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Dear Katrina

Subject: 242-244 BEECROFT RD, EPPING

HillPDA has prepared this letter on behalf of Landcom relating to a State Significant Development Application being considered for a predominantly residential development at 242-244 Beecroft Road Epping (referred to the subject site hereafter). We understand that Landcom has submitted an application for development comprising around 37,700sqm Residential GFA (432 apartments) and 700sqm of non-residential uses occupying the ground level.

The purpose of this letter is to comment on several submissions made in respect of the development application – namely DPIE, Council, Epping Civic Trust and several public members where comments related to economic issues.

The main contentious issue from Council, the Civic Trust and some of the public submissions is the lack of employment uses being proposed on the subject site. Notwithstanding the current zoning of the land being R4 High Density Residential the objectors argued that the site was previously used as an office park and that Epping has lost office jobs due to several redevelopment projects. The town has become more of a dormitory residential suburb and less of a commercial centre.

The Epping Town Centre

The Epping Town Centre is generally defined by the B2 zone with Carlingford Road and Victoria Street / Boronia Park being the boundary. The service station just on the north side of Carlingford Road is zoned B2 Local Centre but, as with other service stations, it is a fringe land use. Carlingford Road provides the 'natural' boundary to the town centre due to its heavy traffic, poor amenity along Carlingford Road and reduced accessibility with delays across the road to the north. East of the railway line the boundary of the B2 zone extends to Chester Street to the north and the Library / Epping Road to the east and South.

Within that defined town centre Epping has 160 ground floor shop front spaces. Of these 67 businesses are retailers selling food and other goods, 20 provide retail (personal) services (for example hair and beauty) and 67 provide non-retail commercial services (28 medical, 16 real estate, 5 financial and 18 other). 7 premises were vacant at the time of survey in October 2019.

Epping has around 24,000sqm of shop front space of which just over half (around 14,000sqm) is used for retail purposes and retail services. The vacancy rate is just below 4% which suggests that the centre, in terms of retail, is reasonably healthy.

As a commercial office centre however Epping performs less well. It has around 30,000sqm of non-shop front office space (mostly above ground) and the vacancy level is high as shown in the table below.

Building	GFA Sqm	Vacant Suites	Vacant (sqm)*
61 Rawson St	5,500	7	3,050
51 Rawson	3,700	5	468
41 Rawson	1,500		
16-18 Bridge St	2,600	1	630
2 Pembroke	1,600	2	320
37-41 Oxford St	5,200		
44-46 Oxford St	1,700	1	1,700
6 Cambridge St	2,300		
16 Cambridge St	1,800	3	900
Other	4,000	2	83
TOTAL	29,900	21	7,151

* Total of all office suites available for lease on *realcommercial.com.au* as at 4 October 2019

Vacant space was sourced from on-site survey and a search through realcommercial.com.au. Current vacancy is around 24% which is high for a suburban centre like Epping. Given that the subject site is an inferior location to the other buildings shown in the above table there is a considerable risk and probability of long term vacancies in the building. There are a couple of commercial vacancies in the Poly Horizon building that have never been leased up since the building was constructed 15 months ago.

The office market in Epping

Existing commercial space in Epping Town Centre is predominantly located on Rawson, Cambridge, Oxford, Bridge Streets and Langston Place. Existing commercial stock is Grade B, C and D and varies considerably in quality. The key commercial buildings in Epping include 16-18 Bridge Street, 41 Rawson Street, 51 Rawson Street, 2 Pembroke Street and 37-41 Oxford Street (Goodman). Non-retailing tenants with a ground floor location include medical, real estate, financial and travel services. The majority of first floor tenants provide medical and financial services.

These stand-alone commercial buildings were constructed in the 1970s and possibly into the 1980s. Since then there have been almost no additions to supply. The experience is similar in other suburban locations including Chatswood, Penrith, Blacktown, Liverpool and Hurstville. Since the recession of the early 1990s it has not been viable to develop stand-alone office buildings in these suburban centres. The market has shifted back to the Sydney CBD and to other particular locations that have enjoyed strong levels of business agglomeration such as Macquarie Park, Parramatta and Norwest. No longer are corporate headquarters, such as Westpac, seeking suburban locations for new office space.

Epping Town Centre offers competitively priced commercial office space relative to other markets such as Macquarie Park, lower parking levies and strong accessibility. Notwithstanding these competitive advantages a withdrawal of office space has been witnessed in recent years owing to factors such as:

- Changes in the economic climate;
- The nature of building stock;
- Increased competition from higher-order nearby commercial centres (such as Macquarie Park, Norwest, Chatswood and Parramatta) which possess significant competitive advantages over Epping Town Centre;
- Lack of critical mass and business agglomeration; and

- The growing perception of Epping as a residential and service focused centre as opposed to a prestigious office location.

Demand for office space in Epping from larger companies and institutional investors is very weak (both former commercial building occupiers in Epping and prospective new tenants). These investors prefer alternative locations over Epping such as the North Ryde / Macquarie Business Park, Chatswood, Parramatta and Sydney CBD owing to their newer and more efficiently designed buildings, agglomeration benefits and superior access to services and amenity. In comparison, the Epping office precinct has a growing proportion of ageing stock that is not attractive to new market entrants or for redevelopment as end sale values which barely cover the cost of delivery.

Further consultation with real estate agents indicated there is demand for secondary commercial space in Epping (suites generally below 200sqm). The secondary commercial market differs notably from the prime commercial office space focussed on providing services to the local population including finance and accounting practices, medical practices, dental surgeries, chiropractic services, real estate and the like) as well as day cares and colleges / education. This demand is largely consistent with the growing perception of Epping as a residential and local service centre rather than as a business / office central business district.

It should also be noted that the above relates to Epping Town Centre, with local agents expressing that non-core fringe locations are at greater risk of vacancy, achieving lower rents and/or attracting prospective developers.

Loss of employment space

The Epping Civic Trust and the several public submissions made claim to a loss of 10,000 jobs in Epping. This would have been impossible as Epping never had that many jobs. In 2006 the Epping SA2 (the whole suburbs of Epping and North Epping) had 6,130 jobs (Journey to Work data 2006). At that time the Westpac building, Cambridge Office Park (the Goodman buildings on Cambridge Street and Chester Street (now Poly Horizon) and the Epping Office Park (the subject site) were all occupied. By 2016 the number of jobs declined to 4,830 (Census 2016 Workforce Population Profile). The loss of jobs has therefore been 1,300.

Stronger opportunities in the Town Centre

The subject site is not in the town centre but is just outside the town centre by definition of the zoning. Carlingford Road carries significant traffic and is a pedestrian barrier between the site and the town centre. There are far better opportunities to provide employment uses in the town centre south of Carlingford Road with considerable shorter walking times from the train station. Two main sites with strong potential is Epping Town Centre (No. 58-77 Beecroft Road) and the Rawson Street Car Park and Coles supermarket site.

Epping Town Centre is has a site area of 6,592sqm and an FSR of 6:1. We understand the owner intends to develop the site at a higher FSR of more than 8:1. Whatever the final FSR if we assume development provides commercial space at FSR of 3:1 this would provide 19,776sqm of employment spaces. The site provides a good opportunity for additional retail space including a second full-line supermarket in Epping. Retail, retail services and entertainment uses could be provided over at least three levels from Rawson Street to the railway concourse with direct pedestrian access from the railway station. Assuming an 88% efficiency level (GLA to GFA ratio) and half the commercial space is retail at 1 worker per 24sqm and the balance is office suites at 1 worker per 16sqm then 870 workers could be accommodated on site. This is 750 workers more than the estimated 120 current workers on the site.

The Council car park, Coles supermarket and 61 Rawson Street site could be redeveloped to an FSR of 4.5:1. Assuming 50% of the land use is employment uses (FSR 2.25:1) and an 88% efficiency level then this site could accommodate around 1,500 workers. With an estimated 320 workers on site currently this is a net increase of 1,180 workers.

These two sites could therefore accommodate an increase of around 1,930 workers in the town centre which would more than make good the loss in jobs since 2006. Under this scenario these two sites alone would reach the minimum target increase in jobs (1,900 more jobs in the Epping Town Centre by 2036) set by State Government. We note that Council has a more ambitious target of 4,300 more jobs (by 2036) but any adopted target could be overly optimistic and unrealistic in terms of market need and development feasibility.

The subject site at 242-244 Beecroft Road is secondary commercial location. Likely market rent would be considerably lower than on the other two sites mentioned above reflecting its less desirable location. Given the current level of office vacancies in Epping (25%) it would be difficult finding tenants for any above ground floor commercial space on the subject site. There is a high risk of considerable long-term vacancies.

We also note that Langston development (now under construction on the former Westpac site) and the approved development application by DGS Epping Development at 48-54 Beecroft Road and 52-54 Rawson Road are residential towers with some ground floor retail only and no above ground floor commercial space notwithstanding that both sites are zoned B2, are clearly inside the town centre and much closer to the train station than the subject site.

Competitive Positioning

Each office market has unique characteristics and particularities that drive demand for commercial floorspace. Upon reviewing various Sydney metropolitan office precincts, HillPDA have identified common key factors that drive demand, described as follows:

- **Accessibility:** Access to public transport supported by pedestrian friendly links.
- **Amenity**: Strong access to retail and leisure amenities to provide workers with a range of options and increase the desirability of the area as a place to work.
- **Ambience**: Land use compatibility with surrounding area as well as the character and reputation of place (i.e. prestige office location, excellent design and aspect).
- **Critical Mass**: Established commercial office market, with large scale clustering of similar and complementary businesses/professions and where agglomeration economies are available.

The below table provides a summary of the key market drivers and their presence across the main development sites in the Epping Town Centre and fringe. A score of 1 (low) to 5(high) is given based on a comparative analysis undertaken for each of the sites to derive an overall desirability score.

Epping Market Drivers

	Subject site	Rawson St Carpark to 61 Rawson	Epping Centre (48-78 Beecroft Rd)	12-22 Langston Pl. (Westpac)	44-48 Oxford Street	2-16 Epping Road (Austino)
Accessibility*	2	4	5	4	4	2
Amenity	1	4	4	3	3	2
Ambience	1	4	4	3	3	2
Critical Mass	1	2	2	2	2	1
TOTAL Score	**5**	**14**	**15**	**12**	**12**	**7**

* Referring to accessibility for pedestrians and to public transport (rather than private motor vehicle)
Source: HillPDA

As shown in the table above the subject site scores low in desirability and does not have the attributes of the other identified development sites which would appeal to tenants and institutional investors. The second lowest score is Austino's site because it too is outside the town centre being on the south side of Epping Road. Like the subject site it is a desirable site for residential, but not for commercial.

In addition to assessing development sites within Epping, it is also important to assess the competitive positioning of the subject site against other major office precincts in the Sydney metropolitan that have the capacity to accommodate additional commercial floorspace and will compete with Epping. HillPDA has identified 10 major office precincts which include:

- Parramatta;
- Sydney CBD;
- North Sydney;
- St Leonards;
- Chatswood;
- North Ryde/Macquarie Park;
- Sydney Olympic Park;
- Rhodes;
- Norwest; and
- ATP / South Sydney.

The below table provides a summary of the key market drivers and their presence in each of the office precincts listed above including the subject site. As above a score of 1 (low) to 5(high) has been given based on a comparative analysis undertaken for each of the markets to derive an overall desirability score.

Office Market Drivers

	ATP / South Sydney	Chatswood	Epping	North Sydney	North Ryde/ Macquarie Park	Norwest	Parramatta	Rhodes	St Leonards	Sydney CBD	Sydney Olympic Park
Accessibility*	3	4	4	4	3	3	4	3	4	5	2
Amenity	3	4	2	4	3	3	4	3	4	5	3
Ambience	2	3	3	3	4	4	4	3	3	5	3
Critical Mass	3	3	1	4	4	4	4	3	3	5	3
Overall Desirability Score	**11**	**14**	**10**	**15**	**14**	**14**	**16**	**12**	**14**	**20**	**11**

* Referring to accessibility for pedestrians and to public transport (rather than private motor vehicle)
Source: HillPDA

Epping scores quite low in desirability compared to the other office precincts in Sydney metropolitan. Most of the competitive precincts in the above table have considerably more well-established commercial space. Many of them are better located to amenities and offer significant competitive advantages over Epping. Another common factor amongst all the highly ranked precincts is critical mass and business agglomeration. Epping does not have the critical mass to appeal to larger companies and/or growing commercial/technological industries. The subject site on the other side of Carlingford Road from the Town Centre would only increase the difficulties of attracting such tenants and investors. The only advantage that Epping has over some of these precincts is a high and frequent level of public transport with trains in four directions as well as several bus routes.

Other Considerations

Other major constraints associated with the subject site that would undermine the viability of commercial or retail uses include the following:

- The subject site is not located within an established office precinct, with the commercial floorspace having sharply declined over the years in Epping. Businesses benefit from agglomeration locating in areas that offer a critical mass of similar commercial tenants.
- The site was zoned R4 Residential High Density as it was not the original intention to accommodate large scale office / business park development.
- The subject site would struggle to compete with higher-order nearby commercial centres (such as Macquarie Park, Norwest, Chatswood, Parramatta) which offer significant competitive advantages. This is evident by a number of former commercial tenants that have relocated to these established office precincts. This will make it difficult for Epping, particularly fringe location sites such the subject site to achieve pre-commitments from tenants. Other Global Economic Arc corridor centres such as Norwest, Macquarie Park, Chatswood and St Leonards will enjoy a growing competitive advantage as the accessibility to these centres improves with the Sydney Metro. This was confirmed by SGS in their report on the Epping Town Centre.
- The subject site is not of a sufficient scale to make development attractive for many prospective office tenants, particularly given its fringe location in a predominantly residential area. Commercial uses are likely to have a greater amenity impact on residential properties which was one of the key reasons for rezoning the subject site to R4.

- As discussed previously the subject site is located outside of the town centre, with Carlingford Road being a significant barrier or edge to the town centre. This coupled with the distance from the train station is a significant deterrence for prospective commercial and retail tenants – particularly tenants that depend on high accessibility and passing trade.
- Pedestrian traffic is a key for the success of retail tenants and the subject site enjoys little passing trade. It is recommended that any retail floorspace as part of this development should be provided on the ground floor and focused on southern end of the site. The role of the retail uses is confined to servicing the regular needs of the local residents in Epping North of Carlingford Road. Uses are likely to be limited to a convenience store or grocery, hairdresser and possibly a restaurant.
- Increasing the commercial FSR on the subject site may result in additional traffic and congestion to an already constrained intersection.

Implications of a Smaller Retail/Commercial Offer on the subject site

A small scale retail and commercial offer on the subject site would lack the critical mass to attract a strong retail or commercial mix particularly given the site's fringe location and competitive disadvantages as discussed above. If a smaller provision (i.e. less than 1,000sqm) of retail and commercial floorspace were provided on site it should largely be confined to the ground floor level fronting Beecroft Road - maximising exposure to passing traffic. Prospective tenants could include a convenience store or small format grocer as well as a few personal services (i.e. hairdresser, dry cleaners etc) i.e. largely to service local residents within the walkable catchment – particularly residents north of Carlingford Road. There is also the opportunity for one or two small commercial suites, medical services, gymnasium or child care.

Yours sincerely,

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