View is currently under construction, a small number of units unsold.
146 Bowden Street Meadowbank	61	Development Approval	Located on the water' edge, this proposal envisages a crescent shaped, 5 storey residential building with basement carparking. Marketing has not commenced yet.
41-45 Belmore Street Meadowbank	61	DA submitted	Proposal includes demolition of existing warehouse and construction of 2x6 storey mixed use residential/commercial buildings. The development will contain 61 units and approximately 647sqm of commercial space.

Address	No. of Units	Status	Remarks
2-4 Porter Street 80 Belmore Street Meadowbank	24	Development Approval	Proposal includes demolition of existing buildings and construction of 2x4 storey mixed buildings containing 24 units (4x1b, 9x2b, 11x3b) and 3 commercial suites totaling 942sqm. Existing improvements appear to still be in use.
Rhodes Waterside 1 Mary Street Rhodes		Various	Rhodes Waterside is an expansive project which includes up to 1,600 apartments, 50,000sqm commercial and 40,000sqm retail. The shopping centre is completed as are components of the commercial and residential. The 'Amarco' apartments commenced sale in early 2009 and are 90% sold (200 of 220 units). The 'Elinja' apartments commenced sale in May 2010 and so far about 75% units have been sold (75 of 107 units). There are 2 remaining stages of residential.
Rhodes Peninsula 42-52 Walker St Rhodes	800+	Various	This ambitious project already has some 360 apartments completed and occupied. DAs have been submitted for a further 523 apartments to be constructed along the waterfront on Shoreline Drive.
Former Peninsula Keys 40 Walker St Rhodes	500+	Various	The first stage 'Azure' was launched in March 2008 to strong interest. Currently under construction, the 141 apartments will be completed in 2010. Further stages have obtained Masterplan approval and are subject to further planning, proposed to offer 400 more units.
The Waterfront 3-7, 4 Baywater Drive 23 Benelong Parkway Homebush Bay	678	Ongoing	This site comprises the former Atlas Steel site. Phase Corsica has been sold with Phase Catania currently for sale. It is understood that Phase Messina is planned for commencement soon.
Wentworth Point 1 Burroway Road Wentworth Point	285	DA submitted	Proposal includes demolition of existing buildings and construction of 2x4-8storey residential buildings. The development will contain around 285 units and approximately 1,648sqm of community space.
Top Ryde City Blaxland Road Devlin Street Ryde	425	Various	Phase 1 of this project comprises Buildings B and F, proposed to contain 185 units within 10 storeys. Recreational facilities include gymnasium, swimming pool and common rooms. A further 3 residential buildings to accommodate another 240 units are being planned and will be the subject of future development applications.

Source: RP Data, Cordells (Reed Construction), Hill PDA research, July 2010

Selling agents have reported keen interest for new units in both Meadowbank and Rhodes. Off-the-plan sales generate equally strong interest.

4.3 Demand for Dwelling Location and Type

Not only is there a need to increase the supply of housing in the Greater Metropolitan Region, but there is also a recognised need to provide a range of housing types and housing locations to cater to Sydney's changing lifestyle requirements and preferences.

In this respect the DoP has identified the importance of providing housing in locations that are in close proximity to transport hubs in order to reduce the cost and time of traveling and to improve access to jobs and services without a reliance on private vehicles. In this regard the review of the Metropolitan Strategy states that:

"Housing must be provided in the right location, to reduce the environmental impacts of travel, increase affordability, reduce congestion and improve quality of life. Housing must also be to the standard the community expects."[23]

Given this requirement, the DoP is targeting 80% of all infill development in Sydney to occur within walking distance of a transport hub, such as a rail station. The DoP is also highlighting the fact that *"smaller housing – for example 1 and 2 bedroom dwellings – must be planned for"*[24]. The demand for smaller housing is a result of the social trends discussed above as well as the price point for affordability. It is fundamentally this reason for a shift in the market's mindset over the last decade, the market sacrificing dwelling type for location and price; it is an unmistakable fact that the majority of new developments in Metropolitan Sydney are of a medium to high density nature.

The intensification of development sites in Sydney's established suburbs is inevitable as it is a challenge for infrastructure to keep pace with development in release areas. While the experience of the Upper North Shore has suggested there to be a degree of market resistance to higher density developments particularly along major thoroughfares, this has not been witnessed to be a threat to redevelopment in Inner City and City fringe areas. One of the factors impacting on market acceptance in the Upper North Shore was the apparent lack of design amenity and privacy in some developments, with many units overlooking others.

Mid-sized individual developments have typically sold at rates of between 10 and 12 units per month[25], translating to between 120 and 144 units per annum. Momentum gathers as developments proceed and are released progressively into the market, the take-up rate could commence circa 150 dwellings per annum and well increase to 300 dwellings per annum with sales undertaken on several fronts. The experiences of Pyrmont, Sydney CBD South and Green Square suggest this; Pyrmont averaged 700 dwellings per annum during the years 1997 to 2003, Sydney CBD South achieved 740 per annum and Green Square achieved just over 300 dwellings per annum in the past give years and is forecast to produce 500 per annum from 2008 to 2012 (Department of Planning Metropolitan Development Program 2007-2008).

The Meadowbank residential market has been relatively stable over the last 2 years and has proven resilient to external economic factors such as the GFC. Demand has been largely from owner occupiers, with increased interest from first home buyers and younger families due to its proximity to the CBD and its relative affordability compared to other inner city suburbs. Apartments account for more than 80% of the dwelling stock in Meadowbank, however good planning and the amenity offered by the waterfront and resident services have offered a desirable lifestyle that is also affordable.

4.4 Key Findings

The Meadowbank (and Rhodes) residential market is showing strength of demand, conceivably a function of their unique location close to the waterfront, supported by good resident amenity (two major shopping centres within 2km) and transport links as well as the well-priced dwellings on offer.

[23] Page 21, Metropolitan Strategy Review, Sydney Towards 2036, NSW Government 2010

[24] Page 21, Metropolitan Strategy Review, Sydney Towards 2036, NSW Government 2010

[25] Billbergia Village Quay, Rhodes saw about 256 units sold in 24 months (11 units per month); Amarco, Rhodes Waterside saw about 200 units sold in 18 months (11 units per month); Elinya, Rhodes Waterside saw about 75 units sold in 3 months (25 units per month).

- Unit take-up is swift despite the multi-staged release of units on several fronts and developments proposed in the pipeline.
- Demand for dwellings is primarily from the mass market and not the luxury market, with affordability being a primary selling point; the economic viability of residential redevelopment very much dependent on development yields.
- The primary driver for residential demand is population, however changing lifestyle and social trends such as population ageing, declining family sizes and fertility rates are also contributing factors.
- Population growth forecasts for Sydney have been revised upwards so that Sydney will now need to accommodate 1.7 million additional residents by 2036.
- In order to support Sydney in accommodating the forecast growth in population, it is anticipated that the Ryde LGA will need to provide around 15,760 additional dwellings by 2036, representing an average of more than 500 additional dwellings per annum.
- To accommodate this growth sustainably, 80% of all new housing is targeted for locations within walking distance of public transport. This will necessitate the approval of higher density and smaller (1 and 2 bedroom) apartment dwellings to maintain affordability.
- Despite growing demand for new housing, Sydney in recent years has experienced some of its lowest housing supply rates.
- Market demand for dwellings will continue into the future as Sydney continues to grow as a global city, the MEA is strategically positioned to contribute to the Ryde LGA's dwelling targets.

5. KEY FINDINGS & RECOMMENDATIONS

5.1 Existing and Prospective Employment Lands

The existing commercial uses within The Site are arranged over some 72,000sqm, of which approximately 30,000sqm (41%) is currently vacant. The vacancy rate across the entire MEA has not been surveyed however it is assumed to be at similar levels.

Tenant resistance is already being observed as an upshot of renewal of the area, expected to worsen as occupiers seek out security of tenure elsewhere. Apart from 'education and training' which is associated with the TAFE college, more than 30% of existing uses in the MEA are classified together as manufacturing, construction and wholesale trade.

With a decline in floorspace requirements for traditional industrial-type uses following a shift towards a knowledge-based and high-tech economy, any repositioning of the MEA to capture the demand for commercial space as envisaged by new Council planning policies as "part of a high-tech corridor from North Ryde to Homebush Bay" will be challenging due to the following factors:

- Adequacy of existing commercial nodes providing employment opportunities for current and future expected residents of the LGA;
- Limited access to a major freeway network or high frequency of public transportation;
- Competition from other commercial markets that already benefit from agglomeration, services and infrastructure and market acceptance;
- Owner expectations driven up by residential redevelopment acquisitions will hinder the viability of any commercial redevelopment;
- Planning controls already instituted by Council permitting large scale residential, coupled with market forces exert pressure for a land use shift to residential.

5.2 A Land Use Shift

Over time buildings deteriorate and changes in the conditions of supply and demand can necessitate a change in the use of land resources. On a local level, a building will be demolished and replaced with a new one when the present-use value is less than the value of the cleared site. This principle is already observed in MEA with sales of sites for development clearly outstripping sales of sites for present-use.

The urban renewal of former industrial precincts in Sydney is not new. Both the Pyrmont and Green Square/Victoria Park precincts were formerly comprised of industrial uses and have witnessed a complete transformation of their urban landscape, the latter still continuing and evolving. Both these areas benefitted from being located in close proximity to the CBD and established transport links as well as available infrastructure and amenity.

An example closer to home is the Rhodes Peninsula to the south which contained some industrial sites and where contamination issues were severe. The City of Canada Bay had planned for some 4,500 units on the 40ha Rhodes

Peninsula with a proposed Masterplan to increase the residential yields by up to 787 dwellings. Despite the release of a large number of units, dwelling demand has been strong and is not showing signs of abatement, due largely to the affordability of the units offered.

The former Carlton United Brewery site in Broadway is another example of urban renewal of a former industrial precinct. Concept Plan was approved in February 2009 which proposed a total of 255,500sqm (60% residential and 40% commercial/retail) over 10 new buildings. Main infrastructure and park work was approved in February 2010, expected to commence immediately thereafter.

As mentioned, redevelopment takes place when the expected value of the future net returns from the existing use of land resources becomes less than the capital value of the cleared site. Given the declining rents and lack of tenant interest witnessed in the MEA, the net returns from the existing use of commercial/industrial will expectedly reduce with time. As the 'as is' value of sites declines further and the gap between the 'as is' value and the value with development potential widens further, the rate of redevelopment will increase accordingly.

5.3 Summary of Recommendations

Based on the research in the foregoing sections, steps by Council in 2004 to effect a shift in land use to residential to replace existing employment lands was reflective of the dynamic environment; this change to a residential focus should be strengthened with less of a focus on commercial uses for the following reasons:

- Residential is at present the most economically viable land use, providing a sufficient incentive for redevelopment by developers.
- The viability of redevelopment into industrial and commercial land uses is impeded by the offering and competition from other established centres, consequently making commercial uses and its derivatives less viable.
- The 'sacrificing' of employment lands is unlikely to significantly impact the employment generating capacity of the LGA as it is demonstrated that there is adequate capacity elsewhere in the LGA;
- Prevailing market dynamics and preferences are demonstrated in the poor market reception experienced by the commercial component in the Waterpoint development.
- The ongoing renewal of the MEA has already resulted in a dominance by residential uses.
- Reluctance of commercial tenants to locate within the MEA due to a perception of a residential focus and impending redevelopment.
- Redevelopment of the MEA into residential will deliver much needed dwelling numbers for the LGA.
- The addition of significant dwelling numbers in MEA to keep pace with demand will enable a continued approach to addressing affordability issues.
- The proximity of the Meadowbank train station and resident amenity provided by the greater Meadowbank/Rhodes/Ryde area will be appropriately utilised by future residents of the MEA.

It is important that future residential development is properly 'staged' to avoid a flooding of the market with units resulting in an oversupply, akin to the experiences of the North Shore and Zetland.

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