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Submission in response to the Draft Bayside West Precinct Land Use and Infrastructure Strategy

240 - 264 Princes Highway, Arncliffe

Submitted to Department of Planning and Environment
On Behalf of Ramusi Pty Ltd (Lowes-Manhattan)

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This document is preliminary unless approved by a Director of City Plan Strategy & Development

CERTIFICATION

This report has been authorised by City Plan Strategy & Development, with input from a number of other expert consultants, on behalf of the Client. The accuracy of the information contained herein is to the best of our knowledge not false or misleading. The comments have been based upon information and facts that were correct at the time of writing this report.

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1. Summary of Submission

This submission is made on behalf of Ramusi Pty Limited, the property owner for 240 - 264 Princes Highway, Arncliffe, in response to the 'Bayside West Precinct - Arncliffe, Banksia and Cooks Cove Draft Land Use and Infrastructure Strategy' (the Strategy). The site is occupied by Lowes-Manhattan for head office and warehouse purposes. Ramusi Pty Limited shares common shareholding with Lowes-Manhattan.

The site is in the Banksia precinct within an area that is part of the 'Princes Highway Corridor'. The Princes Highway Corridor extends for the length of the Arncliffe and Banksia precincts and is identified in the Strategy and by the former Rockdale City Council in 2013 as "*a highly attractive location for people wishing to live, work and locate business in proximity to the CBD*".

The Strategy states that it "*provides a framework for revitalisation, change and renewal for the highway corridor*". Our analysis of the subject site demonstrates that due to its close proximity to Banksia Station, low quality of existing improvements and lack of development constraints, it is ideally placed to contribute to these objectives.

However, the Strategy proposes to retain the existing B6 land use zoning and FSR (1.5:1) and only marginally increase maximum building heights for most of the Banksia precinct, including the subject site.

We agree with the identification of the Banksia precinct as a place highly suitable for revitalisation, which will support key NSW strategic planning objectives for housing and jobs outlined in the Plan for Growing Sydney and the Draft Central District Plan. However, we submit that by effectively retaining the existing land use and density controls that have not so far encouraged redevelopment of this or similarly located sites, the objectives of the Strategy cannot possibly be achieved.

Economic analysis undertaken by Hill PDA accompanying our submission concludes that:

"the B6 zone along the highway is undermining Transit Orientated Development and urban renewal because it is not viable to replace the existing buildings with new commercial spaces that are limited to the range of land uses permissible in the zone.

Commercial uses can be encouraged and the number of jobs on site can increase as a result of redevelopment but only in a mixed use zone where shop top housing is necessary to ensure the viability of redevelopment."

Lowes-Manhattan is the largest single employer in the precinct. However, it has recently been actively considering relocating because the current premises are no longer entirely 'fit for purpose' and cannot be feasibly rebuilt under the current FSR applying to the site. If Lowes-Manhattan was to relocate, it is highly improbable that any other occupier of the site, providing comparable employment opportunities, would be found to replace it. This would represent a loss of up to 110 employees, which would be entirely inconsistent with the intentions of the Strategy for the precinct.

To effectively implement the objectives of the Strategy, and provide incentives for the potential retention of Lowes-Manhattan within the precinct, we recommend that the following amendments to the draft planning controls are necessary and appropriate:

Land Use Zone: B4 Mixed Use or B6 Enterprise Corridor permitting shop top housing, in conjunction with the local clause below

Height of Buildings: 31 metres

Floor Space Ratio: 2.5:1

Local Clause: *Ground floor development on land in Zone B6* (as detailed in this submission)

2. Site the Subject of this Submission

This submission has been commissioned by Lowes-Manhattan, the owner of No. 240 - 264 Princes Highway, Arncliffe.

2.1 Site description

Property details for the site as are in Table 1.

Table 1. Property details

Address	Lot	DP	Site Area (m2)	Improvements
240 Princes Highway	1	125721	900	3 storey office (approx. 1,800m2 GFA) and rear parking
242 - 262 Princes Highway	109	620621	2,171	2 storey office, warehouse (approx. 2,700m2 GFA and rear parking and deliveries area
264 Princes Highway	A	415742	542	Vacant/car park

The site has a total area of 3,613 sqm and has frontages to the Princes Highway and Vincents Avenue and is serviced from a rear lane off Spring Street.

The site has a Princes Highway frontage of approximately 83 metres and a depth of between approximately 37 - 57 metres. The rear boundaries the site adjoin side and rear boundaries of residential properties to the east fronting Vincents Avenue and Spring Street.



Figure 1 - Street image, site outlined in red and shaded in yellow (Source: Sixmaps NSW)



Figure 2 - Cadastre image, site outlined in red and shaded in yellow (Source: Sixmaps NSW)



Figure 3 - Existing improvements on 240 Princes Highway, Arncliffe



Figure 4 - Existing improvements on 242 Princess Highway, Arncliffe

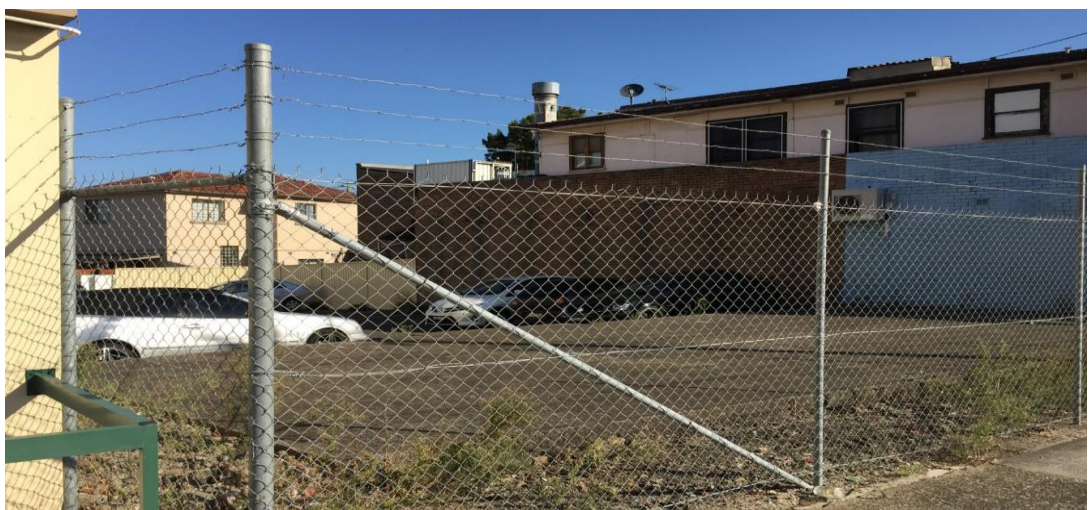


Figure 5 - Existing vacant site used for informal car park on 264 Princes Highway, Arncliffe



Figure 6 - Car park access to rear of 240 Princes Highway, and adjoining dwelling house along Vincents Avenue



Figure 7 - Existing rear lane access to site off Spring Street

3. Site analysis

The Strategy includes an opportunities and constraints analysis of the whole area. Whilst we accept much of that analysis, we fail to understand how the proposed land use strategy and built form controls in the Strategy have been informed by the analysis.

Consequently, whilst we do not think it necessary to fully replicate the Strategy's analysis in this submission, we will briefly outline our own 'finer grain' analysis of the site the subject of this submission, from which we derive very different conclusions about appropriate land use and built form controls for the site.

3.1 Opportunities and constraints analysis

3.1.1 Opportunities

The site is within 400 metres of Banksia Railway station and 800 metres from Arncliffe Station. From Banksia Railway Station, transport to the Sydney CBD is about 17 minutes. During peak hours, trains depart Banksia Railway Station to the Sydney central business district and Kogarah every 10 minutes. Outside peak times, trains leave Banksia every

30 minutes. The airport is only three stations from Banksia. Banksia Railway Station supports high level heavy rail and bus transport with excellent access to the city, surrounding suburbs of Kogarah and Hurstville, and is close to the airport (Hill PDA Consulting, 2017). In addition, the Princes Highway, which the site fronts, is a dual carriage road and a major transport thoroughfare with connections to the airport and to the south of Sydney. The site has excellent access to public transport infrastructure.

Approximately 110 Lowes-Manhattan employees operate from this site, making it, we have been advised, by far the largest single employment generator in the precinct. As this is not a location that generally attracts larger office premises, the continued occupation of the site by Lowes-Manhattan represents a major opportunity to maintain a strong employment focus within the precinct, consistent with the Strategy's objectives.

As shown above, the total consolidated site is developable in its own right, enabling efficiencies in terms of basement parking, larger floor plates and non-Highway access and servicing, from both Vincents Avenue and the rear lane off Spring Street.

The size and shape of the site, including its depth, also enables building designs that can minimise impacts on adjoining neighbours.

Current improvements on the site are extensive (apart from the vacant site used for at-grade car park), but quite aged and in only fair to average condition. As they are no longer suitable for contemporary office accommodation, they represent a good opportunity for a total site redevelopment.

The property is not subject to any heritage or other environmental constraints under the Rockdale Local Environmental Plan 2011 (RLEP), and is zoned for urban development.

ANEF levels for the site do not restrict residential developments subject to appropriate design measures to mitigate noise.

There appear to be no known physical or infrastructure constraints to the site's development.

While the site is within the Airport Obstacle Limitation Surface (OLS) however, this is not a restriction for mid-rise buildings up to at least 8 - 10 storeys.

3.1.2 Constraints

The converse issue resulting from Lowes-Manhattan being the largest single employer in the precinct, is that should it choose to relocate, it would represent a substantial loss of employment within the precinct (around 110 jobs lost)

The reasons that Lowes-Manhattan have been considering relocating are that the current improvements are no longer entirely 'fit for purpose' and cannot be feasibly rebuilt (noting that the current and proposed FSR on the site would enable very little if any more floor space than currently occupies the site). Consequently, if Lowes-Manhattan was to relocate, it is highly improbable that any other occupier of the site, providing comparable employment opportunities, would replace it.

As indicated above, potential constraints to the redevelopment from the airport are entirely manageable through building height limitations and detailed site and building design and as such they are not fundamental constraints to redevelopment.

A similar situation applies to issues such as traffic noise from the Highway.

A potential constraint is the depth of the site and the direct relationship to the proposed medium density residential properties to the east. This proximity to potentially 'sensitive receivers', creates something of a constraint to high intensity non-residential development, due to operational and plant noise, traffic, parking, servicing and building bulk and scale.

3.2 Summary of development potential

The site has excellent access to public transport either by train or bus at Banksia Railway Station. The Princes Highway also has excellent access to Port Botany, the Sydney CBD and other key employment area. Good sized sites in established areas with such good

access to transport and facilities provide an opportunity for redevelopment and urban renewal. In the absence of fundamental environmental or other constraints to its development, we consider the site is highly suitable for redevelopment.

As the major employer in the precinct, maintaining Lowes-Manhattan's presence on this site represents a significant opportunity to continue and enhance the employment role for the precinct envisaged by the Strategy. However, in the absence of feasible redevelopment opportunities for the site, which currently is the case, there is a real likelihood of Lowes-Manhattan relocating out of the precinct, representing a major loss of employment.

We suggest that the site should have the opportunity to develop to its optimum economic potential to support local market demands, consistent with the Draft District Planning Principles. This is discussed in the next section.

3.3 Strategic planning setting

3.3.1 Central District Plan

Banksia is within the Greater Sydney Commission's draft Central District Plan. Key priorities for this District are to improve employment opportunities in service industries, finance and innovation supported by strong transport connections to Sydney Airport and Port Botany and Randwick Health and Education and a diverse housing choices that support the current and future populations. Under the draft Central District Plan, the Banksia area is identified as a priority precinct for urban renewal (p92 & 97) and is considered to have the potential for garnering housing opportunities as part of its strategy for urban renewal.

Planning priorities that directly apply to the sites are:

- Enable greater housing choice, education and health services to support children and adults over 65.
- Provide a range of affordable housing that supports key workers, people who live on their own, older residents and families.
- Support the development of a network of liveable centres and community hubs with good links to public transport and green spaces.

3.3.2 Housing Target

Under the Central District Plan, the 2016 - 2021 housing target for the Bayside Local Government Area is 10,150 dwellings. To support this housing target the Central District Plan has tasked local councils to increase housing capacity across the district. For the Banksia precinct, opportunities for urban renewal are being investigated for improving local housing outcomes.

3.3.3 Princes Highway Corridor Strategy

The catalyst for the current Strategy was the Princes Highway Corridor Strategy (Rockdale City Council, 2013). Under Council's Strategy, development in the Banksia area along the Princes Highway aimed to revitalise the B6 Enterprise Corridor (Figure 8), by:

- Widening the range of permissible employment and service related land uses to attract new businesses to the corridor. These included more employment intensive land uses such as a food and drink premises, function centres, and industrial retail outlets.
- Allowing for increased development potential for employment related land uses. In this regard, Council resolved to increase the maximum building height from 14.5 to 18 metres, and increase the density from 1.5:1 to 2.5:1.

The Council Strategy also identified that "the rail station makes Banksia an attractive precinct for future transit orientated development." However, it stated that due to existing, principally aircraft noise, constraints, this role should not be pursued until the role and form of residential development can be "considered as part of a holistic strategy for both ...sides of Banksia."

We submit that the current Strategy represents that "holistic strategy" and it is therefore appropriate and consistent with Council's previous Strategy to give serious consideration to the suitability of the subject sites for transit orientated development (TOD).

4. Critique of draft Strategy

The Strategy suggests that retaining the B6 zoning and FSR (1.5:1) with a 4m increase in maximum building height, is to preserve employment lands within the area and provide opportunities for large retail operations such as car dealerships and showrooms. While the Strategy recognises that for redevelopment to occur, development must be viable enough to displace existing uses, it does not adequately explain how proposing no change to existing planning controls other than increasing the maximum building height from 14.5m to 18m (Table 2) will achieve this outcome. We submit that it will not.

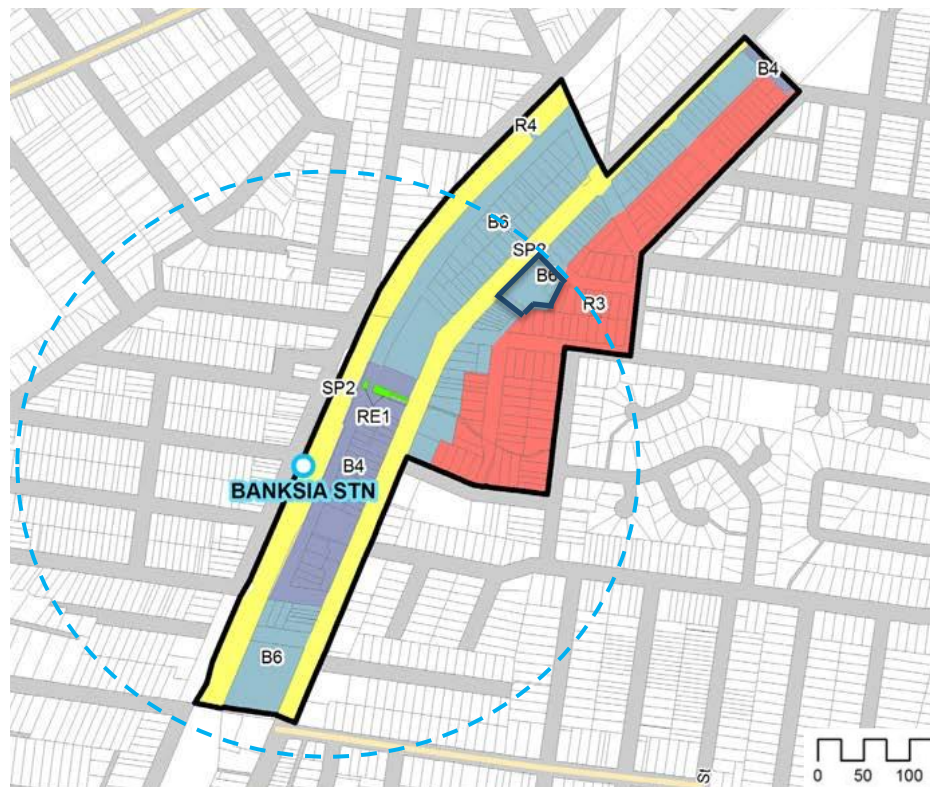


Figure 8. The land use zoning under the draft Strategy. The subject site is outlined in blue with approx 400 metre radius from station shown dashed

Lowes-Manhattan has occupied this site since 1980 and the employment intensity of its use has steadily increased as its store network has grown and expanded from 21 stores to over 200 stores. Whilst Lowes-Manhattan has an established presence which it would ideally wish to maintain on the site, the existing premises are no longer suitable for modern commercial office and associated purposes. Consequently, over recent years Lowes-Manhattan has undertaken feasibility testing of demolishing and rebuilding new, more suitable premises on the site. However, it has concluded that it is unviable to do so based on the current planning controls applying to the site. As noted earlier, the floor space ratio of existing buildings on the site is approximate to the current maximum 1.5:1 FSR under the Rockdale LEP and provides little or no incentive for redevelopment.

It follows therefore, that if current zoning and FSR have not enabled redevelopment of this site to date, how will retaining these controls stimulate its future redevelopment? The addition of an extra storey will have little or no benefit as most of the permitted uses in the current and proposed B6 zone (such as car yards, light industries, transport facilities etc.) are unlikely to viably operate above the ground or on subsequent floors (Table 2).

Table 2. The existing and proposed LEP controls

LEP	Existing Control	Proposed control (under Strategy)
Land use	B6 Enterprise Corridor	B6 Enterprise Corridor
FSR	1.5:1	1.5:1
Building height	14.5m	18m

Hill PDA was engaged to review the AEC report (that provided the economic analysis for the Strategy) and to undertake its own independent review of economic factors affecting redevelopment in the area. Hill PDA's report accompanies our submission.

Its report challenges some of the AEC's findings in relation to the likelihood of car sales and large format retail to provide the economic basis for revitalising the precinct, based on operational and economic trends in those sectors. They cite for example that the automotive retail industry is investing in new retail formats that require less floor space to sell cars than the traditional large automotive retail floor plate. For instance, on O'Riordan Street Alexandria, there are several car showrooms that occupy the ground floor of a mixed-use building

Hill PDA undertook its own high level feasibility assessment of three development options for 240 -264 Princes Highway, being:

- Option 1 (base case): the current investment value of the site in its current form. That is, where the site is used as a bulky goods retailer, hardware store or similar.
- Option 2: redevelopment under the Strategy's proposed precinct controls as specified in Table 2. That is, the feasibility for development was considered under B6 land use zoning, FSR 1.5:1 and maximum height is 18m.
- Option 3: redevelopment for a hypothetical mixed use development with ground floor commercial and residential above. Land use zoning is B4 Mixed Use, FSR is 2.5:1 and maximum height is 31 metres.

Table 3 illustrates the residual land values under each option. Option 3, where land use is zoned B4, FSR is 2.5:1 and the maximum building height is 31 metres, was the most feasible option for development. Option 2 was disregarded as it was not viable.

Table 3. Indicative residual land values under different development controls.

	Option 1	Option 2	Option 3
Land use	B6 Enterprise Corridor	B6 Enterprise Corridor	B4 mixed use
FSR	1.5:1	1.5:1	2.5:1
Building height (m)	14.5	18	31
Residual Land Value (less construction costs)	\$8,600,000	\$2,510,000	\$14,540,000
Employment generation	60-80 jobs based on 20-22sqm/office worker & 80-100sqm/warehouse worker.	N/A	50-60 jobs when the FSR is 2.5:1

Note: The residual land values were calculated using the net revenue less the total project cost, less six per cent the total site transaction costs. Employment for option 1 assumes the relocation of Lowes' 110 staff and replacement by an alternative office/warehouse occupier.

Hill PDA also investigated the potential employment opportunities for Options 1 and 3 (Table 3). It observed that most of the businesses in the B6 zone are low employment generators. The largest employer in the B6 Enterprise Corridor, Lowes, is considering relocating and it is likely to do so, if the current planning controls are retained. Employment opportunities will continue to decline as large floor plate businesses vacate this area. In this respect the B6 zone is not preventing employment decline and in the case of Lowes-Manhattan, may be precipitating the loss of this major employer from the precinct.

In light of the residual land values and employment patterns in Table 3, Hill PDA conclude that:

"...the B6 zone along the highway is undermining (the potential for) transit oriented development and urban renewal because it is not viable to replace the existing buildings with new commercial spaces that are limited to the range of land uses permissible in the zone.

Commercial uses can be encouraged and the number of jobs on site can increase as a result of redevelopment but only in a mixed-use zone where shop top housing is necessary to ensure the viability of redevelopment."

This analyses demonstrates that the current zoning will not result in urban renewal in the foreseeable future. Under the B6 zoning, the highest and best use of the land is to retain the existing buildings.

A zone allowing mixed-use development, however, will support urban renewal, providing both housing and jobs on a site within easy walking distance of Banksia Railway Station. Hill PDA's findings indicate that it is reasonable to suggest that the B6 zoning impedes the State's ability to maximise its return on its transport infrastructure investment because it is not viable (if B6 zoning was retained) to replace the existing buildings with new commercial spaces.

In short, the site is eminently suitable for transit oriented development. A mixed use zoning would enable such redevelopment and provide housing and employment in an area close to major public transport infrastructure. Such an outcome provides an opportunity for Lowes-Manhattan to viably redevelop the site with its potential to maintain its role as the largest single employer in the precinct.

5. Need for alternative planning controls to stimulate development

5.1 Land Use Zoning

For the reasons outlined above, the Strategy's proposal to retain the existing B6 zoning will not achieve its aim to revitalise Banksia and will almost inevitably lead to the loss of around 110 Lowes-Manhattan employees from this site.

The proposal for the subject site contrasts with the Strategy's proposed mixed-use zoning on sites only marginally closer to Banksia Station and other areas north of the subject site, around Arncliffe Station. Much of the argument for B4 mixed - use zoning around Arncliffe applies equally to such zoning on the Princes Highway near Banksia Railway Station. That is:

"The Strategy recommends changing the land uses adjoining the Princes Highway, through Arncliffe, to allow for a wider range of commercial uses with residential apartments on upper levels. The purpose of this change is to encourage revitalization of the corridor, bringing additional business opportunities whilst providing for additional housing. Buildings within this part of the corridor will typically include apartments with ground floor retail or showrooms."

This is also a clear acknowledgement that the inclusion of residential in a mixed-use development is not a constraint to promoting employment space within redevelopment proposals. An operation such as Lowes-Manhattan, which is principally office and logistic space, is a relatively low impact use and presents no constraint to its colocation with residential apartments. There are examples of successful mixed use developments, including the types of uses sought in the Strategy to be attracted to this precinct (such as the Audi dealership on South Dowling Street in Zetland) and certainly numerous examples of mixed commercial office and residential building.

Changing the land use zone from B6 to B4 or alternatively permitting shop-top housing in the B6 zone, would enable property owners to respond to market demands along with an increasing residential population. Allowing shop top housing would support the feasibility of a mixed-use redevelopment and enhance opportunities for people to work close to where they live with good public transport connections.

We note that there are examples of other Standard Instrument LEPs permitting shop-top housing in the B6 zone, including Ryde LEP 2014. However, as discussed below, this should be accompanied by clauses requiring ground floor commercial uses.

5.2 FSR and Height

As well as proposing a change in land use, we recommend that the proposed density and height controls are also revised in order to stimulate redevelopment. The 'Princes Highway Corridor Strategy (Rockdale City Council, 2013) (p49) suggested that the maximum floor space ratio within the Highway Enterprise Corridor be increased from 1.5:1 to 2.5:1. This FSR formed the basis of Hill PDA's Option 3 feasibility analysis (Table 3). Hill PDA's analysis indicates that this FSR is necessary for development feasibility. Retaining the current FSR will be inadequate for this purpose.

In terms of appropriate building height, we propose a maximum height to 31 metres, which would enable the achievement of the 2.5:1 FSR identified as being needed for viable mixed use development on a site of this size. This height would not contravene the OLS for this site as described in the Strategy and in the absence of other factors that would warrant lower heights (such as overshadowing of sensitive areas that is not relevant here), optimising height is appropriate in this location.

Revising planning controls to increase density and height would facilitate redevelopment of the site and support increased opportunities for employment and housing.

5.3 Active Street Frontages

In allowing mixed-use development, we consider it essential to ensure that the objective of promoting employment related development along the corridor is genuinely met. We would therefore recommend that a requirement for active street frontages or employment uses on the ground floor be incorporated in any change to the land use zoning controls.

Whilst the current Clause 6.11 Active Street Frontages in the Rockdale LEP could be appropriately applied to this site if the B4 zone is adopted, clauses applied in other LEP's where shop top housing is permitted in the B6 zone, could also be considered. For example, in the Ryde LEP, the following clause has been incorporated to ensure that the ground floor must be used for business or employment purposes.

6.7 Ground floor development on land in Zone B6

(1) *The objective of this clause is to restrict certain development at the street level for buildings in Zone B6 Enterprise Corridor.*

(2) *Development consent must not be granted for development on the ground floor of a building within Zone B6 Enterprise Corridor if the development would result in any part of the ground floor not being used for business or employment activities, other than any part of that floor used for the purposes of:*

(a) *lobbies for any commercial, residential, serviced apartment or hotel component of the development, or*

(b) *access for fire services, or*

(c) *vehicular access.*

(3) *In this clause, commercial activities, in relation to the use of a building, means using the building for the purposes of business premises, community facilities, hotel or motel accommodation, landscape and garden supplies, light industries, passenger transport facilities, timber and building supplies or warehouse or distribution centres.*

6. Recommended amendments to planning proposal

For the reasons outlined in this submission, we conclude that in order to meet the aims of the Strategy to revitalise Banksia, it is necessary to amend proposed land use and built form controls applying to the subject site.

We recommend the following controls are adopted (Table 4):

Table 4. The proposed LEP controls pertaining to 240 - 264 Princes Highway.

LEP	Draft Strategy Control	Recommended Control
Land use	B6 Enterprise Corridor	B4 mixed use OR B6 with "shop top housing" included as a permitted use
	1.5:1	2.5:1
Building height	18m	31m
Ground floor development	N/A	Adopt a similar provision to Ryde LEP 2014 Clause 6.7 - <i>Ground floor development on land in Zone B6</i>



7. References

Hill PDA Consulting. (2017). *Critical assessment of the economic analysis supporting the draft Bayside West Precinct Plan*. Level 3, 234 George Street Sydney NSW 2000: Hill PDA Consulting.

Rockdale City Council. (2013). *Princes Highway Corridor Strategy*. Rockdale.

David Ryan
Executive Director, Planning
City Plan Strategy & Development
120 Sussex Street
Sydney NSW 2000

28 February 2017

Dear David,

Subject: Assessment of the economic analysis supporting the draft Bayside West Precinct Plan

HillPDA was engaged by Lowes Manhattan Pty Ltd under study supervision of City Plan Strategy & Development to undertake a critical assessment of the economic analysis supporting the draft Bayside West Precinct Plan.

Specifically, the scope of our work included:

- Critically reviewing the AEC Banksia Priority Precinct Feasibility Analysis;
- Conducting a high level economic analysis of the precinct and its potential to contribute to urban activation;
- Analysing economic trends and drivers within the Precinct, focusing on:
 - Employment and broad macro-economic trends;
 - Trends in motor vehicle retailing;
 - Trends in large format retailing ; and
- Formulating recommendations with respect to economic development in the Precinct.

The following details the findings of our analysis.

Background

In November 2016, the NSW Department of Planning and Environment (DPE) released the Bayside West Precincts (Arncliffe, Banksia and Cooks Cove) Draft Land Use and Infrastructure Strategy (the Draft Plan) with subsequent planning control changes in the area.

The Draft Plan proposes no change to the current B6 zoning (retail premises and residential prohibited) and FSR (1.5:1) and a minor increase in maximum building height (to 18 metres).

The primary reason given in the Draft Plan for these recommendations was to preserve employment lands within the area, specifically "to allow for a range of commercial uses, particularly showrooms and car dealerships which are expected to grow in demand in tandem with population growth"¹.

Lowes occupies the property located at 240-264 Princes Highway, Arncliffe. The property primarily has two buildings – a two and half storey office building on the northern corner and an adjacent single level warehouse.

We understand from discussions with Lowes that the business is keen to relocate to another building. When Lowes first occupied the building it incorporated its Head Office and warehouse/distribution facility that supported 21 stores in NSW and employed 35 people.

Today Lowes is now a national chain with over 200 stores and the premises are functionally obsolete to efficiently support a network of this size and cater for 110 on site staff.

The desire to move the Head Office is to locate in more modern and efficient office building within a 5-7km radius of Banksia so as to retain most of the existing staff and to be close to major transport corridors and key suppliers.

The main constraints with the current site are the lack of staff and visitor car parking, clearways along the Highway, poor access for large vehicle, inefficient floor plates, poor building and staff amenity and high repairs and maintenance expense due to the age of the buildings.

We consider that the proposed planning controls will not achieve the intended purpose in protecting employment and will unreasonably undermine urban renewal along the corridor.

Critical assessment of the AEC report

The Banksia Priority Precinct Economic & Feasibility Analysis (the Report), supporting the Draft Plan, was prepared by AEC Group.

¹ NSW Department of Planning and Environment (2016). "Bayside West Precincts, Draft Land Use & Infrastructure Strategy, part 2". p.26

Overall, in our view, the Report suffers from a number of issues, including:

- Characterisations or commentary not adequately supported by research and analysis.
- Minimal research and analysis into automotive retailing, 'bulk' goods retailing, construction and other key industries.
- Minimal commentary concerning the methodology or data sources (either in footnotes or an appendix).
- Potential computational errors with respect to some of data and data tables.
- No definition of the Precinct.²
- No citations or other linkage to related technical reports.

We are of the view that the Report does not sufficiently analyse drivers of economic growth.

Employment profile

We concur that retailing will continue to represent an important source of economic activity within the Precinct. However, we do not concur with the approach or the conclusions with respect to land use.

First, the Report has limited its analysis to only three industries being automotive retailing, 'bulk' goods retailing and construction. While there may be a valid reason for this, it is not made clear in the Report. In our view, the omission of other industries has implications for land use decisions.

Next, the Report examines the historical change in employment between 2006 and 2011, but does also consider forward looking employment projections.

According to BTS employment forecasts, the retail industry is expected to grow by an average rate of 0.9%, representing 18.7% of employment by 2026. The construction industry is forecast to grow by an average rate of only 0.4%, representing 9.8% of employment by 2026³ (down from 10.4% of employment in 2016).

The Report makes no mention of health care and social assistance or accommodation and food services industries. Health care and social

² The Report does not specify the BTS Travel Zones used to define the Precinct. Reviewing the Department of Planning and Environment demographic profile information, we assume that the Precinct is defined as travel zones 2703, 2705, 2706, 2707, 2711, 2712, 2713 2761, 2762, 2763, and 2764.

³ Bureau of Transport Statistics (2012).

assistance is forecast to grow by an average rate of 0.6% representing 15.7% of jobs by 2026. Similarly, accommodation and food services industry is forecast to grow by an average rate of 0.7% representing 6.1% of jobs by 2026, up from 5.9%⁴.

Table 1 Estimated Employment by Industry, Top 5 (2016-2026)

Industry	2016		2021		2026		CAGR (2016-2026)
	No.	% Total	No.	% Total	No.	% Total	
Retail Trade	603	16.6%	730	18.2%	800	18.7%	0.9%
Health Care and Social Assistance	559	15.3%	620	15.4%	670	15.7%	0.6%
Construction	378	10.4%	399	9.9%	421	9.8%	0.4%
Education and Training	282	7.7%	300	7.5%	321	7.5%	0.4%
Other Services	245	6.7%	253	6.3%	264	6.2%	0.2%

Source: BTS 2012

Similar to the wider Australian economy, there is an increasing transition towards a services based economy, which may necessitate a demand for more flexible types of space. For example, within the broader Precinct, Rockdale is projected "to have a lower proportion of young people aged 0-29 years, a greater number of people aged between 30-44 and 75+ and a similar number of people aged 45-74 years compared to Sydney as a whole by 2036".⁵ This will mean an increase in health and social services (and appropriate space) over the longer term.

Automotive retailing

We concur that automotive retailing is an important sector for the Precinct. However, we think that the Report does not sufficiently analyse trends in the automotive retailing industry.

First, based data from the ABS, roughly more than 350,000 new vehicles are sold annually.⁶ It appears that vehicles sales are growing in relation to population growth⁷. With strong population growth

⁴ Bureau of Transport Statistics (2012).

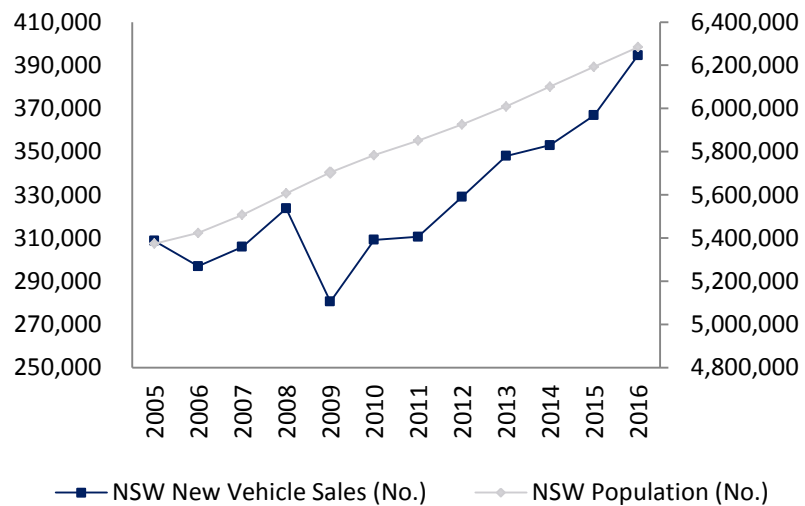
⁵ Department of Planning and Environment (2016). "Arncliffe Precinct Demographic Profile". Retrieved from <http://www.planning.nsw.gov.au/Plans-for-your-area/Priority-Growth-Areas-and-Precincts/Bayside-West-Precincts/~media/73AE632859304E24A017EEE613C7423A.ashx>

⁶ Australian Bureau of Statistics (2016).

⁷ A simple log-log regression analysis of new vehicle sales to population suggests an adjusted R2 of 0.647 and a p-value of 0.00098.

expected over the short to medium term, it would be reasonable to expect this trend to continue.

Figure 1: NSW New Vehicle Sales & Population Growth



Source: ABS 2016

However, it is important to note that new vehicle sales have occurred during a period of high employment and low interest rates. As illustrated in Figure 1, between 2008 and 2011, the Australian economy experienced the impact of the Global Financial Crisis. From 2011 to 2015 the Australian economy experienced a period of strong economic growth due to strong commodity demand from China.

Next, the decision of the car manufacturers was largely driven by domestic cost pressures. It is not clear in the Report how changes to automotive manufacturing will impact on automotive retailing.

For example, the Australian Motor Industry Federation (AMIF) highlighted in its submission to the Productivity Commission inquiry into the automotive industry:

*"Some have suggested that the cessation of local manufacturing might have less influence on sustainable dealership operations than other changes impacting the industry including dealership consolidation, the increasing role and influence of public dealership entities, and increased manufacturer direct retailing."*⁸

Further, with respect to demand side factors, the traditional automotive retail format is not in keeping with changes in preference with how consumers purchase a vehicle. For example, McKinsey

⁸ Australian Motor Industry Federation (2014). "Submission to the Productivity Commission Review of the Australian Automotive Manufacturing Industry". Page 6. Retrieved from <http://www.mtaa.com.au/images/docs/PC%20Review.pdf>

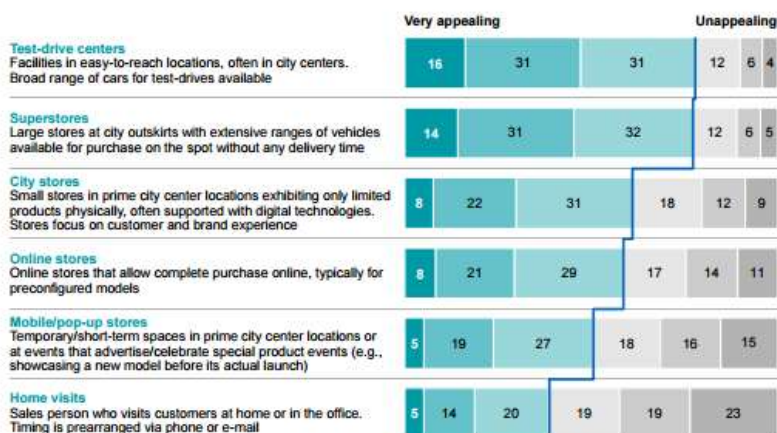
Consulting suggests that retailers are developing and experimenting with new and innovative retail formats to better meet consumer demands.⁹

Figure 2 Consumer Attitudes Towards New Retailing Formats

Customers strongly desire new formats

Appeal of new store formats to customers

Percent of respondents scored format on a 6-point scale



SOURCE: McKinsey 2013 Retail Innovation Consumer Survey

Source: McKinsey Consulting 2014

Lastly, because the report does not fully disclose its methodology, we are unable to ascertain how the Report determined that motor vehicle retailing represents 23.1% of employment¹⁰. Based on our analysis, motor vehicle and motor vehicle parts retailing represent around 4.7% of employment in 2012. As such, we do not concur that automotive retailing is as significant to the broader Precinct.

Going forward, it may be that automotive retail industry requires the same (or less) space as it looks to consolidate brands, rationalise product lines and invest in new retail formats. This could particularly be the case should underlying economic conditions deteriorate.

The changing nature of automotive retail is demonstrated by a number of case studies. The new Tesla showroom in Sydney CBD is a good example of a new format. In 2015, Tesla Motors opened its Australian flagship store on 20 Martin Place leasing 1,654sqm in an A-Grade building. The retail space is at grade with only pedestrian access. Discussions with a Tesla representative revealed the company



Source: D'Marge 2016

ulting (2014). "Innovating automotive retail Journey towards a customer-centric, multi-format sales and . Retrieved from <http://www.mckinsey.com/industries/automotive-and-assembly/our-insights/innovating-automotive-retail>.

¹⁰ The call-out box on page 12 indicates that the analysis is specific to "key industries within the precinct and broader catchment".

only requires a small retail space. It is a small area but has very high flow thoroughfares suited to their target market. Within the small retail space there are between two and three cars on display with a number of test cars held in basement parking.

The supply chain logistics of the small space does require ancillary locations for service centres and holding yards but these are strategically located based on their customers and market expansion strategy. In the case of Sydney's Tesla Company their service centre is located in St Leonards and cars holding yards close to ports of debarkation. The total time from ordering a new car to a customer receiving it is approximately 3 months. Tesla's business model shows by locating a showroom with high pedestrian access, but no vehicle access is an effective new business model.

Discussions with a number of retail leasing agents confirmed car retailers don't necessarily require large space to showcase models. In the last two years the leasing agent is seeing a trend in automotive retailers and servicing centres moving away from the traditional large format business model. This has enabled businesses to maximum their use of space and ultimately decrease overheads

On O'Riordan Street, Alexandria in the Sydney Corporate Park are several showrooms including Harley Davidson, Bentley, Jaguar, McLaren and Aston Martin occupying the ground floor area of a mixed use building (commercial suites above).

The Audi dealership on South Dowling Street in Zetland is another example. The service centre just north of the showroom is in a mixed use building which includes retail, commercial and residential units.

Bulky goods

Similar to automotive retailing, we concur that bulky goods retailing is an important sector for the Precinct. However, we believe that the Report does not sufficiently analyse trends in the industry.

First, we estimate that in 2016 bulky goods¹¹ retail turnover could be as high as \$33.9 billion¹², or 35%¹³ of total non-food retail turnover in

¹¹ We have included furniture, floor coverings, houseware and textile goods retailing, electrical and electronic goods retailing hardware, building and garden supplies retailing, and household goods retailing within this definition.

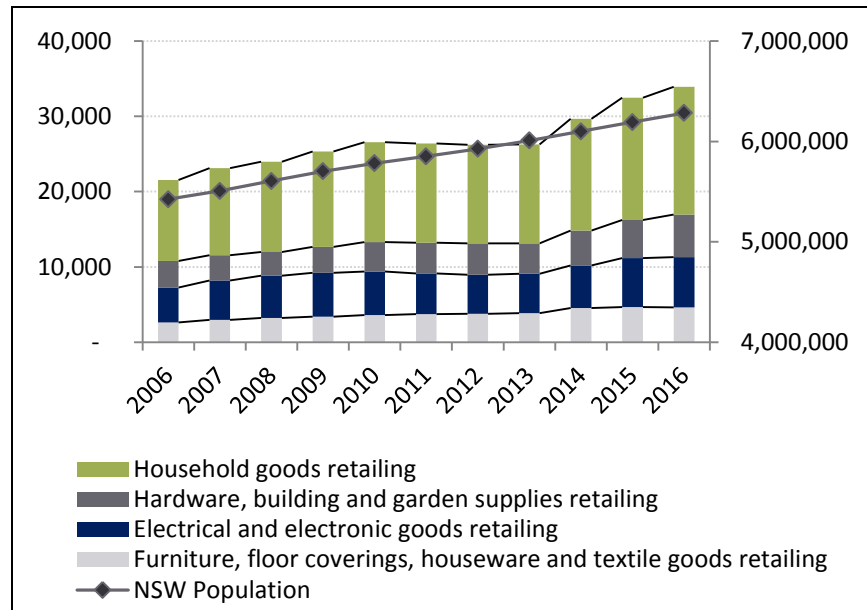
¹² Comparatively, the Large Format Retailers Associations suggests that large format retailing generates total sales of \$63 billion in 2014-15 and accounts for a 22% of all retail activity nationally.

¹³ Australian Bureau of Statistics (2016). "8501.0 - Retail Trade, Table 13: Retail Turnover, State by Industry Subgroup, Trend"

NSW. Over the past 10 years, bulky goods retail has grown by an average annual rate of 4.2%.

As highlighted in Figure 3, there appears to be a strong relationship between population growth and bulky goods retail spending. As with automotive sales, with strong forecast population growth it is likely that sales will remain strong into the short and medium term.

Figure 3: NSW Bulky Goods Turnover (\$m) and Population



Source: HillPDA analysis; ABS

Second, demand for large format retail space appeared strong¹⁴ driven by strong growth in hardware, building and garden supplies retailing and electrical and electronic goods retailing. A survey of 25 centres¹⁵ estimated that the vacancy rate was 5.7%, compared to the high of 16.0% in March 2011.

However, similar to automotive sales, retail turnover has been robust more recently in response to low interest rates. Indeed, there is some concern in the short to medium term given increasing slow overall economic growth more generally, as retail activity remains buoyed by low interest rates, high house prices boosting household wealth, and accommodating monetary policy.¹⁶

¹⁴ Comm3ntary Autumn 2016 – National Large Format Retail Page 3 <http://www.m3property.com.au/wp-content/uploads/2016/05/National-LFR-report-Autumn-May-2016.pdf>

¹⁵ Comm3ntary Autumn 2016 – National Large Format Retail Page 3 <http://www.m3property.com.au/wp-content/uploads/2016/05/National-LFR-report-Autumn-May-2016.pdf>

¹⁶ Jones Land LaSalle (2016). "Australian Shopping Centre Investment Review & Outlook". Page 25. Retrieved from http://www.jll.com.au/australia/en-au/Research/jll-australian_shopping_centre_investment_review_and_outlook_2016.pdf

Additionally, unlike automotive retail though, bulky goods retail is facing a number of specific challenges related to online retail and industry disruption. The Large Format Retailers Association noted in its recent submission to the Productivity Commission that it is facing specific challenges with respect to adapting to new business models¹⁷ in response to changing market condition, which are often ahead of government with respect to permitted uses of land.

In the face of technological change and potential economic uncertainty, flexibility with respect to land use may be more appropriate to the retail sector. Particularly as the composition of the local economy changes, there may be little net change as workers move laterally into other sectors.

Bulky goods retailing first appeared as showrooms attached to distribution and warehousing industries. Over time bulky goods strip retailing and centres have attracted a number of furniture, appliance retailers and hardware stores such as Harvey Norman, Domayne, Bing Lee, BabyCo, Bunnings, bedding shops, lighting shops, etc.

Bulky goods can take the form of strip retailing along a major highway (eg Parramatta Road Auburn, Mulgoa Road Penrith, King Street Warrawong and The Entrance Road Erina). Alternatively it can be in a standalone building or “power centre” such as Tuggerah Supacentra, Moore Park Supacentra and Auburn MegaMall.

Requirements for successful bulky goods centres generally include:

- Having a large and extensive trade area of 100,000 or more people;
- Being in a central position in the trade area or near the main entry point of a large trade area;
- Cheap and plentiful land to enable plentiful parking and loading and unloading facilities;

Desirable requirements include:

- Location on a major road with high visibility and accessibility.
- Having a trade area that is expanding as new homes generate higher demand for bulky goods than established homes;

¹⁷ Large Format Retail Association (2016). "Submission on the Productivity Commission Research Project on Disruptive Technologies". Page 8. Retrieved from <http://www.pc.gov.au/research/completed/digital-disruption/comments/submissions-test/submission-counter/comment012-disruptive-technologies.pdf>

- Having a wealthy trade area with high disposable incomes. Higher income households spend considerably more on bulky goods than lower income households.

Successful destination centres will have at least 30,000sqm of leasable space with a range of store types including furniture, bedding, electrical goods and appliances, home entertainment, DIY/hardware, lighting and flooring, soft furnishings, etc to attract a wide field of customers.

Many stand-alone retailers and smaller centres have failed to attract sufficient customers. Shoppers prefer competition and it is not unusual that they choose destinations that have multiple retailers selling the same or similar product range.

The Supa Centa Moore Park is a good example of a very successful destination centre because it achieves all the above attributes.

Site Attributes

The subject site on the Princes Highway has a number of limitations to being a successful car dealership or bulky goods centre.

Firstly the site is far too small to be developed as a bulky goods destination centre. Even if all the commercial sites fronting the highway between Spring Street and Vincents Avenue were amalgamated it would total around 4,700sqm of site area. In a two level building no more than say 6,000sqm of leasable space could be fit on the site, which is insufficient space for a multi-tenanted bulky goods centre.

Secondly the site and access constraints including the “no right turns” along the Princes Highway undermines the site’s trading potential. This is why the car dealerships and bulky goods retailers (such as Spotlight, Good Buys and Anaconda) that are currently trading in the area are on the other side of the road.

Finally under the current zone the site is already developed to its highest and best use. In all probability the site will not be redeveloped after Lowes vacates. Notwithstanding the current state of the building it is not viable to redevelop. Refurbishment is the higher and better use. This is discussed below.

Planning Considerations

NSW Department of Planning and Environment (NSW DPE) published the A Plan for Growing Sydney in December of 2014. It seeks to achieve the following outcomes¹⁸:

- A competitive economy with world-class services and transport;
- A city of housing choice, with homes that meet our needs and lifestyles;
- A great place to live with communities that are strong, healthy and well connected; and
- A sustainable and resilient city that protects the natural environment and has a balanced approach to the use of land and resources.

By 2031, Sydney's economic output will almost double to \$565 billion a year, with this economic growth being fuelled partly by an additional 689,000 new jobs¹⁹ over the period. Sydney will also experience a population growth of about 1.6 million persons, with 900,000 of this population growth occurring in Western Sydney. To meet this population growth, an additional 664,000 new dwellings²⁰ will need to be constructed.

State planning policy encourages urban renewal of areas with good connectivity to transport and strategic centres with the aim of providing housing and employment opportunities.

The benefit of providing greater residential densities closer to centres of employment and services is recognised in State planning policies for reducing commute times and congestion, while increasing productivity and access to, and patronage of, social and public transport infrastructure.

Banksia Centre

The subject site is in Arncliffe but the closest station is Banksia, being only 350m away. Banksia is a centre that is serviced by heavy rail station. Trains from Banksia leave every 10 minutes during the morning and afternoon peak times to the city – a 17 minute trip. Outside the peak times the service is every half hour. The same frequency of trips is provided in the opposite direction towards

¹⁸ NSW Department of Planning and Environment. "A Plan for Growing Sydney". December 2014.

¹⁹ NSW Department of Planning and Environment. "A Plan for Growing Sydney". December 2014.

²⁰ NSW Department of Planning and Environment. "A Plan for Growing Sydney". December 2014.

Kogarah and Hurstville which are 4 minutes and 10 minutes away respectively. The airport is only three stations from Banksia.

Limitations of B6 Enterprise Zones

The B6 zone along the Princes Highway *underutilises* the valuable land parallel to the train line, airport and the city, and impedes the State's ability to maximise its return on its transport infrastructure investments.

The increased population within the redevelopment would also increase employment opportunities for local residents and demand for retail and commercial services. The major proportion of this floor space demand would be directed along the Princes Highway corridor, further providing impetus for investment and urban renewal.

Further, the B6 zone is somewhat inflexible because it specifies specific retail restrictions. Many of these restrictions represent 'old economy' jobs and do not keep pace with the nature of the changing economy. For example, one of the stated objectives of the zone is to limit retailing²¹ to formats such as vehicle sales, bulk goods retailing, timber yards, etc. Based on the economic analysis, retailing broadly is expected to lead jobs growth; however, this type of retailing represents less than 20% of total retail sales.

By contrast, the B4 zone includes a more flexible zone that can better accommodate the changing nature of local economy. The zone allows a broad class of commercial premise, which can include a variety of retail premises²² *including* bulky goods premises, garden centres, hardware and building supplies, and vehicle sale or hire premises. Indeed, the B4 zone can accommodate many of the 'heavy' or 'bulky' retail purposes, but does not place specific restrictions on certain uses.

An example of urban renewal is the Parramatta Road corridor. In 2016 Urban Growth NSW adopted the Parramatta Road Transformation strategy which focuses on the urban renewal from Holroyd to Camperdown. There are a number of precincts along the corridor that are being rezoned for high density mixed use development. This includes Kings Bay Precinct which was traditionally a light industrial zone that accommodated vehicle sales and services centres. Due to changes in business industries and the

²¹ Rockdale Local Environmental Plan 2011. "Zone B6 Enterprise Corridor". Current to October 2016. Clause 1.

²² Rockdale Local Environmental Plan 2011. "Dictionary,". Current to October 2016. Definition "commercial premises. Sub-clause (c).

area not being suitable for light industrial zoning the decision was made to rezone the precinct to high density mixed use that activates open space with strong links to transport and the Sydney Harbour. The activity and commercial zone requirements ensure the ground and first levels of development are non-residential use.

Redevelopment feasibility

To assess development feasibility in the precinct, we considered three options for the site. These options are:

- Option 1 (Base case): indicative current investment value – a business that can occupy the existing buildings. This could be a bulky goods retailer, for example.
- Option 2 (redevelopment): Hypothetical retail development based on the proposed draft Bayside West Precinct Planning constraints being zoned B6 Enterprise Corridor, FSR 1.5:1 with increased height limit to 18 meters.
- Option 3 (Mixed use development): Hypothetical mixed use development being residential above ground floor commercial. The planning constraints tested would be assumed from the proposed planning constraints to the north of the subject site. These planning constraints are B4 Mixed Use with an FSR of 2.5:1 and height limit of 31 meters.

- Table 2 summarises the relative residual land values under the different options.

Table 2: Indicative Residual Land Values

	Option 1 Base Case	Option 2 Redevelopment	Option 3 Mixed Use
Land Use	Lease existing building	Redevelop for multi-level showroom	Redevelop for Residential with Ground Floor Commercial
Site Area (sqm)	3,619	3,619	3,619
FSR	1.5	1.5	2.5
Height		3 storeys	6-8 storeys
NLA @ 85% Efficiency		5,429	9,048
Commercial (sqm)		4,614	2,000
Residential		4,614	5,690
PROJECT REVENUE			
Residential			54,058,563
Less Cost on Sales			-\$6,487,028
Commercial Revenue	9,200,000	14,910,000	5,850,000
NET REVENUE	\$9,200,000	\$14,910,000	\$53,421,535
PROJECT COSTS			
Construction Cost		9,771,300	28,100,000
Soft costs & contingencies		\$2,442,825	\$9,835,000
Total Project Cost		12,214,125	37,930,000
Net Residual Land Value	\$8,600,000	\$2,510,000	\$14,540,000

Notes/Assumptions:

Residential end sale value = \$9,500/sqm

Cost on residential sales = 12% (GST, commissions, legals)

Market rent for site under Option 1 ("as is") = \$180/sqm for warehouse and \$280/sqm for the office space

New showroom net rent = \$210/sqm

Commercial capitalisation rate = 6.5%

Construction cost of multi-level bulky goods = \$1,800/sqm

Construction cost of mixed use development = \$2,600/sqm

Car parking = \$50,000/space

Soft costs (design and application fees, development contributions, marketing, finance and interest, etc) = 25% to 35% of construction cost

Net residual land value = (Net revenue less Total project cost) less 6% for site transaction costs.

Option 1 Base Case

The results show that under the Base Case the site could be leased "as is" providing a capitalised value of around \$8.6m.

What we haven't included in this simple exercise is the capital expenditure that is likely to be required to bring the existing buildings into a good condition.

There are also site constraints such as “no right turns” along the Princes Highway that undermines trade. This is why the car dealerships and bulky goods retailers (such as Spotlight, Good Buys and Anaconda) that are currently trading in the area are on the other side of the road.

Option 2 Bulky Goods (complying to the B6 zone)

Redeveloping the site to the maximum FSR for to accommodate land uses that conform to the B6 zone (Scenario 2) is clearly not viable as it results in a much lower residual land value than the base case. Clearly retaining the existing building is a higher and better use under the B6 zone notwithstanding the limitations of the site.

Scenario 3 Mixed Use Development

The mixed use development option results in a residual land value at around \$14.5m which is considerably higher than the base case demonstrating a feasible option.

Conclusion

The overall conclusion is that the current zoning on the land will not result in urban renewal in the foreseeable future. The highest and best use of the site under the B6 zone is to retain the existing buildings. A mixed use zone will facilitate urban renewal providing both housing and jobs in the area close to major public transport.

Employment Generation

We further tested redevelopment options to see what impact it would have in terms of employment in the local area. Given that Option 2 is not viable we only assessed Option 1 (base case) fully leased and Option 3 mixed use development.

If the Lowes buildings on Princes Highway were fully leased under Option 1 it could provide around 110 jobs based on the current number of workers²³. This would be the highest employment density that could be achieved equating to around 15sqm/worker in the office component and say 60sqm per worker in the showroom. This is very dense, which is part of the reason for Lowes desire to move. It's likely that any replacement business will have lower employment

²³ ABS Retail Survey 1998-99 for showrooms and bulky goods

levels – say around 60 to 80 staff (20 to 22sqm per worker in the office component and 80 to 100sqm per worker in the warehouse).

Estimating the number of jobs in Option 3 is more vexed because it depends on the type of businesses that will occupy the spaces. Food retailers will achieve a worker density as high as 20sqm per worker and non-food specialties around 25sqm to 40sqm. If we assume say 1,200sqm of showroom space and 800sqm of general retail then around 50 jobs could be provided on the ground floor of the site.

In addition to the ground floor commercial space are residents that work at home. According to an ABS report around 7.6% of workers undertake majority of paid work at home²⁴. Given that, it is likely that a further 6 people would live and work in the building above the ground floor.

To conclude we estimate that redevelopment of the site for mixed uses at a FSR of say 2.5:1 would provide around 55 to 60 jobs compared to zero jobs (following Lowes exit) or 60 to 80 jobs if it was re-let as office and showroom or warehousing space. In general we do not perceive a significant loss in the number of jobs by rezoning the site to B4 Mixed use.

Most of the businesses in the B6 zone along the Highway are low employment generators – auto servicing and repair work, car dealerships, etc. The largest employer is Lowes and this business is looking to relocate due to the location and condition of the building being inferior to alternatives. Lowes is likely to close and it is likely the corridor has lost jobs over time. The B6 zone is therefore not protecting the corridor from job losses. It is in fact undermining the feasibility for urban renewal and hence the feasibility to create more jobs in the locality.

Conclusions

Transit orientated development (TOD) refers to high density residential and mixed use development close to major public transport nodes meeting urban consolidation objectives. It results in improved efficiencies, reduces dependency on private motor vehicle usage, reduces congestion and encourages the use of public transport.

State planning policies encourages TOD and urban renewal of areas with good connectivity to transport and strategic centres with the

²⁴ ABS Locations of Work 2008, Cat 6275.0

aim of providing increased housing density and employment opportunities.

Banksia and Arncliffe are centres with a high level heavy rail transport service 17 minutes from the city and close to the airport. The subject precinct is only 350m from Banksia Station.

Yet the B6 zone along the highway is undermining TOD and urban renewal because it is not viable to replace the existing buildings with new commercial spaces that are limited to the range of land uses permissible in the zone.

Commercial uses can be encouraged and the number of jobs on site can increase as a result of redevelopment but only in a mixed use zone where shop top housing is necessary to ensure the viability of redevelopment.

Sincerely,



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