

RETAIL AND COMMERCIAL OFFICE STRATEGY

APPENDIX DD





Sydney Metro City & South West

Victoria Cross Over Station

Development:

Retail and commercial office strategy report

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1.0 Introduction

1.1 Purpose of this report

This report supports a concept State Significant Development Application (concept SSD Application) submitted to the Department of Planning and Environment (DP&E) pursuant to Part 4 of the *Environmental Planning and Assessment Act 1979* (EP&A Act). The concept SSD Application is made under Section 4.22 of the EP&A Act.

Transport for NSW (TfNSW) is seeking to secure concept approval for a commercial office tower above the Victoria Cross Station, otherwise known as the over station development (OSD). The concept SSD Application seeks consent for a building envelope and its use as a commercial premises (office, business and retail), maximum building height, maximum gross floor area, pedestrian and vehicular access, circulation arrangements and associated car parking, future subdivision (if required) and the strategies and design parameters for the future detailed design of development.

TfNSW proposes to procure the construction of the OSD as part of an Integrated Station Development package, which would result in the combined delivery of the station, OSD and public domain improvements. The station and public domain elements form part of a separate planning approval for Critical State Significant Infrastructure (CSSI) approved by DP&E on 9 January 2017.

As the development is within a rail corridor, is associated with railway infrastructure and is for commercial premises with a Capital Investment Value of more than \$30 million, the project is identified as State Significant Development (SSD) pursuant to Schedule 1, 19(2)(a) of the *State Environmental Planning Policy (State and Regional Development) 2011* (SRD SEPP).

This report has been prepared to provide an overview of the North Sydney property market, with a specific focus on its office and retail segments. This report responds to the Secretary's Environmental Assessment Requirements (SEARs) issued for the concept SSD Application on 30th November 2017 which require a retail and commercial strategy to be submitted with the concept SSD Application.

1.2 Overview of the Sydney Metro in its context

The New South Wales (NSW) Government is implementing *Sydney's Rail Future*, a plan to transform and modernise Sydney's rail network so that it can grow with the city's population and meet the needs of customers in the future (Transport for NSW, 2012). Sydney Metro is a new standalone rail network identified in *Sydney's Rail Future*.

Sydney Metro is Australia's biggest public transport project, consisting of Sydney Metro Northwest (Stage 1), which is due for completion in 2019 and Sydney Metro City & Southwest (Stage 2), which is due for completion in 2024 (Refer to **Figure 1**).

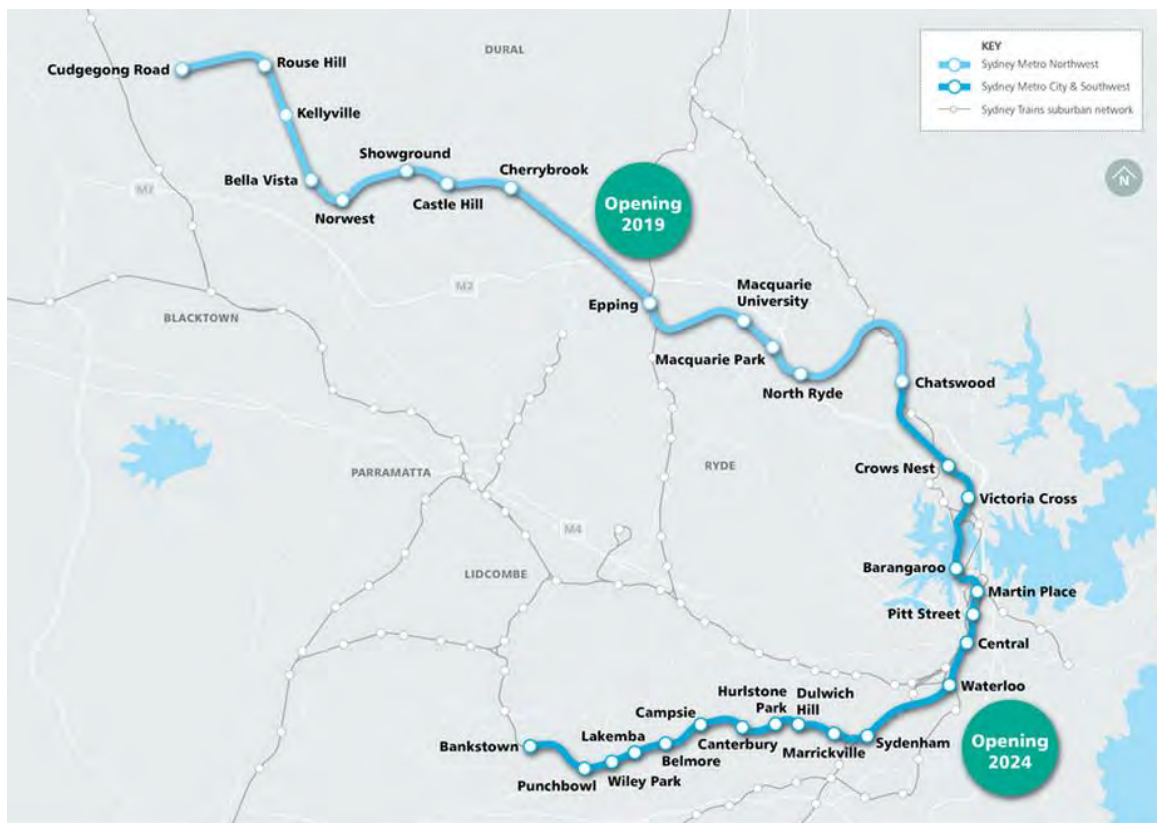


Figure 1: Sydney Metro alignment map

Stage 2 of Sydney Metro includes the construction and operation of a new metro rail line from Chatswood, under Sydney Harbour through Sydney's CBD to Sydenham and on to Bankstown through the conversion of the existing line to metro standards.

The project also involves the delivery of seven (7) new metro stations, including at North Sydney. Once completed, Sydney Metro will have the ultimate capacity for 30 trains an hour (one every two minutes) through the CBD in each direction - a level of service never seen before in Sydney.

On 9 January 2017, the Minister for Planning approved the Sydney Metro City & Southwest - Chatswood to Sydenham application lodged by TfNSW as a Critical State Significant Infrastructure project (reference SSI 15_7400), hereafter referred to as the CSSI Approval.

The CSSI Approval includes all physical work required to construct the CSSI, including the demolition of existing buildings and structures on each site. Importantly, the CSSI Approval also includes provision for the construction of below and above ground structures and other components of the future OSD (including building infrastructure and space for future lift cores, plant rooms, access, parking and building services, as relevant to each site). The rationale for this delivery approach, as identified within the CSSI application is to enable the OSD to be more efficiently built and appropriately integrated into the metro station structure.

The EIS for the Chatswood to Sydenham component of the City & Southwest project identified that the OSD would be subject to a separate assessment process.

Since the CSSI Approval was issued, Sydney Metro has lodged four modification applications with DP&E to amend the CSSI Approval as outlined below:

- Modification 1- Victoria Cross and Artarmon Substation which involves relocation of the Victoria Cross northern services building from 194-196A Miller Street to 50 McLaren Street together with inclusion of a new station entrance at this location referred to as Victoria Cross North. 52 McLaren Street would also be used to support construction of these works. The modification also involves the relocation of the substation at Artarmon from Butchers Lane to 98 – 104 Reserve Road. This modification application was approved on 18 October 2017.
- Modification 2- Central Walk which involves additional works at Central Railway Station including construction of a new eastern concourse, a new eastern entry, and upgrades to suburban platforms. This modification application was approved on 21 December 2017.
- Modification 3 - Martin Place Station which involves changes to the Sydney Metro Martin Place Station to align with the Unsolicited Proposal by Macquarie Group Limited (Macquarie) for the development of the station precinct. The proposed modification involves a larger reconfigured station layout, provision of a new unpaid concourse link and retention of the existing MLC pedestrian link and works to connect into the Sydney Metro Martin Place Station. It is noted that if the Macquarie proposal does not proceed, the original station design remains approved. This modification application was approved on 22 March 2018.
- Modification 4 - Sydenham Station and Sydney Metro Trains Facility South which incorporates Sydenham Station and precinct works, the Sydney Metro Trains Facility South, works to Sydney Water's Sydenham Pit and Drainage Pumping Station and ancillary infrastructure and track and signalling works into the approved project. This modification application was approved on 13 December 2017.

Given the modifications, the CSSI Approval is now approved to operate to Sydenham Station and also includes the upgrade of Sydenham Station.

The remainder of Stage 2 of the City & Southwest project (Sydenham to Bankstown) proposes the conversion of the existing heavy rail line and the upgrade of the existing railway stations along this alignment to metro standards. This part of the project, referred to as the Sydenham to Bankstown Upgrade, is the subject of a separate CSSI Application (Application No. SSI 17_8256) which is currently being assessed by the DP&E.

1.3 Planning relationship between Victoria Cross Station and the OSD

While the Victoria Cross Station and OSD will form an Integrated Station Development, the planning pathways defined under the *Environmental Planning & Assessment Act 1979* require separate approval for each component of the development. In this regard, the approved station works (CSSI Approval) are subject to the provisions of Part 5.1 of the EP&A Act (now referred to as Division 5.2) and the OSD component is subject to the provisions of Part 4 of the EP&A Act.

For clarity, the approved station works under the CSSI Approval included the construction of below and above ground structures necessary for delivering the station and also enabling construction of the integrated OSD. This includes but is not limited to:

- Demolition of existing development
- Excavation
- Station structure including concourse and platforms
- Lobbies
- Retail spaces within the station building
- Public domain improvements
- Pedestrian through-site link
- Access arrangements including vertical transport such as escalators and lifts
- Structural and service elements and the relevant space provisioning necessary for constructing OSD, such as columns and beams, space for lift cores, plant rooms, access, parking, retail and building services.

The vertical extent of the approved station works above ground level is defined by the 'transfer slab' level (which for Victoria Cross is defined by RL 82), above which would sit the OSD. This delineation is illustrated in **Figure 2**.

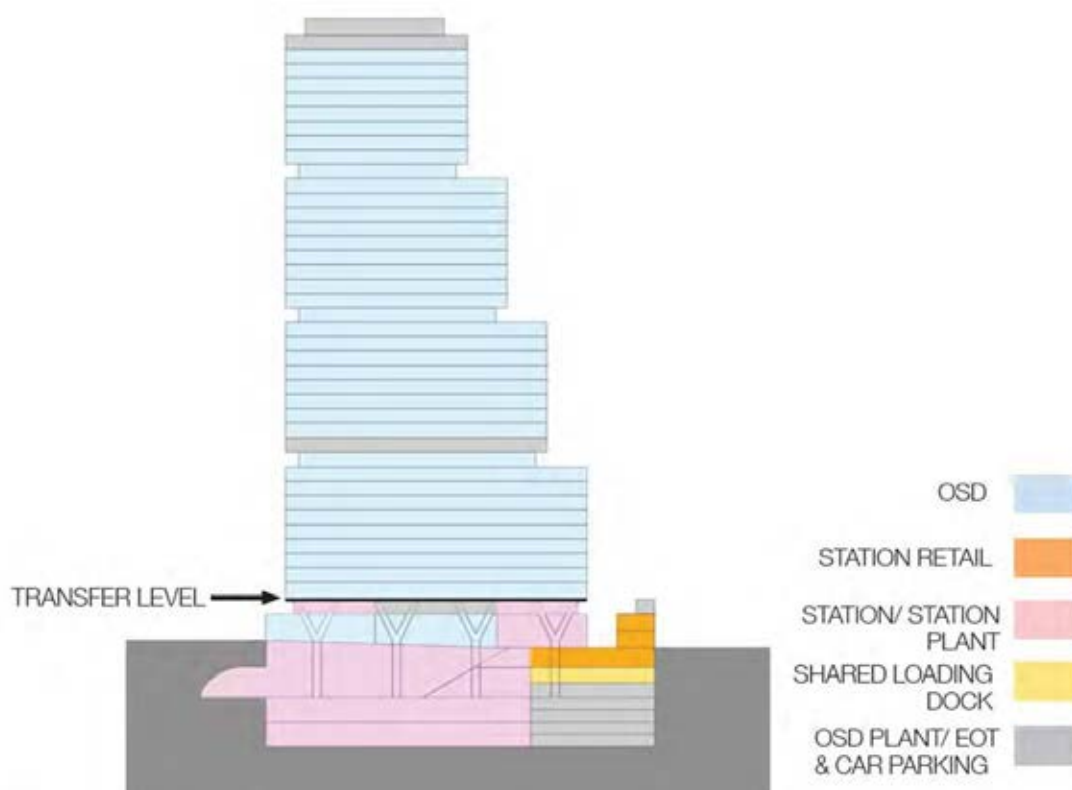


Figure 2: Delineation between Metro station and OSD

The CSSI Approval also establishes the general concept for the ground plane of Victoria Cross Station including access strategies for commuters, pedestrians and workers. In this regard, pedestrian access to the station would be from Miller and Denison Streets and the commercial lobby would be accessed from Miller Street. Retail uses (approved under the CSSI Approval) would be located on the ground floor of the development at both the Miller Street and Denison Street levels activating the through-site link. Separate consent would be sought in the future for the fit-out and specific use of this retail space.

Since the issue of the CSSI Approval, TfNSW has undertaken sufficient design work to determine the space planning and general layout for the station and identification of those spaces within the station area that would be available for the OSD. In addition, design work has been undertaken to determine the technical requirements for the structural integration of the OSD with the station. This level of design work has informed the concept proposal for the OSD. It is noted that ongoing design development of the works to be delivered under the CSSI Approval would continue with a view to developing an Interchange Access Plan (IAP) and Station Design Precinct Plan (SDPP) for Victoria Cross Station to satisfy Conditions E92 and E101 of the CSSI Approval.

The public domain improvement works around the site would be delivered as part of the CSSI Approval.

1.4 The Site

The Victoria Cross OSD site is located at the southeast corner of the intersection of Miller and Berry Streets, North Sydney, above the southern portal of the future Victoria Cross Station (refer to **Figure 3**). The site is located in North Sydney CBD, which is identified as part of Sydney's "Harbour CBD" (along with Sydney CBD) in the *Greater Sydney Region Plan (2018)*. It is the third largest office market in Sydney and is a key component of Sydney's Global Economic Corridor.



Figure 3: Victoria Cross Station location plan

The site is located in the North Sydney Local Government Area approximately 3km north of Sydney CBD, 5km southeast of Chatswood and 2km southeast of St Leonards.

The site (refer to **Figure 4**) is irregular in shape, has a total area of approximately 4,815 square metres and has street frontages of approximately 37 metres to Berry Street, 34 metres to Denison Street and 102 metres to Miller Street.

The site comprises the following properties:

- 155–167 Miller Street SP 35644 (formerly Tower Square)
- 181 Miller Street Lot 15 in DP 69345, Lot 1 & Lot 2 DP 123056 and Lot 10 in DP 70667
- 187 Miller Street Lot A in DP 160018
- 189 Miller Street Lot 1 in DP 633088
- Formerly part 65 Berry Street Lot 1 in DP 1230458

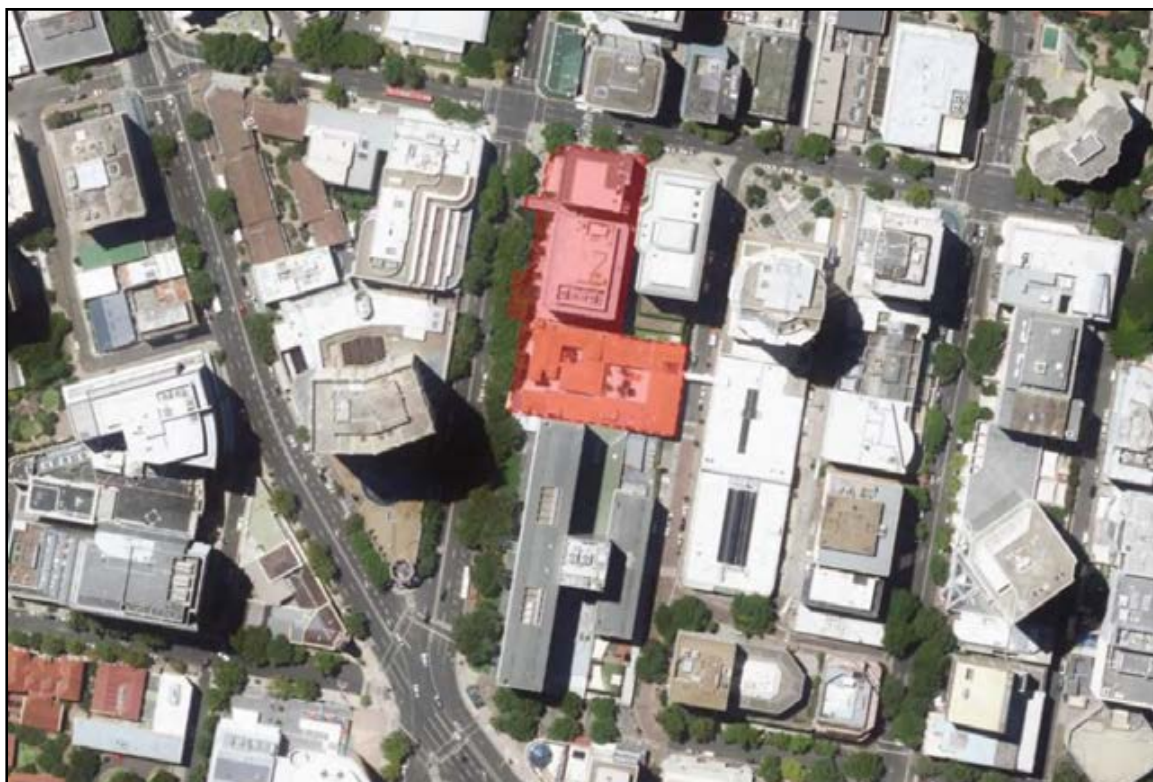


Figure 4: The Site

1.5 Overview of the proposed development

This concept SSD Application comprises the first stage of the Victoria Cross OSD project. It will be followed by a detailed SSD Application for the design and construction of the OSD to be lodged by the successful contractor who is awarded the contract to deliver the Integrated Station Development.

This concept SSD Application seeks approval for the planning and development framework and strategies to inform the future detailed design of the OSD. It specifically seeks approval for the following:

- A building envelope as illustrated in **Figure 5**
- A maximum building height of RL 230 or 168 metres (approximately 42 storeys, comprising 40 commercial storeys and 2 additional storeys for the roof top plant) for the high rise portion of building envelope and RL 118 or 55 metres (approximately 13 storeys) for the lower rise eastern portion of the building envelope
- A maximum gross floor area (GFA) of 60,000 square metres for the OSD component, which is equivalent to a floor space ratio of 12.46:1
- Use of the building envelope area for commercial premises including commercial office, retail and business premises
- Use of the conceptual OSD space provisioning within the footprint of the CSSI Approval (both above and below ground), including the OSD lobby and associated

retail space, basement parking, end-of-trip facilities, services and back-of-house facilities

- Car parking for a maximum of 150 parking spaces over four basement levels with an additional 11 parking spaces allocated to the station retail approved under the terms of the CSSI Approval
- Loading, vehicle and pedestrian access arrangements from Denison Street
- Strategies for utility and services provision
- Strategies for the management of stormwater and drainage
- A strategy for the achievement of ecologically sustainable development
- Indicative signage zones
- A strategy for public art
- A design excellence framework
- The future subdivision of parts of the OSD footprint (if required).

The total GFA for the Integrated Station Development including the station GFA (i.e. retail, station circulation and associated facilities) and the OSD GFA is 67,000 square metres and is equivalent to a FSR of 13.9:1.

A drawing illustrating the proposed building envelope is provided in **Figure 5**. The concept SSD Application includes an indicative design for the OSD to demonstrate one potential design solution within the proposed building envelope (refer to **Figure 6**).

Victoria Cross Station is to be a key station on the future Sydney Metro network, providing access to the growing North Sydney Central Business District (CBD). The proposal combines the Metro station with a significant commercial office tower, contributing to the North Sydney skyline. The OSD would assist in strengthening the role of North Sydney as a key component of Sydney's global economic arc and would contribute to the diversity, amenity and commercial sustainability of the CBD.

It is noted that Victoria Cross services building and new station entrance at Victoria Cross North do not form part of the concept SSD Application.

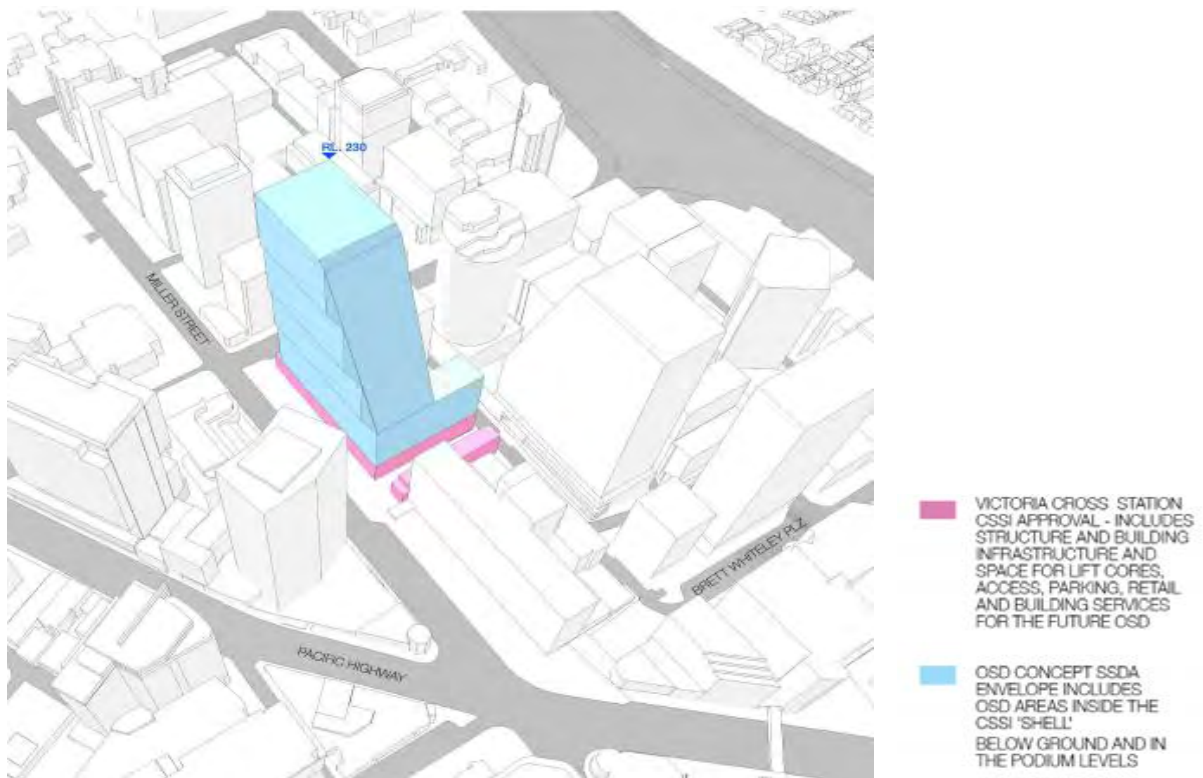


Figure 5: Proposed Victoria Cross OSD building envelope

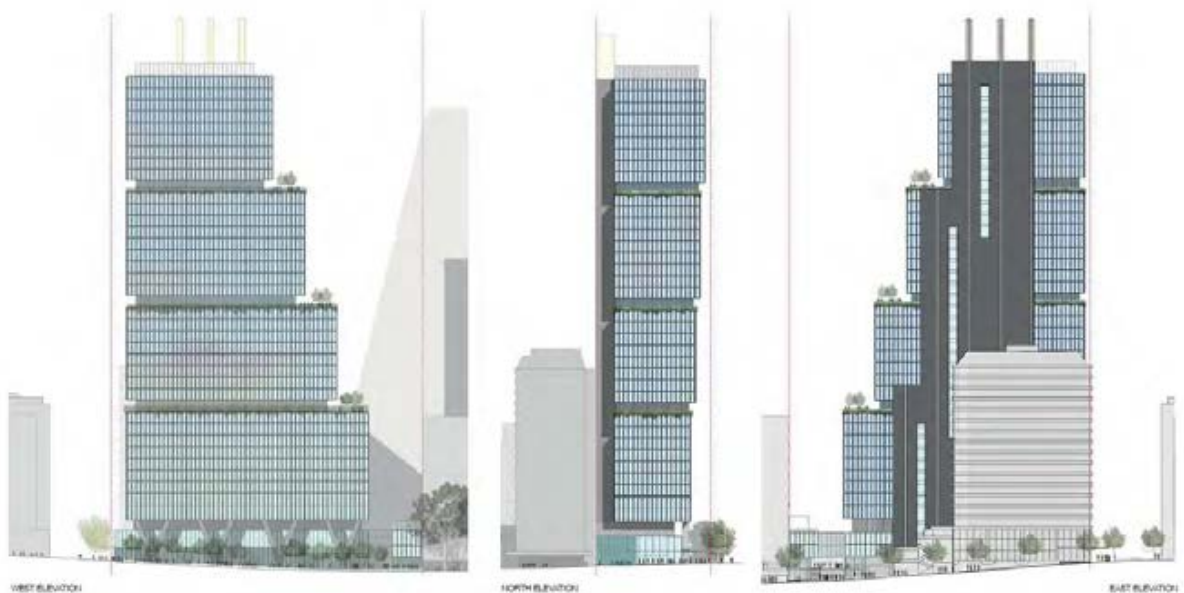


Figure 6: Victoria Cross OSD indicative OSD design

2.0 Scope of this report

The concept SSD Application proposes a building envelope capable of supporting approximately 60,000 m² of commercial office space. Additional opportunities for up to 4,500m² of retail GFA in the podium of the building, expected to be provided at the Denison Street and Miller Street levels, have been approved in the station (CSSI Approval).

This report provides a background market context, intended to inform the planning assessment of the concept SSD Application. Our reconnaissance finds that although North Sydney is Sydney's third largest office market, recent robust demand, especially for A-grade office space, has caused a decline in office vacancy rates. In response to the centre's limited opportunities for new supply, North Sydney Council has identified a need to expand the centre's redevelopment potential.

New retail opportunities that are able to be provided as a result of the new Sydney Metro City and Southwest Metro station at Victoria Cross would, in part, offset the loss of retail floor space formerly located on the subject site. Importantly, the new offers would refresh the centre's retail appeal and enhance worker amenity, in line with Council strategies.

This report confirms that the OSD proposal for Victoria Cross Station is an appropriate response to market conditions and opportunities at North Sydney. The project is also consistent with North Sydney Council's adopted policy framework to provide further opportunity for new commercial development in the centre.

3.0 Macro view

3.1 Sydney Office Space

Sydney's total metropolitan office market comprises over 12,000,000 m² of office floorspace. Almost 40% of this space is held in the Sydney CBD (with 5,080,000 m²). Other dominant centres include:

- The North Shore (including North Sydney, St Leonards and Chatswood) - 2,300,000 m²;
- North Ryde (including Macquarie Park) - 887,000 m²; and
- Parramatta - 707,000 m².

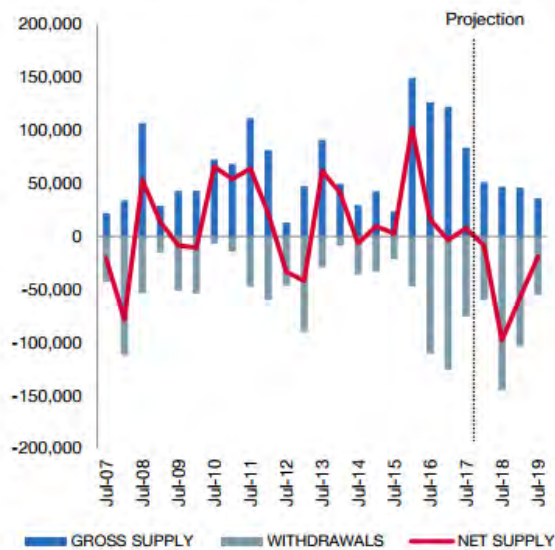
Recent development trends in the Sydney CBD have flow-on implications for the rate of demand that can be expected in other centres, including North Sydney.

These trends include:

- Diminishing supply of commercial floor space with over 201,480 m² of existing office stock (3.9% of the total stock) taken offline as a result of new development including from the construction of the Sydney Metro City and Southwest project, residential conversions and other redevelopment.
- New office supply in Sydney CBD is severely limited, with the next wave of supply expected to arrive from 2020 onwards.
- Tenant demand has been strong and has grown in the past six months, as evidenced by an overall net absorption of 22,216 m². This is 7% above the 10-year average of 20,737 m².
- A combination of strong absorption and limited new supply has resulted in the overall vacancy rate declining from 6.2% in January 2017 to 5.9% in July 2017 (see **Figure 7** below, sourced from Knight Frank / PCA).
- The current vacancy level is 130 basis points below the 10-year average of 7.2%. Vacancy levels in the CBD are expected to trend down, gradually reaching just 3% by 2019 (see **Figure 8** below, sourced from Knight Frank / PCA).

Sydney CBD Office Supply

Per six month period (m²)



Sydney CBD Vacancy Rate

Prime vs secondary (%) - Past decade

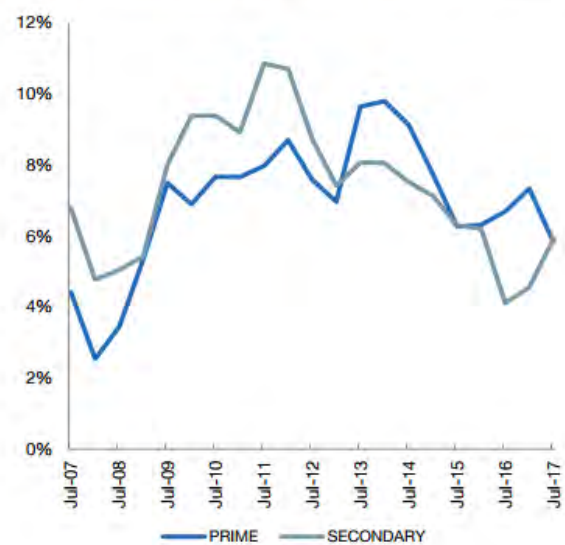
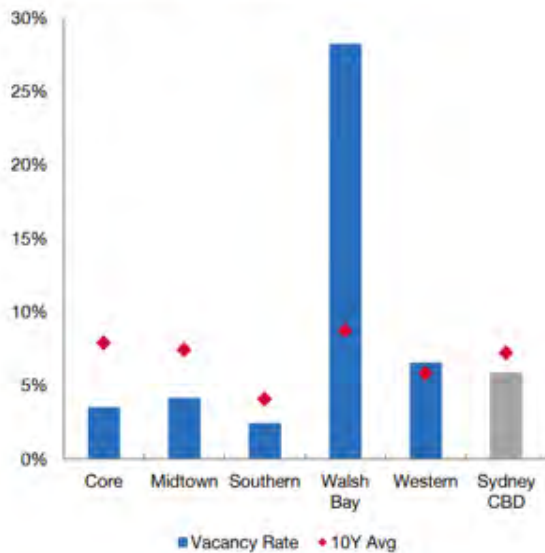


Figure 7: Sydney CBD office supply and vacancy rate.
Source: Knight Frank/PCA

Sydney CBD Vacancy Rate

By Precinct (%) - July 2017



Net Absorption & Vacancy

Sydney CBD, per six month period (000's m², %)

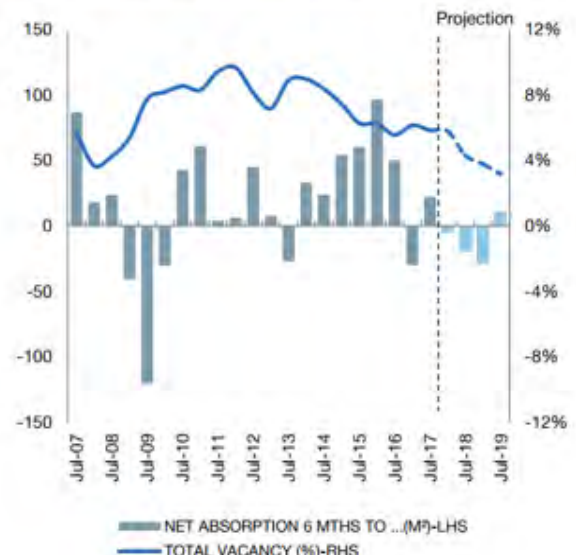


Figure 8: Sydney CBD segment vacancy rates and net absorption.
Source: Knight Frank/PCA

Given the limited supply of new office accommodation over the next two years, the Sydney CBD market is expected to tighten, driving positive rental growth. Accordingly, new tenancies or those looking to extend their leases are likely to consider North Sydney and other peripheral locations as a viable alternative office location.

The completion of the Sydney Metro City and Southwest project will reduce commuter times between the North Shore markets and the city. Accordingly, North Sydney is likely to be viewed by occupiers more as an extension of, and comparable to, certain precincts within the Sydney CBD.

3.2 North Sydney Office Market

The North Sydney commercial centre has over 800,000 m² of commercial floor space and is Australia's 9th largest commercial centre, and Sydney's 3rd largest (behind the Sydney CBD and Macquarie Park / North Ryde). The centre caters for a workforce of over 45,000¹ and is the predominant contributor to the North Sydney LGA's Gross Region Product of over \$16 billion.

North Sydney was, for a protracted period of time, the second largest office market in the Sydney Metropolitan Area. More recently, the centre has experienced quite modest levels of growth. However, during the same period, centres like Macquarie Park, Sydney CBD and Parramatta have grown relatively rapidly.

Consistent with trends in the Sydney CBD and Macquarie Park, including as a result of commercial conversions to residential use, approximately 40,000 m² of existing office space is expected to be permanently withdrawn for alternative uses over the next three years².

Historically, the North Sydney commercial centre has been sensitive to withdrawals, particularly since mid-2013, as depicted in **Figure 9** below. Consequently, the market needs to continue to find new opportunities to provide new commercial floor space, explaining the 'lumpy' nature of new office provisions.

During the 2016-17 financial year, 45,123m² of stock was added to the market, which was offset by 15,118m² of stock withdrawn. This has taken the net additions for the 2016-2017 financial year to 30,005m².

More recently, the North Sydney market has 'balanced', with neither new additions nor withdrawals between January and July 2017.

¹ Source: forecast.id (2014)

² Source: Knight Frank Research (2017)

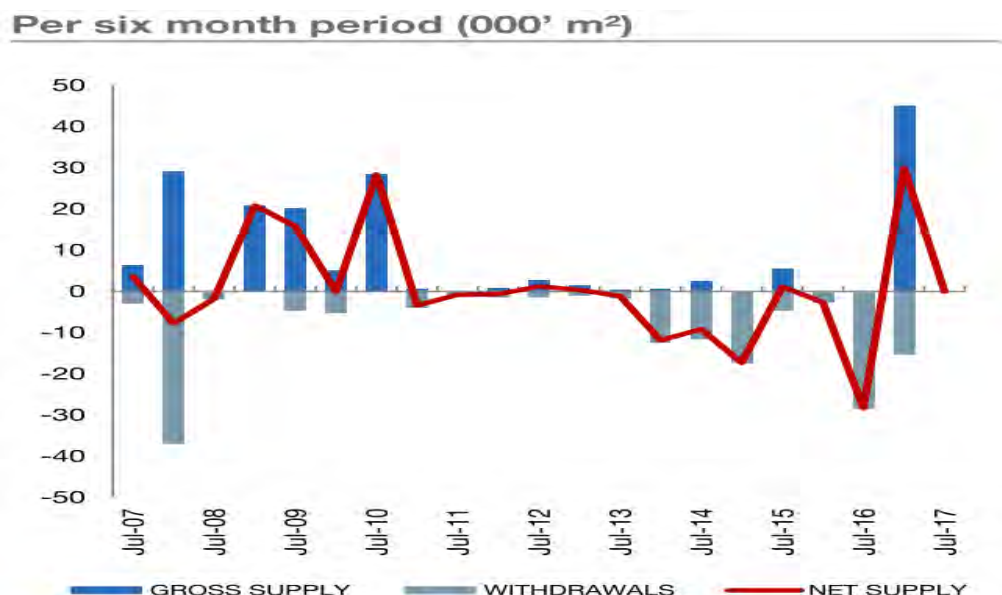


Figure 9: North Sydney office Supply
Source: Knight Frank Research, 2017

Robust tenant demand in combination with limited new supply has caused a decline in office vacancy rates. In the six-month period from January 2017 to July 2017, the overall vacancy rate for the North Sydney market fell from 7.3% to 6.4%. This is 260 basis points below the 10-year average of 9.0% and the lowest level of vacancy in North Sydney over the past 16 years. The recent decline in vacancy can be largely attributed to the strong take-up of prime market space, coupled with commercial to residential stock conversions and the removal of stock associated with the Sydney Metro City and Southwest project.

The effect of declining vacancies is demonstrated in **Figure 10** below, which shows that effective rents have steadily increased in North Sydney since 2009. Further rental increases are projected to continue into 2019.

North Sydney Net Absorption & Vacancy
Per six month period (000's m², %)



Average Net Effective Rents
Prime & Secondary, North Sydney (\$/m²)

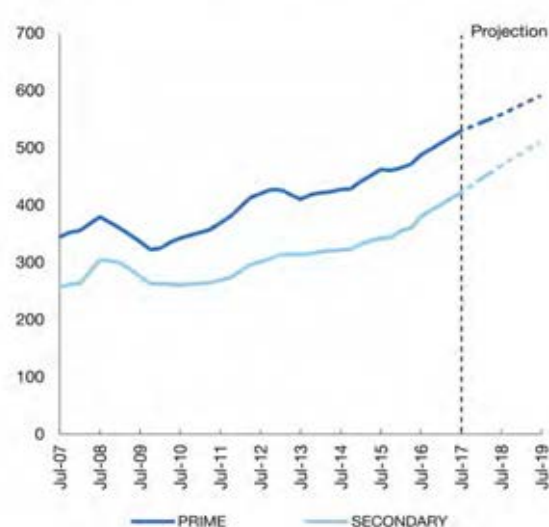


Figure 10: North Sydney net absorption, vacancy & net rents.
Source: Knight Frank Research, 2017

North Sydney Council has estimated that approximately 123,000m² of new office accommodation is likely to be required in the North Sydney Centre by 2036³. However, underlying demand is likely to exceed this figure due to the expected continued demand for higher quality office accommodation (in part created by the introduction of the Sydney metro City and Southwest service), which can be only met through new development⁴.

North Sydney Council's *Economic Development Strategy 2016* reflects these trends and observations and seeks to address the centre's shortfall in office supply by implementing strategies that encourage the development of new commercial floor space, the facilitation of new and innovative businesses, and the improvement of the centre's overall amenity for workers. The first stage in the implementation of the strategy is reflected in a recent planning proposal prepared by North Sydney Council (PP_2017_NORTH_002_00) which principally aims to maximise the commercial floor space capacity and employment growth in North Sydney CBD.

³ Bureau of Transport Statistics (2014)

⁴ North Sydney Centre Capacity and Land Use Study (2016)

3.3 North Sydney Retail Market

The North Sydney CBD has a relatively low provision of retail floor space, with retail representing around 4% of all combined commercial and retail floor space. This is considerably lower than the other major CBD precincts in metropolitan Sydney.

Within the Sydney CBD, retail floor space is estimated to account for around 9% of the combined commercial and retail floor space, while in the Parramatta CBD and the Chatswood CBD, retail floor space is estimated to account for approximately 25% and 40% of the combined commercial and retail floor space, respectively.

Prior to the demolition of properties associated with the Victoria Cross Station, there was around 30,000 – 35,000 m² of estimated retail floorspace in the North Sydney CBD (excluding Northpoint Plaza, which is undergoing a complete redevelopment). This floor space is provided within enclosed centres and along the streets of North Sydney. The centre's major retail supplies at this time are listed below in **Figure 11**.

<u>North Sydney</u>	<u>32,500</u>
• Greenwood Plaza	6,857
• Berry Square	4,500
• Tower Square	2,000
• Mount Street	4,700
• 99 Walker Street	2,200
• Other	12,243
<u>Northpoint</u>	<u>5,400</u>
• Existing	1,400
• Proposed	4,000

Figure 11: North Sydney CBD – retail floor space (NLA m²)
Source: MacroPlan Dimasi (2017)

Greenwood Plaza is the dominant enclosed centre, anchored by the Romeo's IGA Food Hall, with a very solid apparel and food catering offer. The Plaza contains 6,857 m² of occupied retail floor space and 9,494 m² of total centre floor space including non-retail tenancies, storage and circulation space. The centre provides around 83 specialty retail tenancies, a small supermarket and a strong food catering (1,743 m²) and apparel (1,753 m²) offering.

There is also an Aldi supermarket on Mount Street, which underwent a minor expansion over the past year, and a Coles supermarket of around 2,200 m² at 99 Walker Street.

The provision of major retail and other service offerings in North Sydney is depicted below in **Figure 12**.



Figure 12: North Sydney – retail & community service provisions
Source: MacroPlan Dimasi (2017)

Retail floorspace in North Sydney is expected to increase, in line with increased resident and worker populations. North Sydney's LGA's resident population is projected to increase by almost 20,000 persons, from 72,150 (in 2016) to 91,650 (by 2036)⁵, whilst the total employment load of the centre and its immediate peripheral locations is expected to increase from 60,000 workers (2016) to 76,000 by 2036⁶.

The provision of new retail floorspace at Victoria Cross (approximately, 5,000sqm in total) would replace the loss of approximately 2,000sqm of existing retail space at 155-189 Miller Street, which includes ground floor allocations beneath commercial towers at the corner of Miller and Berry Streets, and the Tower Square retail complex (at 155 Miller Street).

The station plaza and its street frontages are expected to contribute to and enhance the worker amenity of the North Sydney centre. The Miller Street retail space is likely to be favoured by cafes and restaurants, as is the case with the existing street frontage properties. A range of retail offerings including small scale retail tenancies and service orientated retail opportunities specific to customers passing through the station are also expected at the Denison Street level.

⁵ ABS (2016)

⁶ NSW TPA projections (2018)

4.0 Findings and Conclusion

The site of the proposed Sydney Metro City and Southwest Victoria Cross Station is central to the North Sydney business precinct. Its development to accommodate additional retail and commercial floorspace is an appropriate response to market conditions and need.

The Victoria Cross OSD project is also consistent with Council's *Economic Development Strategy* and would help to augment required floorspace supplies for the centre.

A new office building at North Sydney above the Victoria Cross Station would be a suitable alternative to Sydney CBD for some businesses, given its access to rapid transit along the new route from Rouse Hill to Bankstown via the CBD. Indeed, the Sydney Metro service is a prime catalyst for CBD renewal in general and is expected to help to maintain North Sydney's relevance in an expanding commercial market context.

From a market perspective, North Sydney is significantly undersupplied with retail floorspace. The Victoria Cross OSD project would address this undersupply and replace, in part, lost floorspace from the site's redevelopment, providing a refreshed retail offering to the market. The offering is expected to enhance worker amenity, consistent with Council's strategy for its CBD.

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