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North Sydney Economic Development Strategy

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Submission from the Property Council of Australia

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Executive summary

The Property Council of Australia welcomes the opportunity to comment on the North Sydney Economic Development Strategy (“the Strategy”).

The Strategy is heavily weighted towards the examination of issues and strategies associated with those areas which Council directly controls. This has caused an emphasis on the topics of small scale place making and the need for Council to increase support for small businesses via additional dedicated resourcing.

The Property Council believes the Strategy would benefit from a greater exploration of current regulatory barriers and new policy ideas and initiatives that would attract *significant* private investment to truly drive the required change and reinvigoration in the North Sydney area.

Whilst new measures to support smaller centres are an important consideration for Council, the North Sydney CBD is the key driver for major economic development. The Property Council supports the Council’s objective to enliven the North Sydney CBD after hours however this can only be achieved if the city centre is vibrant and populated.

The logical policy response is to encourage developers to continue to target commercial uses in the CBD, but to also provide incentives for schemes which encourage growth in population (that is, residential). To achieve this, a detailed review of measures to achieve increased density via comprehensive mixed use developments is encouraged.

We look forward to continuing to work with North Sydney Council on the Economic Development Strategy.

About the Property Council of Australia

Who we are

The Property Council of Australia is the nation's peak representative for the property and construction industry.

Our 2,000 member firms and 55,000 active individuals span the entire property and construction industry, which includes all:

- **dimensions of property activity** — financing, funds management, development, ownership, asset management, transaction and leasing
- **major property types** — offices, shopping centres, residential development, industrial, tourism, leisure, retirement and infrastructure
- **major regions** of Australia and **international** markets
- **four quadrants of investment** — public, private, equity and debt.

A pillar of NSW

The property and construction industry also underpins the health and prosperity of the NSW economy. The industry:

- generates over **311,000 jobs** - one in ten workers
- provides **\$20.3 billion in wages** to workers and their families
- pays **\$9.8 billion in State taxes** to the NSW Government - the State's single largest tax payer
- is levied an additional **\$7.2 billion** in local council rates and charges annually
- contributes **\$54.5 billion directly to Gross State Product** - 11.1 per cent of total GSP, and
- creates **\$88.3 billion in flow on activity**.

Commentary on the Report

What should the focus of the strategy be?

The Strategy is heavily focused on micro items such as place making. There should be a greater focus on broad macro based policies that will deliver real change.

The policy gaps identified in the Strategy are said to be “a lack of detailed policies and strategies to support smaller centres” (such as Crows Nest and Neutral Bay) as well as the need for more “support to local business development” as well as support for home businesses and start-ups. These areas of concern are small in scale and are not what will truly drive change and growth in the North Sydney area. They also undervalue and/or ignore the impact of the forthcoming major infrastructure developments.

Small business, start-ups and home businesses will naturally grow in a business environment characterised by significant investment by private corporations, government and resulting increased population and capital flows.

Generally, these micro policies should not form the backbone of reform or be the centerpiece of an economic strategy for the development of the North Sydney CBD.

The office market

The office market is not referred to until page 21 of the report and not in any substantive way. There is nothing new referenced in the listed key trends reviewed therein.

The Property Council’s Office Market Report (data below embargoed until 4 August 2016) for the six months to July 2016 will show that the total vacancy for the North Shore decreased from 7.8 per cent in January 2016 to 7.2 percent in July 2016 but that this was due to 39,431sqm of withdrawals from the market.

Key market indicators, North Shore (aggregate)

Grade	Vacancy, Jul 16 (%)	Vacancy, Jan 16 (%)	Net absorption, 6 months to Jul 16 (sq m)	Net absorption, 12 months to Jul 16 (sq m)
A	5.1	6.6	6,719	6,263
B	6.6	8.5	2,454	4,266
C	7.9	8.9	-18,998	-19,387
D	8.5	7.8	-183	-695
Total	7.2	7.8	-28,412	-27,469

Key market indicators, North Shore (by locale)

Locale	Vacancy, Jul 16 (%)	Vacancy, Jan 16 (%)	Net absorption, 6 months to Jul 16 (sq m)	Net absorption, 12 months to Jul 16 (sq m)
North Sydney	7.0	7.1	-25,870	-20,849
Crows Nest / St Leonards	8.3	9.6	-5,661	-2,065
Chatswood	6.6	7.7	3,119	-4,555

Future supply, North Shore (by locale)

Locale	Future supply by year (sq m)			
	2016	2017	2018+	Mooted
North Sydney	45,096	0	42,000	45,720
Crows Nest / St Leonards	400	0	4,600	74,800
Chatswood	0	0	0	0
Total North Shore	45,496	0	46,600	120,520

The SWOT analysis

In relation to the opportunities identifies, new transport infrastructure should be at the forefront of Council planning and the analysis does not reinforce this well enough.

In terms of identified threats the encroachment of residential into commercial office centres is listed under this heading. This is a poor analysis. An increased residential population in North Sydney would bring activity, consumer demand, potential employees and much needed activity outside of standard, week day business hours. It would also contribute to the attractiveness of the area for new supporting small businesses and home based businesses.

The SWOT also suggests B and C Grade office space to be a threat to the North Sydney CBD. On the other hand, there is great opportunity to further develop policies and strategies to support major investment in site amalgamation, redevelopment and reinvigoration into new, modern work environments. A significant portion of the current B and C grade stock in North Sydney is limited (for example, by floor plate and/or site area) in its potential to achieve a refurbishment outcome that will meet the needs of current and future occupiers.

Macquarie Park should be considered as a complementary market rather than a threat. If the North Sydney Council supports the development of suitably sized office buildings in the North Sydney CBD, larger corporations will return, attracted by multiple public transport options, and vastly superior amenity and entertainment options for their employees.

The Strategy could be enhanced by a greater examination of the other major occupiers of the North Sydney CBD, in particular the Australian Catholic University (ACU) and the new opportunities that could be derived via student accommodation and support services, new retail, campus expansion and growth. These users provide diversification in the market and bring increased population during and outside of core business hours.

The St Leonards section of the SWOT lists only two opportunities, one being the emerging arts sector. There is no reference to the health sector and the location of major public and private hospitals (Royal North Shore and the Mater), other than on page 58 and the concept plan for the Royal North Shore site. There are additional references on page 58 (Strategy 20) to working with adjoining councils and the State Government to resolve the future of St Leonards.

Better planning can underpin real change

There is an opportunity for the Strategy to include greater detail on planning issues and processes that will support real change and increased significant investment. To facilitate this, the Vision Statement for the North Sydney CBD – to retake its place as a pre-eminent centre – could be further developed in terms of the planning issues that will need to be reviewed to create this outcome.

The Strategy does not give enough focus to how Council could provide an environment to enhance the supply of A grade office space. Contrary to the implications in the paper that these matters are outside of Council's control, Council policy and controls do determine the framework that either enables or restricts development outcomes and the resulting capital investment flows. As Brian Haratsis from MacroPlan Dimasi said in the Australian Financial Review on 21 July 2016, Australian cities need "*spatial planning frameworks to accommodate rather than regulate change*". This is the approach that North City Council should pursue.

Referencing past and current data regarding employment types and proportions (Chapter 3, page 16-19) alone is not likely to be an accurate guide for future projections given the fast pace of technological change and of work styles and environments. Or, put another way, that in only focusing on the past and present, Council will create a self-fulfilling prophecy.

Issues of planning controls and timely assessments of development applications and complying development applications are not referenced until page 45. It is not clear whether these high level measures represent any change to Council's existing policies. Whilst refurbishment/ redevelopment of B/C grade stock is referenced there is no plan outlined as to how Council might proceed.

The Strategy Assessment Matrix on page 44 again focuses in detail on small scale initiatives. In terms of the office market, new A grade stock and refurbishment of existing is to be encouraged, however references to associated planning controls is limited to: "*preference commercial office floor space over residential floor space in office centres*". This is vastly inadequate in terms of analysis and the proposed solution.

Transport led opportunity

There is very little commentary relating to the new transport infrastructure that is committed to be delivered in North Sydney in the medium term. On page 44 there is a reference to working with the State Government on developing a long term strategy for the proposed Metro Stations. This is high level and somewhat superseded. And, again on page 56, Strategy 17, Action 17.2 states that the plan is to "[d]evelop a strategy to capitalize on opportunities for economic activity *following* the development of the Victoria Cross metro stop". It is not clear why Council would wait until completion.

Council should particularly review opportunities for mixed use developments close to the new station hubs.

Residential versus commercial

The Strategy expresses concern at the recent levels of residential development over commercial in North Sydney and St Leonards. This should be examined in much greater detail. It is short sighted to simply preference commercial uses.

The current policy, which has been in place for approximately 30 years, has created some of the difficulties that now exist such as the over-abundance of B and C grade office buildings on relatively small footprints in the North Sydney CBD. It should be rethought.

Proposed Actions

Big picture initiatives

Council needs to consider how it can encourage more people to live and work in North Sydney. Living in quality apartments is now desired by many – why shouldn't good quality residential developments feature as part of a revitalized North Sydney area?

North Sydney Council needs to do what Sydney City Council is in the process of doing – holistically reviewing the planning scheme and controls, taking into account the new public infrastructure plans.

Council should be encouraging developers to bring ambitious schemes and new ideas for review.

Transport initiatives

Further detailed examination needs to be given to how to capitalize on the new Metro Station locations. These will be an enormous boost to the Council area and could be a catalyst to review the local planning scheme. Council needs to rigorously ask: how do we take advantage of these developments, and what should be done to achieve this?

The State government is focused on value capture opportunities around the new station hubs and this might represent a once in a life time opportunity for Council to share in the value capture opportunity through upliftment in height and FSR so as to mass development around the stations particularly Victoria Cross station in North Sydney. This could quite easily be achieved through reviewing the outdated overshadowing rules to allow larger scale developments.

The Metro will bring pedestrian activity – therefore streets need to be vibrant and have amenity. They should include new retail and be cyclist friendly.

Consideration should be given to future bus operations (post CBD Light Rail/Metro Stations) and the impact on the North Sydney CBD. Is there potential for a new bus interchange?

Height and overshadowing initiatives

Council should remove artificial height limits to allow optimized development in key areas, for example, Blue Street, 73 Miller Street (an example of a building that could be significantly expanded) and Arthur Street.

Overshadowing is an arbitrary measure and should be closely examined for any site impacted versus the total benefits accrued from a proposed development. Council should actively be examining “the greater good” in terms of outcomes for individual proposals and sites.

Place making initiatives

Council should strive to improve the amenity of North Sydney oval to encourage its use as major green space. Currently the lack of car parking and difficulty of public transport access are barriers to this objective.

Removing restrictions on footpaths and other areas would encourage increased use, activity and street level vibrancy.

Council should encourage the creation of an education precinct around Berry Street and the ACU as well as an expanded health and associated uses precinct around the Mater/Royal North Shore sites. This would foster research and innovation companies, accommodation uses.

The TAFE College near Royal North Shore could be reinvigorated.

Office market initiatives

Council should encourage site amalgamation and replacement of old B/C grade building stock that cannot be refurbished to adequately meet new standards for building quality, working environments and employee amenity. For example, Council could double FSR for old stock removal.

Planning initiatives

Council should seek to remove red tape, difficulties and timing delays from tenant/landlord DA alterations processes.

Strata should be discouraged in any new developments other than for residential.

Council should consider free FSR for ground floor activation (being one measure to deal with the lack of green space in the heart of North Sydney CBD). For example, Council could remove ground floor retail space from the FSR calculation.

Existing character and heritage space should be retained.

Residential rethink

The current policy of a blanket ban on residential development in North Sydney CBD should be reconsidered. For many years, North Sydney CBD has been a ghost town on weekends and is extremely quiet after work hours.

If North Sydney was a mixed use CBD, then the increased vitality would be enormous and the potential for improved retail amenity would not only benefit office workers and make North Sydney CBD a more attractive place to work but would also attract surrounding residents into the Centre.

There are at least three options that might be considered instead of the current prohibition on residential development:

- Remove the residential prohibition and allow the free market to determine the highest and best use for each property within the commercial core of North Sydney CBD,
- Reduce the area that the residential prohibition applies to, to ensure a guaranteed critical mass of office accommodation remains in North Sydney CBD, however, allow flexible zoning outside of the newly defined and smaller commercial core,
- Allow a maximum of 50% residential in new projects within the Commercial Core so that North Sydney becomes a truly "mixed use" centre.

The Property Council would encourage North Sydney Council to properly consider these options as part of the Strategy's development.

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