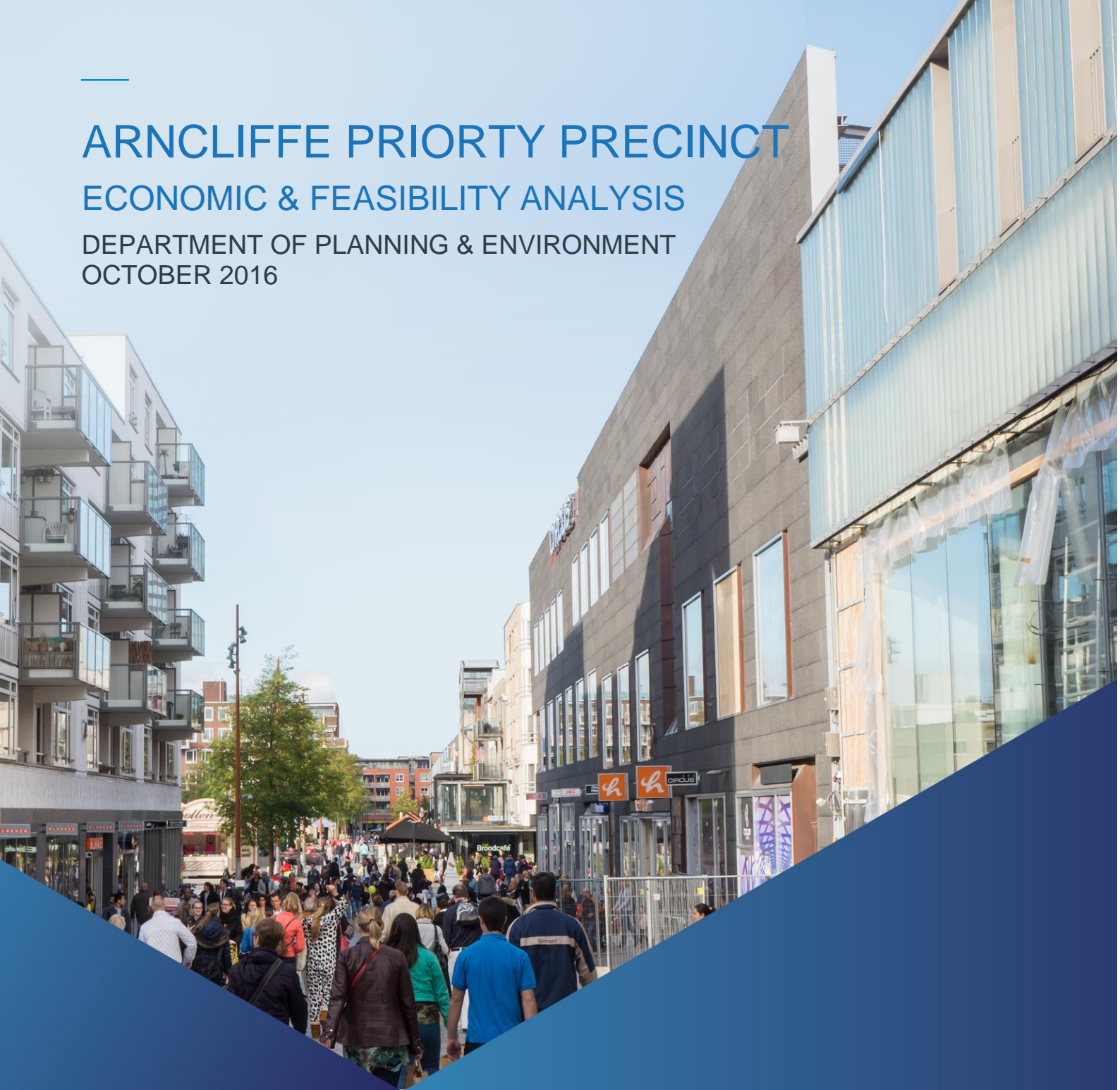

ARNCLIFFE PRIORITY PRECINCT

ECONOMIC & FEASIBILITY ANALYSIS

DEPARTMENT OF PLANNING & ENVIRONMENT
OCTOBER 2016



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EXECUTIVE SUMMARY

BACKGROUND

A Plan for Growing Sydney (referred to as The Plan) acknowledges that Department of Planning and Environment (DPE) will seek to work with Councils to identify suitable areas for housing intensification and urban renewal, including existing employment lands around priority precincts, established and new centres and transport corridors.

The Arncliffe and Banksia Priority Precincts were announced by the NSW Government in August 2014, identified as having potential for urban renewal in A Plan for Growing Sydney. The precincts are located in the South Subregion, in the Bayside LGA (formerly in the Rockdale LGA) and is focused along the Princes Highway.

AEC Group (AEC) is engaged to carry out economic and market analysis as part of an Economic and Feasibility Analysis to inform growth and land use planning in the Arncliffe priority precinct, particularly along the Princes Highway Corridor.

The Study assists in identifying employment uses which could suitably be accommodated in the Precinct, the outlook for those industries and corresponding floorspace requirements as well as the ability of businesses to acquire sites. These factors collectively underpin the future employment growth outlook in the Precinct.

INFLUENCES ON LAND USE AND FLOORSPACE REQUIREMENTS

Employment analysis of the Arncliffe and Banksia precincts (focused along the Princes Highway Corridor) indicates a specialisation in retail trade and construction sectors, with relatively high representation in those industries (17.5% and 8.6% respectively of local employment) compared to the Rockdale LGA¹ and Southern sub-region.

The automotive sector is highly visible along the Princes Highway, represented by businesses in automotive sales, hire, repair and maintenance as well as automotive wholesaling. With the cessation of car manufacturing in Australia, activity in this sector is expected to occur in wholesaling, retail and repair and maintenance. The demand and requirements for floorspace will be commensurate with increases in those types of activity. Our market findings affirm this observation, with demand for floorspace along the Princes Highway noted to be strong from businesses in the automotive industry.

Large format retailers have enjoyed a growth in demand in line with growth in retail spending capacity. Current clusters of large format retailers along Princes Highway are observed to require space along the corridor both by new business and expanding businesses.

Leasing activity for commercial-type space in the Precinct is observed to be more modest if compared with retail space. Analysis suggests this is less of a demand issues, rather a supply issue, in that the supply is poor quality and does not meet market requirements.

New development and renewal opportunities will assist to deliver modern, contemporary office floorspace needed to meet market demand and requirements.

KEY FINDINGS

Competitive Position

The Princes Highway has in the past been perceived as a desirable location with many successful businesses located therein with corresponding demand underpinning strong sales and leasing activity. Over time many buildings have become tired and aged, contributing to the area's dated appearance and presentation.

¹ Even though the priority precinct is now within the Bayside local government area (an amalgamation of Rockdale and Botany Bay local government areas), data is not as yet available at this geography. Accordingly data for the previous local government area (Rockdale) is utilised.

Key issues identified by selling and leasing agents active in the area include the lack of availability of street parking along the Princes Highway particularly with active clearways. In addition the configuration and layout of many older style buildings restricts access for large trucks which require high clearance to load and unload.

Some existing buildings have transitioned to accommodate a range of commercial uses such as gyms (e.g. Crunch, Cross Fit) and bulky goods retail. A Princes Highway location is popular with smaller businesses, offering good access and exposure with a high volume of passing traffic.

Notwithstanding the older style of buildings, many of which are in need of upgrade, demand for large format space remains strong with bulky goods retailers and automotive operators requiring new or additional premises. Businesses unable to secure premises in the Precinct are understood to move further south to markets of Rockdale and Kogarah.

Renewal in Infill Locations

A major challenge in infill and brownfield areas is the tension between land uses and for uses to be accommodated within scarce lands that are not only suitable but available. Lot patterns and ownership fragmentation is a common issue for large scale renewal of infill locations such as the Precinct.

Notwithstanding the issues for development in infill locations, land use and growth planning is a complex matter, long term in nature and ultimately more influenced by structural change than market/cyclical factors. While present market conditions influence future market conditions, a long term view is no less important than the near term view.

Along Princes Highway the precinct proposal envisages B4 Mixed Use with FSRs mostly ranging from FSR 2.2:1 to 4.5:1. Small pockets within the Precinct are designated with a lower FSR of 2.0:1. Generic feasibility testing suggests that this is appropriate for sites either with nominal improvements or with buildings that are approaching the end of their economic useful life.

This Study recognises that urban renewal and redevelopment of the Precinct is a long term process, in that the floorspace across all land use types is to be delivered over the next 20 years and more.

The precinct proposal envisages urban renewal to occur over two stages, areas to the northwest of the Arncliffe train station subject to a subsequent investigation stage. This will consequently result in the focus of renewal and redevelopment activity along the Princes Highway Corridor and thereby lifting the profile of the area.

Improvement in the overall attractiveness and appeal of the Princes Highway Corridor assisted by local infrastructure upgrades and initiatives will be key to increasing the profile of Princes Highway as an employment and residential destination. As well as benefiting from enhanced market appeal over time, as properties reach the end of their economic useful lives redevelopment take-up as conceived by the precinct proposal will occur incrementally.

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1. INTRODUCTION

1.1 BACKGROUND

AEC Group (AEC) has been engaged to prepare an economic and feasibility analysis to support planning for the Arncliffe Priority Precinct by the Department of Planning and Environment (DPE). The economic and feasibility analysis considers in particular the employment role of the Princes Highway Corridor, its likely future role and suitability to accommodate employment growth.

A Plan for Growing Sydney (referred to as The Plan) acknowledges that Department of Planning and Environment (DPE) will seek to work with Councils to identify suitable areas for housing intensification and urban renewal, including existing employment lands around priority precincts, established and new centres and transport corridors.

Priority Precincts are identified for their potential to provide for more homes, jobs and improved public spaces close to transport and services. The precinct has been selected for its potential for accommodating renewal and growth along the Princes Highway corridor is investigated, with focus around the Arncliffe train station.

The Arncliffe and Banksia Priority Precincts were announced by the NSW Government in August 2014, identified as having potential for urban renewal in A Plan for Growing Sydney (DPE, 2014). The precincts are located in the South Subregion, in the Rockdale LGA and is focused along the Princes Highway.

The vision for the urban renewal of the Arncliffe Precinct (the Precinct) will build on distinct qualities of Arncliffe and its local setting including topography, heritage open spaces and trees. It will improve the amenity of existing residents and provide for more homes and jobs in accessible locations.

1.2 SCOPE AND APPROACH

AEC's role in the project was to carry out economic and market analysis as part of an Economic and Feasibility Analysis to inform growth and land use planning in the Arncliffe priority precinct, particularly along the Princes Highway Corridor.

The Study assists in identifying employment uses which could suitably be accommodated in the Precinct, the outlook for those industries and corresponding floorspace requirements as well as the ability of businesses to acquire sites. These factors collectively underpin the future employment growth outlook in the Precinct.

AEC's methodology addresses the following:

- Review of previous studies, building upon those findings as relevant.
- Analysis of Precinct's current employment profile to understand current industries of employment and corresponding growth/decline in those industries.
- Identification of trends and influences for future employment and floorspace requirements.
- Analysis of property market trends and activity to understand performance by type of property in the Precinct.
- Collaboration with the project team to evaluate opportunity sites within the Precinct and their ability to accommodate employment growth.
- Examination of the feasibility of various development typologies, i.e. land use splits and density thresholds that would promote development on identified opportunity sites.
- Following refinement of a preferred development scenario, assess:
 - 'Deliverability' and likely development period.
 - Issues and challenges, implications for take-up.

Land use and growth planning is a complex matter, long term in nature and ultimately more influenced by structural change than market/cyclical factors. While present market conditions influence future market conditions, a long term view is no less important than the immediate.

1.3 STRUCTURE OF THE STUDY

The Study is structured in the following chapters:

- Chapter 2 considers the locational context of the Arncliffe Priority Precinct, applicable planning controls and its existing employment profile combined with the Banksia Priority Precinct.
- Chapter 3 examines property and market trends in the Precinct, specifically the nature of purchaser activity and investor interest in retail and commercial accommodation (new and existing). The Precinct's market appeal (or lack thereof) ultimately underpins the ability of sites to be redeveloped. The chapter considers market activity including the types of development currently being progressed, price points and market desirability/resistance.
- Chapter 4 carries out generic feasibility testing to examine if new development might be feasible in the Precinct. Where appropriate, analysis and commentary on factors for poor feasibility results are made.
- Chapter 5 examines the proposed precinct plan and considers the challenges in delivering take-up of new development opportunities.

1.4 ASSUMPTIONS AND LIMITATIONS

AEC acknowledges a number of limitations associated with the generic feasibility analysis.

- Generic development options are formulated for feasibility testing based on permissible FSRs. This is useful for the purposes of considering the financial feasibility of development options however the development schemes are notional only, and have not been capacity, urban design or engineering tested. AEC are not urban designers or architects. As such the financial feasibility testing carried out is a numerical exercise with no regard to physical site capacity, shadow impacts, building separation or other design considerations.
- Desktop appraisal of 'as is' property values, without the benefit of internal inspections.
- Generic feasibility testing does not consider nuances of a site typically considered in detailed feasibility analysis. Development costs assumed are 'generic', based on construction cost publications and past industry experience. No provision is made for extraordinary development costs that may be necessary as a result of ground conditions or environmental constraints.

Notwithstanding the limitations above, the approach is considered appropriate for the purposes of reviewing if planning controls are financially feasible for development in the Precinct.

2. ARNCLIFFE PRIORITY PRECINCT

2.1 LOCATION AND CONTEXT

The Arncliffe Priority Precinct is located along the Princes Highway Corridor which forms the spine of the Precinct. The Banksia Priority Precinct is adjacent to the south, also with the Princes Highway Corridor as its spine. Figure 2.1 depicts the boundaries of the Arncliffe Priority Precinct in the context of the Princes Highway Corridor and the adjoining Banksia Priority Precinct.

Figure 2.1: Arncliffe and Banksia Priority Precincts



Source: DPE (2016)

The Precinct is located 10km-12km south west of the Sydney CBD are key locations along the Princes Highway Corridor. The precinct is also in close proximity to Port Botany which is approximately 10km away.

The Precinct offers good arterial access bounded by major road connections and serviced by rail and bus services with a train station located at Arncliffe. The Rockdale administrative centre is to the south along the Princes Highway.

The existing built form in the Arncliffe precinct is predominantly commercial/light industrial and high density residential uses. The areas to the east and west, on either side of the Princes Highway are developed by low density residential.

Prominent occupiers along Princes Highway include car dealers (Mazda, Honda, Nissan), bulky goods retailers (The Good Guys, Spotlight, Sleep City) and a range of convenience and specialty food retailers around each train station.

Significant development has occurred in Wolli Creek to the north with residential units, retail, commercial and a large Woolworths and Dan Murphy's located on Princes Highway.

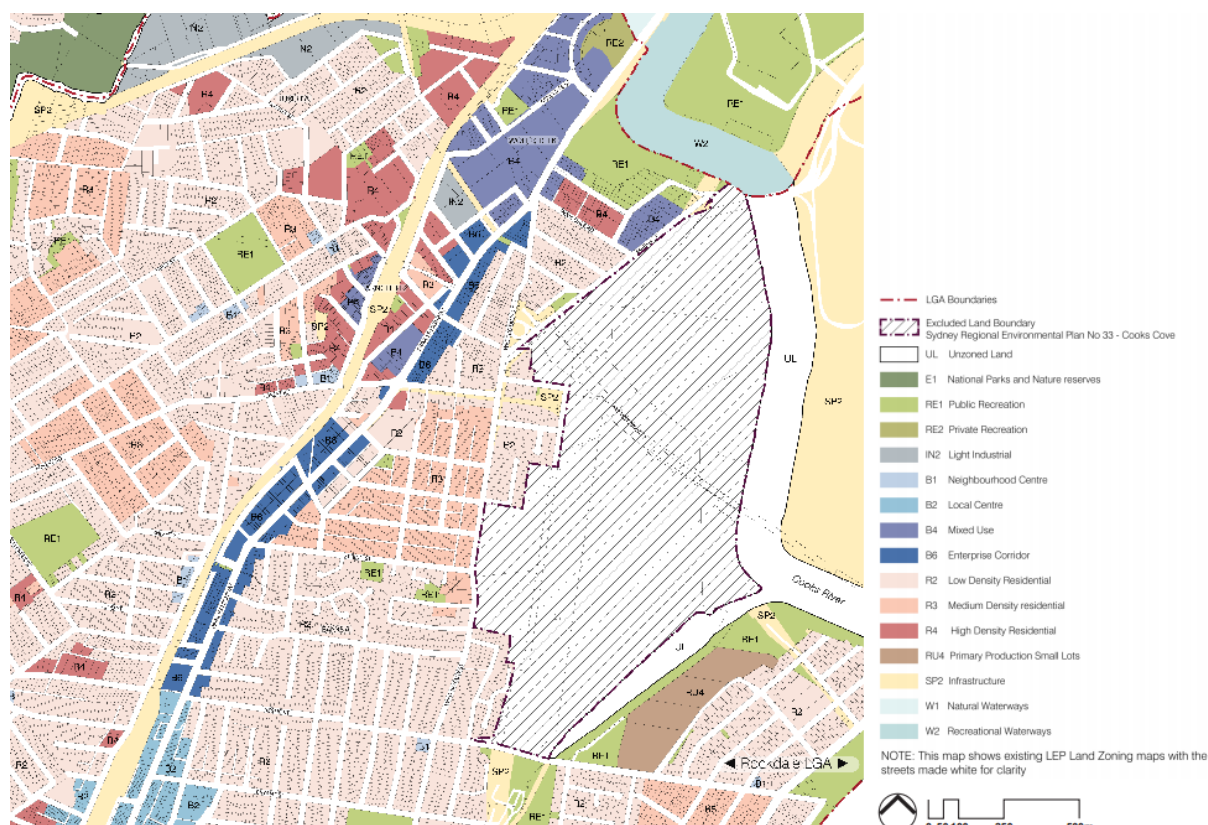
2.2 EXISTING PLANNING FRAMEWORK

2.2.1 Rockdale Environmental Plan (2011)

The Rockdale Local Environmental Plan 2011 (LEP) is the principal planning document which provides direction for change and growth and encourages sustainable economic growth and development in Rockdale LGA.

The Precinct includes sites zoned B6 Enterprise Corridor, R2 Low Density Residential and R4 High Density Residential.

Figure 2.2: Land Use Zones in the Precinct



Source: Rockdale City Council (2011)

Of relevance to this Study are the following zones and their corresponding objectives.

Table 2.1: Land Use Zones and Objectives

Zone	Objectives	Permitted and Prohibited Uses*
B6 Enterprise Corridor	<ul style="list-style-type: none"> To promote business uses along main roads and to encourage a mix of compatible uses. To provide a range of employment uses (including business, office, retail and light industries). To maintain the economic strength of centres by limiting retail activity. To promote redevelopment that will contribute to the locality, including by improving the visual character of the locality, improving access and parking, reducing land use conflicts and increasing amenity for nearby residential development. 	<p>Permitted uses include:</p> <ul style="list-style-type: none"> Animal boarding or training establishments, bulky goods premises, business premises, community facilities, garden centres, hardware and building supplies, hotel or motel accommodation, industrial training facilities, kiosks, landscaping material supplies, light industries, neighbourhood shops, passenger transport facilities, plant nurseries, pubs, storage premises, take away food and drink premises, timber yards, vehicle sales or hire premises, warehouse or distribution centres. <p>Prohibited uses include, <i>inter alia</i>:</p> <ul style="list-style-type: none"> Child care centres, residential accommodation, home businesses, retail premises.
R2 Low Density Residential	<ul style="list-style-type: none"> To provide the housing needs of the community within a low density residential environment. 	<p>Permitted uses include:</p> <ul style="list-style-type: none"> Attached dwellings, boarding houses, building identification signs, child care centres, community facilities, dual occupancies, dwelling houses, educational establishments, environmental protection works,

Zone	Objectives	Permitted and Prohibited Uses*
	<ul style="list-style-type: none"> To enable other land uses that provide facilities or services to meet the day to day needs of residents. To ensure that land use area carried out in context and setting that minimises any impact on the character and amenity of the area. 	exhibition homes, exhibition villages, flood mitigation works, group homes, health consulting rooms, hostels, places of public worship, recreation areas, respite day care centres, secondary dwellings, semi-detached dwellings, seniors housing, water supply systems Prohibited uses include, <i>inter alia</i> : home businesses.
R4 High Density Residential	<ul style="list-style-type: none"> To provide for the housing needs of the community within a high density residential environment. To provide a variety of housing types within a high density residential environment. To enable other land uses that provide facilities or services to meet the day to day needs of residents. 	Permitted uses include: <ul style="list-style-type: none"> Boarding houses, building identification signs, business identification signs, child care centres, community facilities, neighbourhood shops, places of public worship, residential flat buildings, respite day care centres, shop top housing, water supply systems. Prohibited uses include, <i>inter alia</i> : commercial premises and home industries.

*refer to LEP for an exhaustive list, only key uses are cited here
 Source: Rockdale City Council (2011)

Density and Height Controls

Density and height controls as contained in the LEP and as applicable to the Precinct include:

Table 2.2: Density and Height Controls in the Precinct

Zone	Height	FSR
B6 Enterprise Corridor	14.5m	1.5:1
R2 Low Density Residential	8.5m	0.5:1
R4 High Density Residential	14.5m	1.0:1

Source: Rockdale City Council (2011)

The density and height controls are applicable to the sites investigated in this Study. Notwithstanding, Council is in the process of preparing a DCP specific to the priority precincts.

Rockdale Development Control Plan (2011)

The Rockdale Development Control Plan (2011) contains objectives and controls to enhance the function, appearance and amenity of development in the Rockdale LGA. Council are in the process of preparing a DCP that is specific to the priority precinct.

The specific objectives for the precinct (as per the existing DCP) are set out below which relate to residential development:

- To ensure the size and location of new dwellings allow for the sharing of views and preserve privacy and sunlight for neighbouring and new residents.
- To minimise the impacts of dual occupancy and multi dwelling housing in areas where there is substantial detached housing.
- To ensure orderly development of land on large sites and promote good economic use of land with a high standard of site layout and design

The specific objectives for the precinct are set out below which relate to highway commercial development:

- To ensure development is flexible, adaptable and robust enough to cater for a variety of future light industrial, retail and commercial uses.
- To ensure development creates a positive streetscape which responds to heavy vehicle usage at higher speeds and achieves a high quality architectural design that promotes business enterprise along the corridor.
- To ensure development can cater for service vehicles without adverse impact on the ingress and egress of building users or the existing traffic network.

Buildings are also required to be designed in accordance with the following apartment size standards:

Table 2.3: Minimum Unit Sizes

Unit Type	Minimum Unit Size	
	Internal Area (sqm)	External Area (sqm)
Studio	38.5sqm	6sqm
One bedroom, cross through	50sqm	8sqm
One bedroom, masionette/loft	62sqm	9.4sqm
One bedroom, single aspect	63.4sqm	10sqm
Two bedroom, corner	80sqm	11sqm
Two bedroom, cross through	89sqm	21sqm
Two bedroom, cross over	90sqm	16sqm
Two bedroom, corner with study	121sqm	33sqm
Three bedroom	124sqm	24sqm

Source: Rockdale City Council (2011)

The DCP contains the following carparking requirements:

Table 2.4: Car Parking Provisions

Unit Type	Minimum Requirements
Studio/1 and 2 bedroom units	1 car space
3 bedroom units or more	2 car spaces
Visitor parking	1 space per 5 dwellings

Source: Rockdale City Council (2011)

2.3 EMPLOYMENT PROFILE ANALYSIS

This section provides an overview of employment structure of the Arncliffe-Banksia Priority Precincts *collectively*. This analysis has included both precincts due to the overlap of BTS boundaries.

In order to better understand employment and business activity occurring in the Precinct, Bureau of Transport Statistics data (BTS, 2012) was examined using statistical geographical boundaries of Travel Zones (TZ) area. This analysis area is referred to as 'the Precincts and Broader Catchment'. The analysis is benchmarked against the Rockdale LGA and Southern subregion (comprised of the LGAs of Canterbury, Hurstville, Kogarah, Rockdale and Sutherland Shire).

Employment by Industry

In 2011 the Arncliffe and Banksia Precincts and Broader Catchment employed about 3,711 employees, contributing to about 16.3% of Rockdale LGA's total employment.

Table 2.5: Employment by Industry, Arncliffe and Banksia Precincts, 2011

Industry	Employment by Industry			% of Total Employment		
	Precincts	Rockdale LGA	Southern Sub-region	Precinct	Rockdale LGA	Southern Sub-region
Agriculture, Forestry and Fishing	0	21	149	0.0%	0.1%	0.1%
Mining	0	10	87	0.0%	0.0%	0.1%
Manufacturing	319	1,586	12,749	8.6%	7.0%	8.2%
Electricity, Gas, Water and Waste	3	58	990	0.1%	0.3%	0.6%
Construction	447	1,910	14,642	12.1%	8.4%	9.4%
Wholesale Trade	170	645	7,183	4.6%	2.8%	4.6%
Retail Trade	650	3,202	20,885	17.5%	14.1%	13.4%
Accommodation and Food Services	293	1,896	11,767	7.9%	8.3%	7.5%
Transport, Postal and Warehousing	227	2,487	7,805	6.1%	10.9%	5.0%
Information Media and	16	195	1,232	0.4%	0.9%	0.8%
Financial and Insurance Services	30	314	5,284	0.8%	1.4%	3.4%
Rental, Hiring and Real Estate	65	526	2,871	1.8%	2.3%	1.8%

Industry	Employment by Industry			% of Total Employment		
	Precincts	Rockdale LGA	Southern Sub-region	Precinct	Rockdale LGA	Southern Sub-region
Professional, Scientific and Technical	202	1,251	10,103	5.4%	5.5%	6.5%
Administrative and Support Services	192	1,200	5,046	5.2%	5.3%	3.2%
Public Administration and Safety	128	1,764	8,563	3.4%	7.8%	5.5%
Education and Training	217	1,878	13,356	5.8%	8.3%	8.6%
Health Care and Social Assistance	428	2,490	23,897	11.5%	11.0%	15.3%
Arts and Recreation Services	62	246	2,039	1.7%	1.1%	1.3%
Other Services	263	1,052	7,456	7.1%	4.6%	4.8%
Total	3,711	22,728	156,105	100.0%	100.0%	100.0%

Source: BTS (2012)

The industries of “retail trade” and “construction” have a higher representation in the Precincts and Broader Catchment if compared to the Rockdale LGA and Southern subregion. This highlights the importance of these two industries to the local Arncliffe/Banksia economy.

In 2006 the Precincts and Broader Catchment employed 3,647 employees (increasing modestly to 3,711 in 2011). **Table 2.6** shows change in employment by industry between 2006 and 2011.

Table 2.6: Employment by Industry, Arncliffe and Banksia Precincts, 2006-2011

Industry	2006		2011		Change (2006-2011)	
	No.	%	No.	%	No.	%
Agriculture, Forestry and Fishing	3	0.1%	0	0.0%	0.1%	0.1%
Mining	0	0.0%	0	0.0%	0.0%	0.1%
Manufacturing	474	13.0%	319	8.6%	7.0%	8.2%
Electricity, Gas, Water and Waste	6	0.2%	3	0.1%	0.3%	0.6%
Construction	380	10.4%	447	12.1%	8.4%	9.4%
Wholesale Trade	168	4.6%	170	4.6%	2.8%	4.6%
Retail Trade	635	17.4%	650	17.5%	14.1%	13.4%
Accommodation and Food Services	268	7.4%	293	7.9%	8.3%	7.5%
Transport, Postal and Warehousing	280	7.7%	227	6.1%	10.9%	5.0%
Information Media and	28	0.8%	16	0.4%	0.9%	0.8%
Financial and Insurance Services	38	1.0%	30	0.8%	1.4%	3.4%
Rental, Hiring and Real Estate	35	1.0%	65	1.8%	2.3%	1.8%
Professional, Scientific and Technical	221	6.1%	202	5.4%	5.5%	6.5%
Administrative and Support Services	197	5.4%	192	5.2%	5.3%	3.2%
Public Administration and Safety	119	3.3%	128	3.4%	7.8%	5.5%
Education and Training	212	5.8%	217	5.8%	8.3%	8.6%
Health Care and Social Assistance	251	6.9%	428	11.5%	11.0%	15.3%
Arts and Recreation Services	80	2.2%	62	1.7%	1.1%	1.3%
Other Services	252	6.9%	263	7.1%	4.6%	4.8%
Total	3,647	100.0%	3,711	100.0%	100.0%	100.0%

Source: BTS (2012)

Between 2006 and 2011 employment in manufacturing, transport, postal and warehousing contracted while there were notable proportional increases in employment in construction and health care and social assistance.

Employment Use Analysis (JLL, 2013)

A Land Use Survey (comprising a site inspection and survey) was carried out by JLL to obtain FTE (full time equivalents) data along the Princes Highway Corridor. The limitations of the survey are acknowledged in said analysis, particularly where estimates were made in the absence of data. The employment uses and numbers estimated by JLL are detailed below.

Table 2.7: Employment by Industry, 2006-2011

Industry	Building Area		Land Area		Full Time Equivalent	
Automotive	33,144	46%	60,686	57%	386	50%
Retail	13,250	19%	10,692	10%	66	9%
Construction	3,964	6%	10,132	9%	40	5%
Entertainment	4,200	6%	7,293	7%	47	6%
Textiles	4,140	6%	4,352	4%	106.5	14%
Electronics	3,210	4%	4,004	4%	34	4%
Food	835	1%	2,502	2%	16	2%
Storage	4,000	6%	2,002	2%	5	1%
Other Professional	1,250	2%	1,711	2%	24	3%
Manufacturing	1,700	2%	1,522	1%	18	2%
Printing	1,400	2%	1,374	1%	20	3%
Medical	320	0%	949	1%	4.5	1%
Total	71,413	100%	107,218	100%	767	100%

Source: JLL (2013)

The number of employees in the automotive industry at 386 is substantially more than those in “motor vehicle retailing” and “motor vehicle parts and tyre retailing” (145 jobs) as recorded by the ABS in 2011. There could be a number of reasons for this, including that some of those 386 employees identified by JLL are accounted for in other ABS industries (e.g. wholesale trade and manufacturing) and a change in employment numbers post 2011.

Key Industries within the Precinct and Broader Catchment

Disaggregation of employment in retail trade indicates despite the importance of motor vehicle retailing (23.1%) in contributing to overall employment, clothing, footwear and personal accessory retailing (30.5%) also comprised a larger proportion of total retail trade employment.

A supply chain analysis suggests that while much of the upstream construction input (particularly professional services) is sourced locally (i.e. from within Rockdale LGA), downstream activity (i.e. sales of product) is to local industries (within Rockdale LGA) as well as exported out of the LGA.

It is important to understand the nature and profile of the industries that comprise overall employment in the Precinct, particularly key industries and those industries experiencing growth.

Industry outlook and growth expectations are examined in section 3.2.

Where Workers Live

Analysis of 2011 Journey to Work data (BTS 2012) reveals that approximately 742 of people who work in the Precincts live in the Rockdale LGA. This implies that the Precincts imports around 72% of its labour from outside the Rockdale LGA.

While 72% of people employed in the Precincts and Broader Catchment may live outside the Rockdale LGA, a large proportion of workers (almost 30%) live in the general Southern subregion - Sutherland Shire (12%), Kogarah (6%), Hurstville (6%) and Canterbury (5%) LGAs.

Summary of Employment Profile

Several key observations emerge from the socio-economic profile of the Precincts and Broader Catchment. These are important as they have implications for current and future floorspace requirements in the Precincts.

- Retail trade is an important industry to the local economy, with construction and health care & social assistance increasing in importance.
- The Precincts and Broader Catchment provide local employment but is also an important employer for the general South subregion.

These observations, along with trends and drivers in the respective key industries of employment are important to understand as collectively they underpin the future outlook of employment in the Precinct.

The next chapter examines economic trends and drivers and how they influence those key industries identified in the Precinct.

3. ECONOMIC TRENDS AND DRIVERS

3.1 DRIVERS OF EMPLOYMENT GROWTH

When considering future opportunities it is important to understand the economic trends and drivers impacting business in key industries represented in the Precinct.

A broad spectrum of factors influences business activity in the Precinct. While some of these are internal factors unique to the Precinct, many originate at the global and national level. Accordingly, understanding the broader context in which the Precincts' industry sectors operates is essential in identifying future opportunities and demand for employment uses.

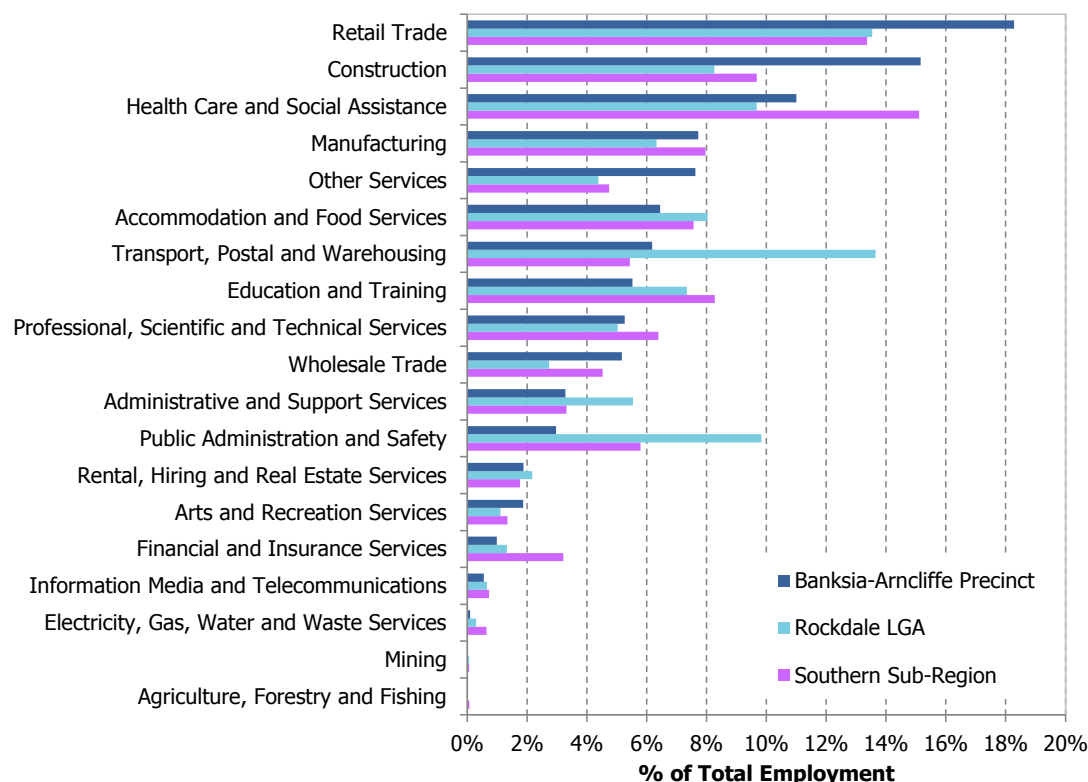
This chapter considers general trends in these key sectors (automotive retailing, bulky goods retailing and construction), overall demand and future outlook. This understanding is critical for several reasons:

- External drivers of industry influence growth/decline in industry activity and consequently underpin employment growth/decline which in turn has implications for floorspace demand.
- The evolution of industry sectors, including changing technological and labour patterns collectively influence how businesses conduct themselves, which again has implications for floorspace demand.
- Changing modes of retailing affect how customers and retailers interact, also influencing the nature of demand for floorspace.

3.2 KEY INDUSTRIES/SECTORS IN THE PRECINCT

According to ABS industry classification, the industries of retail trade and construction are well represented in the Precincts and Broader Catchment (in comparison to the Rockdale LGA and Southern subregion). Figure 4.1 illustrates the relative significance of each industry in the Precincts and Broader Catchment in comparison to the broader regions.

Figure 3.1: Arncliffe and Banksia Priority Precincts



Source: ABS (2012)

The industry classification of 'retail trade' covers the retailing of bulky goods, homewares and home improvement supplies, automotive parts and supplies. In industry/market terminology, these industries are also referred to as 'large format' retailing. All these retailing sectors require proximity to population and target markets.

Industry classification of 'construction' covers businesses involved in the construction of buildings (residential and non-residential), roads, railroads, infrastructure and civil engineering projects. It also includes businesses that carry out repairs and renovation, demolitions, site preparation and excavations.

3.2.1 Automotive Retailing

Automotive retailing is part of the broader automotive industry which includes car manufacturers, parts suppliers, car dealers and mechanics who are collectively involved in the design, research, development, manufacture, sale and maintenance of motor vehicles.

The automotive industry in Australia is in a time of transitional change. Local car manufacturers have struggled over the past decade owing to a number of reasons:

- The high Australian dollar which reduced global competitiveness.
- Lower import protections increasing the attractiveness of imported cars.
- Soaring fuel prices causing consumers to shift demand towards smaller imported cars.

These factors culminated in Toyota, GM Holden and Toyota each announcing their intention to exit Australian manufacturing over the next five years. These departures are expected to impact upstream (already being felt to a large degree) in the supply chain, i.e. reduced demand for locally manufactured vehicle parts and accessories has resulted in correspondingly low production for parts manufacturers, many of whom have gone into administration over the past five years (IBISWorld, 2015a).

Industry Outlook

The withdrawal of Australian car manufacturers from the industry scene will mean the shift change of the sector to imported vehicles will be complete. Import penetration is expected to continue to increase, wholesaling and retailing activities to be the direct beneficiaries of this growth in demand.

Overall, largely positive consumer sentiment and business confidence have resulted in new car sales remaining relatively robust. As the automotive industry transitions into an economy that no longer produces and merely imports, retailing activity will be dominated by car wholesalers and retailers who will require associated showroom space.

Demand for repair and maintenance industries has grown steadily over the past five years, commensurate with new car sales in an environment of relatively strong consumer and business confidence. With strong new car sales expected to continue amid a price competitive environment, demand for expensive repair work is likely to soften. Conversely, demand for vehicle servicing and parts for add-ons (accessories) is likely to benefit automotive service centres, parts wholesalers and parts retailers. Furthermore, despite the more sophisticated safety features and reliability offered by new technology, demand for smash repairers is likely to be stable with a higher number of vehicles on the road associated with higher volume of vehicle accidents (IBISWorld, 2016a).

The exit of Australian car manufacturers will benefit motor vehicle wholesaling. While local manufacturers supply dealers directly, imported vehicles go through local wholesalers before dealers. Local wholesalers are typically Australian subsidiaries of international carmakers such as Toyota, Mazda and Hyundai. This shift to imports has implications for storage/warehousing as well as showroom floorspace requirements.

While robust consumer demand for cheaper imported cars has led to growth for automotive wholesalers and dealerships, so has it led to demand for after-market car parts and servicing, and corresponding demand for floorspace by parts wholesalers and retailers as well as mechanics and service technicians.

The motor vehicle serving industry (comprised of mechanics, auto electricians and smash repairers) is projected to benefit from steadily rising demand as the number of vehicles on Australian roads continues to increase.

The continued growth in automotive retailing has contributed to the proliferation of 'large format retail' stores that combine a number of automotive retail and service components, particularly in areas of high population growth.

3.2.2 Bulky Goods

Growth in real growth in household income levels has meant that retail spending capacity has increased. This has driven the innovation by the retail sector and the introduction of new retail formats, all in the context of an average annual growth rate of 1.5% of per capita floorspace since 1985. In the intervening years since 1985, Australia has witnessed development of super regional and regional shopping centres, homemaker centres and brand outlet centres.

Bulky goods retail showrooms typically associated with homemaker centres and include categories such as household appliances, manchester and homewares, furniture, floor coverings and textiles. Pet supplies, camping equipment and hardware and landscape garden supplies are also in this category, and other items of a bulky nature that require a large area for handling, display or storage or direct vehicle access to the site for the purposes of loading goods onto a vehicle after purchase. Examples of bulky goods retailers include: Harvey Norman, Bunnings, Fantastic Furniture, IKEA, Barbecues Galore, Beacon Lighting, Masters Home Improvement, etc.

Bulky goods and large format retailers serve broad geographic trade areas due to the nature of goods retailed. As a consequence these retail showrooms are suited to locations that convey the ability for numerous retailers to co-locate and cluster as well as those locations that are accessible by both local and regional trade areas and that benefit from high levels of visibility and exposure.

Online retailing currently comprises around 5%-6% of total retail sales in Australia, and is projected to increase to 12%-14% over the next decade. While the proliferation of online retailing has impacted on the growth of retail floorspace demand, this impact has been particularly notable in certain key categories such as apparel, travel, electronics, etc. Bulky goods retailing has been arguably less impacted compared to these other categories.

While demand for bulky goods is population driven and therefore underpinned by population growth, this demand on a specific geographic level is subject to site and spatial requirements.

Locations that offer large sites lend themselves to configuration of showrooms and warehouses, loading and hardstand areas and providing consumer parking are attractive to bulky goods and large format retailers, yet the availability of numerous such sites in the same location is necessary so as to enable multiple retailers to co-locate to enjoy the benefits associated with clustering.

The Precinct has a moderate concentration of bulky goods retailers, however faces competition from Rocky Point Road (Kogarah) and O'Riordan Street (Alexandria).

3.2.3 Construction

The construction industry is driven by different asset classes, from infrastructure and mining, to residential and non-residential building sectors. In the past, unprecedented private investment mineral and energy projects and public investment in roads, telecommunications and infrastructure drove significant activity in the construction industry.

Following the shelving of many mining projects and with remaining projects moving from capital expenditure to operational phase, construction activity accordingly softened. In NSW following a resurgence in business confidence, population growth and commensurate increase building activity (residential, commercial and industrial sectors), construction activity has rebounded with employee and floorspace requirements increasing accordingly.

Industry Outlook

Capital expenditure on private dwellings is projected to grow through 2016-17, though less dramatically as the past five years (IBISWorld, 2016b). This includes investment in new dwelling construction and renovations of existing dwellings. Strong domestic demand for higher density housing in Sydney has underpinned construction growth over the past five years.

Not unlike many industries, the construction industry is underpinned by consumer and business confidence as well as government investment. The residential building sector is expected to drive growth for the construction industry in the short term, elevated levels of supply responding to meet severely pent-up demand. Shifting preference for inner city and high density living is expected to continue to drive strong growth in the construction industry, to an overall lesser extent than the commercial and industrial sectors.

Expected growth in construction activity levels will result in increased employment, not unlike that witnessed in the Precincts and Broader Catchment over the 2006-2011 period.

This has obvious implications for floorspace requirements, construction companies typically requiring a mix of office and light industrial accommodation to accommodate specialised human resources as well as items of machinery and equipment.

3.3 INFLUENCES ON LAND USE AND FLOORSPEC REQUIREMENTS

The evolution and dynamic nature of industry impacts on how businesses operate in a competitive environment, including how many people they employ and what floorspace they require.

As global competitiveness continues to drive considerable change across many industries, this transition has meant a move away from traditional manufacturing into more advanced, technology and knowledge intensive manufacturing that provides a higher valued product.

While this change is not possible or relevant for some manufacturing sectors, for some it has meant that traditional manufacturing floors are no longer needed and higher-tech and 'cleaner' floorspace is required to accommodate increasing volumes of non-manufacturing processing such as engineering, marketing and logistics. Therefore, the decline of traditional manufacturing does not necessarily mean there is no longer any requirement for floorspace by the manufacturing industry, it means floorspace requirements are different.

AEC's investigation and research into the key industries of employment in the Precincts (and Broader Catchment) highlight the key economic trends and drivers that have implications for future land use and floorspace requirements.

Large Format Retailing

Growth in demand for new car sales in tandem with positive consumer sentiment and population growth. The cessation of local car manufacturing will result in increased wholesale activity for smaller and fuel efficient imported cars. The upshot of this demand is retail showrooms for imported cars, co-located with add-on parts supplies and service centres.

Real growth in household income levels and retail spending as resulted in innovative and new retail formats including homemaker centres and brand outlet centres. Sites that allow for loading and circulation space, handling and warehousing and display are consequently required to accommodate these bulky goods uses.

Common pre-requisites for majority of large format retailing floorspace are exposure and access from major arterial road corridors (e.g. Princes Highway and Parramatta Road), availability of on-site car parking for customers and ability to co-locate with other large format retailers.

Large format retailers have traditionally sought to be in a standalone/freestanding development with at grade parking. In the face of challenging and costly site assembly, an increasing trend is for large format retailing to combine other retail floorspace (e.g. supermarket and specialties stores) in a multi-level building, thus overcoming the issue of high land cost and at the same time providing the customer with an enhanced retail experience.

Office/Light Industrial Floorspace

While a mix of office and light industrial type floorspace suits the construction industry, other key industries such as wholesale trade and manufacturing also require similar floorspace.

As industries transition to incorporating fewer traditional manufacturing functions and service expertise, the proportional split between office/light industrial floorspace accordingly changes. It is conceivable that higher proportion of office (>50%) would be required than previous.

Mixed Use Development

Retail is an important element of mixed use development as it serves as an 'attractor' and facilitate economic activation of an area while providing employment opportunities. It is acknowledged that "retail premises" are presently prohibited in the B6 Enterprise Corridor zone under the Rockdale Local Environmental Plan 2011.

As Sydney's urban footprint expands a more diverse range of uses in the B6 zone could be considered, allowing bulky goods and retail facilities to co-locate. These have traffic and access implications however they facilitate a more intensive use of already scarce sites in a brownfield environment.

Consumers are discerning and have evolving tastes. They demand a convenient shopping experience and seek to increase linked car trips. As a consequence many retail showrooms now seek to be accommodated in contemporary double storey buildings that allow the co-location of other retailers. This has made it challenging for older style and aged showrooms and large format retail buildings to remain competitive.

New mixed use developments which accommodate a diverse range of uses such as retail, bulky goods, modern showrooms and light industrial uses coupled with residential development have been met with success. These include East Village at Zetland, Stockland Balgowlah, Peninsula Village Matraville, Central Park at Broadway and the Broadway at Punchbowl which reflect the willingness of businesses to co-locate with a range of uses.

4. PROPERTY MARKET ANALYSIS

4.1 THE PRECINCT IN CONTEXT

Purchasers and tenants who seek accommodation along Princes Highway in Arncliffe, typically also consider properties along Princes Highway in Banksia - the locations along the Princes Highway Corridor are perceived to be broadly comparable despite straddling two suburbs. For this reason Banksia and surrounding areas (as appropriate) are included in property market analysis of the Arncliffe Priority Precinct.

Car dealerships, hire yards and automotive repairers are the dominant occupiers along this strip, along with whitegoods suppliers and construction wholesalers. To the west of the Arncliffe train station along Belmore Street and Firth Street, commercial buildings tend to be high street style buildings with a variety of food retailers, speciality retailers, medical operators and supermarket retailers. A number of more dated buildings are observed along Forest Road to the southwest of the train station.

The Princes Highway has in the past been perceived as a desirable location with many successful businesses located therein with corresponding demand underpinning strong sales and leasing activity. Over time many buildings have become tired and aged, contributing to the precinct's dated appearance and presentation.

Key issues identified by selling and leasing agents active in the area include the lack of availability of street parking along the Princes Highway particularly with active clearways. In addition the configuration and layout of many older style buildings restricts access for large trucks which require high clearance to load and unload.

The older style and configuration of buildings previously used for traditional industrial uses no longer meet contemporary market requirements. As a result alternate uses such as security companies, and gyms are seen to locate in these more traditional industrial buildings as they offer cheaper rental alternatives.

Sites along the Princes Highway are predominantly occupied as car sale yards, some of which are successful being on large site areas thus providing adequate space for customer parking and circulation. Those older style car yards typically on smaller sites are restricted in being able to offer on-site customer parking and meet loading requirements.

Some existing buildings have transitioned to accommodate a range of commercial uses such as gyms (e.g. Crunch, Cross Fit) and bulky goods retail. A Princes Highway location is popular with smaller businesses, offering good access and exposure with a high volume of passing traffic.

Notwithstanding the older style of buildings, many of which are in need of upgrade, demand for large format space remains strong with bulky goods retailers and automotive operators requiring new or additional premises. Businesses unable to secure premises in the Precincts are understood to move further south to markets of Rockdale and Kogarah.

The Precincts compete with areas that have a more contemporary accommodation offer, including Rocky Point Road (Kogarah) and O'Riordan Street (Alexandria).

4.2 SALES AND LEASING ACTIVITY

Built form along the Princes Highway primarily consists of aged showrooms, warehouses and factories and car yard sites with small commercial buildings and cottages occupied for commercial purposes.

Sales Activity

There are currently no properties being marketed along the Princes Highway in either Arncliffe or Banksia. Properties which have recently transacted along Princes Highway have achieved sale prices in the order of \$2,000/sqm-\$2,500/sqm of overall site area.

A range of transactions (12-24 months ago) of sites currently zoned B6 Enterprise Corridor along Princes Highway can be profiled by property type below. Majority of this sites are subject to an FSR of 1.5:1.

- **Small vacant car yard sites** (700sqm-800sqm)

These small sites typically have minimal improvements on them, mostly accommodating outdoor display for used cars. Sale prices have achieved between \$1,000/sqm and \$1,500/sqm of site area.

- **Small car showroom/repairs workshop** (650sqm-750sqm)

Even though small, some of the sites accommodate a car showroom component at front and workshop/service centre at rear. Buildings can be over a single or two levels. Sale prices are observed to have achieved between \$2,500/sqm and \$3,000/sqm of overall site area.

On a rate per square metre of building area, rates are not dissimilar, achieving in the region of \$2,500/sqm and \$3,000/sqm of building (lettable area). This suggests many properties are improved to an FSR of 1:1.

- **Residential cottages/houses** (200sqm-500sqm)

A number of residential premises are occupied by businesses, prices paid reflective of the B6 zoning and range between \$2,500/sqm and \$3,000/sqm of overall site area.

A number of sites zoned B6 along Princes Highway are being acquired speculatively for residential mixed use development. Prices paid range from \$2,800/sqm to \$4,000/sqm of site area. These prices are higher than those paid for other B6 sites with functioning industrial/commercial buildings along Princes Highway.

The range of capital values witnessed in the Precinct is within expected range for B6 lands along major arterial corridors. Comparable lands along Parramatta Road disclose similar price levels, with sites in along the Parramatta Road corridor in Auburn selling at similar rates.

Leasing Activity

Informal discussions with leasing agents active in the local area reveal that older style showrooms and warehouses with low clearance are likely to achieve annual rents only between \$100/sqm and \$200/sqm (net) of lettable area. These showrooms typically suit smaller serviced based industries and lifestyle uses (e.g. boxing gym) and retail showroom for motorbikes, bicycles, parts and supplies, etc. In contrast, newer and contemporary space along Princes Highway can potentially achieve rental rates in excess of \$200/sqm (net) of lettable area.

The combination of strong capital values and weak rental values have contracted market yields (to as low as 5%), thereby reducing the appeal of these properties as investment assets. This has been due to current dominance by an owner occupier market, fuelled by low interest rates and buoyant business confidence.

Rocky Point Road in Kogarah offers newer and more contemporary floorspace and is observed to be highly sought after, thus seeing premium lease rates being achieved. For example, 168 Rocky Point Road which comprised a 2,500sqm showroom/warehouse is understood to have leased for \$350/sqm (net) to Harvey Norman. The building is brand new with good parking, clearance and accessibility. The facility is commented to be “the next generation of showrooms” with tenants including Caroma and other bulky goods retailers (solar power, stone, tiles and paving).

4.3 DEVELOPMENT PIPELINE

Even though many buildings are ageing and tired, they still provide a level of functional utility and thereby command good capital values despite their age. The strength of market is also a function of the limited availability of good sized, freestanding buildings. Consequently, land values are relatively high (circa \$2,500/sqm to \$3,500/sqm of site area), reflective of the functional utility offered by existing accommodation that is correspondingly valued by an active owner occupier market.

There appears to be no new commercial-only developments approved or proposed in the Precincts with the exception of the redevelopment of an existing service station (Woolworths Caltex) at 314 Princes Highway, Banksia.

Most of the development in the pipeline is predominantly residential in nature, though a large proposal at 213 Princes Highway envisaging more than 300 residential units proposes 41 commercial suites.

The limited development pipeline in the Precincts is not surprising given high capital value of land, and the small lot and ownership patterns. In established urban areas in close proximity to transport networks and major centres, site amalgamation and assembly are arguably the largest challenge for development and renewal.

In some instances redevelopment into higher densities is sufficient to displace existing uses and facilitate site assembly for development, however landowner objectives are not always financial in nature and do not always align to enable development.

4.4 IMPLICATIONS FOR THE PRECINCT

Several key themes emerge from our property market analysis of the Precincts:

- Moderate growth in rents coupled with strong appreciation in capital values has resulted in low yields. This renders assets less attractive to investors.
- Market activity is dominated by an owner occupier market, fuelled by the current low interest rate environment and generally buoyant business confidence.
- There is a distinct price differentiation for quality accommodation over older stock. That said, many older buildings are observed to be adapted and repurposed for uses that are growing in response to population and general business growth.
- Small lot patterns and fragmented ownership have made it difficult to consolidate development sites and hence development activity has been moderate. Furthermore, many buildings still offer functional utility (and have corresponding high values), making it a challenge to amalgamate development sites.

As a corollary of present market activity, the following are expected to continue:

- Presence and role by local service businesses. The Precincts' central and strategic location within the South subregion make it an attractive location from which to service key markets for many businesses and source labour from.
- Older buildings which once accommodated traditional manufacturing activity will be incrementally repurposed for other uses (e.g. building security companies, gyms, etc.).
- Owing to limited site opportunities (small lot patterns and fragmented ownership), new developments will seek opportunities for site intensification by combining a variety of uses within the development.

The ability to combine different uses within a multi-storey development will be critical for new development. For example, the co-location of a retail showroom (cars, homewares and bulky goods) with commercial floorspace, retail/convenience facilities enables site intensification which will be in many cases needed for development to be feasible. These types of development are witnessed in Alexandria.

5. ACCOMMODATING FUTURE GROWTH

5.1 INTRODUCTION

The overarching objective of this Chapter is to assess the ability of the Priority Precinct to accommodate renewal and growth.

- Land use splits and density thresholds for feasible development

The ability of the Precinct to accommodate employment and residential growth, particularly along the Princes Highway Corridor, was evaluated by carrying out generic feasibility testing on a select number of 'typical' sites.

The capacity of urban zoned land to accommodate new development is generally two-fold:

- **Planning capacity** refers to the physical ability of land to be developed, taking into account permissibility under planning framework, environmental and infrastructure constraints, etc.
- **Market capacity** refers to issues of commercial viability - whether pricing levels, development costs, etc. make development a commercial proposition, i.e. if development is financially feasible.

In some instances constraints to development could be as a result of market capacity - relating to market and economic factors (e.g. credit conditions and interest rates, declining purchaser sentiment), in which case those impediments are beyond the control of planning authorities.

This chapter investigates market capacity, specifically how future growth can be accommodated in the Arncliffe Priority Precinct, carrying out generic feasibility analysis on typical sites to determine the likelihood of these sites being redeveloped under current planning controls and alternate planning controls which may be required for development feasibility.

5.2 APPROACH TO FEASIBILITY ASSESSMENT

The Hypothetical Development or Residual Land Value (RLV) approach has been adopted as the method of assessment, utilising development feasibility software Estate Master. The RLV approach involves assessing the value of the end product of the development, allowing for development costs, and making a further deduction for the profit and risk that a developer would require to take on the project.

The Residual Land Value (RLV) can be defined to be the maximum price a developer would be prepared to pay for a site in exchange for the opportunity to develop the site, whilst achieving target hurdle rates for profit and project return. This approach involves assessing the value of the completed product, making a deduction for development costs and further deduction for profit and risk whilst ensuring the development achieves the target project margin and return.

A key metric for development feasibility is land value, which is a 'residual' after all costs and revenues are taken into account. The figure must be of a sufficient amount to encourage the owner to sell and/or displace the current use. In order for development of the Site to be viable, the Residual Land Value must exceed the 'as is' value of the land, i.e. the value of the land in its existing use including all improvements.

Factors Affecting Feasibility of Development

There are a considerable number of factors affecting the feasibility of individual sites for redevelopment and rarely is a single factor the only cause for poor development feasibility. The following factors is a selection of common ones that affect the feasibility of development in infill/urban renewal areas.

- **Land values and the cost of site assembly**

In order to economically acquire and develop land the proposed use must translate into a higher value than the existing use including any improvements on it (or 'as is' value).

Development will only occur where the proposed use is valuable enough to displace existing uses. While existing improvements may be dated and due for replacement, in many instances they may still be providing a good level of functional utility and thereby be relatively valuable.

As a consequence, the acquisition of land can be a high-risk and high-resource activity for developers, particularly where numerous parcels of land have to be amalgamated prior to development. When sites are upzoned to higher densities landowner expectations often increase in tandem, unrealistic landowner expectations can thwart site assembly efforts.

The Priority Precinct is primarily characterised by low density freestanding houses with small residential unit blocks scattered therein, and properties along the Princes Highway Corridor improved by older style warehouses, showrooms and caryards with some office component. The small lot patterns (300sqm-400sqm blocks) that subsist in the Precincts necessitate the acquisition and amalgamation of multiple blocks for a viable development site. Landowners typically expect a premium over and above market value, the necessity of negotiating with multiple parties potentially a significant cost.

Many properties along the Princes Highway despite their dated and tired appearance, still offer a level of functional utility hence are relatively valuable and have cost implications for site amalgamation and development.

- **Effective demand**

Residential markets are diverse. Market acceptance for higher density product is good within most inner suburbs of Sydney, hence end sale prices of the completed product justify the higher cost of construction.

Effective demand, rather than underlying demand, is relevant for development feasibility. The ability of households to pay for housing underpins the type and nature of development the market can respond with.

In Banksia and Arncliffe, there is healthy residential interest as evidenced by product sold and prices achieved in neighbouring Wolli Creek and Rockdale.

- **Construction costs**

The cost of construction can increase substantially as buildings become taller. Service requirements will dictate that more lifts will be required so that vertical transportation times are not compromised. Services shafts and fire escapes are correspondingly wider too.

Taller building forms will only be viable if incremental revenue is equal to or exceeds incremental cost.

- **Planning/development controls**

Planning and development controls have the ability to affect feasibility through changes in land use zoning and densities but also through the costs associated with design requirements and securing planning approvals. Codes for parking, open space, sustainability, etc. all have the ability to influence the cost of development.

In the case of the Precinct, minimum unit size and parking requirements prescribed by Rockdale LEP underscore the minimum cost of construction.

In established urban areas in close proximity to transport networks and major centres, site amalgamation and assembly are arguably the largest challenges for development and renewal. In some instances redevelopment into higher densities is sufficient to displace existing uses and facilitate site assembly for development, however landowner objectives are not always financial in nature and do not always align to enable development.

5.3 LAND USE AND DENSITY THRESHOLD

This section provides an overview of generic feasibility testing carried out on sample sites considered to be representative/typical in the Precinct. Notional developments schemes premised on specific densities and land use types are tested for development feasibility. These development schemes do not necessarily correspond to existing controls.

As outlined in section 5.2, prevailing property values ('as is' values) are a key factor to development feasibility. Sites with significant and valuable buildings will expectedly have higher property values and therefore cost more to amalgamate into a development block. In some instances the redevelopment of these (more valuable) sites can

be incentivised with higher densities. A desktop review of existing uses and buildings was undertaken, estimates of 'as is' values made from observations in ongoing market activity.

A number of sites were selected with DPE and subject to the following steps in the assessment process:

- Step 1: Feasibility testing of notional development schemes.
- Step 2: If the development was not feasible, iterative testing was undertaken to identify minimum density (FSR) thresholds for feasibility.
- Step 3: Similar to Step 2, iterative testing was undertaken to identify minimum density (FSR) thresholds for feasibility, assuming smaller 'market' unit sizes in a non-DCP compliant scheme.

The sample sites selected for feasibility testing are described as follows.

Table 5.1: Sample Sites for Generic Feasibility Testing

Site	Description	Site Area (sqm)	Land Use Zone
1	Along Princes Highway Older style car showroom and concrete hardstand area	2,300	B6
2	Residential area 3 detached houses for amalgamation	1,100	R2

Source: AEC

Sample Commercial Site along Princes Highway

A sample site along the Princes Highway, Arncliffe (circa 2,300sqm) comprised of four allotments and currently improved by older style industrial warehouse/showrooms and concrete hardstand areas. The site is currently zoned B6 and designated an FSR of 1.5:1.

A mixed use building incorporating ground floor retail showroom space and residential units above (FSR 2.2:1) was subject to feasibility testing.

An average site value rate of \$2,500/sqm was applied across the site and a 20% premium included to reflect the potential incentive required for site assembly. A total site cost of \$6m was assumed.

Owing to the high cost of site assembly, the hypothetical development scheme (at FSR 2.2:1) is not feasible to develop.

Various scenarios were then iteratively tested to identify the minimum density threshold (FSR) required for feasible development of the site.

The feasibility results are as follows:

- Development at the envisaged density of FSR 2.2:1 is not feasible.
- A minimum of FSR 2.5:1 is required for feasible development on the site.
- By reducing the unit sizes to reflect current market expectations (50sqm for 1 bedroom units, 75sqm for 2 bedroom units and 95sqm for 3 bedroom units), development is tested to be feasible at FSR 2.2:1.

Sample Residential Site in Arncliffe

The sample site measures circa 1,100sqm and is comprises of three detached residential allotments. The site is currently zoned R2 Low Density Residential and designated an FSR of 0.5:1. The Site is currently improved by older style residential houses.

A hypothetical development scheme (at an FSR 2:1) envisages a residential flat building incorporating 24 units.

An average of \$900,000 per site was assumed as site acquisition cost and a 20% premium included to reflect the potential incentive required for site assembly.

Owing to the cost of site assembly the proposed development scheme is not feasible to develop.

Various scenarios were then iteratively tested to identify the minimum density threshold required for feasible development of the site.

The feasibility results are as follows:

- Development at the assumed FSR of 2:1 is not feasible.
- A minimum of FSR 2.5:1 is required for feasible development on the site.
- By reducing the unit sizes to reflect current market expectations (50sqm for 1 bedroom units, 75sqm for 2 bedroom units and 95sqm for 3 bedroom units), development is still not feasible at FSR of 2:1.

5.4 IMPLICATIONS FOR THE PRECINCT

Generic feasibility modelling suggests that broadly the current planning framework could be reviewed to facilitate redevelopment.

The major challenges for development and renewal in the Precincts is, not unlike other infill/established areas, the difficulty in amalgamating sites owing to existing small lot patterns and valuable improvements.

If assembling a number of cottages for development, generic feasibility testing suggests an FSR range of 2.5:1 to 2.75:1 is required for feasible development. This density threshold declines if a development block is in single ownership and thus precluding the need to pay a premium over and above market value.

AEC also investigated non-compliant DCP options to determine if development could be feasible if development controls were amended. Where feasibility was marginal, by varying the minimum unit sizes a feasible outcome was the result.

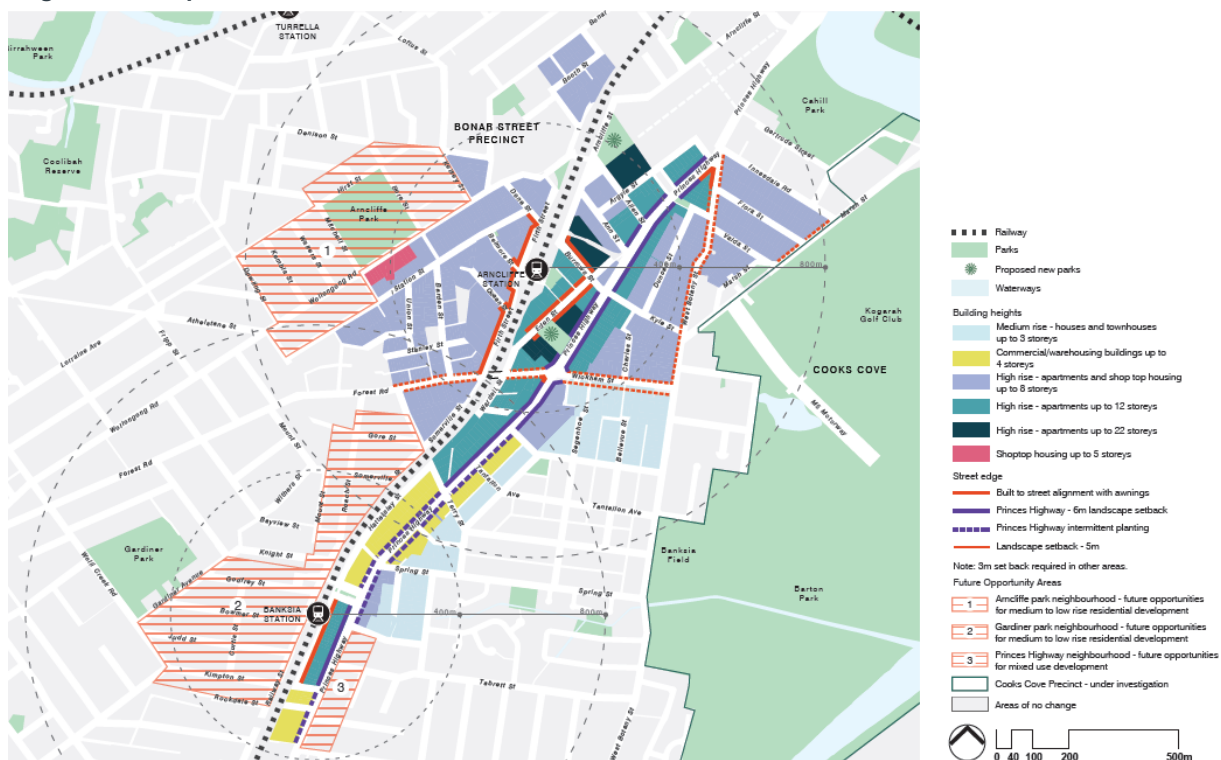
6. PREFERRED DEVELOPMENT SCENARIO

Department of Planning and Environment have developed a precinct proposal that envisages active, mixed use centres at Arncliffe train station and along Wollongong Road at Arncliffe Park, local neighbourhoods with good amenity and transformation of Princes Highway into a tree-lined boulevard with good amenity for residents and businesses.

The Arncliffe Priority Precinct is a long term urban renewal project to be delivered over a 20 year time horizon, with the potential to accommodate an additional 4,000 dwellings and 9,100 new residents by 2036.

The NSW Government has allocated up to \$10m across the Arncliffe and Banksia precincts through the Precinct Support Scheme to assist with local infrastructure upgrades and improvements.

Figure 6.1: Proposed Built Form Structure



Source: DPE (2016)

The precinct proposal identifies the following:

- Transformation of Princes Highway into a tree-lined boulevard, and built form that is flexible enough to provide for a variety of retail and commercial uses at lower levels and residential uses at the upper levels.
- Tall buildings and mixed uses focused near Arncliffe station, with buildings up to 22 storeys east of the station and on the large public housing site at Eden Street.
- A new neighbourhood park between Princes Highway and Eden Street as part of any future redevelopment of the public housing.
- A local centre on Wollongong Road opposite Arncliffe Park, development up to 6 storeys and retail uses and outdoor dining at lower levels.
- New residential buildings (8-12 storeys) in the area to the south of Wolli Creek.
- A new space and residential towers of up to 22 storeys on the Mazda and Ford Service Centre on Allen Street should a redevelopment opportunity present itself.
- Upgrade of Wooroona Reserve with active edges of the park and improved connectivity.

- Improvements to the public domain particularly of retail streets such as Firth Street and Wollongong Road to encourage outdoor dining.
- Opportunities around Arncliffe Park (west of the train station) are to be investigated for medium to low rise residential development.

An opportunity for a full line supermarket on the eastern side of the railway line is identified, the location of a new supermarket to be subject to market response.

6.1 PROPOSED PLANNING CONTROLS

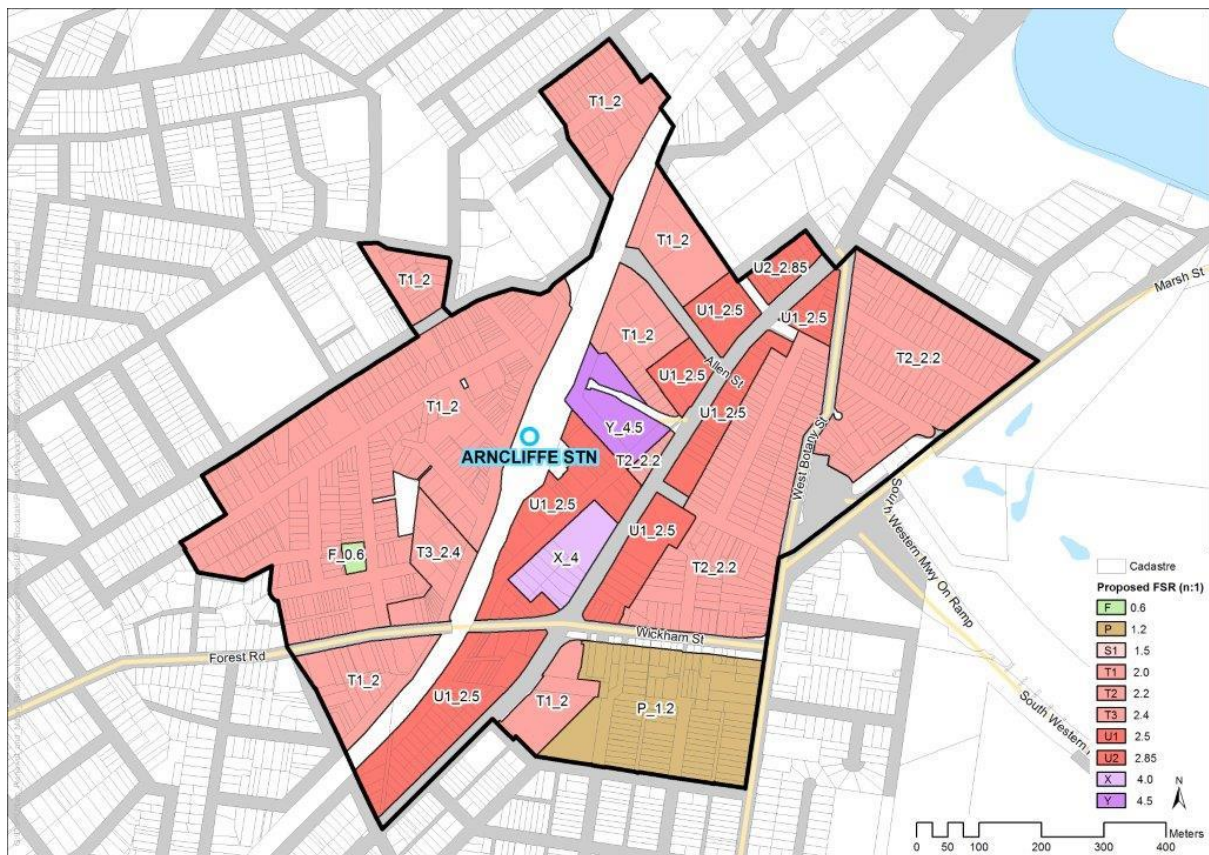
The precinct proposal envisages application of the B4 Mixed Use zone along the Princes Highway Corridor in the Arncliffe Precinct, allowing for retail or commercial uses at the lower levels of new apartment buildings.

Floor space ratio (FSR) controls have been nominated for each site based on urban design considerations to ensure that development can comply with apartment design requirements and any necessary setbacks or public domain without breaching height controls.

The recommended height controls are influenced by urban design considerations as well as building height restrictions imposed on the Precinct to ensure integrity of Sydney Airport operations. Proposed maximum FSR controls range from 2:1 to 4:1 along the Princes Highway with FSR 4.5:1 proposed at the upper end of the range. The achievement of maximum FSR controls is predicated on lot consolidation, subject to 24m minimum frontage control as outlined in Rockdale DCP 2011.

Figure 6.2 illustrates the various FSR controls proposed for the Precinct.

Figure 6.2: Proposed Maximum FSR Controls



Source: DPE (2016)

6.2 OPPORTUNITY SITES

Several large sites are identified in the precinct proposal, including LAHC site on Eden Street. Buildings up to 22 storeys are envisaged just east of Arncliffe station and on the LAHC site.

A new neighbourhood park between Princes Highway and Eden Street is envisaged to be delivered as part of any future redevelopment of the LAHC site.

New supermarket-based retail facilities are identified as an opportunity in the precinct proposal on the eastern side of the railway line with provision of active retail floorspace on the ground floor of buildings envisaged along building lines along Eden Street and fronting the new park. It is important that associated specialty retail space is located such to enable the leveraging of customer flows to and from the new supermarket. The location of the major retailer (supermarket), therefore, requires considered thought to ensure a strong speciality component.

By virtue of its location, large format retailers on Prince Highway draw trade from a broad catchment and therefore are less reliant on local population growth. The precinct proposal envisages Princes Highway to accommodate a variety of retail and commercial uses at lower levels with residential uses at the upper levels. To this end, improvements to the public domain, streetscapes and amenity are expected to lift and enhance the profile of Princes Highway and thereby contribute to improved desirability of Princes Highway as a destination for business.

6.3 ISSUES AND CHALLENGES

A major challenge in infill and brownfield areas is the tension between land uses and for uses to be accommodated within scarce lands that are not only suitable but available. Lot patterns and ownership fragmentation is a common issue for large scale renewal of infill locations such as the Precinct. As a consequence, development feasibility is a major hurdle for large scale renewal in infill/ brownfield locations, unless there is change of use or the site is redeveloped to a 'higher and better' use.

Financial Feasibility Considerations

A 'higher and better use' is often associated with residential development, however it is useful to consider this concept in the context of a use that is either a densification or intensification of existing built form.

- **Densification of use**

This refers to an increase in density, typically associated with greater floorspace or heights. Measures of density can be represented by FSR, building heights and setbacks, site coverage ratios, etc. Building densities vary by geographic region, higher density buildings generally located on higher value lands.

Not all uses respond to density. Industrial uses are not generally a use that responds to density in the manner that residential and commercial uses do. However some developers have been able to achieve increased densities by combining various uses within a building to include industrial functions.

- **Intensification of use**

An intensification of use is not necessarily accompanied by an increase in floorspace density. Increased intensification can occur without increased density and can be measured in any of the following metrics:

- Increased economic and employment activity (e.g. more employees per sqm, more output per sqm, etc.).
- More efficient use of land and resources.
- Extending the lifespan of available industrial lands.

Intensification can occur in different ways for different businesses, from greater use of technology and automation, with higher building ceilings to more intense employee/ floorspace ratios (which is generally associated with more office-type floorspace).

As a response to high land values in inner suburban locations many new developments are observed to combine a range of uses. An example is Enterprise Industrial Estate (Alexandria, Marrickville) where a combination of uses (retail showroom, industrial strata units, self-storage units) are effective in yielding a feasible development. East Village in Zetland is another example where a combination of uses is incorporated in densification of development

(over several levels) to combine car retail and service functions as well as consumer retail and services, which in together, have allowed the achievement of a higher rate per square metre.

The precinct proposal recognises that in order for redevelopment to occur, the redeveloped use must translate into a higher value than the existing use including any improvements (or 'as is' value). Development will only occur if the proposed use is valuable enough to displace existing uses.

Along Princes Highway the precinct proposal envisages B4 Mixed Use with FSRs mostly ranging from FSR 2.2:1 to 4.5:1. Small pockets within the Precinct are designated with a lower FSR of 2.0:1. Generic feasibility testing suggests that this is appropriate for sites either with nominal improvements or with buildings that are approaching the end of their economic useful life.

At present, some portions along Princes Highway suffer from poor public domain while some sites experience access/egress issues. This has resulted in modest rent/price levels which are at present, insufficient to incentivise large scale redevelopment.

The NSW Government's allocated \$10m budget for local infrastructure upgrades and improvements could assist in improving market appeal along the Princes Highway Corridor to improve rents and prices to a level that will spur demand for new development.

Scarcity of Large Lots

It is challenging to accommodate the floorspace requirements of bulky goods operators and other large format retailers including car dealerships in infill locations where large lots and those in consolidated ownership can be scarce. In order to overcome this, innovative building formats that combine a mix of uses in a multi-storey development have emerged in recent years. Numerous examples across Sydney demonstrate the ability of innovative developments that combine a range of uses are able to overcome feasibility issues and succeed.

The precinct proposal proposes a B4 Mixed Use zone to allow for a range of commercial uses and applies flexible controls to allow for emerging typologies and retail formats.

6.4 STAGING AND TAKE-UP CONSIDERATIONS

The precinct proposal envisages urban renewal to occur over two stages, areas to the northwest of the Arncliffe train station subject to a subsequent investigation stage.

This will consequently result in the focus of renewal and redevelopment activity along the Princes Highway Corridor and thereby lifting the profile of the area.

Retail/commercial centres are most successful when clustered/consolidated in one location thereby creating a vibrant and active area. Retail uses either respond to demand from population or attract their own demand from a broad region. Supermarket-based retail facilities typically respond to local population growth while large format retail facilities draw trade from a broad region and are less subject to local population growth.

In line with the opportunity identified for a full line supermarket (and associated specialties) on the eastern side of the railway line, take-up of this opportunity to provide retail facilities will be subject to the ability of the supermarket to have excellent exposure and accessibility to be viable. Overall, retail is lumpy in its delivery in that it is either provided for before time, where the retailers themselves have to be subsidised to survive, or retailing is held off until substantial population catchment exists to support it in its own right. A large site such as LAHC owned site on Eden Street is sufficiently large to support a staging of residential and retail development.

In mixed use developments, creating active street frontages is important, however, depending on siting and position, not every building will be able to sustain viable retail at ground level. The consolidation of retail space is more important than active frontages to every building in one area.

The precinct proposal envisages active retail floorspace along the new park edge (park to be created on LAHC site) and buildings fronting Eden Street. Depending on where a full line supermarket is eventually established, the provision of active retail floorspace would complement the establishment of a vibrant and viable retail centre.

This Study recognises that urban renewal and redevelopment of the Precinct is a long term process, in that the floorspace across all land use types is to be delivered over the next 20 years and more.

Improvement in the overall attractiveness and appeal of the Princes Highway Corridor assisted by local infrastructure upgrades and initiatives will be key to increasing the profile of Princes Highway as an employment and residential destination. As well as benefiting from enhanced market appeal over time, as properties reach the end of their economic useful lives redevelopment take-up as conceived by the precinct proposal will occur incrementally.

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