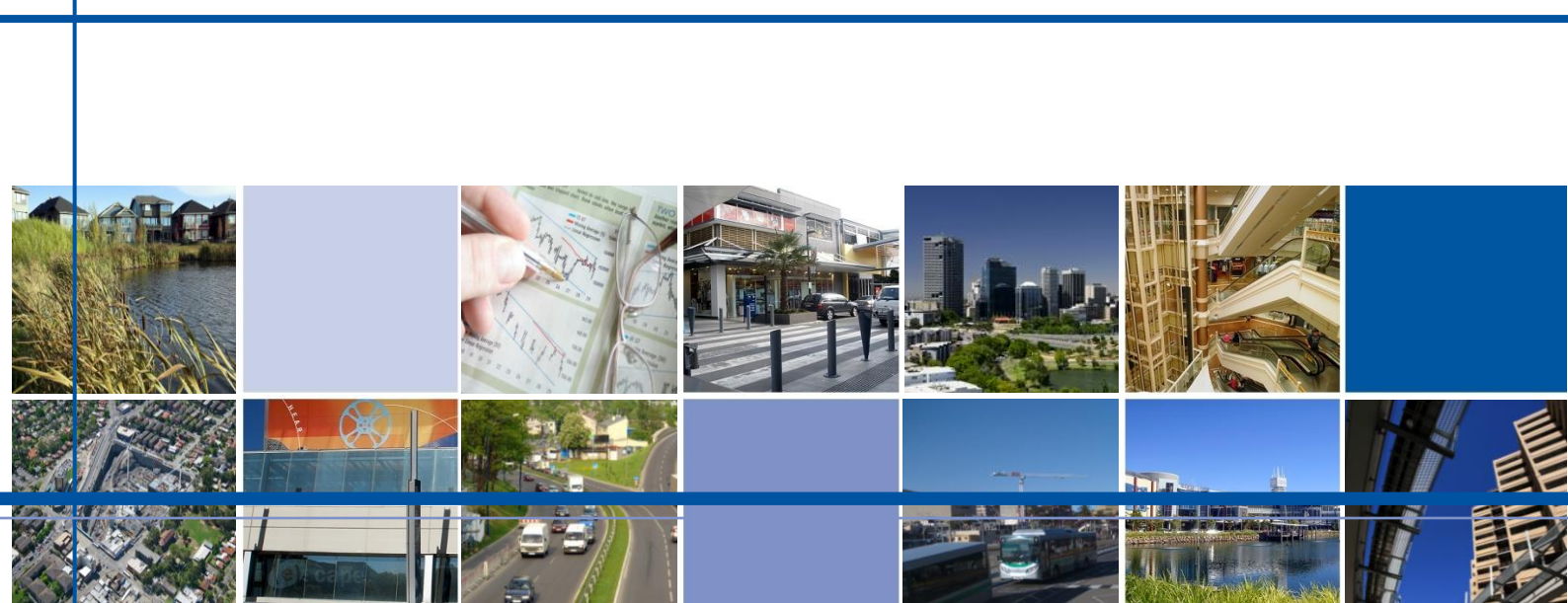


Central Park Office vs Residential/Student Accommodation:

Economic Impact Assessment

January 2013



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Residential & Student Accommodation Need – Key Findings

The purpose of this assessment is to consider the need for the full complement of approved office space at the Frasers Broadway/Central Park site, compared to potential housing uses in the forms of student accommodation and standard apartments. This analysis is required in response to Director General Requirements (DGRs) of the Department of Planning and Infrastructure, relating to an economic impact assessment of the use variation. It is noted that the DGRs for Block 4S have requested this report.

Frasers Broadway/Central Park JV seeks to develop additional student housing at Central Park which can accommodate approximately 826 students. The proposed provision will replace one approved component of commercial space (equivalent to 25,000m²), with student accommodation. Project construction would be aimed to commence in 2013.

A separate provision is sought to replace a second component of approved commercial space (also equivalent to 25,000m²) with a project comprising 250 to 300 apartments. Project construction would be aimed to commence in 2014.

Our analysis highlights the extreme pressure that exists in the inner city housing market. Shortages are prevalent in the inner city rental market, and these conditions are evident in a majority of the greater Sydney area.

For the area proximate to Central Park, these shortages have developed due to an extended period of very low apartment construction. Rents have surged, and limited supply has constrained population growth in a region where office workers can live within walking distance of the workplace.

Our analysis indicates that the shortfall in residential construction over the last five years has resulted in an accumulation of pent-up demand in Sydney. There is sufficient excess housing demand to support solid residential construction for at least the next five years.

Demand for inner city apartments is expected to recover and trend higher. Even with moderate jobs growth in the CBD, an ageing demographic will sustain the housing supply shortfall for the inner Sydney area. The CBD office workforce is becoming more reliant on overseas migration through temporary residents. In this context, the balance of supply between the office and residential sectors will need to gradually shift towards apartment supply. The proposed provision is consistent with this trend.

On this basis, the provision for an additional 250-300 apartments at the subject site is supported by market need, particularly in terms of overseas workers from Asia who have already shown a strong preference for Central Park given its proximity to Chinatown, World Square and Broadway.

We also present an economic assessment for the proposed development of a student accommodation. Based on this assessment, we argue that student housing at Central Park will:

1. Reduce the pronounced student housing shortage apparent in the region;
2. Activate the Central Park precinct during ordinary business hours;
3. Adhere to both Federal and State government policy objectives associated with the provision of new affordable dwellings;
4. Reduce strain on public infrastructure networks.

The location of the proposed student accommodation provision fulfils ideal housing selection criteria imposed by international students. It is located within walking distance of major tertiary institutions (University of Sydney, University of Technology Sydney, TAFE NSW Ultimo campus), is well placed to utilise significant existing public infrastructure networks and is adjacent to retail and restaurant services. It is well placed in an active component of Sydney city, offering safety and natural surveillance for student residents.

The proposed student accommodation offering adheres to both Federal and State government initiatives associated with the provision of affordable housing. It has been supported by the National Rental Affordability Scheme (NRAS), which has been designed to lower rental costs.

We also note that the proposed housing projects will extend the vitality and vibrancy of the resident community, which will be supportive of local retail & recreational services.

The final element of the analysis considers the prospects for the inner city office market. We note that aggregate demand for office space in the Sydney CBD has been weak over the past decade, leading to low growth in effective rentals. Our view is that outlook for Sydney CBD white collar jobs growth is relatively subdued.

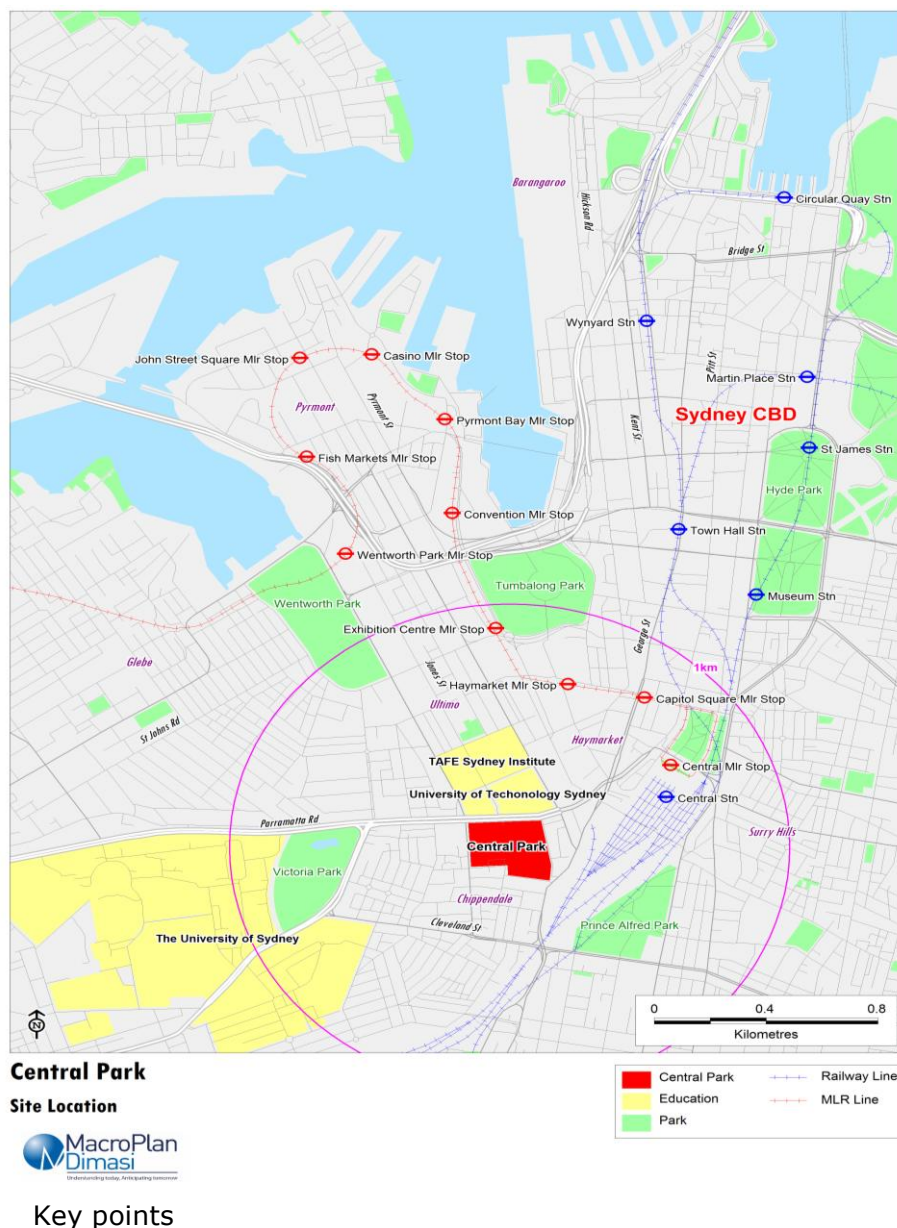
At the same time, there are major additions to office space which will proceed over the next three years, led by projects at the Barangaroo precinct. Available data indicates that the future need for commercial provision at Sydney CBD will be adequately catered for by the identified project pipeline.

Given the recent historical evidence and projected conditions, we expect that additional housing is more likely to be successfully marketed during from 2013 to 2015 when compared with the specified office space.

The relative scale of supply underlines this view: a project for 300 apartments represents approximately 10% of annual underlying demand in the Sydney LGA, whereas 25,000m² of office space amounts to approximately 50% of projected annual absorption in the CBD.

Overall, our view is that the proposed amendments would deliver additional housing that will meet market needs, with a component of student accommodation that is designed to meet affordability targets. The delivery of student accommodation is an important update of the 2007 Concept Plan, given the recent expansion of the overseas student market; moreover, this specialised business service (Class 3, Boarding House) is technically a different use to Residential (Class 2, Strata Private), and this blurs the calculation of the precinct's non-residential uses.

Figure 1. **Central Park Context Map**



Economic Assessment: Inner City Apartments

Our analysis indicates that the shortfall in residential construction over the last five years has resulted in an accumulation of pent-up demand in Sydney. There is sufficient excess housing demand to support solid residential construction for at least the next five years.

Demand for inner city apartments is expected to recover and trend higher. With an ageing demographic, the CBD office workforce is becoming more reliant on overseas migration through temporary residents.

Even with moderate jobs growth in the CBD, an ageing demographic will sustain the housing supply shortfall for the inner Sydney area. In this context, the balance of supply between the office and residential sectors will need to gradually shift towards apartment supply.

From 2006 to 2011, apartment construction in the inner Sydney region was very low. Based on ABS Census data, the additions to the Sydney LGA dwelling stock averaged 1,270 over the five years to 2011. This rate of construction was less than half of the rate observed during the 2001-2006 period, when the number of completions averaged 3,060 per annum.

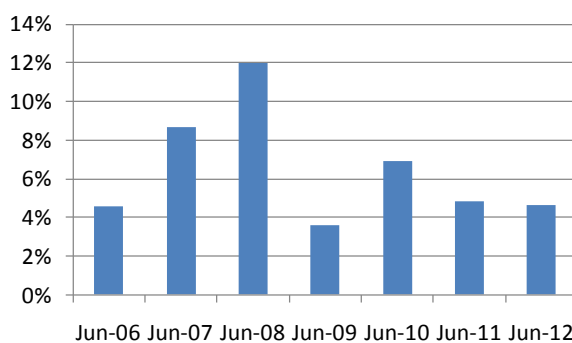
The under-supply of housing has been reflected in a tightening rental market, strong growth in rentals, and limited population growth in the Sydney LGA.

Demand for rental dwellings has not been matched by the new apartment additions to rental stock. According to data published by the REINSW, the inner Sydney ((0-10 km from the CBD) residential rental vacancy rate has remained below the market equilibrium rate of 3 per cent since 2004, resulting in sustained strong rental growth.

The rental vacancy rate for inner Sydney remained at 1.8% in December 2012. Being steady when compared to the vacancy rate in June 2012, and up marginally compared to the 1.5% vacancy rate recorded for December 2011.

Due to the tight rental market, rental growth has been relatively high. ABS Census data shows that the median rental paid in the Sydney LGA increased by 3.3% per annum over the 2001-2006 period, but then accelerated with growth of 7.1% per annum over the 2006-2011 period. The rate of growth appears to have moderated in 2010/11 and 2011/12, with an increase of 4.5% per annum (according to the median rental for 2-bedroom apartments reported by the Housing NSW Sales and Rental report). This rate of increase remains well above overall consumer price inflation.

Figure 2. **Annual growth in median rental for 2-bedroom apartments, Sydney LGA**



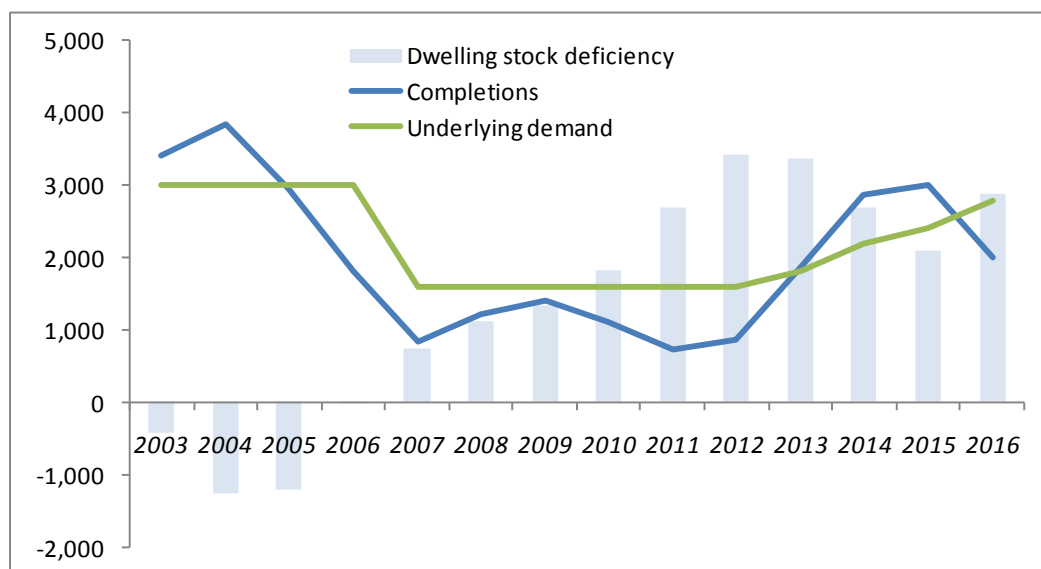
Source: Housing NSW Sales and Rental Report

Looking forward, we expect that the inner city apartment market will remain under-supplied. The rate of commencements has improved in 2010/11 and 2011/12, but supply is only moving back to the annual average observed during the 2001-2006 period. Based on estimated commencements for these two years, the under-supply of housing is expected to diminish, but remain substantial (as shown in the chart below).

We have made projections of commencements for the Sydney LGA from 2012/13 to 2014/15, based on a review of projects that are currently being marketed, have development approval or are at the planning stage. These commencements form the basis of projected completions from 2013/14 to 2015/16. Based on this

data, the annual rate of completions is projected to peak at approximately 3,000 during 2014/15, and then decline to approximately 2,000 during 2015/16.

Figure 3. Completions & underlying demand for new dwellings, and estimated stock deficiency, Sydney LGA



Source: ABS, MacroPlan Dimasi

As the rate of completions improves over the next few years, we project that population growth in the Sydney LGA will also recover. The very low rate of population growth over the 2006-2011 period was anomalous, and due largely to the lack of available rental properties (or even spare bedrooms).

A sharp improvement for the inner city's population growth needs to be part of the planning process, given the shifts underway in the CBD office workforce. An ageing demographic is a primary driver for the workforce in all sectors, as more people enter retirement. Consequently, overseas migration will need to increase to supplement the workforce.

In particular, businesses are drawing on overseas skilled workers through Skilled Worker (457) visas which allow for temporary residence in Australia. This source of population growth has increased sharply – in NSW, there were 22,560 visas issued in 2011/12, compared to 12,780 in 2009/10. A large number of these visas are issued to people working in key CBD office sectors, such as financial & insurance services, IT and professional services.

Table 1. NSW Visas for Temporary Work (Skilled, Subclass 457)

State total	No.
2009/10	12,780
2010/11	17,240
2011/12	22,560
By industry, 2011/12	No.
Financial & insurance services	1,480
Information media & telecommunications	4,600
Professional, scientific & technical	1,810

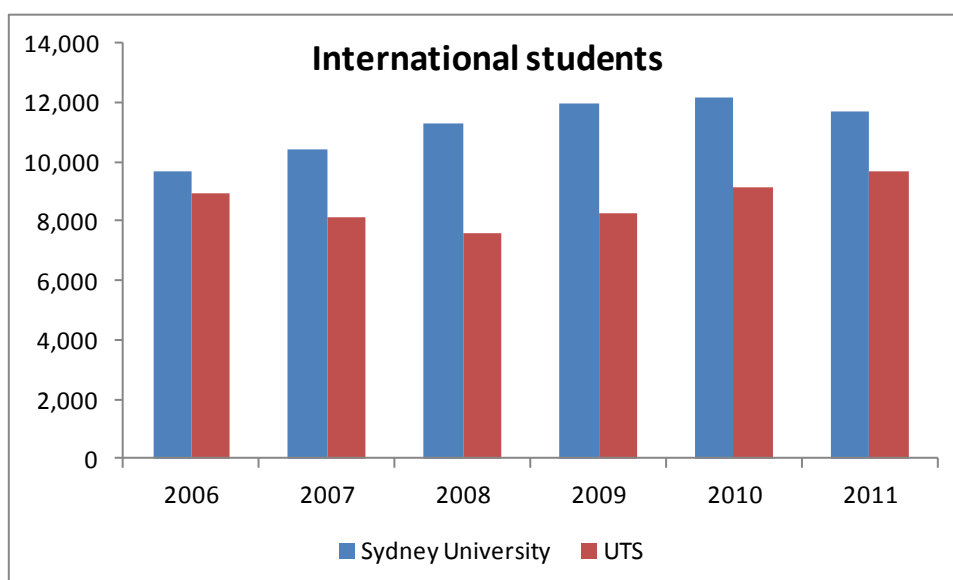
Source: Department of Immigration & Citizenship, MacroPlan Dimasi

The number of CBD office workers who are temporary residents on 457 visas is expected to continue to rise. Even if overall jobs growth is weak, a higher rate of retirement of existing workers will require expansion of overseas migrants through temporary resident visas. These people will tend to create growth in demand for inner city rental apartments.

Economic Assessment: Student Accommodation

The change of use to student accommodation is consistent with prevailing market forces. Although down on the peak registered in 2008/09, international student numbers have remained resilient in Sydney. Despite an overall slowdown in international student numbers in Australia, the resilience of local demand from the University of Sydney and UTS ensures that market appetite for student housing will be solid at Central Park. In addition, given 85-95% of privately owned student accommodation is occupied by international students (Location IQ, 2012), demand for student accommodation will be solid.

Figure 4. International student enrolments, Sydney University and UTS



Source: Department of Industry, Innovation, Science, Research and Tertiary Education, MacroPlan Dimasi

Over the past five years, limited addition to student accommodation at University locations and in surrounding suburbs has contributed to the overall housing shortage. In total, there are approximately 4,500 existing student beds in surrounding suburbs – including both University endorsed/associated and private offer. Given that there are currently around 24,260 international students enrolled at nearby institutions, a student bed stock deficiency of 19,722 beds persists.

Table 2. Current over/undersupply of accommodation beds by institution

	Students/ Beds
(1) Number of International Students	24,261
• University of Sydney	10,931
• University of Technology, Sydney	9,300
• University of Notre Dame	30
• TAFE NSW Ultimo College	4,000
(2) Number of Accommodation Beds	4,539
• University of Sydney Associated	2,269
• University of Technology, Sydney Associated	1,070
• Off Campus Accommodation	1,200
(3)=(2)-(1) Over/Under Supply of Beds	-19,722

Source: UTS website, Sydney University White Paper August 2010, TAFE NSW Sydney Institute Annual Report 2010, Location IQ

Ultimately this excess demand for housing from international students has been absorbed in surrounding rental markets e.g. Chippendale, Glebe, Darlington, Camperdown, Forest Lodge, Broadway, Haymarket and Redfern. These suburbs are favoured by domestic students and young office workers and extra demand from international students has accentuated shortages already apparent within these markets.

Table 3. Rental growth in the local area, 2006-2011

Median weekly rentals	2006	2011	CAGR
Chippendale	\$320	\$440	6.6%
Glebe	\$230	\$340	8.1%
Darlington	\$340	\$495	7.8%
Camperdown	\$350	\$493	7.1%
Forest Lodge	\$320	\$440	6.6%
Haymarket	\$500	\$640	5.1%
Redfern	\$255	\$380	8.3%

Source: ABS Census, MacroPlan Dimasi

The table above presents Census 2006 and 2011 median rents and rental growth data for adjoining state suburbs. As previously mentioned, there is already strong demand for rental premises in these suburbs from Australian residents. When coupled with excess demand from international students, this has resulted in rental growth of between 5% and 9% per annum since 2006.

Table 4. Student housing costs by offer

Facility	Location	2013 rate (\$/week)	Accommodation type
UniLodge Sydney	Broadway	\$334 - 430	Studio (small to extra large)
		\$352 - 440	Lofts (small to extra large)
		\$526 - 574	Twin Rooms (medium to large)
		\$474 - 589	Balcony Rooms
Urbanest	Haymarket	\$399 - 417	4/6 bed multishare
Iglu Central	Broadway	\$450	Studio
		\$360 - 365	5/6 bed multishare
Iglu Kensington	Kensington	\$450	Studio
		\$360 - 365	5/6 bed multishare

Source: Location IQ

Student housing shortages have supported higher student rental prices. At present, the cost of private student accommodation at existing provision offers accommodation from \$324 to \$569 per week. In the absence of significant future supply, we believe that there will be scope for additional price rises at traditional student accommodation provision.

In addition, over-utilisation of private rental dwellings by international students presents serious safety implications for student residents as well as other local residents. The development of student purpose-designed accommodation that adheres to safety housing regulations will limit the instances of overcrowding in private rental dwellings and reduce the possibility of disaster.

The export of education services is imperative for service based economies such as Sydney. In addition to direct receipts received by Australian tertiary institutions, during their stay international students also spend on retail, entertainment and tourism. The contribution from international students is considerable.

We believe that rising housing costs have reduced the competitiveness of Sydney institutions relative to other renowned institutions in other Australian cities and other countries. Over the last five years, rents in nearby suburbs have increased on average by \$130 per week or \$6,760 per annum. Given that the cost of tuition is estimated to be \$20,000 per annum, rising dwelling rents are becoming sufficiently large to deter international students from choosing Sydney.

If housing costs continue to rise significantly, then there will be considerable motivation for international students to opt for institutions located in other

countries. In the absence of significant student accommodation or private dwelling development, MacroPlan Dimasi expects rents to continue to expand by around 6-10% per annum.

Given that the proposed development is supported by the National Rental Affordability Scheme, MacroPlan Dimasi expects that market appetite for student accommodation will be strong at the proposed location. Under this scheme, rents are subsidised by tax concessions provided by the Federal and State governments.

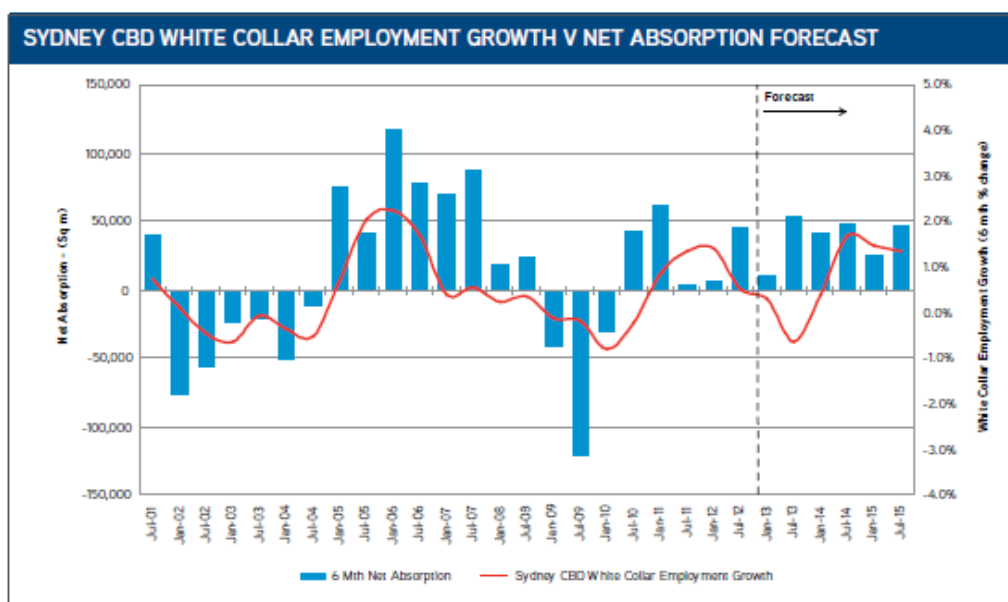
The provision of tailor made accommodation for 826 students will alleviate some pressure in surrounding private rental markets. Assuming a housing occupancy rate of 2-3 students per household, MacroPlan Dimasi expects that the proposed student accommodation housing at Central Park will free-up between 300 and 400 dwellings in surrounding rental markets, effectively increasing rental supply in adjoining suburbs.

There are also some broader community benefits for suburbs not immediately surrounding university locations. As the proposed accommodation is supported by NRAS, the provision of affordable student housing will draw students from the middle and outer ring Sydney rental markets, which will free-up public infrastructure for residents in these areas.

Economic Assessment: Office Space

By comparison with potential housing supply, the demonstrated need for office space at Central Park is low. The approved aggregate space of 70,000m² is very large relative to recent trends in CBD office space absorption. Annual office absorption in Sydney CBD has averaged just 45,000 m² over the five years to 2011.

Figure 1. Sydney CBD White Collar Employment Growth v Net Absorption Forecast, 2001-2015



Source: Deloitte Access Economics, PCA, Colliers International Research

Demand for new office/commercial space has gravitated to suburban locations. Entities seeking affordable rents and an opportunity to consolidate office operations have leased new office premises in suburban areas such as Macquarie Park and Norwest Business centre. In these areas, new office development has been significant.

Table 5. Annual Office Commencements at Suburban Locations, 2000-2010

Office market	LGA	Value (\$m)
Macquarie & North Ryde	Ryde	121
Norwest	Baulkham Hills	48
Parramatta CBD	Parramatta	36
North Sydney	North Sydney	45

Source: ABS Custom Data

Compared to residential property, office rental growth has been relatively weak. Over the five years to 2011, rents for premium office in Sydney increased by 4% per annum. Over the same period, residential rents increased by close to 7% per annum. Higher rental growth for residential property suggests that demand for residential dwellings in surrounding areas is higher than for office space in Sydney CBD.

Table 6. Historical and Projected Residential and Office Rents, 2006-2014

Rents \$/week	Office	Residential
2006	\$590	\$320
2011	\$710	\$440
Compound Annual Growth Rate		
CAGR 2006-2011	3.8%	6.6%
Forecast 2012-14	2%	6%-10%

Source: Census 2011, Colliers International Research

Over the forecast period, the outlook for Sydney CBD white collar employment growth is relatively subdued. MacroPlan Dimasi predicts that there is some potential for a contraction in white collar employment. We anticipate that the prospects for the finance, property and professional service industries are unfavourable, particularly as large corporations implement cost cutting strategies. When coupled with a reduction in public service positions, the outlook for white collar in Sydney is likely to remain weak.

Moreover, the future supply of office space is already well catered for by major projects. Based on PCA's Office Market Report (July 2012), a pipeline of around 863,000m² of office space has been identified for Sydney CBD (predominately at Barangaroo, where 280,000m² is planned). Based on average absorption rates observed over the last five years, this equates to approximately 19 year's of office demand. MacroPlan Dimasi notes that there is sufficient identified pipeline to meet demand for office space in Sydney.

Impacts on Local Retail and Services Expenditure

There are other positive economic benefits that can be derived from the provision of student accommodation at Central Park. Compared to office workers, permanent student residents spend extends beyond working hours, effectively providing more support for retail provision in surrounding regions. In addition, we expect that expenditure in entertainment and tourism will be greater from the student cohort.

According to MarketInfo (2010) data, residents in Chippendale spend approximately \$12,000 per capita on retail goods and services per annum. Allowing for budget constraints faced by students and escape expenditure, MacroPlan Dimasi estimates that each student will spend around \$6,000 per annum at retail offer located within proximity to their place of residence. Assuming that workers spend between \$30-60 per week (on average), the net difference between student and worker spend ranges between \$3,000-4,500 per annum (at current prices). Given that the proposed development is supported by National Rental Affordability Scheme (i.e. rents under this scheme are required to be 80% below market value), there is scope for additional spending from student residents.

Social Benefits & Precinct Attributes

In addition to economic benefits, there are some social benefits that may be achieved from student accommodation provision at Central Park. Along with the 3,000 residents expected to occupy Central Park, the proposed student accommodation offering will assist in activating the precinct, particularly after traditional working hours. This will naturally increase natural surveillance in the region, providing a safer environment for both normal and student residents at Central Park at the broader region. We believe that this will appeal to international students, who are concerned with safety.

One of the core design principles of Central Park is to develop a precinct that promotes vitality and activation throughout all hours of the day. In order to achieve this, 'mixed uses' have been integrated into the design of Central Park.

The rationale behind a variety of uses is to ensure that the development provides a variety of people movements during business hours, seven days a week as well as increased security from resident surveillance.

The development of additional student accommodation at Central will increase the potential for day time activation within the precinct. Unlike office workers and working residents, students are able to engage in social and recreational activities during business hours. As well as increase day time vitality, activity of students during business hours will in fact be complementary to office worker resident need (which is concentrated typically after hours).

The introduction of affordable housing provision will also adhere to state government policy intentions and broaden the diversity mix of the region. New dwelling stock at Central Park is generally beyond the reach of many students. Support from the NRAS will offer an opportunity for overseas students to gain access to well-located housing.

Conclusion

Overall, the provision of student accommodation presents as a suitable outcome for the Central Park precinct. International student enrolments are expected to remain robust and given the pronounced shortages in both the student and private dwelling market are already evident, student housing will assist in alleviating some of the strain in both markets. Furthermore, future need for commercial provision at Sydney CBD will be catered for by the planned pipeline of office projects, principally from the Barangaroo precinct.

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