

31 January 2017

The Honourable Ms Moss
Minister for Corporate and Information Services
GPO Box 3146
Darwin NT 0800

cc. Chief Minister, the Hon. Michael Gunner
Minister for Infrastructure, Transport & Logistics, Nicole Manison

Dear Minister Moss

Revitalising the Darwin CBD – A new plan for housing Health

The Property Council of Australia is the peak body representing the property industry in the Northern Territory.

The Northern Territory Division collectively represents billions of dollars of commercial investment in the Northern Territory. The value of the property industry to the NT economy is second only to the Resources sector.

The Property Council's membership draws together key players from property development including owners of commercial office buildings and shopping centres, financial institutions, and construction companies. Our membership also extends to those engaged in professions, businesses and provision of services directly associated with the property industry (architects, engineers, financiers, legal and other consultants, suppliers etc.).

As an industry, we not only have a keen interest, but also a financial investment in the future development of the Northern Territory. We appreciate and take seriously the opportunity to provide comment on the Government's new plan for housing the Department of Health.

OUR POSITION

We commend the government's decision to consolidate the Health Staff into the Darwin CBD. This decision will result in an increase in employment in the Darwin CBD which is desperately needed. By locating all the Health staff in the Darwin CBD, this will create additional commercial and retail demand that will be needed to service those additional workers being relocated from outside the city centre.

Over the last several years, we have seen how previous Northern Territory Government (NTG) policy has resulted in a significant decrease in employment in our Capital City. It is crucial that the NTG reverses this trend and the relocation of Health staff in the Darwin CBD is a good start.

However, if we truly want to revitalise the Darwin CBD, we need to see further government policies that will increase employment in our Capital City.

A major concern the property industry has regarding your recent announcement is your statements that the Government is particularly interested in attracting proposals for a new building in the Darwin CBD in which Health staff could be located, and that this new building would support efforts to revitalise the Darwin CBD and stimulate the Northern Territory economy through construction activity.

The lack of activity in the Darwin CBD is in large part because there are less people working in our Capital City, the oversupply of commercial and retail space, and the increased competition from commercial developments outside the Darwin CBD. A lack of office accommodation is not the problem so simply constructing new office building will not revitalise the Darwin CBD.

The Government does need to take into consideration what effects any new supply of office space will have on the office market when determining how best to proceed. Simply adding more retail and office accommodation will not improve the retail and commercial property market in Darwin CBD.

To improve business conditions in the Darwin CBD, the Government must continue its current policy of increasing employment, start improving amenities, and start promoting the Darwin CBD.

As I'm sure you are aware, construction activity is at historical lows and retail and office vacancy rates are at historical highs. The refurbishment of existing buildings will have nearly the same positive economic impact as the construction of a new building while at the same time improve vacancy rates in our Capital City.

Furthermore, refurbishing buildings should provide a more cost effective solution to the Northern Territory Government than a new building. This would allow the Northern Territory Government to use those savings to invest in infrastructure and tourism related amenities in the Darwin CBD, which would further improve its attractiveness and business conditions.

The Property Council of Australia would like to take this opportunity to remind the NTG of our position on this matter, and more importantly explain the effects this tender would have on the property sector if the government were to proceed.

The Northern Territory Government's Role in the Office Market

The NTG effectively controls the supply & demand of A Grade Office in the Northern Territory. This fact is not in dispute.

The NTG has generally only entered the office market during economic periods where the market was experiencing very high rents and very low vacancy rates (supply). The NTG by entering the market during these periods created beneficial stimuli to both the office sector, by increasing vacancy rates and forcing down rents, and the construction sector, by increasing building activity and jobs. Without the foregoing economic environment, the NTG will not receive the full benefit from any new Government tenancy.

Over the past several years, NTG initiatives have **already** significantly increased the supply of high-grade office accommodation in the Top End. Furthermore, these initiatives have encouraged much of this development to occur outside the Darwin CBD. These initiatives along with investment from the private sector (largely caused by defective NT planning controls), has pushed the office market into extremely poor conditions never seen in the Territory before.

If the NTG's proposed tender proceeds, there exists the very real prospect that, **in the current economic environment**, any buildings that are to be vacated by the NTG will have next to zero percent prospects of sourcing a private commercial tenant for a tenancy of that size. To compound the foregoing problem, no other property market segment is currently experiencing strong demand (i.e. residential / hospitality), which limits the prospects of alternate use of these vacant building to also next to zero. The only option the owner then has left is to leave the building vacant indefinitely, until a change in the prevailing economic environment occurs. The presence of vacant buildings has a very real and problematic effect on a city; we all remember the "old Woollies site" and the impact that caused tourism, residents, and other retailers.

Vacancy Rates & Rental Rates:

- Office Vacancy Rates in the CBD are at 22.5%
- Office Vacancy Rates in the Top End are reaching close to 30%.

Office Vacancy Rates in the Top End have never, at any time, been higher than what they are now. The current market conditions are unprecedented and are contributing towards negative business confidence and investment.

The short to medium term outlook for office vacancy rates are very poor. The property sector is predicting that vacancy rates will increase further, even if **no new office space is constructed for the Health Department**. Even if no new office space is constructed, rents will most certainly continue to trend downward in the medium-term (1-5 years) and not likely start to trend upward until mid to early 2020's.

Comparison Vacancy Rates in Other Capital Cities:

- A Grade Office Vacancy Rate in Sydney CBD is less than 6%; and
- A Grade Office Vacancy Rate in Melbourne CBD is less than 8%.

Property Market / Investor Confidence

The focus of the NTG needs to be on improving confidence in the property sector.

The private property sector currently has very little confidence in the office market because of the government's current initiatives to dramatically increase the supply of office space at a time where there is already significant excess supply.

The downward pressure on rents and increased vacancy rates are leading to decreased valuations on commercial properties. These lowered valuations will limit existing property owner's ability to use existing capital to make future investments in the Territory.

Repurposing/refurbishing existing vacant office buildings will help stabilize the market and encourage new investment. Adding more supply to an already over supplied market will only destabilize the fragile investment environment.

Existing Capacity of the Office Market

One of the benefits of high vacancy rates to the broader economy is there is plenty of office accommodation when demand improves.

When the Top End is experiencing consistent employment growth, historically, demand for A grade office accommodation increases at a rate of about 1,000m² per annum. This means that there is about 15-20 years' worth of capacity that already exists. This is under the assumption that **no** new office accommodation is constructed for the Health Department.

Office buildings of up to 2,000m² can be constructed within 12 months. Larger buildings can be constructed in less than 24 months. If by some small miracle demand for office accommodation exploded, there is more than enough capacity and time for the private sector to meet this demand.

During the 2016 Territory Election Campaign, Michael Gunner strongly advocated against any government policy that would increase office vacancy rates and committed to developing policy that will fill existing vacancies in the Darwin CBD (See attached: 'Press Release - 6 April 2016.pdf').

We fully supported the Chief Minister's position on this matter during this campaign and we are confident that the Gunner Government will ensure his policy does not increase office vacancy rates and stay committed to developing policy that will fill existing vacancies in the Darwin CBD.

Timing of Any New Northern Territory Government Office Accommodation

Given the current market conditions and the expected market conditions over the short to medium term, the appropriate timing of any proposed new NTG leasing initiatives is without question, **not now**.

Currently, there is basically zero (non-government) demand for additional commercial office space in the whole of the Top End. Any new project will only cannibalise existing leased buildings, leaving them vacant and adding to the already significant office vacancy problem. An appropriate period needs to be determined that would allow for the current excess vacant office stock to either be re-purposed or gradually be re-absorbed by the market, prior to the introduction of substantial additional office space.

We commend the government for delaying the commencement date of the new Health Department accommodation. Deferring the tender process will provide the government with adequate time to consider how best to proceed with a tender to ensure that the outcome of the tender provides the maximum benefit to the Northern Territory Government, the Territory economy, the Darwin CBD, and the property industry.

Furthermore, if the tender results in the construction of any new office space, the additional time provided will give more time for existing vacant commercial office buildings to be re-purposed or their vacant areas to be gradually reabsorbed by the market over time.

The Success of the Darwin CBD & Palmerston CBD

The NTG's own Regional Land Use Plan for the Top End clearly nominates the Darwin CBD as the dominate commercial, cultural, administrative, tourist and civic centre.

The Property Council supports the growth and development of the Palmerston CBD. However, the NTG should **not** have a policy that supports the Palmerston CBD at the expense of the Darwin CBD (the Northern Territory's capital city).

The Palmerston CBD needs people living in their CBD. It was proposed and designed as a satellite city to Darwin. The priority for the Palmerston CBD needs to be getting people living in their CBD and creating supporting downstream retail and dining amenities.

The Property Council commends the government's decision to consolidate the Health Department staff into the Darwin CBD. This decision will result in an increase in employment in the Darwin CBD which is desperately needed. By locating all the Health staff into the Darwin CBD, this will create additional commercial and retail demand that will be needed to service those additional works being relocated from outside the city centre. The Health Department should be in the CBD core, not the fringes.

Healthy Environment, Strong Economy Policy

The Gunner Government has committed to a policy that ensure carbon pollution is considered when assessing environmental impacts of large developments. Below are some of the environmental benefits associated with repurposing/refurbishing existing buildings:

- Repurposing existing Buildings will not waste existing materials and embedded energy.
- Repurposing will allow the recycling of structures that would otherwise be redundant or empty for a considerable time.
- Repurposing will not require additional investment to the existing fragile Power, Water and Sewerage Systems as the buildings are already serviced.
- Environmental and economic operating efficiencies are possible through the upgrading of services and use of smart technologies.

How Should the Health Tender Proceed?

There is no doubt that the consolidation of the Health Department must occur in the core of the Darwin CBD. The Darwin CBD is the primary employment hub for the Top End and is in desperate need of additional employment and economic activity.

Nearly all the existing office stock in the Darwin CBD is either in good condition or has the potential to be upgraded to a suitable standard. Refurbishing existing properties will require a significant amount of investment and will help support the local construction sector, particularly, small to medium size contractors.

Once this existing office stock is refurbished, the result will be improved market conditions that will likely spur additional construction activity in the long term. Currently, market conditions do not support additional commercial construction activity.

If the government proceeds down the path of utilising existing refurbished office space in our capital city, it's a win-win scenario for everyone. It seems clear what path must be chosen if it's necessary to proceed with this type of consolidation.

We do accept that consolidating the Health Department staff into existing refurbished buildings may create some challenges regarding how you accommodate all the department's requirements.

The easy solution for the NTG would be to simply consolidate the Health staff into a new office building and ignore the economic consequences of such a decision. However, we are certain that with sufficient industry consultation and collaboration, a solution can be found that accommodates the department's requirements, improves business conditions in our capital city, and does not further deteriorate an already fragile office market.

Should you have any queries or require elaboration, please do not hesitate to contact me on rpalmer@propertycouncil.com.au or 0450 428 314

Yours sincerely



Ruth Palmer
NT Executive Director