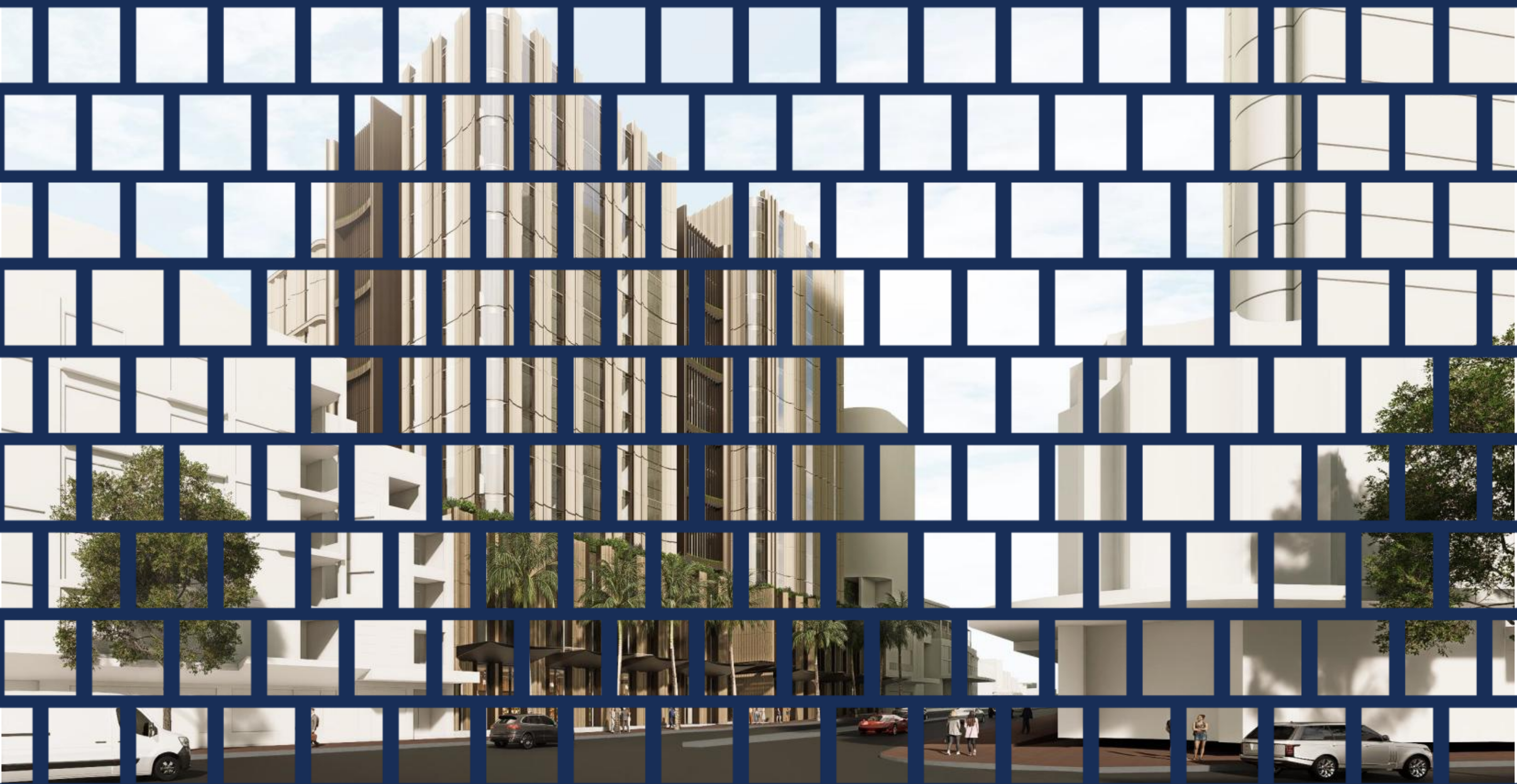
Crows Nest
270 Pacific Highway
Market and Economic Assessment



Prepared for:
Silvernight (Crows Nest) Landowner Pty Ltd
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Quality control

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Reviewer

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EXECUTIVE SUMMARY

The housing crisis

All levels of government understand that we are in the midst of a housing crisis with historically high prices and low vacancies in a period of recent increases in interest rates. All of this is having detrimental impacts on affordability.

The National Cabinet agreed to a National Housing Accord to collectively deliver 1.2 million dwellings across Australia over 2024-2029. NSW would need to deliver 375,000 dwellings over this period to meet targets of the Accord. NSW Government's five-year target for dwelling completions to 2028-29 in North Sydney is 5,900 – an average of 1,180 per annum. Since 2020-21 North Sydney has been averaging only 262 dwellings per annum – achieving only 22% of its housing target. North Sydney needs to increase its rate of production more than four-fold to meet its housing target.

The site

Silvernight (Crows Nest) Landowner Pty Ltd owns a site in the Crows Nest TOD precinct approximately 5.7km north of the Sydney CBD and less than 400m from Crows Nest Metro Station. The site is 270 Pacific Highway and currently has two mirroring 5 storey commercial buildings over a single basement car park. Site area is 3,796sqm. The site is zoned B4 Mixed Use under the North Sydney LEP. Allowable FSR is 5.6:1 but the minimum non-residential FSR is also 5.6:1 which effectively excludes residential as part of any mix-use development.

The office market

The lockdown measures imposed to control the spread and of COVID-19 saw a mass exodus of workers from traditional commercial office markets and a readjustment to and increased rates of working from home. Even before COVID forecast demand for office space was beginning to decline as a result of improvements workspace ratios. Demand has waned even more from COVID. Office work is now more disperse than ever largely facilitated by information technological change and telecommunications. Whereas previously the vast majority of office work was carried out in the office, today it is a combination of office space, home and other spaces (co-working spaces, hotels, libraries, coffee shops, etc). This shift has resulted in a contraction in long-term forecast demand of at least 20%.

St Leonards / Crows Nest has 108,000sqm of vacant office space (31% of total stock) which is the highest on record since the early 1990s. In the Crows Nest State-led Rezoning Economic Impact Assessment, Atlas Economics forecasts a net absorption of up to 31,000sqm over the next two decades. It's therefore likely to take more than a decade and possibly two decades for this amount of space to be absorbed in the market and the vacancy rate to return to a healthier 7% level (and this assumes no further increases in supply or at least a significant slow-down in supply).

The proposal

Given the structural changes to the commercial market since the COVID-19 pandemic, and the growing demand for well-located housing, it is no longer commercially feasible to redevelop the site for wholly commercial purposes. Silvernight now proposes to submit an SSD application for a 16-storey mixed use development on the subject site incorporating the following:

- a 3-storey podium providing 3,742sqm GFA of employment uses

- 13 storeys of residential in the tower
- 168 build-to-rent residential apartments
- 3% (around 6 apartments) of housing to be affordable in accordance with Section 7.5 of the North Sydney Local Environmental Plan 2013 (NSLEP 2013)
- two basement levels to accommodate 82 cars, 8 motorcycles and 226 bicycles.

The additional residential apartments would make a stronger contribution towards improving housing supply and towards meeting the housing targets for both the LGA and the TOD precincts.

The brief

Silvernight commissioned HillPDA to prepare this report which is an appraisal of the commercial office and residential markets in Greater Sydney and more specifically in St Leonards and Crows Nest (the locality). This report also addresses the standard SEARs requirements for BTR proposals in relation to economic assessment as measured in terms of job creation.

Economic impacts

As stated above there is a current undersupply of housing and oversupply of office space both across the metropolitan and in the lower North Shore. These conditions are likely to continue over the next decade or two.

Reducing the minimum required FSR for non-residential to three levels in the development would enable around 168 BTR residential apartments to be delivered on the site. Around 6 of these apartments could be affordable in accordance with Section 7.5 of the North Sydney Local Environmental Plan 2013.

A future mixed-use development of the site with non-residential FSR at 1:1 is likely to provide 160 FTE jobs on site which is a similar number of jobs currently on site under the base case (assuming 31% vacancy rate).

With around 300 residents on site there would be increased night-time activation in the locality. These residents will spend around $7.2m every year on retail goods and services (in 2024 dollars). The majority of this spend would be captured by businesses in the Crows Nest locality. The subject site's position in proximity to the Metro would also contribute to TOD objectives of transport sustainability and land use transport integration.

Conclusion

Given the weight of overwhelming evidence that:

- demand for office accommodation has been in decline (negative net absorption) for several years
- St Leonards / Crows Nest office market has a record high level of vacancy
- there has been the structural changes in flexible work arrangements including working from home and
- it will take at least a couple of decades for office space demand to catch up with current supply levels of supply

it is irrational that the zoning of the subject site be restricted to employment uses. It is simply not feasible to redevelop the site for employment uses only.

The TOD planning program is a response to the current housing shortage and its strategy is to encourage and facilitate high density living close to transport centres, particularly along the new metro rail system, Australia's most significant transport project in history, linking Crows Nest to Chatswood, the north-western suburbs and to North Sydney and Sydney CBDs.

The subject site, being less than 400 metres from the metro station makes it an ideal location for high-density mixed-use development in accordance with TOD planning objectives and to deliver significant residential supply to address the “housing crisis”.

Reducing the non-res FSR to 1:1 will still ensure sufficient quantum of employment floor space on site, providing a similar number of jobs on site to existing levels, while also contributing to MU1 zone objectives.

1.0 INTRODUCTION

1.1 Background

All levels of Government recognise that Australia is facing a 'housing crisis', with the National Cabinet announcing a National Housing Accord in October 2023 with the ambitious aim of delivering 1.2 million new dwellings over 2024-2029. In accordance with the Accord, the NSW Government is committed to facilitating 377,000 new dwellings by 2029 (around 75,000 new homes annually over five years). Based on current supply forecasts, there is an expected shortfall of around 170,000 homes to meet the National Housing Accord target.

One of the measures NSW Government has responded to the crisis is the introduction of the Transport Oriented Development (TOD) Program which is about delivering more well-located homes close to public transport, jobs and services.

Part 1 of the program focuses on 8 accelerated precincts around eight rail and metro stations to create infrastructure and capacity for 47,800 new homes over 15 years. The 8 stations are Bankstown, Bays West, Bella Vista, Crows Nest, Homebush Hornsby, Kellyville and Macquarie Park. To implement the changes the NSW Government has prepared a draft Transit Orientated Development State Environmental Planning Policy (TOD SEPP). The SEPP has the following key features for Crows Nest:

- capacity for up to 3,255 new homes within walking distance of the St Leonards train and Crows Nest metro stations
- affordable housing contributions of 3% to 18% for all new residential development
- capacity for 2,600 new jobs
- better connectivity for walking and cycling, and road upgrades
- increase tree canopy to maintain the leafy character of the St Leonards and Crows Nest precinct.

1.2 The site

Silvernight (Crows Nest) Landowner Pty Ltd owns a site in the Crows Nest TOD precinct approximately 5.7km north of the Sydney CBD and less than 400m from Crows Nest Metro Station. The site is 270 Pacific Highway and has an area of 3,796sqm.

Figure 1: Aerial image of the subject site

Source: Fitzpatrick Partners

Current improvements on the site are two mirroring 5-storey commercial buildings over a single basement car park.

The site is zoned MU1 Mixed Use under the North Sydney LEP. Allowable FSR is 5.6:1 but the minimum non-residential FSR is also 5.6:1 effectively excluding residential as part of any mix-use development.

In 2023 Silvernight submitted a development application on the site for a new commercial office building which was approved by the NSW Land and Environment Court. Since that application Silvernight is concerned that the amount of commercial space is excessive given the collapse of the office market in St Leonards and Crows Nest and the current record high level of vacancies.

1.3 Proposed development

Given the structural changes to the commercial market since the COVID-19 pandemic, and the growing demand for well-located housing, it is no longer commercially feasible to redevelop the site for wholly commercial purposes. On this basis, Silvernight now proposes a mixed-use development at the site incorporating both employment generating uses and housing, in accordance with the objectives of the site's MU1 zoning.

The application seeks development consent for the development of a 16 storey mixed use development at 270 Pacific Highway Crows Nest, comprising 168 build to rent units and non-residential uses in the podium. Specifically, the SSDA seeks development consent for:

- demolition of two existing 5 storey commercial buildings
- construction of a maximum 16 storey building, including:
  - 2 basement parking levels (with 82 car spaces, 8 motorbike spaces and 226 bicycle spaces)
  - 3 podium levels comprising non-residential uses such as medical centre, retail, and residential uses (build to rent units and residential amenity facilities such as a gym and sauna, steam room, outdoor pool, class space, cinema room, co- working space)
  - 13 storeys of residential uses in the tower, comprising 168 build-to-rent units
  - communal open space
  - landscaping on ground, level 2 – level 15
  - rooftop solar panels
  - internal and external residential amenities space on roof top
- streetscape upgrades
- office and substation along the northwestern boundary

Silvernight is seeking to keep the non-residential FSR on its site to three levels to minimise the high likelihood of above-ground vacancies – or more likely to ensure that development can proceed.

The proposal provides a total of 3,721 square metres GFA of non-residential floorspace accommodated over four levels being basement 1 (Level 2), ground floor and two levels above ground floor. Employment uses above the ground floor would comprise professional and medical suites, gymnasium, sauna, co-working spaces and the like. We note that the gymnasium, sauna etc are all facilities for the use of the residents and are not commercially operated.

We note the Crows Nest TOD reduced the minimum non-residential FSR from 10:1 to 1:1 for the site of the Metro Station. The reasons given are a combination of poor office market conditions and a desire to increase housing supply including affordable housing. This seems counter-productive, or irrational, given that in the interest of meeting TOD principles the density of employment FSR should increase as you get closer to the station.

Reducing the minimum required FSR for non-residential would enable around 168 BTR apartments to be delivered. Around 6 apartments would be directly dedicated for affordable housing and/or equivalent monetary contribution made.

The additional residential apartments would make a stronger contribution towards improving housing supply and meeting the housing targets for both the LGA and the TOD precincts.

1.4 The brief

Silvernight commissioned HillPDA to prepare this report which is an appraisal of the commercial office and residential markets in Greater Sydney and more specifically in St Leonards and Crows Nest (the locality).

'This report has been prepared in response to the Rezoning Study requirements dated 14 April 2025. The list below demonstrates how this report satisfies the relevant requirements.

Requirement	Report Section
Examine existing population and employment and residential trends/needs and take up for the area	Sections 2 and 3
Consider future population, employment and/or other growth potential for the site	Sections 2, 3 and particularly 3.4
Assess employment land demand (lot sizes, floor space ratio, take up rates and employment densities)	Section 3
Recommend an appropriate minimum non-residential FSR control that will deliver on the employment objectives for the zone and the Crows Nest Transit Oriented Development (TOD) Precinct, backed up by evidence that analyses the commercial market and the rates for comparable properties in the precinct	Sections 3 and 4
Examine the proposal's future role and function within the centre/retail hierarchy, trade areas, size and floor space mix, location and scope for additional supporting land uses	Section 4.5
Demonstrate that the proposal will deliver the maximum public benefit that is feasible in line with the uplift achieved through the rezoning	Section 4
Identify how the proposal would result in significant benefit to the state, regional and local economy	Section 4
Address requirements in relation to employment in Ministerial Direction 7.1 Employment Zones	Section 4.6

1.5 Report structure

This report has been structured as follows:

- **Chapter 1 | Introduction (this Chapter)**
- **Chapter 2 | The Housing Market**: considers the demand for additional residential apartments in Greater Sydney and in the locality, considering local socio-demographic trends, population projections, and pricing dynamics in the local market. This chapter also expresses the current crisis in undersupply of housing as well as the current barriers and difficulties to increasing supply.

- **Chapter 3 | The office market:** assesses the demand for commercial office space, current supply levels and likely future demand supply levels in this post-COVID period.
- **Chapter 4 | Economic assessment:** assesses the net economic impacts of the proposed changes in land use compared to the base case or current use on site in terms of job creation and also the impacts of design and construction in relation to job creation.

2.0 THE HOUSING MARKET

This Chapter analyses the demographic and housing characteristics of the locality. The intent of the Chapter is to provide need for additional residential supply to meet the current and future needs of residents.

2.1 The current market

The housing market faces ongoing challenges. Over the six-year period from July 2023 to June 2029, there is an estimated shortfall of 39,000 homes nationally relative to new demand, compounding the existing undersupply and worsening affordability issues[1]. All levels of Government recognise that Australia is facing a 'housing crisis', with the National Cabinet announcing a National Housing Accord in October 2023 with the ambitious aim of delivering 1.2 million new dwellings over 2024-2029.

In accordance with the Accord, the NSW Government is committed to facilitating 377,000 new dwellings by 2029 (around 75,000 new homes annually over five years). Based on current supply forecasts, there is an expected shortfall of around 170,000 homes to meet the National Housing Accord target.

Notwithstanding strong demand for housing there has been significant difficulties in delivery. Rising construction costs, borrowing constraints, and development feasibility challenges are making it increasingly difficult for developers to deliver the required volume of new homes. This constrained supply has exacerbated the housing shortage and affordability concerns.

Economic, climatic, and demographic trends will further pressure construction costs and housing affordability. Additionally, an aging population and a growing number of individuals with disabilities will necessitate new homes tailored to their needs, intensifying the housing shortage.

Across Sydney and across the country we are experiencing declining housing affordability due to interest rate rises and cost of living increases in the post-COVID period. Notwithstanding, house price have been steady or have continued to increase in many parts of Sydney. The primary reason for this has been a slow down in dwelling completions and the inability for the industry to keep up with rising demand for housing from immigration.

The post-pandemic development landscape has been affected by economic volatility, supply chain disruptions, labour shortages, and inflated costs. As a result, numerous projects have experienced financial strain. Even where development may be theoretically viable, difficulties in procuring project finance have resulted in projects being delayed. This has resulted in fewer development applications and more projects abandoned, hastening the supply and demand gap.

The development industry has expressed this downturn ominously as the '**Perfect Storm**'. The development viability challenge stated by the industry itself is related to the following current risks and market conditions:

- **Sales risk** where consumers are less inclined to buy off-the-plan. Higher interest rates and other factors have resulted in waning consumer confidence in off-the-plan developments prompting a wait-and-see approach.
- **Building risk** where the cost of work and delays in procuring materials and labour has increased. This was caused by local and global pressures, including inflation, supply, and skills shortages, building standards, bonds, building costs and issues with tendering. The lack of supply for certain building materials like steel has led to overall construction delays which in turn ripple out to additional financing and land holding costs all contributing to additional project risk and cost.

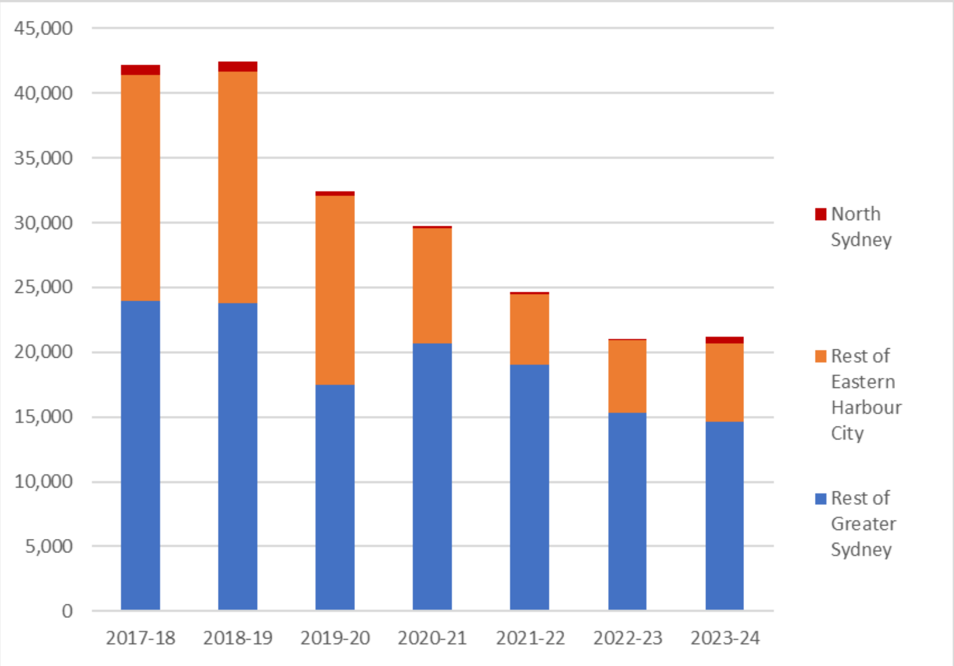
[1] Source: National housing supply and affordability council (2024) State of the housing system

- **Additional developer charges** such as the Housing Productivity Contribution which was introduced in May 2023 and the phasing-in of the contribution applied from October 2023. Increasingly a component of affordable housing contribution is being imposed on new developments.
- **Financial risk** where the likelihood of obtaining construction finance has diminished significantly. Banks generally require an adequate proportion of pre-sales to reduce market risk and also fixed-price contracts to cover procurement risk. In the current climate it has been very difficult for developers to meet the requirements of lenders, which is a primary reason why so many projects with development approval have failed to proceed.
- **Cost of land.** Rising interest rates, slow down in pre-sales, increasing building costs and procurement risk and difficulties in obtaining construction finance should result in declining residual land values (the maximum price a developer could pay for land). However, landowners are reluctant to sell at lower prices than what they could have previously sold their land for. As a result, more negotiations fail, and transactions do not proceed.

2.2 Dwelling completions

The unfortunate state of the market is shown clearly in the figure immediately below.

Figure 2: Net increase in dwellings



Source: NSW Urban Development Program

In 2018-19 Greater Sydney produced more than 42,400 dwellings. Production rates have declined since to just around half that level in the past three years. The Eastern Harbour City levels fell significantly from 18,639 to 5,666 dwelling completions in 2022-23 – a decline of 70% over the same period. North Sydney LGA fell from 741 to just 78 – a decline of 89%, although there was some improvement in 2023-24 with 541 completions.

The NSW Department of Planning, Industry and Environment's five-year target for dwelling completions to 2028-29 in North Sydney is 5,900 – an average of 1,180 per annum. Since 2020-21 North Sydney has been averaging only 262 dwellings per annum – achieving only 22% of its target. North Sydney needs to increase its rate of production more than four-fold to meet its housing target.

2.3 Dwelling Prices

By far the best measure of over or undersupply of any commodity relative to demand is the price that consumers are prepared to pay and movements in price over time. If the price of a particular suburb is high relative to the broader area (LGA or metropolitan) it is because there is a stronger desire to live in that suburb. Sharp upward movements in price in a particular suburb also reflects a sharp increase in demand for housing relative to constrained supply.

As mentioned above, notwithstanding declining affordability, there has been some recent increases in prices due simply to lack of housing supply relative to rising demand from immigration.

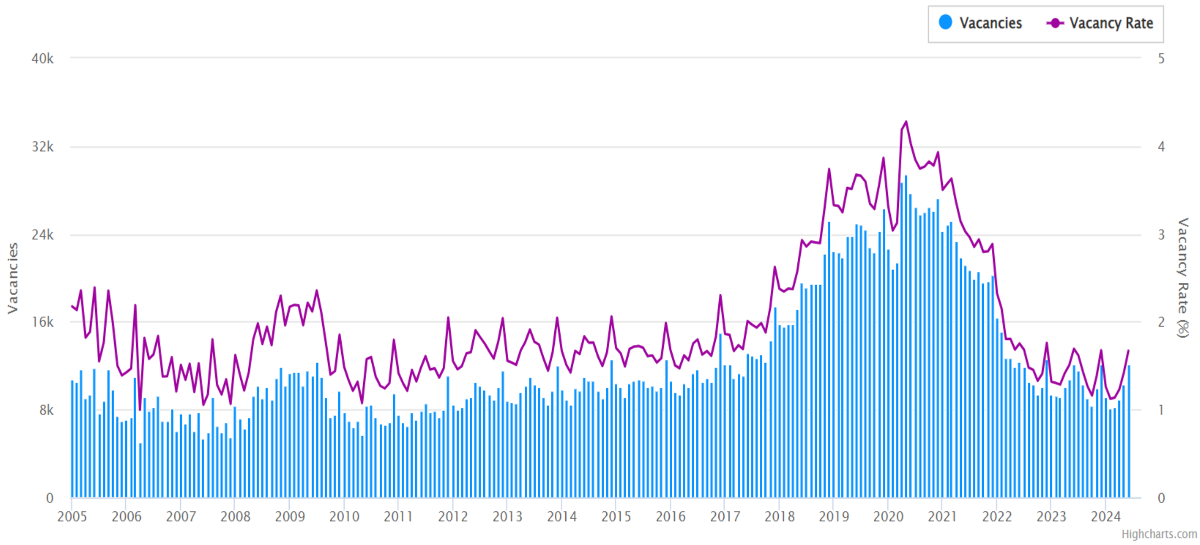
In the December quarter 2019 the median house price in North Sydney LGA was $2.54m and the median strata price was $1.03m. That increased to $3.46m and $1.25m respectively in the December quarter 2023 (NSW Rent and Sales reports). Escalation was 36% and 21% respectively.

Importantly mortgage interest rates increased from 1.8% to 2.2% in 2020-21 to the present level of around 6.1% – almost three times higher. To have that level of escalation in values during a period of continuous increases in mortgage interest rates is unprecedented. It's a clear indication of housing shortage.

2.4 Housing undersupply and affordability

The undersupply of housing in Sydney metropolitan is deteriorating affordability. It has resulted in a very low vacancy rate of around 1.2% to 1.5%. During the COVID period the vacancy rate was around 4%. 4% is considered a healthy level where generally the supply of housing is considered to be in equilibrium with demand.

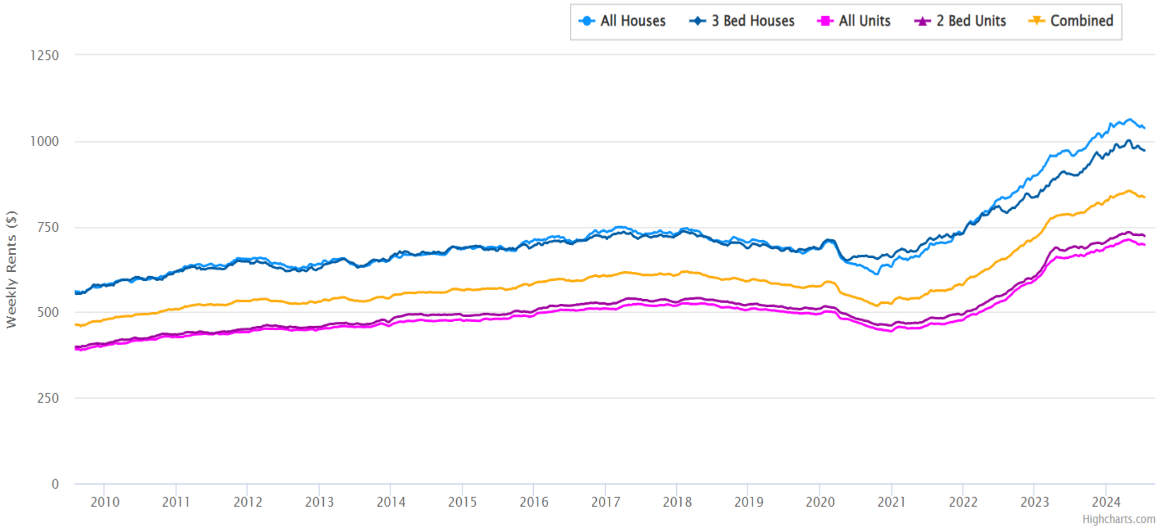
Figure 3: Residential vacancy rates in Metropolitan Sydney



Source: SQM Research

Low supply of housing has been driving up the price. Median rent for apartments has increased significantly from $460/week during the COVID period to around $710/week. All dwellings (including houses) increased from $520/week to more than $850/week – an increase of 60% over three years.

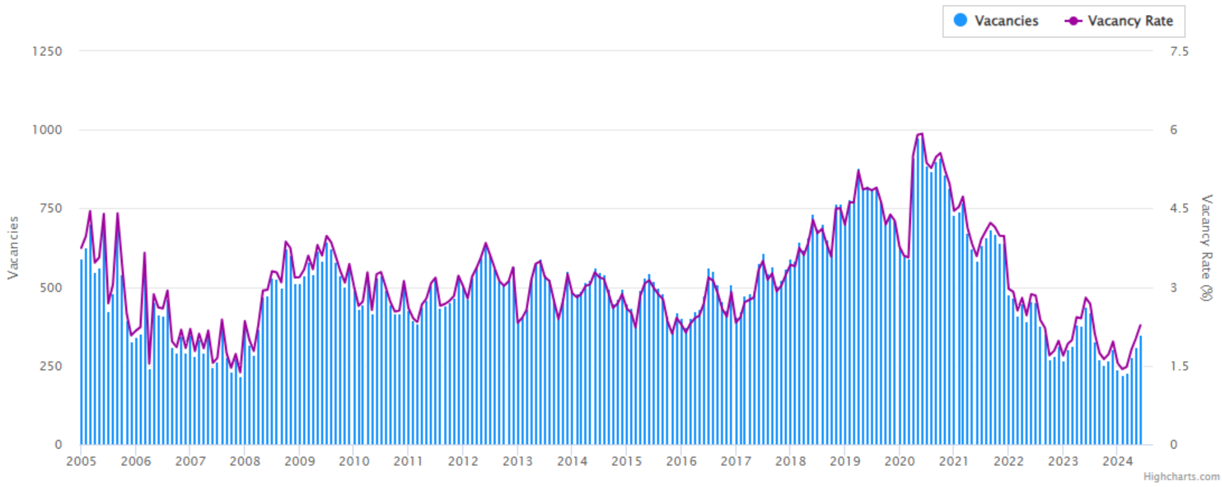
Figure 4: Median rent in Metropolitan Sydney



Source: SQM Research

The Lower North Shore market experienced a similar trend as shown in the figures immediately below

Figure 5: Residential vacancy rates in Lower North Shore Sydney

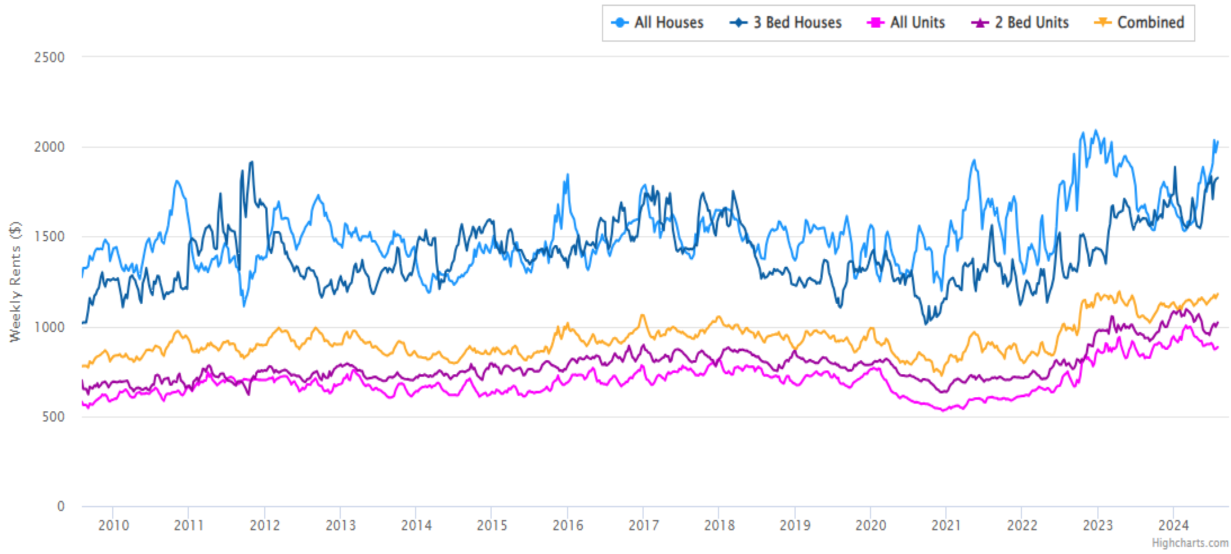


Source: SQM Research

The vacancy rate peaked at 5.9% in 2021 and fell to 1.5% in the first quarter of 2024.

Short supply of housing has resulted in significant rises in weekly rents. Median asking weekly rent for apartments increased from $550 per week in early 2021 to $990 in early 2024 – an 80% increase over three years (SQM Research). 2-bedroom units increased from $640 to $1,090 over the same period – a 70% increase. There was a similar increase in the asking rent for 3 bedroom houses from around $1,100 to more than $1,700/week.

Figure 6: Median rent in Lower North Shore Sydney



Source: SQM Research

2.5 Population

In North Sydney LGA the total population in 2021 was 69,471. This is forecast to reach 77,025 by 2031[2]. The housing target set by State Government of 5,900 net increase in dwellings by 2029 was set to meet these population projections. St Leonards Crows Nest currently provides around 32,600 jobs of which around 26,000 are office workers[3]. Not all office workers necessarily work in office spaces. Some work in shopfront spaces, industrial and other types of commercial buildings.

2.6 Key findings

All levels of government understand that we are in the midst of a housing crisis with historically high prices and low vacancies in a period of recent increases in interest rates. All of this is having detrimental impacts on affordability.

The National Cabinet agreed to a National Housing Accord to collectively deliver 1.2 million dwellings across Australia over 2024-2029. NSW would need to deliver 375,000 dwellings over this period to meet targets of the Accord.

The five year housing target set for North Sydney is 5,900 – an average of 1,180 per annum. Since 2020-21 North Sydney has been averaging only 262 per annum – falling well short of its target by 78%.

There is an opportunity to deliver around 168 apartments on the subject site which would make some contribution towards meeting local housing targets. Apartments on the subject site would also align with TOD SEPP objectives by providing higher density living within 400m of the Metro station.

[2] NSW Common Planning Assumptions Population Forecasts
[3] Transport for NSW

3.0 THE OFFICE MARKET

3.1 Market overview

The office market has been one of the hardest hit in recent years largely catalysed by the COVID 19 pandemic. The impacts of COVID have been more than just short-term impacts. Combined with significant improvements in information technologies it has resulted in long term structural changes in the way we work and where we work.

Across the country the CBD office vacancy rate climbed to 14.8 per cent – the highest in almost three decades and 50 per cent higher than the average. Worsening the situation is the end of a wave of supply flowing into the market while demand weakens[4]. As their leases expire, corporate tenants are reassessing their workspace needs, responding to the rise in hybrid work arrangements and an uncertain outlook for growth.

More and more companies are realising that the level of office space required before the pandemic is no longer required. The Commonwealth Bank, Westpac and Telstra are among 19 Australia's largest companies that have cut their office needs by almost 200,000 square metres in the Sydney CBD since the pandemic, sending vacancy rates sky-high in the country's biggest market, Sydney[5]. Rising vacancies combined with rising interest rates has resulted in market valuations falling more than 20% over the past couple of years.

Record high vacancies and incentives has resulted in a significant decline in effective market rents. Combined with record high construction costs, and the post-COVID rises in interest rates, these conditions have significantly undermined the feasibility of commercial office buildings in both Sydney CBD and the metropolitan markets. Property experts generally agree that it will be at least one decade, maybe more, before we see some return towards conditions where new office buildings would once again become feasible[6].

3.2 The St Leonards / Crows Nest Market

St Leonards / Crows Nest is the fifth largest office market in NSW, behind the Sydney CBD, Parramatta, North Sydney and Macquarie Park. Comprising almost 360,000sqm of office stock of which 38% is classified as 'prime' or 'A-Grade' space as per Property Council of Australia classifications (PCA, 2024).

St Leonards / Crows Nest has a well-established cluster of information technology, pharmaceutical, and business service occupiers which have organically grown over time. St Leonards / Crows Nest has historically attracted a mix of tenants that generally prefer more affordable accommodation than other major office markets such as North Sydney and Sydney CBD – although it is a little less affordable than Macquarie Park. The Royal North Shore Hospital has also been an important driver of demand for commercial floorspace, with a large number of allied health, medical and pharmaceutical businesses.

The St Leonards / Crows Nest office market has performed particularly poorly since COVID-19 – probably worse than anywhere else in NSW. In 2019 its vacancy rate was 6.1%. Today it's around 31%[7] which is the highest level ever recorded. During the recession of the early 1990s the vacancy rate was around 19%. As a rule 6% to 7% is considered a healthy level of vacancy. A-grade stock is currently 26% while secondary stock is 33% vacant. As a result of increased incentives net effective rent for A-grade stock has fallen 5.7% over the past 12 months.

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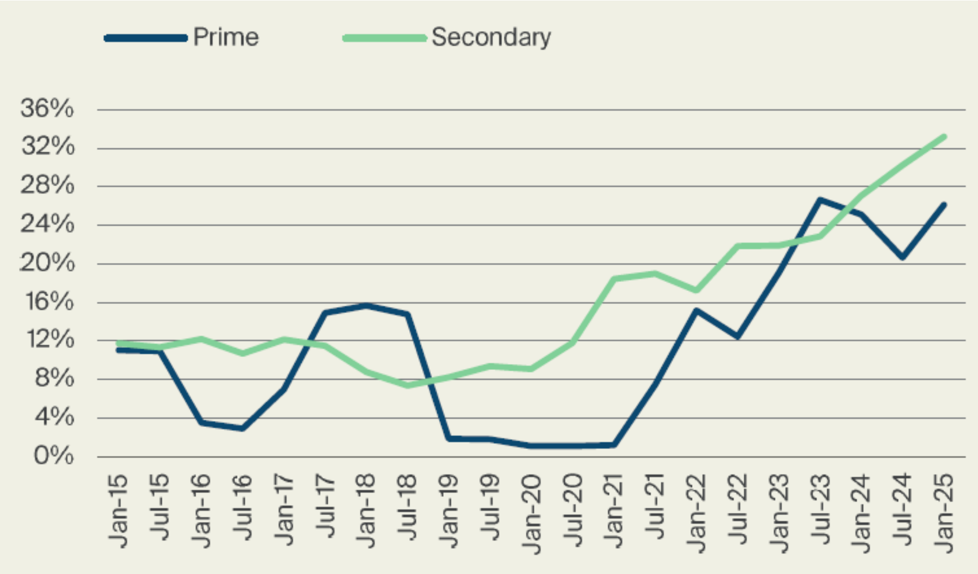
[4] Australian Financial Review 1 February 2024
[5] Australian Financial Review 18 July 2024
[6] Ibid
[7] Knight Frank Research North Shore Office Market Report, March 2025

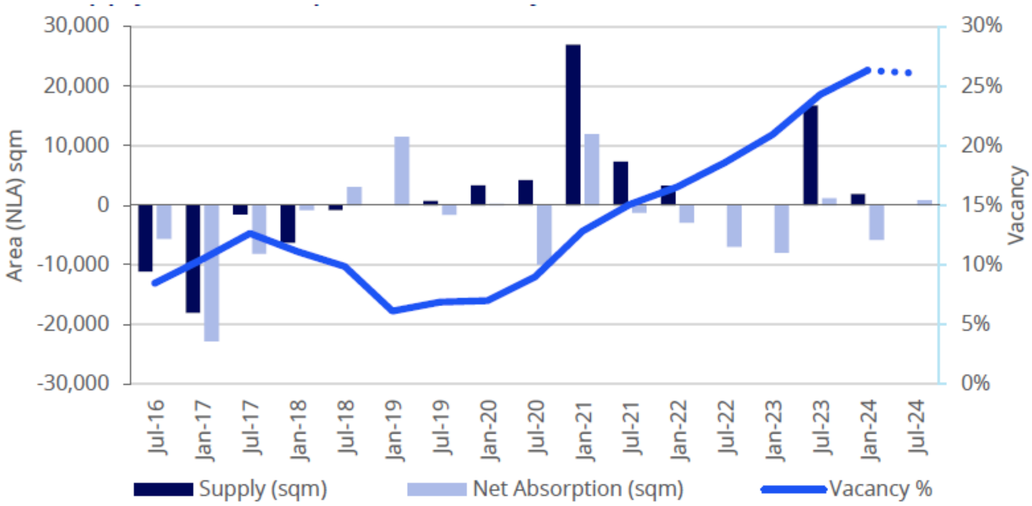
Figure 7: St Leonards office vacancy rate by grade (%)



Source: Knight Frank Research

The recent completion of 558 Pacific Highway is the largest office building in the locality over the past decade and its timing when demand had fallen has only exacerbated the problem of high vacancies.

Figure 8: St Leonards office market net supply and net absorption (sqm) and vacancy (%)

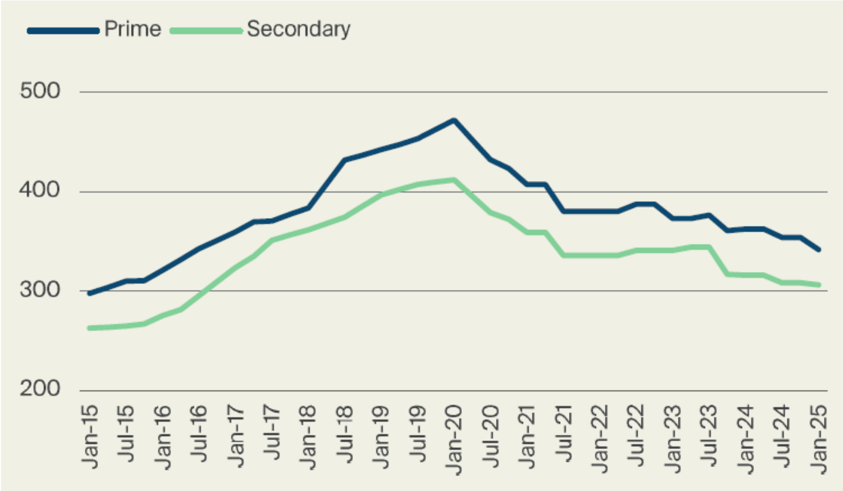


Source: Colliers Research

Total office vacancies in St Leonards / Crows Nest is around 108,000sqm which is a significantly high level. Normally it would take at least a decade for the market to absorb this level of space. Given recent structural changes in the office work arrangements it is likely to take longer. The report titled "Crows Nest State-led Rezoning – Economic Impact Assessment" by Atlas Economics for NSW Department of Planning, Housing and Infrastructure forecasts a net absorption of up to 31,000sqm over the next 20 years to 2044 (Page 19).

Incentives are the highest they've been for decades with A-grade office space reaching 43% (Colliers Research). As a result there has been some tenants relocating from B-grade space taking advantage of better offers with A-grade. Increasing incentives have also reduced net effective rents by more than 20% over the past four years as depicted in the figure below.

Figure 9: St Leonards office net effective rent by grade ($/sqm)



Source: Knight Frank Research

3.3 Feasibility of new office space

Given the land cost (or the current 'as is' value of the site) it would not be viable to redevelop the subject site for new office space. Office space is currently not viable on almost any site in St Leonards / Crows Nest and is unlikely to be viable over the next decade or two. Since 2019 the following changes have undermined viability:

- Construction costs have increased 25% to 30%
- Leasing down time has increased
- Face rents have been stable but incentives for new tenants have increased resulting in falls in net effective rent
- Capitalisation rates for new buildings have increased from 5% to 6%
- Tenancy demand for relocation is at historic lows
- Interest on construction finance has more than doubled

The combination of the above factors has severely undermined feasibility. Furthermore, it would be near impossible to obtain debt financing for construction. It would require a pre-commitment from a major tenant willing to pay at least market rent with few incentives. This is a highly unlikely scenario in the current climate where there is ample supply of both A-grade and secondary grade space and demand is low.

3.4 Market outlook

The lockdown measures imposed to control the spread and of COVID-19 saw a mass exodus of workers from traditional commercial office markets and a readjustment to and increased rates of working from home. Although this revitalised local centres its impact on central business districts has been significant. Across Australia, around 30% of commercial office employees worked from home to slow the spread of the virus. In Sydney and Melbourne, this resulted in widespread office vacancies[8].

A survey undertaken for Infrastructure Australia into COVID-19 impacts found that the proportion of respondents who wish to work from home once per week or more has grown from 27% prior to COVID-19 to 42% post-COVID-19 and around 15% of employees surveyed would like to increase their level of working from home post-COVID-19 compared with pre-COVID-19 levels.

[8] Infrastructure beyond COVID-19, A national study on the impacts of the pandemic on Australia

As the workplace becomes more flexible with more employees working remotely from home, office space requirements are likely to be reduced to reflect this new demand while any new space will need to offer increased amenity and services to incite employees back into the office.

Even before COVID forecast demand for office space was beginning to decline as a result of improvements in workspace ratios – anywhere between 10-20%[9]. Post COVID the demand has waned even more. Office work is now more disperse than ever largely facilitated by information technological change and telecommunications. Whereas previously the vast majority of office work was carried out in the office, today it is a combination of office space, home and other spaces (co-working spaces, hotels, libraries, coffee shops, etc). This shift has resulted in a contraction in forecast demand of at least 20%.

Transport for NSW forecasts 6,300 more office jobs in St Leonards Crows Nest over the next 11 years to 2036. At 12sqm to 16sqm per worker[10] this would amount to a need for 75,000sqm to 100,000sqm. St Leonards / Crows Nest has around 108,000sqm of vacant office space. It's likely to take more than a decade for this space to be absorbed in the market assuming no further increases in supply. The Atlas Economics report for DPHI forecasts a net absorption of up to 31,000sqm over the next 20 years to 2044.

[9] Work from home trend eats into office demand, Financial Review, Nick Lenaghan 18th of January 2020
[10] NSW Common Planning Assumptions and City of Sydney Employment and Land Use Survey 2019

4.0 ECONOMIC IMPACT ASSESSMENT

4.1 The proposal

Given the structural changes to the commercial market since the COVID-19 pandemic, and the growing demand for well-located housing, it is no longer commercially feasible to redevelop the site for wholly commercial purposes. On this basis, Silverton now proposes a mixed-use development at the site incorporating both employment generating uses and housing, in accordance with the objectives of the site's MU1 zoning.

The application seeks development consent for the development of a 16 storey mixed use development comprising 168 build to rent units and non-residential uses in the podium.

Silvernight is seeking to retain 3,721sqm of non-residential FSR on its site to minimise the high likelihood of above-ground vacancies – or more likely to ensure that development can proceed.

The proposal provides a total of 3,721 square metres GFA of non-residential floorspace over four levels – basement 1, ground floor, and two levels above. Employment uses above the ground floor would comprise a medical centre and retail.

We note that Crows Nest TOD reduced the minimum non-residential FSR on the Metro Station site from FSR 10:1 to FSR 1:1. The reasons given are a combination of poor office market conditions and a desire to increase housing supply including affordable housing. This seems counter-productive, or irrational, given that in the interest of meeting TOD principles, the density of employment FSR should increase as you get closer to the station.

The Crows Nest State-Led Rezoning Urban Design Report is an anomaly in that the subject site is zoned MU1 with an FSR of 5.6:1 but also with a minimum non-FSR of 5.6:1 which precludes the possibility of providing residential uses. South of Metro Station the sites along the Pacific Highway have maximum FSRs ranging from 4:1 to 7.5:1 and minimum non-residential FSRs ranging from 0.5:1 to 2:1. The entire Crows Nest core precinct around Willoughby Road is 0.5:1. The subject site is the only site which precludes the ability to provide residential space.

To restate the subject site is at the southern end of the Crows Nest commercial area which is less desirable for commercial market, but more attractive to the residential market. The land use controls on the subject site do not align with market need, nor align with the controls on the surrounding sites and the in the State-Led rezoning area generally.

Furthermore, the recommended minimum non-residential FSR of 1:1 is lower than 5.6:1 to ensure the viability of redevelopment. Without that change redevelopment would simply not be viable at any time in the foreseeable future.

Finally the additional residential apartments would make a stronger contribution towards improving housing supply and meeting the housing targets for both the LGA and the TOD precincts.

4.2 Jobs in design and construction

Rider Levett Bucknall has estimated a design and construction cost of $152.3m. This includes design and application fees and contingencies but excludes escalation, GST and tenancy fitouts. Allowing for a further (say) $6.7m in fitout costs would result in a total capital cost of $159m.

Based on ABS Input Output tables 2021-22 we estimate that this would generate around 334 job years directly in design and construction (one job year = one FTE job over one year). A further 503 job years would be supported in NSW in industries that provide the inputs to the source industry, and a further 403 job years would be supported in consumption induced impacts. This relates to the consumption of goods and services paid by the salaries of those workers directly employed in design and construction and the additional jobs supported in meeting that increased consumption[11].

4.3 Current jobs on site

The site comprises twin 5 storey office buildings with an approximate GFA of 7,245sqm. Assuming 32 square metres per worker[12] this equates to a potential 226 FTE workers on site. This assumes however that the building is fully occupied. Assuming a vacancy rate equivalent to the St Leonards Crows Nest market (31%) then the current number workers on site is likely to be around 160.

4.4 Forecast Jobs under the proposal

In light of the prevailing office market conditions Silvernight is seeking to keep the non-residential FSR to four levels. We envisage the two levels above ground floor would a medical centre, professional suites and the like. Total estimated jobs on site is shown in the table immediately below.

Table 1: Estimate of likely FTE Jobs on site under the proposal

Land use	Quantity	Job density	No. of Workers
Basement 1 and Ground floor retail and medical	1,026	1 / 25 sqm*	42
Levels 2-3 commercial / medical	2,555	1 /25 sqm*	102
Working from home	168 dwellings	1 / 10.5 dwellings**	16
Total Employment			**160**

Source: * NSW Government Common Planning Assumptions
** ABS Census (journey to work) 2016 and 2021

This suggests that future employment on site would be around 66 fewer workers than if both existing buildings were fully occupied. However the forecast number is similar to the likely number of workers currently on site assuming a vacancy rate of 31% in line with the current St Leonards / Crows Nest average. A search of vacant spaces through realcommercial website shows around 2,000sqm of space in the building available for leasing (around 27%). Given the current vacancy rate in the locality, the loss of this office space will not have any measurable adverse economic impact in terms of loss of jobs. There is sufficient supply of available office accommodation in the locality to meet growth in demand over the next 10 to 15 years.

Note also that the subject site is in an inferior location at the southern end of the Crows Nest commercial area and around 700m to 1km south of the main commercial core in St Leonards. This makes it less attractive to businesses. The area is more residential and is will further develop into a high density residential TOD precinct over the next few decades.

An important consideration is that the building will be in single ownership. This will enable a redevelopment or conversion of the BTR apartments to alternative non-residential uses if market conditions were favourable at some point in the future.

[11] For a more detailed description about multiplier impacts and its limitations go to: https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables/latest-release

[12] Assuming predominantly medical services (sources include NSW Common Planning Assumptions and City of Sydney Floor Space and Employment Survey 2017)

4.5 Impacts on Crows Nest

The proposed development would provide around 168 new residential apartments on site. Assuming 97% of the dwellings are occupied and an average occupancy rate of 1.84 persons per occupied dwelling we estimate around 300 permanent residents on site when fully developed.

These residents would spend around $7.2 million every year on retail goods and services. Retailers in Crows Nest will be the main beneficiary of this additional expenditure.

The provision of high-density residential development on the subject site would increase the economic benefits of the scheme to surrounding businesses, services and the use and feasibility of public transport – particularly the Metro. The benefits of residential uses are recognised in planning policy.

Additional residents in the locality will increase night-time activation. The subject site's position within 400m of the Metro would also contribute to TOD objectives of transport sustainability and land use transport integration. To restate the above the additional residential apartments would make a stronger contribution towards improving housing supply and meeting the housing targets for both the LGA and the TOD precincts.

4.6 Ministerial Direction 7.1 Employment Zones

MU1 zones are affected by Ministerial Direction 7.1 Employment Zones which has the following stated objectives:

(a) encourage employment growth in suitable locations,

(b) protect employment land in employment zones, and

(c) support the viability of identified centres.

It further states that a planning proposal must not reduce the total potential floor space area for employment uses and related public services in Employment Zones.

Notwithstanding, a planning proposal may be inconsistent with the terms of the direction if the provisions of the planning proposal that are inconsistent are:

(a) justified by a strategy approved by the Planning Secretary <u>or</u>

(b) justified by a study (prepared in support of the planning proposal) which gives consideration to the objective of this direction <u>or</u>

(c) in accordance with the relevant Regional Strategy, Regional Plan or District Plan prepared by the Greater Cities Commission or the Department of Planning and Environment which gives consideration to the objective of this direction, <u>or</u>

(d) of minor significance.

The inconsistency with the direction "must not reduce the total potential floor space area for employment uses and related public services" is justified for two reasons.

Firstly, this report has demonstrated the urgent need for more housing in the locality and the record high level of vacancies in the office market. It has also demonstrated that, there is likely to be no reduction, or only a minor or insignificant reduction, in jobs on site from development as proposed.

Secondly, the proposal is consistent with various strategies approved by the Planning Secretary namely:

1. **Transport Orientated Development** (TOD): The subject site is inside one of the eight identified "accelerated precincts" being the first stage of the TOD strategy. The primary aim of the TOD first stage is to address the housing crisis by accelerating approvals for 60,000 more homes in these precincts over the next 15 years.

2. **The Housing SEPP**: The objectives of the SEPP include "enabling the development of diverse housing types, including purpose-built rental housing" as well as "promoting the planning and delivery of housing in locations where it will make good use of existing and planned infrastructure and services".

3. **Build-to-rent housing (BTR)**: The policy provisions of the BTR were incorporated into the Housing SEPP with several provisions including allowing "development to be used as build-to-rent housing anywhere that residential flat buildings or shop-top housing are permitted, as well as in E2 Commercial Centres, MU1 Mixed Use, B3 Commercial Core, B4 Mixed Use, B8 Metropolitan Centre and SP5 Metropolitan Centre zones".

The proposal is consistent with, and actively contributes to, meeting the principles of the above strategies and policies approved by NSW Government.

4.7 Conclusion

Given the weight of overwhelming evidence that:

- demand for office accommodation has been in decline (negative net absorption) for several years
- St Leonards / Crows Nest office market has a record high level of vacancy
- there has been structural changes in flexible work arrangements including working from home and
- it will take well beyond a decade for office space demand to catch up with current levels of supply, then

it is irrational that the zoning of the subject site be restricted to employment uses only. It is simply not feasible to redevelop the site for employment uses. Furthermore the subject site is competitively disadvantaged (compared to St Leonards, North Sydney and Sydney CBD) being at the southern end of the Crows Nest suburb in the predominantly mixed use / residential area.

The TOD planning program is a response to the current housing shortage and its strategy is to encourage and facilitate high density living close to transport centres, particularly along the new metro rail system, Australia's most significant transport project in history, linking Crows Nest to Chatswood, the north-western suburbs and to North Sydney and Sydney CBDs.

The subject site, being less than 400 metres from the metro station makes it an ideal location for high-density mixed-use development in accordance with TOD planning objectives and to deliver significant residential supply to address the "housing crisis".

Reducing the non-res FSR to 1:1 will still ensure sufficient quantum of employment floor space on site, providing a similar number of jobs on site to existing levels, while also contributing to MU1 zone objectives.

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