Princes Highway Corridor Strategy

Appendix A

Economic & Real Estate Analysis: Princes Highway Corridor

Jones Lang LaSalle 2012

Economic & Real Estate Analysis

Princes Highway Corridor

Prepared for Rockdale City Council

June 2012

Executive Summary

Introduction

In conjunction with JBA Planning, Rockdale City Council has engaged Jones Lang LaSalle to provide economic input into the Princes Highway Strategy. Specific deliverables that Jones Lang LaSalle committed to include;

- Benchmarking the current offering (Gross floor areas, employment and housing) to identify the current value the corridor provides;
- Consider a broad range of alternative land uses that may/may not be suited to the corridor. Critically analyses these land uses;
- Test the viability of different land uses. Overlay qualitative considerations / potential changes over time against the financial analysis to identify what changes may occur; and
- Forecast the benefits that would flow from the potentially revitalised corridor in the short and longer terms.

This analysis has been developed primarily for the purposes of informing the JBA Princes Highway Corridor Strategy Report.

Key Findings

Current Offering

The Princes Highway Corridor study area comprises approximately 25 hectares of land[1] over 214 landholdings (with multiple lots per landholding) which can be broadly broken into the following broad land uses;

Employment	47%	Residential	27%
Vacant land	16%	Education	8%
Open space	1%	Religious	1%

The study area employs just less than 800 Full Time Equivalent Employees (FTE) with key industries including;

Automotive[2]	50%	Textiles[3]	14%
Retail	8%	Construction	7%
Entertainment	6%		

The study area currently accommodates 515 residential dwelling with strata product (2&3 storey walk up) comprising over 87% of the stock. There are 54 detached residential dwellings.

As a relative measure Jones Lang LaSalle has provided an indication of densities by land use in the following table. The current density of the automotive related industries and employment uses more generally in the corridor can be seen to have potential for further intensification.

[1] Comprises the site area of the individual lots net of roads, infrastructure etc.
[2] Inclusive of new and used car sales, repair, parts etc
[3] Comprises primarily the Lowes head office

Land Use	Sqm GFA[4] per employee
Offices	15-20
Retail Shops (incl. supermarkets)	25-30
Modern Industrial with office	30-35
Service Trade Premises	40-50
Manufacturing	50-100
Wholesaling	80-130
Bulky Goods Retailing	80-130
Princes Highway Corridor Automotive[5]	**86**
Princes Highway Corridor Employment[6]	**99**
Transport & Storage	200-250

Automotive Industry Trends

Given the intensity of automotive uses within the study area Jones Lang LaSalle has undertaken specific analysis of this industry (including discussions with existing car showroom operators in the area) to understand the trends impacting the industry. Our research showed that broadly:

- The industry continues to consolidate with the emergence of fewer, larger players.
- The showrooms require a 'one stop shop' offering to be most profitable / viable inclusive of car showrooms (new and used), finance and repairs.
- The clustering of the competing showrooms is seen as positive with the area defined as a car sales 'strip'.
- All dealers identified their Princes Highway holdings as important with an underlying intent to continue/ intensify the existing use.

Land Use Analysis

Provided below is a summary of the key opportunities and constraints for a mix of land uses. These are generalisations only as they do not account for any site specific considerations.

a) Residential (defined as medium to high density strata):

- Generally reflects the most viable land use substantially a function of the undersupply of residential uses in the Sydney market.
- Locational preference to be located close to transport (rail) facilities and away from the Princes Highway.

b) Retail 'car showroom' (inclusive of associated office, workshop and hardstand areas):

- Our discussion with the larger businesses has suggested they have a strong intention to stay in the area. Supported by recent sales,
- Requirement to be located on the Princes Highway.
- Potential for intensification of uses.
- Fragmentation of sites dissuades further car show room development.

c) Retail 'enclosed shopping centre':

[4] Gross floor area
[5] Inclusive of car showroom (new and used, repair, parts and other automotive uses including motorcycles)
[6] Inclusive of all employment uses

- New competing centres (including Woolworths at Wolli Creek Village), fragmentation of the current landholdings and strong land values from competing uses would suggest that the development of a shopping centre as unlikely.

d) Retail 'high street and secondary' defined as small / medium facilities (i.e. 50 – 400 sqm):

- While the Princes Highway provides good exposure to passing traffic, their low level of foot traffic restricts opportunities. Vehicles access and egress is also an issue.

e) Retail 'bulky goods':

- A combination of fragmentation of the current landholdings especially given the large requirements of bulky goods, strong land values from competing uses and existing competing supply means that development of bulky goods in the study area will be unlikely.
- While large scale bulky goods face the above challenges there is some potential for smaller offerings with appropriate access / egress and parking.

f) Commercial:

- The mismatch between market and economic rents[7] and the lack of recognition of being a dedicated commercial office area will mean that development of large floorplate commercial uses will be very unlikely.

g) Industrial (light):

- The proximity to existing automotive uses and the demand for local industrial based services will see continued demand for this land use.
- Potential exists for intensification of these uses over time to better make use of the limited land.

Likely Nature of Development

Taking into account the above we consider that the land uses that may reasonably be developed within the study area under a mixed use zoning (i.e. market decides) include:

- Residential (with a preference for sites away from the Princes Highway but close to centres / rail facilities).
- Higher intensity car showrooms with potential for ground floor showroom / first floor workshop.
- Higher intensity industrial uses (inclusive of strata development) that may include a mid of office space (10% to 25% office).
- Higher intensity industrial uses without office area.
- Small footplate retail and commercial uses (around Arncliffe & Banksia train stations). Examples may include; cafés, post office, hair dresser, real estate offices etc.
- Larger footplate retail facing Princes Highway (building / auto / home improvement supplies, fast food pad sites).
- Food and drink facilities / entertainment uses including licenced premises, benefiting from good exposure to passing trade and an expanding residential population base.

Impact of Development to Employment

A do nothing approach that encourages "employment land" uses by excluding residential uses will more than likely see employment decline over time.

The highest and best use of non-Princes Highway locations is likely to be residential. Employment will be generated from a larger residential population increasing demand for a range of local services. This may include local retail and commercial uses as well as service industries.

[7] The Rent required to justify development

The automotive industry has confirmed a commitment to maintaining / intensifying their operations in the study area. They will continue to have a very strong interest for well-located large sites on the Princes Highway for car showrooms and associated sites. Although not likely in the short term these sites may also accommodate mixed use schemes in the future (i.e. ground floor showroom and residential / other uses above).

Potential lost employment along Princes Highway is likely to be replaced by increased employment adjacent to rail stations at the Arncliffe and Banksia local centres (and outside the study area at Wolli Creek Village).

Financial Analysis

Jones Lang LaSalle has undertaken a number of feasibilities with additional detail available within this report. The key point from this analysis is that unless a broader range of land uses and greater flexibility are introduced to the planning controls development will continue to be inhibited.

Implications for the Future Land Use Framework

'Corridors' can be difficult to develop however the study area has key differentiators when compared to other corridors including proximity to transport, key employment areas and a recognised cluster of automotive uses.

Jones Lang LaSalle recommends a flexible planning structure be adopted that recognises the changing structure of employment uses. This includes:

- Accounting for softening / west movement of manufacturing and blue collar jobs with cheaper larger and superior infrastructure.
- The requirement for commercial / office users preference to be located in defined centres (e.g. Sydney, Mascot).
- The limited demand for 'high street' or 'secondary retail' due to issues with both access and poor passing foot traffic.

It should be recognised that the study area is part of a broader precinct that has significant employment opportunities. In the immediate area Rockdale suburb, Mascot, Kingsford Smith Airport and Port Botany are expected to provide employment opportunities. Cooks Cove, once developed, is located in close proximity to the study area. The transport infrastructure the study area enjoys (rail) also means that easy access to other key employment areas (e.g. Sydney, North Sydney, etc.) is available.

In addition development of residential uses will provide demand for employment uses in both the immediate and broader area.

Given the fragmented nature of the landholdings, it is important to provide adequate incentives to amalgamate sites. Most importantly it is essential not to overburden sites with unviable developments.

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1 Macro-Economic Considerations

1.1 Current Economic Conditions

1.1.1 Global

The financial market volatility that emerged in mid-2011 persisted through the 4th quarter of 2011. European sovereign debt fears continued to haunt the banking system. The global growth outlook in 2012 rests on a modest recovery in the US, partly offset by an equally modest slowdown in the Asia Pacific.

Consensus Economics[8] anticipates a slowdown in GDP growth across the Asia-Pacific region (excluding Japan) from 7.2% in 2011 to 6.7% in 2012. Nevertheless, the Asia-Pacific Region continues to lead global economic growth, with Australia benefiting from demand for its natural resource from this region.

Global inflationary pressures are forecast to moderate in 2012. After advanced economies posted a modest 0.1% rise in global consumer prices through 2009, the pace accelerated to 1.6% in 2010. The IMF now estimates a 2.6% rise in 2011 and a 1.4% rise in 2012.

1.1.2 Domestic Economy

The Australian economy grew by 1.0% in the 3rd quarter of 2011 or 2.5% year-on-year. Real Net National Disposable Income (RNNDI) grew by 6% over the four quarters to the 3rd quarter of 2011. Indicators of the momentum of the domestic economy, such as Gross National Expenditure (GNE) and RNNDI are important for the real estate sector, which is aligned with local rather than offshore trends.

State final demand (SFD) statistics in the 3rd quarter 2011 continue to be dominated by the Queensland recovery after the 1st quarter's natural disasters. Queensland recorded SFD growth of 9.3% over the year to the 3rd quarter of 2011. Western Australia SFD grew by 16.4% and ACT by 1.3%. South Australia posted a modest 0.1% annual growth, New South Wales 1.2% and Victoria 1.8%.

1.1.3 Interstate Outlook

Growth slowed sharply in all States during 2009 and re-gathered momentum in 2010. Across all States, 2011 has once again delivered slower growth, with a recovery forecast for most States in 2012. Queensland will be the lead performer in 2012 as it rebounds from the natural disasters that dominated December 2010 and early 2011.

The New South Wales economy is slowly improving with growth of 2.3% (2011) forecast to be followed by 2.4% (2012) and 2.7% (2013).

1.2 Key Economic Drivers

National employment growth slowed sharply in the second half of 2011 and early 2012. In the year to February 2012, employment rose by just 0.2%, or 22,300 persons.

In part the slowdown in employment growth reflects a tight labour market and growth in real wages. However it is also attributable to a slowdown in the pace of economic expansion during 2011. The unemployment rate has ticked up from 4.9% (April) to 5.2% in February 2012.

Retail turnover growth has been running well below trend since June 2008. Spending on clothing and household goods continues to be extremely weak, Department stores continue to

[8] http://www.consensuseconomics.com/

record modest growth, although this may be attributable to aggressive price cutting and an increased share of activity by discount department stores.

Private business investment (excluding non-residential construction) is showing signs of recovery from a prolonged slump. The ABS fourth estimate for investment in 2011/12 recorded AUD158.0 billion, a 26.9% rise on the same estimate in 2010 and a rise from the previous estimate of AUD148.8 billion.

Residential construction expenditure contracted in real terms in 2011 and a very modest recovery is forecast for 2012. The impact of low supply is evident in the rental market, where rental growth is running ahead of inflation. The national vacancy rate of 2.2% remains below the twenty-year average of 2.7%.

House prices fell in all major capital cities in the 12 months to 4th quarter of 2011 according to the ABS index of established houses in eight major capital cities. However, house price data in Sydney has shown modest signs of recovery recently with the RP Data-Rismark (26 March) Home Value Index reporting a 1% quarter on quarter rise.

The decision by the Reserve Bank over recent months to cut the Cash Rate should, if past experience is any guide, herald an upturn in activity in the residential sector.

The value of non-residential building approvals overall remains relatively subdued, and the latest data show no evidence of an upturn that could drive non-residential construction through 2012.

1.3 Implications for the Princes Highway Corridor

Australia is a small, open economy, heavily exposed to global commodity and capital markets. The outlook for the Australian economy remains favourable, although the growth outlook for 2012 has been pared back and the RBA has now reversed its monetary tightening bias.

Development finance is hard to access, although for large projects equity capital from domestic and offshore institutions and property funds is available.

Against a backdrop of financial market volatility the Australian commercial property market recovery is well placed to continue through 2012. The path to recovery, however, is unlikely to be smooth, as the events of 2011 remind us.

Redevelopment opportunities along the Princes Highway Corridor may be constrained in the short-term by access to finance, while the subdued economic growth is expected to keep demand for new residential and non-residential property low. The reduced cost of capital should help development feasibility but in the short term, investment activity is expected to remain low.

Jones Lang LaSalle are aware however that this study is for the longer term and therefore expect that economic conditions will mean revert – the implications being for a more robust economy over the medium to longer term.

2 Economics Impacting the Princes Highway

2.1 The Princes Highway Today

The Princes Corridor (the study area) comprises a significant mix of uses primarily including employment (47%) and residential (27%), but also education and vacant land.

The dominant industry of employment in the area is the automotive sector. This accounts for approximately 50% of employment and includes showrooms, workshops and storage facilities. Bulky goods retailing is concentrated towards the southern end of the study area (Spotlight Centre). The Lowes Headquarters is also a significant employer in the area. The remaining employment uses comprise a mix of industries.

There are also significant residential stock throughout the study area (434 dwellings in total), primarily without frontage to the Princes Highway. Most of these are in the form of higher density product (i.e. three storey walk ups).

Many of the land uses fronting the Princes Highway are considered to be secondary uses, with the corridor providing low cost, older style accommodation for a wide range of local services. Many of the existing buildings are degraded and under-utilised. There is limited evidence of recent investment in the corridor. A small number of large sites offer significant redevelopment opportunities, however much of the land fronting the Princes Highway is fragmented and would require amalgamation to create major redevelopment opportunities.

The corridor is well serviced by rail with the Illawarra Line running parallel to the Princes Highway and two stations (Arncliffe, Banksia) within the study area. To date, there has been limited development within the study area taking advantage of this strategic location.

The draft South Subregional Strategy (covering Canterbury, Hurstville, Kogarah, Marrickville, Rockdale and Sutherland Councils) has an employment capacity target of 214,500 by 2031, an increase of 13.5 per cent, or 29,000 positions, over the 2001 employment level. The target for the Rockdale LGA set in the draft South Subregional Strategy is an increase of 13,000 jobs by 2031. The employment target for the South Subregion has been revised upwards to 52,000 additional employees, with Rockdale LGA expected to increase its capacity.

The three main identified locations for future employment growth in the Rockdale LGA are:

- Cooks Cove Redevelopment Area – Long-term potential for 11,000[9] employees;
- Wolli Creek Village – Up to 7,000[10] employees; and
- Sydney Airport Environs – 4,000 additional employees in the Rockdale LGA.

The three precincts will potentially cater for 22,000 jobs, well in excess of the original target employment growth.

Rockdale Council has 19 centres in total. With the exception of Rockdale and Brighton Le Sands the rest are villages. All of these will have targets for employment growth.

Three main light industrial areas (Turrella, Rockdale – Garnet Street and West Botany Street and Production Avenue Kogarah) provide employment opportunities and services, although the trend in inner and middle suburban industrial precincts has been for employment numbers to decline. This is due to a range of factors, including pressure from non-employment generating uses (primarily residential), general loss of industrial based employment due to structural changes to lower employment generating uses and movement to lower cost locations in the

[9] Source: Rockdale City Council State of the Environment Report Dated 2008-2009
[10] Source: Rockdale City Council State of the Environment Report Dated 2008-2009

outer suburbs, and under-utilisation of existing industrial buildings. Future growth or containment of employment may come from a broader mix of services within such precincts.

The Princes Highway is identified in the South Subregion Strategy as a potential location for an "enterprise corridor" providing low cost accommodation for a range of local and regional services, including start–up offices, light industrial, showrooms, building supplies and retail, which benefit from high levels of passing traffic. However as outlined in the 'Rockdale City Plan 2011-2025', the stretch of Highway between Banksia and Wolli Creek in particular is currently characterised by degraded building stock and many vacant tenancies'. The Department of Planning and Infrastructure are reviewing the subregional strategies and it is understood that these are subject for release in 2013.

While limited development activity has occurred within the study area over the last five years, it is noted that the Princes Highway Corridor Strategy goes beyond any short term considerations, and is instead looking at a 10 to 20 year timeframe.

The challenges faced by the area are not unique. There are many examples within Sydney of similar corridors where aging stock and a lack of investment have led to high levels of vacancy and a loss of employment.

While not looking to understate the challenges of the corridor, Jones Lang LaSalle considers that it is in a unique position with a number of features that differentiate it from other corridors. These factors include:

- Proximity to public transport i.e. rail;
- Proximity to key employment areas including Mascot and Sydney;
- Proximity to infrastructure which provides both jobs and amenity i.e. Kingsford Smith Airport, Botany Freight Terminal;
- Sufficient income in the area (i.e. not a low socioeconomic area);
- Proximity to other forms of amenity including retail, parkland / beaches (in the broader area); and
- A recognised cluster of automotive industries.

Given the material nature of the above factors, Jones Lang LaSalle considers it very likely that the study area will be a significantly more dynamic area than most other 'corridor' areas.

2.2 Influence of Metropolitan and Regional Activity

Jones Lang LaSalle have provided below a summary of key economic influences that impact Sydney and the study area.

- The higher order industries such as finance and business services around the Sydney CBD and North Sydney. The Sydney CBD continues to attract the majority of regional headquarters of global corporations locating in Australia.
- Industry clusters are strengthening in information and communications technologies (Macquarie Park), biomedicine (Westmead, Sydney Central, Randwick), finance and business services, tourism and entertainment (Sydney CBD), and transport and logistics (Port Botany and Mascot).
- There has been rapid growth of business parks, particularly in North West Sydney, Rhodes and Sydney Olympic Park.
- Home–based work has grown, particularly in areas with large professional populations such as the north western suburbs.

- There has been continuing shifts in manufacturing, transport and distribution activities to Western Sydney, with concentrations of manufacturing activity in Bankstown, Blacktown and Fairfield.
- More retail, construction and community service activities and jobs are dispersing to the high population growth subregions in the west.
- In relation to occupations, recent data suggests that:
  - Jobs such as general and specialist managers, specialist business unit managers, business, information technology, science, and arts and media professionals are concentrating in and around the global economic corridor.
  - Service professional jobs are dispersing and concentrating around education and health facilities. This includes nurses, teachers, GPs, counsellors and welfare workers.
  - 'In–person' service workers are dispersed with higher densities in older and wealthier suburbs. This includes childcare, personal care and fitness instructors.
  - The industrial production workforce is concentrated in the post–war production areas — particularly along the M5 and M4 motorways. This includes store persons, hand packers, machine operators, product assemblers and factory labourers.

There has been a long–term trend for manufacturing and logistics employment to shift towards the western suburbs, with particular concentrations around Wetherill Park and the area known as the Western Sydney Employment Hub, incorporating the State Environmental Planning Policy (SEPP) No. 59 employment lands near the former Australia's Wonderland site at Blacktown.

Manufacturing, transport and warehousing activity is concentrated along major transport corridors and arterial roads such as the Hume Highway, M5 and the M7. Planning for improved links between Sydney Airport, Port Botany and the manufacturing and distribution industries are a priority of the Economy and Employment Strategy.

A successful outcome for the Princes Highway needs to consider the changing nature of employment discussed above. A mismatch between planning frameworks that impacts supply and demand will most likely have an outcome of below par development, which provides neither jobs nor housing. As such, the study area needs to adopt strategies that embrace these changes. Jones Lang LaSalle considers the primary implication of this will be that the study area needs to provide accommodation to house the needs of the surrounding employment area.

3 Location Analysis

Jones Lang LaSalle have summarised within this section various influencing factors impacting the study area. These considerations paraphrase the work completed by JBA Planning 'Princes Highway Corridor Strategy' for Rockdale City Council.

3.1 Contextual Setting

- The Princes Highway is a major arterial road, linking southern Sydney to the airport and the CBD.
- Much of the study area is in the flight path and is subject to very high levels of noise exposure, which restricts residential development in the south of the study area.
- Three major projects have the potential to transform much of the environment to the north, south and east of the study area:
  - Wolli Creek Village is proposed to house 6,500 residents and 7,000[11] workers on completion. Development is underway, including Australand's Discovery Point, and residential / mixed use projects by Meriton and Multiplex.
  - Cooks Cove proposes a gateway commerce and advanced technology centre, together with recreational open space by way of Sydney Regional Environmental Plan No33 – Cooks Cove.
  - The Rockdale Town Centre Master Plan aims to revitalise the town centre by enhancing its civic role, with some increases in density and residential population within the centre.

3.2 Study Area Considerations

Jones Lang LaSalle refers the reader to the work completed by JBA Planning 'Princes Highway Corridor Strategy' for Rockdale City Council for specific additional information on;

- Areas of influence
- Topography
- Flood constraints
- Unhealthy building land
- Heritage
- Open space
- Aircraft noise
- Nodes and movement corridors
- Access and activity
- Interface conditions

[11] Source: Rockdale City Council State of the Environment Report Dated 2008-2009

4 Land Use Survey

4.1 Survey Objective, Methodology and Limitations

As part of this study Jones Lang LaSalle undertook a 'high level' survey of existing gross floor areas and employment densities for non-residential uses and analysis of the density of the existing residential product.

Our methodology included 'on the ground' survey work (including discussions with many of the businesses and residents) as well as 'desktop' analysis.

The primary sources of data used in the land use survey were:

- Street address, title detail and land area as provided by Rockdale City Council.
- Building areas were measured by using aerial photographs.
- Site inspection and survey (for Full Time Equivalent (FTE) data).

Jones Lang LaSalle note that this was not a formal survey and therefore when data was not readily available estimates were uses (e.g. number of employees).

4.2 Land Use Mix

4.2.1 Areas and Uses

The landholdings within the study area total over 25 hectares, which can be broken down as per Table 1. Of significance is the quantum of land currently used for employment related uses i.e. 43%, which underpins the economic importance of the area.

Table 1: Land Use Summary

Use	Land area	% of total
Employment	119,611	47%
Residential	67,884	27%
Open space	2,141	1%
Vacant land[12]	39,965	16%
Education	19,878	8%
Religious	2,868	1%
Total	252,347	

Source: Jones Lang LaSalle

[12] Includes a mix of land uses including reserves not zoned as open space (Ajax and Empress), The Sydney Water Viaduct, land located near the M5 access and the 'Education site'.

4.3 Employment Use Analysis

4.3.1 Industry (Land Area, Building Area, FTE)

A further breakdown of the employment uses within the study area is provided in Table 2.

Table 2: Detailed Employment Land Use Summary

Industry	Total building area		Total land area		Total FTE	
Automotive	33,144	46%	60,686	57%	386	50%
Retail	13,250	19%	10,692	10%	66	9%
Construction	3,964	6%	10,132	9%	40	5%
Entertainment	4,200	6%	7,293	7%	47	6%
Textiles	4,140	6%	4,352	4%	106.5	14%
Electronics	3,210	4%	4,004	4%	34	4%
Food	835	1%	2,502	2%	16	2%
Storage	4,000	6%	2,002	2%	5	1%
Other professional	1,250	2%	1,711	2%	24	3%
Manufacturing	1,700	2%	1,522	1%	18	2%
Printing	1,400	2%	1,374	1%	20	3%
Medical	320	0%	949	1%	4.5	1%
Total	71,413	100%	107,218	100%	767	100%

Source: Jones Lang LaSalle

The above data shows that that automotive, retail, construction and textiles[13] are the 'key' industries in the study area in terms of land area. The automotive industry also dominates employment, accounting for an estimated 50% of the workforce.

4.3.2 Key Employment Use Considerations

Table 3 shows the number of full time equivalent (FTE) employees by industry within the study area as well as the intensity of use i.e. average building and land space taken by those FTE within the study area.

[13] Lowes Headquarters comprises most of the textiles industry.

Table 3: Employment Densities by Land Use

	FTE	Average Sqm Bldg / FTE	Average Sqm Land / FTE
Automotive	386	86	157
Textiles	106.5	39	41
Retail	66	201	162
Entertainment	47	89	155
Construction	40	99	253
Electronics	34	94	118
Other professional	24	52	71
Printing	20	70	69
Manufacturing	18	94	85
Food	16	52	156
Religious	8	263	358
Storage	5	800	400
Medical	4.5	71	211
Total	[14]775	95	142

Source: Jones Lang LaSalle

Of significance are the relatively low intensity of the retail uses and the relatively high intensity of the automotive uses. Most of the retail uses in the study area are bulky goods retailing, which is a relatively low employment generator. Automotive businesses in the study area, however, have a relatively low built area for the site they sit on.

It is noted that some of the local service industries are significant employment generators, as are manufacturers. Manufacturing as an employer, however, has declined across Australia over time, due to a mix of off-shoring and improved efficiencies / increased automation in manufacturing.

4.4 Residential Use Analysis

The following table shows the types of residential dwellings across the study area.

Table 4: Residential Uses

Accommodation Type	Number of dwellings
3 storey walk up	363
Detached dwelling	54
Duplex	6
Semi	6
2 storey walk up	4
Other	1
Total	434

Source: Jones Lang LaSalle

The low density dwelling within the study area tends to be older stock and in a number of cases, reaching the end of their economic life. Over time, the proportion of detached dwellings is expected to diminish in favour of more intensive residential formats or other uses.

[14] Excludes Education

5 Analysis of the Automotive Industry

As discussed in Section 4.3 the automotive industry is the largest employer in the study area. Section 4 provides an overview of the sector and its significance to the Princes Highway Corridor.

5.1 Literature Review

Jones Lang LaSalle has had regard to various studies that have provided some insight into the trends that have relevance to land use planning issues and have paraphrased some of the key points below. We have provided additional detail on these reports in the appendix (section 9.2).

5.1.1 Australian Industry Overview – Deloitte Motor Industry Services

- The gap between average and the best performing dealers is widening
- The average Australian dealer loses money selling new vehicles (other revenue streams are required i.e.

  ...*profits flowing from the sale of core products are at best marginal while secondary products contribute to the bulk of the overall bottom line. This is precisely the case for automotive dealers who typically lose money selling their core product (motor vehicles). They have become increasingly adept, though at the same time dependent upon related activities such as finance and insurance, aftermarket products, parts, accessories,* servicing and repairs.

  ...decades ago most automotive dealers were a one stop shop for all vehicle service needs. Many provided fuel, tyres, body shop and full mechanical servicing. Over time other service providers steadily entered the market and took away sizeable slices of the income cake. It has only really been the last few years that a larger more coordinated formal attempt to reclaim this traditional share of the industry has been made.
- The internet is having an increasing impact on the industry.
- The biggest issue impacting used vehicles now and into the future is the share of real estate to display. Over time as new vehicle volumes have grown, more dealership real estate has been absorbed by new vehicle showrooms and display. To counter this, Dealers need to secure more of their front apron for used vehicle display.

5.1.2 Automotive retail, service and repair industry in New South Wales – Manufacturing Skills Australia 2010

The report identifies that in NSW employment by specialist area within the automotive industry was as follows.

Table 5: Employment by Sector, Auto Industry in NSW

Employment by sector	%
Repairs and maintenance	63%
New & used vehicle retailing	18%
Parts and tyre retailing	11%
Fuel retailing	5%
Parts wholesaling	4%

Source: Manufacturing Skills Australia[15]

[15] Manufacturing Skills Australia – Automotive Retail, Service and Repair Industry Statistics for NSW as at September 2010.

5.2 Car Dealership Feedback

Jones Lang LaSalle had discussions with a number of the existing car dealership owners within the study area. The objective of this consultation was to further understand the trends within the industry that had implications in terms of land use planning. The summary findings from these discussions are provided below.

Changing nature of the car dealership / business offering

- The most viable dealerships offered a range of services to the customer. This includes new car sales, 2nd hand car sales, car repairs, finance & insurance and car parts.
- Bigger is better. Sites that can offer all services on the one site inclusive of easy access and parking for the customer.
- The number of businesses within the Sydney Metropolitan area over the last 10 years has decreased. Parramatta Road, Victoria Road etc. have all seen declines in the actual number of sales yards as smaller operators (primarily 2nd hand) have disappointed.
- Car dealerships are with greater frequency being owned by a smaller number of larger players. Many of the dealerships are part of a larger business. E.g. Mazda Rockdale, Suttons etc. which have head offices that manage multiple locations.
- Dealers prefer to own their own site. Some example of site leasing does occur e.g. City Ford is on a 10 year (with 5 year lease option).

Why Rockdale?

- The combination of land prices in Sydney and site amalgamation issues mean that well located large showroom sites are hard to get.
- The competing showrooms all valued the clustering of related car uses within Rockdale. i.e. the competing showrooms were seen as a positive not a negative.
- The dealerships were quite positive about the sales turnover the Rockdale sites generate (in a tough market). None of the dealers had any intention of leaving; the opposite was the case with dealers indicating that if sites were to be marketed for sale, they would be keen purchasers.
- The dealers expected that car related uses would continue to show interest in well located sites with Princes Highway frontage. This is confirmed by two recent sales on Princes Highway for such uses (107 and 139 Princes Highway).
- It was identified that it would be a poor outcome for the industry if the car industry was to leave Rockdale.

Surrounding / land use considerations

- In general, the automotive industry appears comfortable with residential uses being its neighbours, although most considered residential uses would be best suited to sites set back from the Princes Highway frontage.
- The key concern was the potential for land values to increase as a result of residential uses “outbidding” other land uses.
- There was mixed views about potential future mixed use development comprising ground floor car showrooms with upper levels of residential. Some saw this as having potential while others were sceptical of such a mix within the same building.

5.3 Future Trends and Implications for Rockdale LGA

The Rockdale LGA is an important and viable location for the automotive industry with existing operators indicating a strong desire to stay in this location. Key points raised from the above review of the automotive industry and discussions with local dealerships include:

- Dealer profitability requires business to be a 'one stop shop'.
- Continued amalgamation within the industry is likely.
- Clustering of showrooms is seen in a positive light and beneficial to each dealership.
- All dealers identified their Princes Highway holdings as important with an underlying intent to continue / intensify the existing use.
- Dealers were generally positive about the intensification of the surrounding uses e.g. 'more residents means more sales'.

6 Land Uses Analysis

Provided in the following section is analysis of the following land uses:

- Residential
- Retail (high street and secondary)
- Retail (car showroom)
- Retail (bulky goods)
- Retail (enclosed shopping centre)
- Commercial
- Industrial

The objective of this section is to briefly provide guidance into the some of the current day issues impacting the land use but more importantly to identify the longer term trends, opportunities, constraints and viability consideration for each of the land uses.

6.1 Residential

While a range of residential uses and densities have been considered, Jones Lang LaSalle has concentrated primarily on higher density uses (i.e. multi-level strata units).

6.1.1 Supply

Undersupply of Residential

The National Housing Supply Council 2011 report[16] identifies the following key findings;

- Despite weaker market conditions, the housing shortage continues to widen.
- Underlying national demand for housing grew by an estimated 159,200 dwellings in the year from 1 July 2009 to 30 June 2010. Net additional housing supply increased by 131,000 dwellings over the same period. The gap between these measures of underlying demand and supply increased by 28,200 to 186,800 over 2009-10.
- The largest housing shortfalls in numerical terms are in NSW and Queensland, with shortfalls of 73,700 and 61,900 respectively.
- As identified in the report data from the states and from the National Housing Supply Council's analysis of recent building approvals data suggest that supply is likely to fall short of the medium-growth projections (meaning a larger gap) in the short term.
- Projections, based on trend building rates and household growth, suggest that this gap could increase to over 640,000 over the next 20 years.

Given the potential housing shortage across NSW and Sydney, and desire to increase densities within centres and in existing urban areas, main road corridors well-serviced by public transport are increasingly expected to deliver a greater proportion of future demand.

[16] National Housing Supply Council, State of Supply Report 2011

Residential Stock Structure

A comparison of the nature of the existing residential supply is provided in the following table;

Table 6: Dwelling Structure, Princes Highway Corridor and Selected Areas, 2006

	Study Area	Wolli Creek	Rockdale LGA	Sydney
Units	85%	87%	36%	26%
Detached dwellings	12%	12%	50%	61%
Other	3%	1%	14%	13%

Source: Australian Bureau of Statistics, Jones Lang LaSalle

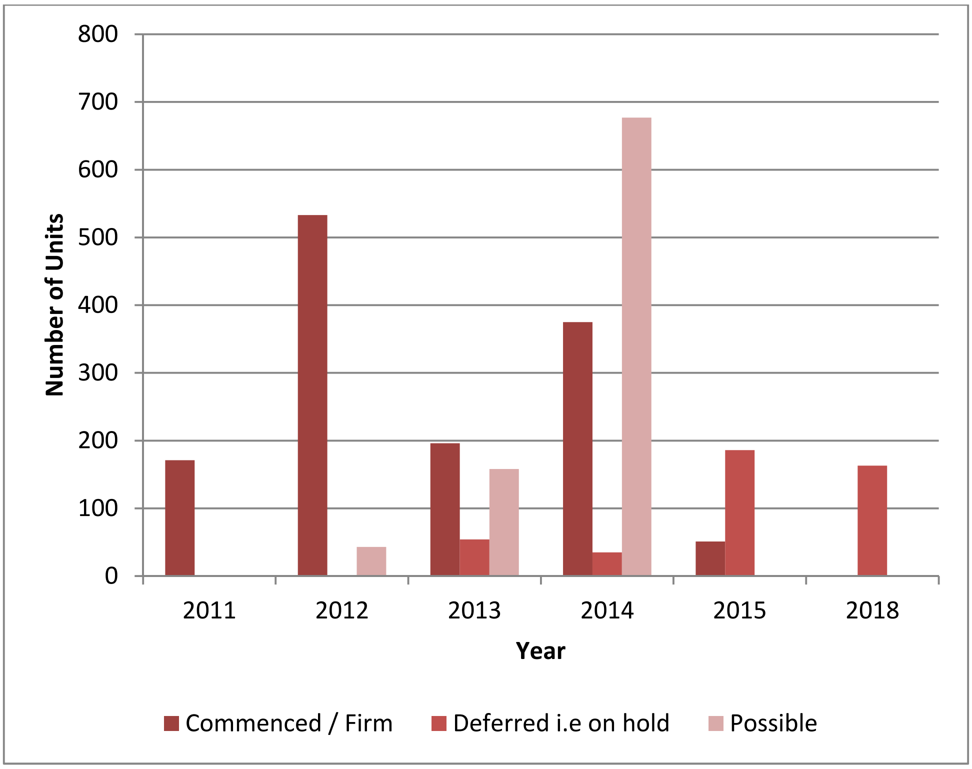
While the study area already has a high concentration of higher density housing, its relative proximity to Sydney's CBD and its access to public transport (subject to appropriate planning controls) will ensure that this trend continues.

Future Supply - Local

Provided in the graph below is a summary of the forecast supply of units to the Rockdale LGA market. While a total of 370 units are deferred anecdotally this proportion of 'on hold' stock is lower than in periods prior (when there was greater uncertainty about the direction of the residential market).

Figure 1: Development Pipeline – Rockdale LGA

Source: Cordells[17], Jones Lang LaSalle



[17] http://www.cordellconnect.com.au/

Of significance is the number of developments immediately outside the study area, but within the suburbs of Wolli Creek, Arncliffe and Rockdale. There are 30 developments with a total development yield of 2,294 units, excluding the Australand / LaSalle Investment Management (LIM) development of Discovery Point. The master plan for this development totals 1,539 units plus commercial and retail uses.

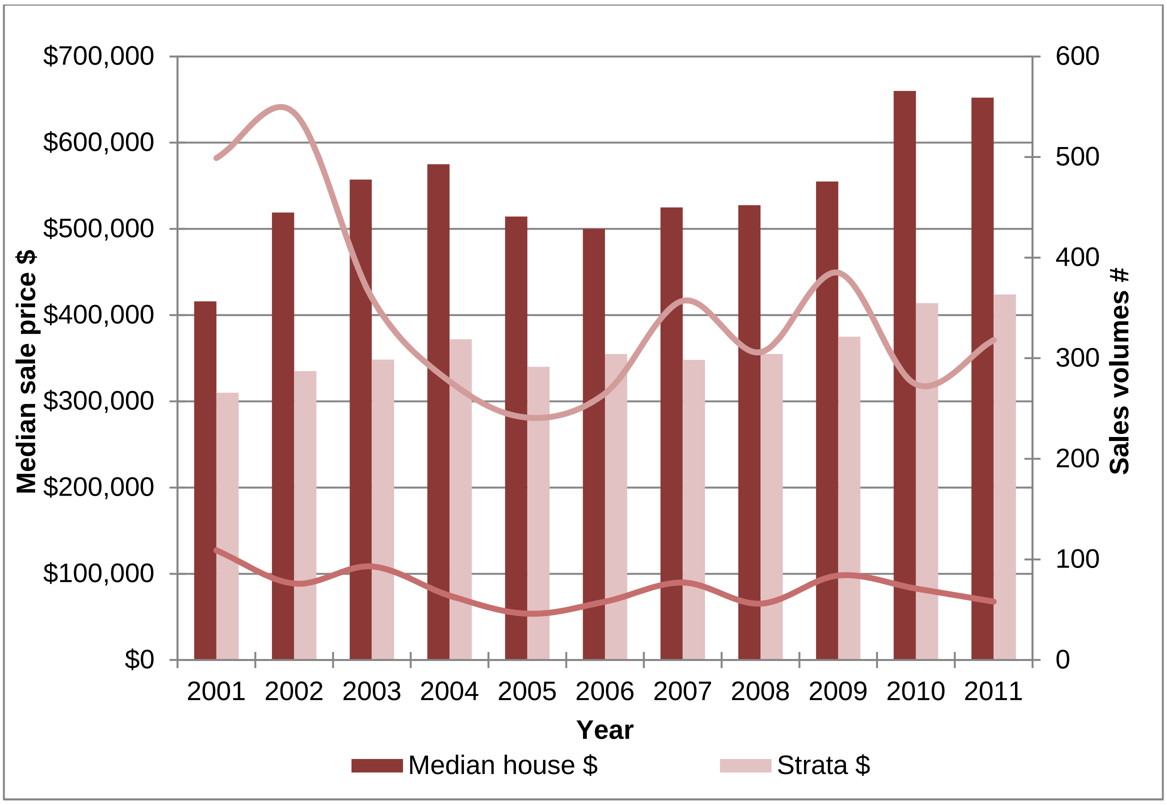
6.1.2 Demand

Sales Cycle (Sales Volumes and Pricing)

Provided below is a chart showing the 'sales cycle' i.e. sales volumes and average prices for the suburb of Rockdale[18]. While Rockdale covers a broader area than the study area, it provides an insight into the sales trends within the study area.

Figure 2: Sales Volumes and Average Sale Prices (Houses and Strata[19]), Rockdale Suburb

Source: http://www.rpdata.net.au/ , Jones Lang LaSalle



Key points from the above graph include:

- Median house prices and units have averaged 5.2% p.a. and 3.3% growth respectively over the period shown.
- Sale volumes softened in the subdued market conditions that followed 2003 and have levelled out in 2011.

[18] Used to reflect the study area as it is not possible to derive these statistics for the study area.

[19] Strata refers to dwellings that are strata-titled and includes a range of medium and high density units i.e. apartments, townhouses

Population Growth

Occupied private dwellings are forecast to grow at the following rates for the Rockdale LGA.

Table 7: Occupied Private Dwelling Forecast – Rockdale LGA

	2011	2016	2021	2026	2031	2036
Dwellings	39,120	41,070	42,140	43,249	44,424	45,707
% Change p.a.		1.0%	0.5%	0.5%	0.5%	0.6%
Additional dwellings p.a.		390	214	222	235	257

Source: NSW Bureau of Transport Statistics

The Rockdale City Council population and household forecasts by Forecast ID[20] indicate a current population of 102,921 for the LGA and an estimated population increase of 18,442 which equates to average annual percentage change between 2012 and 2031 of 0.87% per annum.

Development Site Sales

Development sites sales refer to sales of unimproved or improved land where the intended future use is for redevelopment. The trend in the sales price of development sites is a critical input into feasibility assessment. These sales are considered broadly comparable to the study area. A summary of these sales is provided in the table below.

Table 8: Development Site Sales

Address	Sales Date	Sale Price	Approved No. Units/ GFA[21]	$/unit site[22]
Allen Street, Wolli Creek	1/07/2011	$2,882,000	20 apartments	$144,100
582-586 Princes Highway, Rockdale	1/12/2011	$6,000,000	56 apartments plus retail	$100,000
232-246 Railway Parade, Kogarah	1/08/2011	$3,500,000	Potential for 34 apartments plus retail	$89,744
551-553 Princes Highway, Rockdale	1/07/2011	$5,800,000	51 Residential units + retail/commercial	$109,434
340 Bay Street, Brighton Le Sands	1/11/2010	$2,275,000	10 apartments + retail	$162,500
247 Bay Street, Brighton-Le-Sands	7/12/2010	$2,700,000	2,610 sqm GFA	$1,034/sqm GFA
26 Bruce Street, Brighton Le Sands	1/07/2010	$950,000	4 dwellings	$237,500
101 Princes Hwy, Kogarah	13/04/2010	$1,050,000	1,107 sqm GFA	$948/sqm GFA
83-85 Railway Street, Rockdale	19/11/2009	$1,200,000	10 dwellings + 1 commercial unit	$109,091
56 Banks Street, Monterey	21/07/2009	$950,000	5 dwellings	$190,000
174 Russell Avenue, Dolls Point	27/02/2009	$3,125,000	17 dwellings	$183,824

Source: Various Sources including Jones Lang LaSalle, RP Data, discussion with local agents

[20] http://forecast2.id.com.au/Default.aspx?id=232&pg=5000
[21] Gross Floor Area
[22] Equals the total sale price divided by the number of units with adjustments made to deduct the value of the non-residential uses.

Our observations on the table above are as follows:

- A premium is paid for smaller developments on $/GFA or $/unit basis. These attract strong interest from a greater volume of small- to mid-sized developers.
- Premiums are paid for well-located sites (quiet locations with good access to amenities). Conversely Princes Highway facing sites appear to attract a discount.

6.1.3 SWOT

The table below provides key opportunities and constraints faced by the residential land use market.

Table 9: SWOT Analysis – Residential in the Study Area

Strengths	**Weaknesses**
Proximity to good transport options (rail, road)	Noise exposure
Strong underlying demand for completed residential product and quality development sites	Princes highway facing sites provide poor amenity and impact achievable gross realisations
Proximity to major centres of employment (Mascot, Sydney)	Fragmentation of landholdings dissuades development
Opportunities	**Threats**
Current undersupply of housing stock in Sydney	Continued instability in the financial markets impedes develop finance

Source: Jones Lang LaSalle

6.1.4 Comment on Viability

Residential uses are likely to be the 'highest and best use' for much of the land within the study area, however the amenity for residential use is compromised by high noise levels from both Princes Highway and aircraft, as well as adjacent industrial uses. The Department of Planning and Infrastructure has released draft guidelines for such development.

The viability of this land use generally improves with the intensification of the development (although this is dependent on site specific considerations). While specific to the location our observation is that ground floor retail / commercial uses generally detract from the viability of pure residential uses.

6.2 Retail (Car Showroom)

Given the concentration of automotive uses in the area Jones Lang LaSalle has considered in more detail the merits of car showrooms as a specific land use. Our definition of 'car showrooms' is inclusive of a number of potential offerings including new car sales, 2^{nd} hand car sales, repairs and maintenance and office uses. These uses generally have large amounts of hard stand (used for the display of cars and for customer parking). Note, the Department of Planning and Infrastructure's LEP template defines the use as 'vehicles sales or hire premises'.

6.2.1 Supply

Within the Sydney Metropolitan Area there a number of locations recognised as 'automotive precinct'. These include but are not limited to the following corridors which often cross multiple LGA's;

• Parramatta Road	• Old Windsor Road
• Gardeners Road	• Liverpool Road
• Hume Highway	• Anzac Parade
• King Georges Road	• Canterbury Road
• Pacific Highway	• Pennant Hills Road
• Victoria Road	• Pittwater Road

6.2.2 Demand

The market for automotive dealership premises is of a limited scale in respect of properties leased or sold in any given period for NSW and nationally. Few established operators exist who occupy multiple sites across the Sydney metropolitan area, leading to a dearth of transaction activity used to gauge market trends. However, restricted competition generally prevents discounting of those properties for sale or lease as a result of an over-supply. In recent years, pre-commitments (lease) and design and construct (owner occupier) development have been the main driver of new supply in the metropolitan Sydney market, whilst existing premises are predominantly associated with an established automotive business. Rental levels and sale prices achievable are heavily influenced by the following factors:

- Size and configuration of the dealership.
- Functionality of the proposed/existing occupation including level of exposure and integration of showroom, workshop, office and display areas.
- Proximity to other established new or used vehicle dealerships.
- Age and repair of the buildings reflecting any associated likely future maintenance or upgrade works.

The commencing and structured rental payment under such lease agreements is commonly a product of the initial cost of development or book value whereby an economic return is targeted to satisfy return on investment requirements.

For owner occupier purchasers of existing properties, the adaptability of improvements to meet that businesses needs and in some cases potential for future expansion, are the key motivating factors behind price payable. As a consequence, in an open market scenario purchasers will often discount their offered price for an established dealership where significant modification or refurbishment costs are required to suit their business operation.

Sales based on recent discussions with local agents within the study area show the continued demand of the car showroom uses reflected in the following sales:

- 137A Princes Highway, Wolli Creek was sold for $5.5m excluding GST to an undisclosed purchaser. The facility had a land area of 3,667 sqm ($1,499/sqm site) and gross floor areas of 2,896 sqm. While the purchaser was not actually a car sales showroom it is a similar use (and the 2 closest under bidders were car showrooms dealers including 1 offer at the same price).
- 107 Princes Highway, Wolli Creek was purchased for $1.975m and benefits from a land area of 1,416 sqm ($1,394/sqm) and buildings of 500 sqm building size. It is occupied by Suttons Hyundai.

6.2.3 SWOT

Provided in the table below are the key opportunities and constraints faced by car showroom as a land use.

Table 10: SWOT Analysis – Car Showrooms in the Study Area

Strengths	**Weaknesses**
High exposure from the Princes Highway The clustering of automotive uses gives the area recognition	Fragmentation of landholdings dissuades development
Opportunities	**Threats**
Potential for intensification of automotive uses (i.e. ground floor show room and upper level office / repair / other) Potential for mixed uses (i.e. ground floor showroom and upper levels of residential)	Potential for residential uses to take current market share of automotive uses

Source: Jones Lang LaSalle

6.2.4 Comment on Viability

The Princes Highway is a well-established and recognised automotive car showroom precinct. As seen by recent transactions and supported from our discussions with automotive representatives the demand for well-located sites is strong. Given the limited supply of sites within Sydney it is expected that strong demand will continue for this land uses.

6.3 Retail (Enclosed Centre)

Jones Lang LaSalle's definition of 'enclosed centre' is a shopping centre anchored with at least one supermarket and supporting specialty stores. Note, the Department of Planning and Infrastructure's LEP template defines the use as 'retail premises'.

6.3.1 Supply

Currently servicing the study area are the following shopping centres which includes:

- Rockdale Plaza (total retail GLAR 21,028 sqm)
  - Major tenants (Big W, Woolworths including liquor, Franklins, Rebel Sport)
  - 59 Specialty stores
  - Franklins has a DA for the refurbishment of the supermarket
- Kogarah Town Centre (total retail GLAR 5,153 sqm)
  - Major tenants (Woolworths)
  - 28 Specialty stores

Coles are also located at Hurstville, Brighton Le Sands and Earlwood.

Potential additional stock will come in the form of:

- 78-96 Arncliffe Street & Princes Highway (Construction commenced for construction of a 4,200 sqm Woolworths by adaptive reuse of existing structure and Dan Murphy's of 1,300 sqm).
- 4 Magdalene Terrace, Wolli Creek (Development application for ALDI store and 5 retail tenancies with a total GLAR of 2,005).
- Bexley Village (project deferred for 3 storey mixed use development including a supermarket for 2,613 sqm and specialty shops).

- 524-544 Rocky Point Road, Sans Souci (development approval for mixed use development which is to contain a supermarket).

Jones Lang LaSalle also understands that Australand at Wolli Creek Village has lodged a development application in December 2011 for an internal fit-out of a supermarket including signage. This development is near completion.

6.3.2 Demand

Jones Lang LaSalle has not undertaken a comprehensive assessment of retail demand, however based on existing and potential future retail projects, there appears to be a reasonable provision of enclosed retail centres to serve residents and workers in the study area.

The existing local centres at Banksia and Arncliffe provide main street shopping rather than an integrated enclosed centre format, and appear to serve the local residents with day to day convenience shopping.

6.3.3 SWOT

Provided in the table below are the key opportunities and constraints faced by enclosed shopping centres as a land use.

Table 11: SWOT Analysis – Enclosed Retail Centres in the Study Area

Strengths	**Weaknesses**
Intensity / density of residential uses Proximity to transport (road, train)	Fragmentation of landholdings dissuades development of integrated centres
Opportunities	**Threats**
Continued intensification of residential uses in the area, providing increased local customer base Adjacent to Banksia and Arncliffe Stations	Development of new enclosed shopping centres e.g. Wolli Creek immediately outside of the study area Competition from existing centres – Rockdale Plaza, Rockdale Town Centre

Source: Jones Lang LaSalle

6.3.4 Comment on Viability

On balance Jones Lang LaSalle consider it possible but unlikely that a developer would be willing to undertake a significant retail development after taking into account:

- The current centres within the area and importantly the proposed retail uses at Wolli Creek Village.
- Competing land uses (which increase the land values).
- Site amalgamation issues.

There may be opportunities adjacent to Banksia and Arncliffe Stations but existing retail is consolidated on the western side of the railway line. Significant retail development on the eastern side may negatively impact the existing high street precinct.

6.4 Retail (High Street and Secondary)

For the purposes of this study, 'high street and secondary retail' is defined as small / medium sized retail facilities. These uses may be stand alone or part of a mixed use development. High street is generally defined as well located vs. secondary which has poor passing foot traffic / exposure.

The advantage of these uses is that they generate employment and activate the area.

6.4.1 Supply

The floorspace survey discussed earlier in this report identified very little high street or secondary retail. Beyond the study area Rockdale Town Centre provides significant amount of retail although as outlined by SGS[23]

Currently the majority of retail is located along the Princes Highway, which is noisy and uninviting for pedestrian activity. There are a number of successful shopping centre arcades in the centre, particularly around the King Street area however there is no retail anchor. Also, there is potential to improve the activity in the area around King Lane and Market Street. The Target site on Market Street could be redeveloped...

Additional high street / secondary retail is also located near the train stations at Banksia, Arncliffe and Rockdale. It should be noted that the ground floor retail at Wolli Creek (off Brodie Spark Drive, Magdalene Terrace and Arncliffe Street has struggled with vacancy since its development.

6.4.2 Demand

The study area is roughly 2 kilometres in length (providing 4 kilometres of frontage) which is very significant. While it benefits from high exposure (passing traffic) it generally has fair to poor on-street parking options and poor passing foot traffic. Safe access / egress from the Princes Highway will continue to be a challenge.

Due to the above-mentioned issues it is anticipated that demand for high street/ secondary retail will be limited.

6.4.3 SWOT

Provided in the table below are the key opportunities and constraints faced by high Street and Secondary Retail as a land use.

[23] SGS Economic and Planning, Economic Assessment : Rockdale Town Centre Masterplan January 2012

Table 12: SWOT Analysis – High Street / Secondary Retail in the Study Area

Strengths	Weaknesses
High exposure landholdings (traffic only) Some sites benefit from rear access / corner location Some sites are located near rail facilities	Access / egress to the Princes Highway Poor foot traffic
Opportunities	**Threats**
Continued intensification / densification of residential uses in the area, providing increased local customer base Low cost rents attractive for start-up retail businesses Retail businesses supporting existing employment base Food and drink / entertainment uses	Development of additional retail outside of study area (e.g. Wolli Creek)

Source: Jones Lang LaSalle

6.4.4 Comment on Viability

Jones Lang LaSalle considers the viability of high street/ secondary retail uses along Princes Highway to be poor. While these retail uses do not have the same requirement for large landholdings as bulky goods uses, the poor access, amenity and lack of foot traffic are major influences on viability.

Where ground floor retail uses are required as part of mixed use developments, it is considered that the viability of the development is generally negatively impacted from this requirement.

The Banksia and Arncliffe local centres are located on the western side of the railway line and provide local retail services for residents and workers in the study area. Should the local population grow significantly, additional demand may warrant further high street retail space at these centres. However, Jones Lang LaSalle considers it is desirable to strengthen such development on the western side of the railway line in the first instance, with sites on the eastern side providing longer term retail opportunities.

6.5 Retail (Bulky Goods)

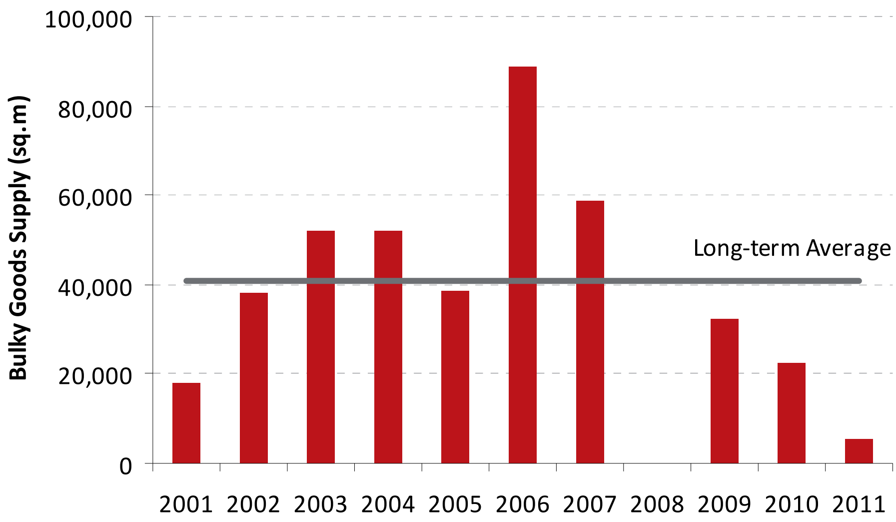
Bulky goods retailing refers to the sale of high-bulk goods such as furniture, electrical goods, hardware items and garden supplies and includes free-standing showrooms such as Bunnings and Officeworks and multi-tenanted ‘homemaker centres’.

6.5.1 Supply

The bulky goods sector has seen unprecedented growth in supply since the mid-1990. This growth has continued despite a more subdued housing sector in recent years and concerns of potential oversupply. Much of the growth has been due to the expansion plans of major retailers, in particular Bunnings and more recently Masters Home Improvement.

Jones Lang LaSalle has been monitoring major bulky goods development since 1996. Figure 1 shows major new supply of bulky goods retailing space across the Sydney metropolitan area over the past decade. Since a peak in 2006 / 2007, new supply has reduced significantly to well below historic averages.

Figure 3: Bulky Goods Supply, Sydney 2001-2011
Source: Jones Lang LaSalle



Rockdale and environs has developed a reasonable level of bulky goods retailing, primarily along Princes Highway. The retail offer, however, is not as diverse as the other large bulky goods precincts that serve the inner and middle southern suburbs of Sydney, being dominated by Ikea. The larger bulky goods precincts within 10km of the study area are:

- Alexandria – Moore Park (6-8km north-west of study area) 95,000 sqm of bulky goods
- Taren Point Road, Caringbah (9 km south) 50,000sqm of bulky goods
- Corner Chapel Road and Canterbury Road Bankstown (10km west) 35,000sqm of bulky goods

The closest Harvey Norman store is at Canterbury Road, Wiley Park, approximately 6.6km to the west. Harvey Norman is considered a key anchor in multi-tenanted bulky goods centres.

The main significant bulky goods retailing in or near the study area are as follows:

- IKEA Tempe, 634-726 Princes Highway, Tempe (39,000sqm)
- Bunnings Warehouse, 383 West Botany Street, Rockdale (10,000sqm)
- Spotlight Centre Rockdale, 381-391 Princes Hwy (Spotlight, The Good Guys, Anaconda; 8,800sqm)

Smaller retail showrooms operate along Princes Highway within the study area, but are more secondary in nature.

The 39,000sqm Ikea store provides a regional focus for bulky goods in this part of Princes Highway, drawing customers from considerable distance. Smaller bulky goods tenants needing a strong anchor to drive sales would benefit from locating near Ikea.

There is a disconnect between the three main bulky goods retail locations in and around Rockdale; Ikea being north outside of the study area, Bunnings being to the east and Spotlight in the southern edge of the study area. This does not allow for an integrated precinct to develop and diminishes the destination appeal of Rockdale for bulky goods.

Masters Home Improvement is actively sourcing new sites and will remain a key driver of bulky goods demand in the short to medium term. As a destination store, it relies less on locating in a developed bulky goods precinct but given the size of its stores, it would most likely require a site of 2 Hectares or more. Should sites be available within the study area, Masters is expected to show interest.

Future growth in the wider southern metropolitan area between 2012 and 2014 is highlighted in the table below. Bunnings is very active.

Table 13: Bulky Goods Retail Projects: Southern Sydney Metropolitan Area

Project	Status	Area	Expected Completion
Bunnings Alexandria	Under Construction	20,000	2012
Bunnings Greenacre	Under Construction	11,159	2012
Bunnings Caringbah	Plans Approved	14,122	2014
Kingsford Smith Bulky Goods Centre	Plans Approved	23,000	2014
Clemton Park Village	Plans Approved	6,900	2014
Homemaker Centre Alexandria Extension	Plans Submitted	20,023	2014

Source: Jones Lang LaSalle

6.5.2 Demand

The key drivers and trends within the sector are outlined below:

Supply Drivers	Led by the expansion strategies and emergence of new major bulky goods retailers, including Bunnings, Masters, Harvey Norman, The Good Guys, Officeworks and JB Hi-Fi.
Demand Drivers	Up until the GFS, strong growth in housing construction supported the sector, with bulky goods sales aligned to household formation. The high value of the Australian dollar has helped to reduce import prices of home entertainment systems and computers; and this has increased demand, prompting multiple purchases per household of some items. These sub-sectors have also benefited from advances in technology and significant drops in prices of items such as Blue Ray players and flat panel televisions.
Diversification	As the sector matures, bulky goods centres have provided a more diverse mix of tenants. Along with the traditional furniture, electrical and white goods retailers, centres now include pet food/accessories suppliers, sporting goods, party supplies, pharmaceuticals, fitness centres, nursery supplies, storage solutions and toy stores.
Larger Centres / Larger Stores	Developers are moving towards larger homemaker centres. Ten years ago, a centre of 20-25,000 square metres was considered large. By 2009, there were two projects completed of over 60,000 square metres, while the recently completed Harvey Norman and Ikea anchored centre at Springvale in Melbourne is 72,000 square metres. Individual stores are also growing in size. Ikea stores are typically 25,000-30,000sqm.

High End Centres	In more recent years, a market for high end centres appears to have emerged, with some centres rivalling major regional and sub-regional centres in terms of quality and design. The Homemakers Supa Centa in Belrose, for example is a fully enclosed bulky goods centre over five levels featuring generous public space, quality shop fronts and ancillary services for customers such as food options and a kids' play area.

Location requirements

The core retail goods that are sold through bulky goods centres (furniture, major electrical goods, hardware, garden supplies; camping goods) have historically located along arterial roads. What has occurred in more recent times has been the clustering of bulky goods retailers into integrated centres, providing a "one-stop-shop" for homemaker and lifestyle goods.

Some of the main location requirements for a bulky goods retailer are below.

- High visibility with main road frontage
- Good accessibility
- Ample Parking
- Large level site
- Loading / unloading facilities for transporting of bulky purchases
- A range of complementary retailers providing comparison shopping opportunities

Public transport to bulky goods precincts is less important than a traditional town centre, with private transport often used to transport purchases home. Furthermore, the busy trading periods for bulky goods centres are weekends, which coincides with poorer public transport services and less congestion on arterial roads.

Planning Policy Issues

The Metropolitan Plan 2036 gives some guidance as to the future location of bulky goods uses and retailing generally. The South Subregion Draft SubRegional Strategy 2006 – 2031 emphasises that retailing, including bulky goods, should be located in centres, "business development zones" and "enterprise corridors". The aim is to consolidate existing clusters of bulky goods and locate new bulky goods either within 'centres zones', most likely on the periphery of core retail activity, or in 'business development zones'.

This tends to support the location of bulky goods retailing within the study area, with the preference that the use be clustered rather than spread in a piece meal fashion along the entire corridor. In practice, a large bulky goods development requires a very large site. These are in short supply and would more than likely require site amalgamation in order to assemble a suitable site.

6.5.3 SWOT Analysis

The table below provides key opportunities and constraints faced by the retail (bulky goods) market.

Table 14: SWOT Analysis – Bulky Goods in the Study Area

Strengths	Weaknesses
Existing Retailers – Ikea; Spotlight Centre. High Exposure to Passing Trade.	Potential difficulty with access / egress to site due to traffic volumes on Princes Highway. Major locations for redevelopment do not complement / adjoin existing bulky goods outlets. Depth and size of development sites restricts size of potential development.
Opportunities	**Threats**
Potential for bulky goods to be located along large amalgamated sites on the Princes Highway	Major competing bulky goods development – particularly Alexandria / Moore Park. Competing uses for limited major development sites. Potential development requirements may not suit preferred development format of bulky goods retailers (low density development; at grade parking in front of building.

Source: Jones Lang LaSalle

6.5.4 Comment on Viability

While there has been four years of below trend growth for bulky goods in the Sydney metropolitan market, the largest development to occur has been just outside the study area – Ikea Tempe. Furthermore, there is a solid pipeline of development within a 10km radius of the study area, driven by the expansion of existing precincts such as Alexandria, the arrival of major new players such as Masters, and aggressive expansion plans of market leaders such as Bunnings.

While new precincts will emerge, locations such as Rockdale have limited major opportunities, with the fragmented nature of the land ownership constraining development to one or two major sites.

Jones Lang LaSalle considers future development of bulky goods within the study area is going to be opportunistic rather than based on supportable demand. Furthermore, the one or two major opportunities may attract interest for a range of other uses i.e. residential or car showroom which will more than likely pay a premium for the site.

6.6 Commercial

In this section Jones Lang LaSalle have defined 'commercial' as office space only and therefore have not considered within this section industrial uses that have a proportion of office space.

6.6.1 Supply – Surrounding Markets

Commercial office development in the Sydney metropolitan area is concentrated in the following sub-markets:

- Sydney CBD
- Sydney Fringe
- "Secondary CBD" markets – North Sydney, Parramatta, Chatswood
- Lower North Shore - Crows Nest / St Leonards

- Suburban Office / Business Parks – Macquarie Park, Norwest, Homebush, Rhodes
- South Sydney – including Airport, Mascot, Alexandria, Green Square, Cooks Cove

South Sydney is the closest of the above centres to the study area. This market includes Sydney Airport and environs. This market is expected to grow considerably in locations such as Green Square, Cooks Cove and within the airport. The major centres of Hurstville and Kogarah are both also targeted to attract more commercial office space. These markets are briefly discussed below.

Australand has a requirement to deliver 5,200 sqm net lettable areas of commercial as part of the Discovery Point development at Wolli Creek[24]. Discussions with Australand indicated that this building would be delayed due to the lack of viability associated with this use in the current market.

While commercial space in the study area is often proposed at ground floor level as part of residential apartment development, Jones Lang LaSalle is not aware of any current proposal for significant commercial uses within the study area.

The following is a brief snapshot of the surrounding office markets (current and proposed).

South Sydney (Office Stock: approx. 215,000sqm)

This area has emerged from a traditional industrial / logistics area (focused on the Airport and to a lesser extent Port Botany) to a mixed-use area with more residential, office and bulky goods retail development over the past 10 years. The majority of office space in the South Sydney market is located in Alexandria, Mascot and Rosebery.

The tenant profile of South Sydney continues to be dominated by transport related uses attracted by proximity to the airport. The major factor drawing firms to the area continues to be its proximity to all modes of transport including road, rail, water and air transport.

While the area has yet to attract any significant relocations of more traditional CBD activities out of the city, the potential to do so will increase as the environmental quality of the area is upgraded in line with its transition from a traditional industrial market to a more mixed use residential / retail and commercial precinct.

Vibrant business activity will continue to increase in the emerging commercial precinct centred on Mascot Railway Station. Nearby amenities include numerous public and championship golf courses, the Sydney Airport retail precinct, the Ibis, Holiday Inn and Stamford Hotels, the Mascot Railway Station, Westfield East Gardens, International and Domestic Airport, restaurants and cafes and sporting ovals and recreation facilities.

The 100 Hectare **Cooks Cove** project at Arncliffe could total 270,000 sqm of trade and technology office, warehousing and supporting retail. Development of the site, located to the east of the northern portion of the study area, is currently on hold as financiers work out commercial solutions. The site has a high degree of complexity with a variety of stakeholders needing to be satisfied before any development is to commence (State Government, Rockdale City Council, Kogarah Golf Course, etc).

The **Green Square Town Centre** is also expected to be a major commercial office sub-market within the broader South Sydney office market, providing for up to 105,000sqm of office space.

Hurstville Major Centre (Office Stock: approx. 80,000 sqm[25])

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[24] Based on an assumed approval of the Environmental Assessment Report
[25] Indicative estimate only

Hurstville is planned to be the major centre for southern Sydney, with the key objective of the Sydney South Subregional Strategy being to strengthen Hurstville's commercial centre. The Hurstville LGA has identified in its draft LEP provision for up to 550,000 sqm of commercial space within the Town Centre, which is reported to be '10 times the projected demand for the location'[26]. The intent of the Council is to re-invigorate the commercial uses and therefore the employment opportunities of the area, maximising the transport linkages to the site.

Kogarah Major Centre (Office Stock: approx. 43,000 sqm)[27]

Office space at the Kogarah Major Centre is dominated by the head offices of St George Bank and Kogarah Council. The centre is also the location for a TAFE College and hospitals. While not as large as Hurstville, there is a significant employment base which is planned to cater for an additional 2,500 employees over the next 25 years.

Kogarah's ability to retain / expand its office base depends largely on it retaining St George Bank headquarters. It is unusual for a large financial institution to be headquartered in a relatively small suburban location and a future location decision by its parent company, Westpac could reduce the size of the office market at Kogarah significantly.

6.6.2 Demand

6.6.2.1 South Sydney Office Market

Jones Lang LaSalle monitors the South Sydney office market on a quarterly basis. The following comments provide an overview of demand for office space as at December 2011.

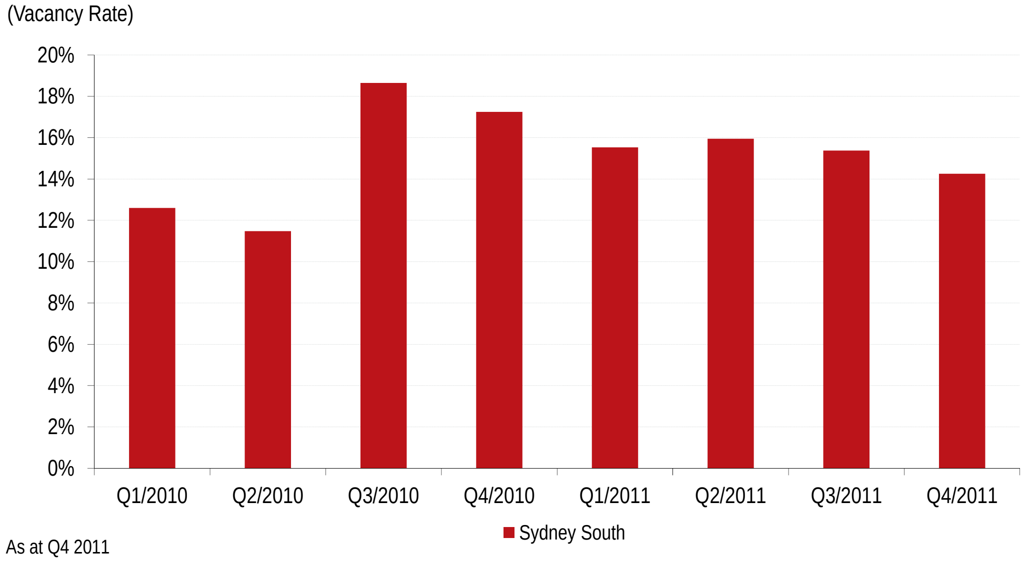
After peaking at 18.6% in the 3rd quarter of 2010, vacancy has steadily declined to 14.3% as at December 2011. Recent new deals within the South Sydney market include Sydney Airport, who have leased 3,600 sqm within the Central Terrace development for their new head office, alongside the Australian Federal Police who occupy a further 3,600 sqm in the building.

Vacant stock is concentrated in the better quality A-grade market, primarily due new largely speculative A-grade space coming onto the market in 2010 that has been slow to lease up. Nevertheless, the South Sydney market has continued to expand, with occupied stock monitored by Jones Lang LaSalle increasing from 159,700sqm in the 2nd quarter of 2010 to 184,400sqm in the 4th quarter of 2011, a 24,700sqm increase in the last 18 months.

[26] Sydney Morning Herald 2 March 2012
[27] NSW Government Metro Strategy

Figure 4: Vacancy Rate, South Sydney Office Market

Source: Jones Lang LaSalle



6.6.2.2 Suburban Office Growth

One of the notable features of the Australian office market has been the growth of suburban office markets, particularly fringe / inner suburban markets and business parks. Cyclical and long term structural factors have driven this trend (e.g. decentralisation) along with cost differentials, the desire for new sustainable working environments and the recognition that many business functions do not require CBD locations.

An increase in office space within industrial developments and business parks has also been a key driver in the relocation of some sectors out of the CBD. Sectors that may have previously located some office functions within the CBD now find it cheaper and more convenient to relocate some of their office functions to a business park setting.

Cost will continue to be one major driver of Corporate Real Estate strategy and decisions on where to locate, but more attention is now being paid to the impact of real estate on the 'top line' (revenue) rather than just the bottom line (cost). With the attention shifting to how real estate decisions can help the business grow, increased focus is falling on how to attract and retain the best quality staff. Anecdotal evidence suggests that employees are seeking a greater range of retail, medical, sporting, leisure, educational and childcare facilities to support their working environment. While there are fewer requirements to internalise these facilities (within the building) in CBD locations, it is easier to design these facilities into new buildings in fringe / suburban locations.

These trends have seen firms attracted to campus-style, low-to-mid rise premises in landscaped business park environments built in Macquarie Park, Rhodes / Homebush Bay and Norwest Business Park, Bella Vista. Future development at Cooks Cove may provide similar location advantages over the CBD.

There has been a tremendous growth in the services sector, which is more "office based" than the manufacturing sector, which has declined in importance. This has seen both the CBD markets and suburban office markets grow concurrently. In this regard, office growth in suburban town centres or business parks is essentially replacing lost employment in traditional suburban industrial zones rather than de-centralisation.

6.6.3 SWOT Analysis

While the above factors point to increased demand for office space in suburban locations, Jones Lang LaSalle does not consider the study area will be a key location for such activity. It does not offer a business park setting or high quality environment for office employees, nor does the area provide the amenities to support commercial businesses.

There is considerable competition for major office development from nearby markets such as South Sydney and environs and the Hurstville and Kogarah major centres. Smaller scale office based services are expected to be attracted more to nearby Rockdale Town Centre rather than the study area.

There may be an opportunity for a mixed use office / warehouse form of development, which may attract small businesses that would benefit from this location (proximity to airport; major road frontage). While the Rockdale LEP 2011 supports ‘office premises’ in the B6 zone, such development would compete with more established commercial office precincts such as South Sydney (Alexandria, Rosebery, Mascot). In any case, Rockdale LEP 2011 supports ‘office premises’ in the B6 zone.

Table 15: SWOT Analysis – Commercial Offices in the Study Area

Strengths	Weaknesses
Good access to public transport Proximity to Airport	Mismatch between market and economic rents Poor environmental quality Lack of supporting facilities Traffic volumes on Princes Highway – difficult access to properties; noise etc
Opportunities	**Threats**
Major sites in close proximity to transit (on western side of Princes Highway Office / Warehouse units with good exposure to passing trade / proximity to airport	Existing competing markets – South Sydney, Hurstville, Kogarah Future markets – Cooks Cove, Green Square

Source: Jones Lang LaSalle

6.6.4 Viability Considerations

After consideration of the drivers of office development and supply in the local and broader market Jones Lang LaSalle considers that the development of this use alone will very unlikely occur due primarily to:

- The current large volume of existing (South Sydney, Hurstville) and potential (Cooks Cove etc) commercial developments.
- Besides offering transport facilities the area provides no other key points of differentiation.
- Site / location challenges including site amalgamation issue and competing high value uses.

6.7 Industrial

6.7.1 Supply

Jones Lang LaSalle monitors major new supply of industrial space across the metropolitan area of Sydney. Rockdale falls into the Southern sub-region.

Table 14 provides a list of major new industrial supply (over 5,000sqm) since the beginning of 2007 in the Southern industrial market. Approximately 190,000sqm of industrial space has been added to the South Sydney industrial market. Alexandria accounted for over 40% of the additions in four large projects. Other features of the inner suburban industrial supply in recent years are as follows:

- Office space accounts for a significant proportion of total space (around 30% of total space).
- Much of the space is built speculatively rather than with a specific tenant in mind.
- Transport related uses are a key end user.
- Large projects comprising multiple units for either sale or lease are becoming popular.
- Higher quality finishes / design.
- Multi-storey projects increasing development density and blurring the lines between industrial and office development.

Table 16: New Industrial Supply, 2007 – March 2012, South Sydney Market

Building Name	Address	Suburb	Completion Date	Total Area (sqm)
O'Riordan Street Office/Warehouse	75-85 O'Riordan Street	Alexandria	2007	32,000
Australian Technology Park - Site D		Erskineville	2007	11,200
Bourke Road Warehouse	138-158 Bourke Road	Alexandria	2007	17,500
Portair Industrial Estate - Building 5	1A Hale Street	Botany	2007	9,960
Austate Logistics Terminal	1-13 Friendship Road	Port Botany	2007	6,300
Moore Street Industrial Development	3-5A Moore Street	Botany	2007	5,561
Alexandria Creative Park	41-45 Bourke Road	Alexandria	2008	11,877
St Albans Road Industrial Units	16-18 St Albans Road	Kingsgrove	2008	9,678
Airgate Business Park (Site 4)	283 Coward Street	Mascot	2008	7,970
	143-149 Beauchamp Road	Matraville	2008	6,280
Port Central	133-141 Beauchamp Road	Matraville	2008	6,195
Clerke Place Industrial Development	5-6 Clerke Place	Kurnell	2009	11,562
Halstead Street Industrial Facility	59-69 Halstead Street	Hurstville Grove	2009	7,039
	15 McPherson Street	Banksmeadow	2009	6,125
Box Road Industrial Complex	3 Box Road	Caringbah	2010	16,000
	25-27 Richland Street	Kingsgrove	2011	6,750
Collins on Bourke - Industrial Component	90-96 Bourke Road	Alexandria	2012	17,876

Source: Jones Lang LaSalle

Since the onset of the GFC, there has been a sharp decline in new industrial projects across the Sydney metropolitan area. Furthermore, the South Sydney market now accounts for a very small proportion of total new supply, averaging just 5.9% of total stock in the five years to December 2011.

Much of the demand for traditional industrial uses has been in outer suburban markets, with inner suburban markets either losing employment or changing focus to a more mixed use / mixed business format.

Figure 5: New Industrial Supply, South Sydney Office Market
Source: Jones Lang LaSalle

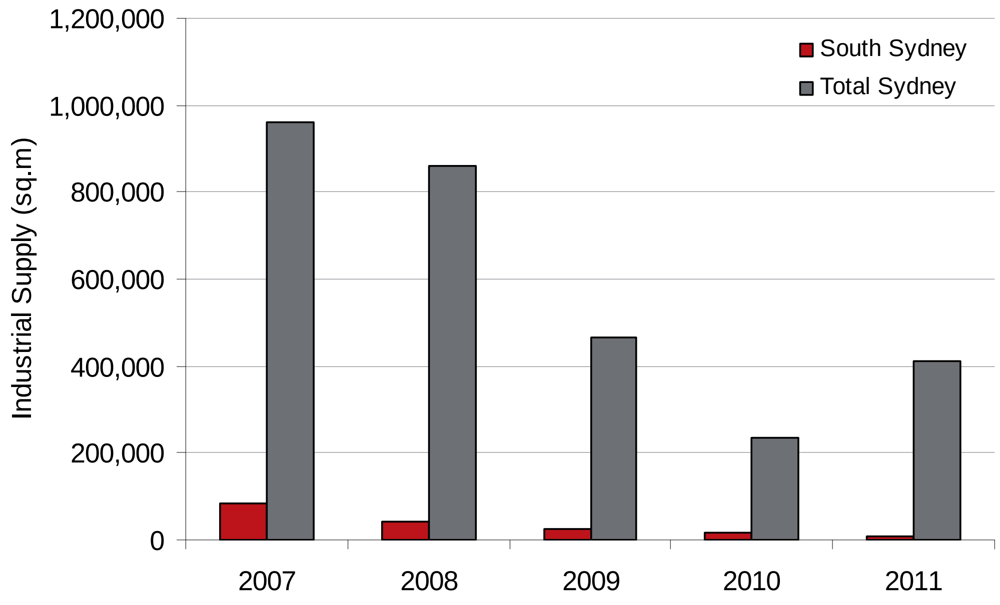


Table 17: Current Projects as at March 2012, South Sydney Market

Building Name	Address	Suburb	Scheduled Completion Date	Development Stage	Total Area (sqm)
Kingsgrove Road Industrial Development	186-190 Kingsgrove Road	Kingsgrove	2012	Plans Approved	6,000
Alexandria Industrial Estate	35-39 Bourke Road	Alexandria	2013	Plans Submitted	7,955
	72-78 Box Road	Taren Point	2013	Plans Submitted	7,314
	34-38 Kent Road	Mascot	2013	Plans Submitted	6,500
Clerke Place Industrial Development	Clerke Place / Captain Cook Drive	Kurnell	2013	Plans Submitted	6,289

Source: Jones Lang LaSalle

It is noted that Rockdale doesn't feature in Jones Lang LaSalle's monitoring of major industrial supply. Rockdale is a small industrial market with limited opportunity for large scale redevelopment.

There is, however, potential for small to medium scale, modern industrial units to be developed within the study area, and the recent development trends seen in South Sydney and other inner suburban markets may point to a suitable development format along Princes Highway. Niche on Eastern Valley Way, Chatswood, is one example (pictured below) while recent mixed use developments such as "Collins on Bourke" in Alexandria are another. Collins on Bourke in the industrial / mixed use area of Alexandria is marketed as follows:

> "Designed to accommodate an eclectic mix of retail, light industrial and commercial office users, Collins on Bourke represents a rare opportunity to lease or buy space within a development unlike any other in South Sydney."[28]

Niche is a strata titled development that not only contributes to local employment growth within the industrial precinct to the east of Chatswood CBD but attracts local business owners that want to reside close to home and serve the local region. Such strata titled developments are an important element of the local industrial investment market, with strata units providing the opportunity for small businesses to own rather than rent premises.

Figure 6:Example Development – Niche, Eastern Valley Way, Chatswood East
Source: http://www.myniche.com.au/, Jones Lang LaSalle

6.7.2 Demand

The high value of inner city industrial land means that industrial tenants looking to expand, requiring large land areas or serving large metropolitan regions will move out of inner suburban locations, with the vacated space (over time) being developed for more intensive uses.

The Rockdale industrial market with frontages to Prince Highway is similar to many inner and middle suburban industrial markets, characterised by the following:

- Larger industrial occupiers have re-located to outer metropolitan locations or large integrated business parks.
- New development activity has included multi-level strata unit developments, attracting a broader range of tenants, including office based businesses.
- Bulky goods uses have been attracted to large sites with high traffic volumes.

[28] From Collins on Bourke Website

- A range of other uses have found a home in industrial zones, including gymnasiums, places of worship, retail and auto showrooms, ancillary retailing use, offices and hybrids of two or more such uses.
- Land fragmentation has been a major barrier to major redevelopment.
- Rundown / derelict and under-utilised premises are common.

Jones Lang LaSalle's enquiries suggest that current demand for industrial premises in Rockdale is currently subdued with available space significantly outstripping the level of enquiry. Furthermore, there is a mismatch between the needs of prospective tenants and the quality of existing space. It is noted, however, that the existing accommodation provides opportunities for a range of "start-up" companies, which is often considered an important factor in the economic development of areas.

It is noted that as at March 2012, there were 72 opportunities listed on www.realcommercial.com.au, with much of the available space being outside the study area in locations along West Botany Street. Furthermore, the space is often advertised for a variety of land uses, reflecting the mixed use nature of the study area.

There is often reluctance on the part of planning authorities to accept that demand for industrial uses (or as they are referred to – employment generating uses) in some of the traditional industrial areas is relatively weak. The structural changes that have occurred over many years have pushed industrial occupiers further out, with demand now coming from a broader range of occupiers. Traditional industrial zoning may work against the evolving mixed use form that now characterises these precincts.

6.7.3 SWOT Analysis

The type of "industrial" uses that will be attracted to the study area will most likely be small business uses requiring a mix of both office and warehouse or light manufacturing space. Businesses with a need or desire to be close to the airport are likely to be attracted to Rockdale, although there is considerable competition from nearby markets. Furthermore, traditional low intensive industrial development is unlikely to be able to compete with more intensive, higher density commercial or residential development.

Overall, the SWOT analysis for industrial uses is similar to that for office / commercial uses. As indicated, there is a blurring of the lines between office and industrial premises with many industrial units providing significant office components and catering for businesses that have requirements for flexible accommodation.

Jones Lang LaSalle consider there is some potential for industrial uses in the study area, however this development will compete with (a) land values of competing uses and (b) broader trends within the industry as discussed above. The most likely type of viable industrial development product would be smaller strata suites, potentially with a relatively high office content.

Table 18: SWOT Analysis – Industrial Uses in the Study Area

Strengths	Weaknesses
Good access to public transport. Proximity to Airport Automotive sector	Poor environmental quality Lack of supporting facilities Traffic volumes on Princes Highway – difficult access to properties; noise etc.
Opportunities	**Threats**
Major sites in close proximity to transit (on western side of Princes Highway. Office / Warehouse units with good exposure to passing trade / proximity to airport. Potential cost advantage over higher profile markets (such as Alexandria)	Existing competing markets – South Sydney (Alexandria, Mascot etc.) Interface with adjoining uses (although "light industrial' uses are less likely to cause interface concerns)

Source: Jones Lang LaSalle

6.8 Employment Generation by Land Use

Table 19 provides a comparison of employment generation by major land use categories within the study area. Clearly, office space is a more intensive employer than industrial uses and most retail uses. Bulky goods are typically a low employment generator, although there is significant variation between say an electrical retailer and furniture store. Of the industrial land uses, service trade premises and high tech industrial premises with a high office / administrative component are more labour intensive than warehousing.

Should the aim be to build employment opportunities throughout the Princes Highway Corridor, then more intensive employment generating uses should be considered, as well as multi-storey development.

Table 19: Comparison of Employment Generation by Land Use[29]

Land Use	Sqm per employee
Offices	15-20
Retail Shops (incl. supermarkets)	25-30
Modern Industrial with office	30-35
Service Trade Premises	40-50
Manufacturing	50-100
Wholesaling	80-130
Bulky Goods Retailing	80-130
Princes Highway Corridor Automotive[30]	**86**
Princes Highway Corridor Employment[31]	**99**
Transport & Storage	200-250

Source: Jones Lang LaSalle

[29] Note: employment based on Full Time Equivalent employees
[30] Inclusive of car showroom (new and used, repair, parts and other automotive uses)
[31] Inclusive of all employment uses

6.9 Likely Development

Taking into account the above assessment, Jones Lang LaSalle considers that the key opportunities / land uses that may be drawn to the study area include those listed below. In undertaking this assessment Jones Lang LaSalle has purposely not taken into account any current planning controls:

- Multi-storey residential.
- Higher intensity car showrooms with potential for ground floor showroom / first floor workshop.
- Higher intensity strata industrial developments. May include a reasonably high proportion of office space (e.g. 25%-50% office) and multi-storey developments. Expected to suit a broad range of business serving the local area, as well as businesses that desire a location near the Airport.
- Small floor-plate retail / commercial uses, in particular building on existing Arncliffe and Banksia local centres, which are well served by adjacent rail stations. Examples may include; cafés, post office, hairdresser, travel agents, real estate offices, accountants, lawyers etc. The opportunities / demand for such uses will largely come from growth in the local residential population.
- Larger floor-plate retail fronting Princes Highway (building / auto / home improvement supplies, fast food “pad” sites).
- Food and drink facilities / entertainment uses including licenced premises, benefiting from good exposure to passing trade and an expanding residential population base.

While the above uses represent the key opportunities, we consider it is desirable to provide a relatively high degree of flexibility to allow a broad range of uses that may benefit from passing trade and contribute to greater activity along this busy corridor.

7 Viability Testing

Jones Lang LaSalle has undertaken a feasibility analysis of a selection of sites across the study area. The objective of this analysis was to understand the viability of different built form options. This information can then be used to:

- Understand why development has not occurred historically; and
- Provide input into the type of development that would reasonably occur looking forward.

We have only provided our high level inputs below and more detailed assumptions have been made regarding a variety of variables including timing, IRR and interest expenses. A copy of the Estate Master Outputs providing additional details on these assumptions is provided in the appendices.

7.1 Scenarios, Outcomes & Implications

7.1.1 Study 1 – Landmark Site (28-40 Princes Highway & 5-19 West Botany Street)

The landmark site comprises currently consists of 2 service stations, vacant land and residential houses. It has a site area of 5,880 sqm. Jones Lang LaSalle has tested the viability of the following scenarios.

Figure 7: 28-40 Princes Highway & 5-19 West Botany Street

Scenario	Description	Use	GFA sqm
1a.	Showroom only	Showroom	3,500
1b.	Ground floor retail and 10 storey residential tower	Residential Retail	8,379 441
1c.	Showroom and office development	Showroom & Office	5,500

Our model assumes the following costs:

Cost component	GFA sqm	$/sqm GFA	Total excl. GST
Scenario 1a			
Showroom	3,500	$1,980	$6,930,000
Cars per space	70	$42,075	$2,945,250
Total			$9,875,250
Scenario 1b			
Retail	441	$1,705	$751,905
Residential	8,379	$2,565	$21,488,834
Cars per space	148	$42,075	$6,217,435
Total			$28,458,173
Scenario 1c			
Showroom	3,500	$1,980	$6,930,000
Office	2,000	$1,320	$2,640,000
Cars per space	137	$42,075	$5,785,000
Total			$15,355,313

Our revenue assumptions are as follows:

Revenue component	Per unit	$/unit	Total	
Scenario 1a				
Showroom	2,975	$3,529	$10,500,000	(excl. GST)
Scenario 1b				
Retail / commercial (NLA)	375	$2,941	$1,102,5000	(excl. GST)
Residential (per unit)	95	$560,000	$53,178,720	(incl. GST)
Total			$54,281,220	
Scenario 1c				
Showroom	$2,975	$3,529	$10,500,000	(excl. GST)
Office	$1,700	$2,000	$3,400,000	(incl. GST)
Total			$13,900,00	

The outcome from this analysis shows the following values:

Scenario	Land Value
Current Land Value (approx.)[32]	$6.4m
1a.	-$2.0m
1b.	$5.8m
1c.	-$4.7m

Implications

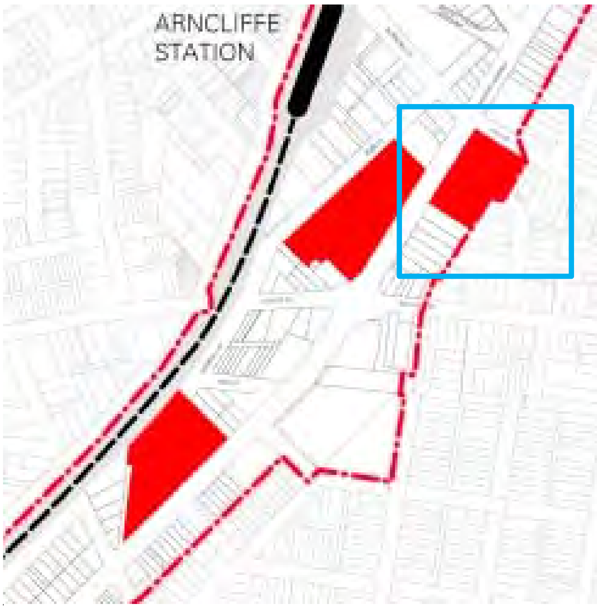
The current value of the site is impacted by significant improvements. The location of the site (and potential environmental factors) impacts its development potential. Developments 1a and 1c are very unlikely to occur. A residential development that benefits from district view has some future potential to be developed.

7.1.2 Study 2 – EFCO Site (104-128 Princes Highway)

The EFCO site currently consists of dated industrial facilities at the end of their economic life. It has a site area of 5,880 sqm. It is currently impacted by development controls which requires significant no residential uses to be built.

[32] Indicative assessment only

Figure 8: 104-128 Princes Highway



Scenario	Description	GFA sqm	GFA sqm
2a.	Current DCP controls which have a total FSR of 2.5:1 with a requirement for non-residential uses to be 1.5:1 and residential uses 1:1.	Residential Retail / Commercial Total	7,460 11,190 18,650
2b.	Ground floor retail and residential tower	Residential Retail	16,785 1,865 18,650

Our model assumes the following costs:

Cost component	GFA sqm	$/sqm GFA	Total excl. GST
Scenario 2a			
Retail / commercial	11,190	$1,320	$14,770,800
Residential	7,460	$2,352	$17,544,428
Cars per space	360	$42,075	$15,127,423
Total			$47,442,651
Scenario 2b			
Retail	1,865	$1,320	$2,461,800
Residential	16,785	$2,352	$39,474,963
Cars per space	274	$42,075	$11,525,655
Total			$55,129,903

Our revenue assumptions are as follows:

Revenue component	Per unit	$/unit	Total	
Scenario 2a				
Retail / commercial (NLA)	9,512	$2,000	$19,023,000	(excl. GST)
Residential (per unit)	85	$545,000	$46,077,933	(incl. GST)
Total			$65,100,933	
Scenario 2b				
Retail / commercial (NLA)	1,585	$2,941	$4,662,500	(excl. GST)
Residential (per unit)	190		$103,675,350	(incl. GST)
Total			$108,337,850	

The outcome from this analysis shows the following values:

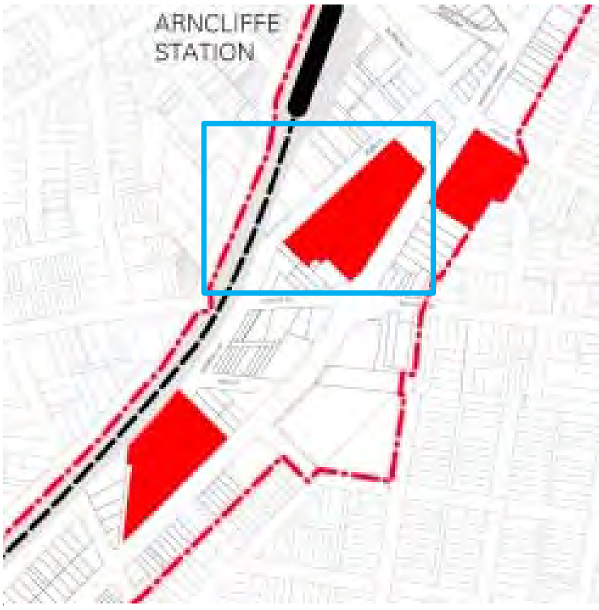
Scenario	Land Value
Current Land Value (approx.)[33]	$2.6m
Residual Land Value assuming 2a	-$2.3m
Residual Land Value assuming 2b	$10.1m

Implications — The value of the site is significantly impacted by the current controls. Development of the site will require more flexible controls that allow a value to be released from the site.

7.1.3 Study 3 – Housing NSW Site (161-179 Princes Highway & 26-42 Eden Street)

The site has significant improvements on it with circa 1960s 3 storey walk-ups owned by Housing NSW. It has a large site area of 13,500sqm. The current controls permit residential uses but approximately 12% must be non-residential.

Figure 9: 161-179 Princes Highway & 26-42 Eden Street



Scenario	Description	Use	GFA sqm
3a.	Current controls (mixed use)	Residential	38,750
		Retail	5,300
		Total	44,050
3b.	Residential only development	Residential	44,050

Our model assumes the following costs:

Cost component	GFA sqm	$/sqm GFA	Total excl. GST
Scenario 3a			
Retail	5,300	$1,300	$6,890,000
Residential	38,750	2,138	$82,847,500
Cars per space	765	$38,250	29,257,425
Total			$118,994,925

[33] The current land value is an estimate only based on a soft rate of $/FSA given the requirements to build not residential uses. If put to the market a significantly different value may be achieved.

Scenario 3b			
Residential	44,050	2,138	$94,178,900
Cars per space	719	$38,250	$27,497,772
Total			$121,676,672

Our revenue assumptions are as follows:

Revenue component	Per unit	$/unit	Total	
Scenario 3a				
Retail (NLA)	4,505	$2,941	$13,250,000	(excl. GST)
Residential (per unit)	439	$550,000	$241,541,667	(incl. GST)
Total			$254,791,667	
Scenario 3b				
Residential (per unit)	499	$550,000	$274,578,333	(incl. GST)
Total				

The outcome from this analysis shows the following values:

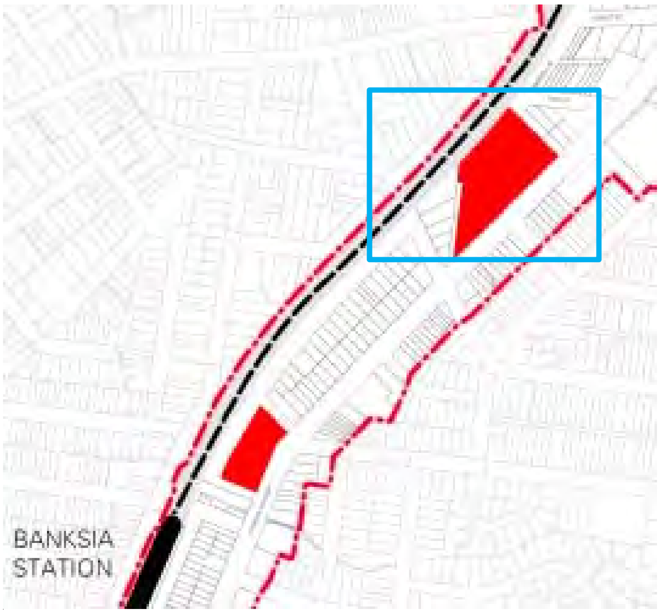
Scenario	Land Value
Current Land Value (approx.)[34]	$22.0m
Residual Land Value assuming 3a	$21.6m
Residual Land Value assuming 3b	$24.8m

Implications	The requirement for non-residential uses negatively impacts the viability of the development. The non-residential uses (retail) have potential to be vacant given the poor passing foot traffic.

7.1.4 Study 4 – The Old School Site (213 Princes Highway and 4 Wardell Street)

The site is vacant. It has a large site area of 11,080sqm.

Figure 10: 213 Princes Highway and 4 Wardell Street



[34] The current land value is an estimate only based on comparison to development site sales

Scenario	Description	Use	GFA sqm
4a.	Current controls which require approximately 21% of the product to be non-residential. The rest is permitted to be residential	Residential Retail Total	24,947 6,631 31,578
4b.	Residential only development	Residential	31,578
4c.	Car showroom	Show room	5,000

Our model assumes the following costs

Cost component	GFA sqm	$/sqm GFA	Total excl. GST
Scenario 4a			
Retail	6,631	$1,300	$8,620,794
Residential	24,947	$2,138	$53,335,874
Cars per space	573	$38,250	$21,913,935
Total			$83,870,603
Scenario 4b			
Residential	31,578	$2,138	$67,513,764
Cars per space	515	$38,250	$19,712,251
Total			$87,226,015
Scenario 4c			
Car showroom	5,000	1,600	$8,000,000
Cars per space	On grade included		$0
Total			$8,000,000

Our revenue assumptions are as follows:

Revenue component	Per unit	$/unit	Total	
Scenario 4a				
Retail (NLA)	5,637	$2,941	$16,578,000	(excl. GST)
Residential (per unit)	283	$550,000	$155,500,000	(incl. GST)
Total			$172,079,048	
Scenario 4b				
Residential (per unit)	358	$550,000	$196,836,200	(incl. GST)
Scenario 4c				
Showroom	$4,250	$3,529	$15,000,000	(excl. GST)

The outcome from this analysis shows the following values:

Scenario	Land Value
Current Land Value (approx.)	$16.2m
4a.	$16.7m
4b.	$21.8m
4c.	$1.4m

Implications

Development of residential only provides the most viable outcome. The current DCP & LEP controls provide a considerable impediment to development.

7.1.5 Study 5 – The Rocksia Hotel (299-307 Princes Highway)

The site has on it the Rocksia Hotel. It has a site area of 4,227 sqm. While the planning controls do not permit residential uses we have hypothetically tested the viability of a residential tower.

Figure 11: 299-307 Princes Highway

Scenario	Description	Use	GFA sqm
5a.	Ground floor retail and 10 storey residential tower assuming an FSR of 5:1	Retail	1,057
		Residential	20,078
		Total	21,135

Our model assumes the following costs:

Cost component	GFA sqm	$/sqm GFA	Total excl. GST
Retail	1,057	$1,500	$1,585,125
Residential	20,078	$2,331	$46,811,637
Cars per space	354	$38,250	$13,544,164
Total			$61,940,926

Our revenue assumptions are as follows:

Revenue component	Per unit	$/unit	Total	
Retail (NLA)	898	$3,824	$3,434,438	(excl. GST)
Residential (per unit)	228	$590,000	$134,256,565	(incl. GST)
Total			$137,691,003	

The outcome from this analysis shows the following values:

Scenario	Land Value
Current Land Value (approx.)[35]	$7.0m
Residual Land Value assuming 5a. was permitted	$18.1m

Implications — A change in planning parameters will release significant value on the site. Residential uses on the site are not permitted which significantly impacts its current value.

[35] The current land value is an estimate only and has been based on an assumed increase in value from its most recent sale.

7.2 Key Outcome – Viability Testing

Planning controls which force specific types of unviable land uses ultimately inhibits development. Providing flexibility to the market will support development as can be seen by the following examples;

The Landmark site is an example where the significant improvements that exist on the site will inhibit development. Only a significant residential development will have any hope of redeveloping on that site.

The EFCO site is an example where the current controls are significant inhibiting development. Development will not likely occur in the short or medium term unless these controls are varied.

Examples such as the Housing Site and the Old School site show residential development is currently viable however they are impacted negatively by the requirement to build substantial non-residential components. These non-residential uses have potential to be vacant given the poor passing foot traffic.

Examples such as the Rocksia show that with a rezoning development of residential uses will likely occur.

8 Development Activity, Drivers & Market Assessment

8.1 Summary of Future Development Drivers

Outlined above is a summary of employment trends that are having a significant impact on development in the study area. These include:

- Centralisation of higher order industries in dedicated areas
- West movement of manufacturing jobs
- Growth of home-based working

While there will continue to be a requirement for local retail and manufacturing services, it is not expected that these will be a key driver of employment.

The automotive cluster and its associated uses will continue to strongly compete for sites within the study area.

Demand for residential development will be the main driver of growth, planning parameters permitting.

8.2 Summary of Development Activity in and around the Corridor

There has been comparatively little development within the corridor in the past few years. The development that has occurred has primarily comprised the smaller scale refurbishment of existing buildings. While development has occurred outside the corridor (including significant residential developments such as Wolli Creek), Jones Lang LaSalle notes that the planning policies have supported this development.

8.3 Princess Highway SWOT

While the study area has significant benefits that are not available to many other corridor areas it also has challenges. The SWOT analysis specifically highlights some of generic (not site specific) strengths, weaknesses, opportunities and constraints:

Strengths

The Princes Highway corridor's key strengths are considered to be its accessibility and connectivity to the airport, Port Botany and the Sydney CBD and other key employment areas via good road and rail infrastructure. The Princes Highway more specifically provides excellent exposure to passing traffic and has been a key reason for the clustering of the automotive industry. Sites that benefit from safe access / egress and / or rear access provide better solutions.

More broadly, the features as described above make the area attractive to live in, which in turn provides strong underlying demand for developers to provide product to the market (supplying a broader undersupply in the Sydney market).

The Princes Highway provides a high level of exposure for business, it does not provide good access / egress to the potential passing trade, nor do the high levels of traffic provide a pleasant environment for pedestrians. Therefore, for many land uses, the high exposure is countered by issues associated with high traffic volumes.

Residential uses, some key bulky goods tenancies and automotive uses are considered the key land use strengths.

Weaknesses

Key weaknesses impeding development primarily relate to environmental quality. High traffic volumes, noise, and low levels of pedestrian amenity impact on demand for property along the Princes Highway, despite its obvious high volumes of passing trade.

Land fragmentation is considered a barrier to redevelopment, however should demand for development sites along Princes Highway grow, then the expensive process of land amalgamation may become attractive.

Access to sites with Princes Highway frontage is expected to be limited due to the impact this would have on traffic movement.

Opportunities

The Princes Highway Corridor is well located to future residential redevelopment, potentially incorporating limited ground level retail uses. There are a small number of key large sites that would provide good opportunities, most within close proximity of a train station.

An increased residential population would support increased demand for a range of services, including retail, light industry and service office uses. While Banksia and Arncliffe stations are expected to be the main locations for local convenience based services, frontages to Princes Highway provide an opportunity for a range of services that also benefit from good exposure to passing trade.

It is expected that residential development will be more desirable set back from the Princes Highway frontage.

There may be opportunities for additional bulky goods uses on large amalgamated sites along Princes Highway, although it is noted that bulky goods is not a particularly high employment generator. However, existing under-utilised businesses and vacant sites would hire even less employees. Jones Lang LaSalle considers support for 'mid-sized' retail offerings will continue i.e. building improvements (e.g. Reece, paint supplies), automotive parts (e.g. Repco) and home improvement.

Potential also exists for entertainment uses which would benefit from the broader residential and employment markets and passing trade.

While it is noted that industrial uses find other locations more attractive (both further west where large sites / cheaper land is available and close to the airport / port around Mascot / Alexandria), it is considered there is some future potential opportunity for multi-storey office warehouse development on key large sites with frontage to Princes Highway. Such uses, however, may not be able to successfully compete with more established locations or with residential uses.

Threats

What is a development opportunity for one use may be considered a threat for another use. If residential uses are the highest and best use, then some of the employment uses may be pushed out. Jones Lang LaSalle considers the current cluster of automotive uses (specifically showrooms and associated areas) as likely to remain and not mutually exclusive to residential uses. Under this situation, sites can potentially be developed with high exposure areas developed for show room and quieter areas developed for residential uses. While we do not consider the market (in 2012) currently ready to adopt typology potential exists over the life of the strategy. These comments were generally reflected in our discussions with automotive industry business owners.

For other employment uses, the question is "is this evolving change in land use dynamics reasonable or not?" While the loss of employment along the Princes Highway corridor would mean a loss of employment in this sector, residents may create demand for a range of other uses not currently provided for.

With the exception of the automotive sector, it can be argued that all other uses compete with stronger markets within close proximity. This does not mean there is no room for such uses in the study area, but it may limit the opportunities in the short to medium term.

8.4 Probable Types of Development

Jones Lang LaSalle considers that the land uses that may reasonably be developed within the study area under a mixed use zoning over the longer term (i.e. market decides) will include:

- Residential (with a preference for sites away from the Princes Highway but close to centres / rail facilities).
- Higher intensity car showrooms with potential for ground floor showroom / first floor workshop.
- Higher intensity industrial uses (inclusive of strata development) that may include a mid of office space (10% to 25% office).
- Higher intensity industrial uses without office area.
- Small footplate retail (around train station). Examples may include cafés, post office, hair dresser, real estate offices etc.
- Larger floorplate retail facing Princes Highway (building/auto/home improvement supplies of a bulky goods nature) or fast food pad sites.
- Food and drink facilities / entertainment uses including licenced premises, benefiting from good exposure to passing trade and an expanding residential population base.

8.5 Implications for the Future Land Use Framework

Taking into account the above, Jones Lang LaSalle recommend a flexible planning structure is adopted that recognises the changing structure of employment uses. This includes:

- Accounting for softening / west movement of manufacturing and blue collar jobs with cheaper larger and superior infrastructure.
- The requirement for commercial / office users preference to be located in defined centres (e.g. Sydney, Mascot).
- The limited demand for ‘high street’ or ‘secondary retail’ due to issues with both access and poor passing foot traffic.

It should be recognised that the study area is part of a broader precinct that has significant employment opportunities. In the immediate area Rockdale suburb, Mascot, Kingsford Smith Airport and Port Botany are expected to provide employment opportunities. Cooks Cove, once developed, is located in close proximity to the study area. The transport infrastructure the study area enjoys (rail) also means that easy access to other key employment areas (e.g. Sydney , North Sydney, etc.) is available. .

In addition development of residential uses will provide demand for employment uses in both the immediate and broader area.

Given the fragmented nature of the landholdings, it is important to provide adequate incentives to amalgamate sites. Most importantly it is essential not to overburden sites with unviable developments.

‘Corridors’ can be difficult to develop. There are many examples in Sydney similar to the Princes Highway where they have stagnated, as evidenced with underdevelopment, vacancy and disrepair. The study area has key differentiators when compared to these other corridors including proximity to transport, key employment areas and a recognised cluster of automotive uses.

While it likely the study area will change much more dynamically compared to other corridors, these changes still take time. As such there is value in ensuring development of the site with high amenity (e.g. close to the train line) proceeds development of more marginal sites.

9 Appendices

9.1 Financial Feasibility Inputs

Comparison of Options

ESTATEMASTER Development Feasibility

Summary of Comparison of Options

Princes Highway Corridor Strategy

Estate Master Licensed to: Jones Lang LaSalle Sydney

	1	2	3	4	5	6	7	8
	2a AFCO	2b AFCO		3a Housing	3b Housing		5a Rocksia	
	DCP - Comm & Resi	Grd Retail & Resi		DCP - Comm & Resi	Resi only		Resi only	
	-	-		-	-		-	
	7,460. Site	7,460. Site		13,500. Site	13,500. Site		4,227. Site	
	7,460. SqM	7,460. SqM		13,500. SqM	13,500. SqM		4,227. SqM	
	Miscellaneous	Miscellaneous		Miscellaneous	Miscellaneous		Miscellaneous	
	Under Review	Under Review		Under Review	Under Review		Under Review	
REVENUE								
Total Sales Revenue	65,100,933	108,337,850		254,791,667	274,578,333		137,691,003	
Less Selling Costs	(2,834,427)	(4,851,891)		(11,399,375)	(12,356,025)		(6,178,923)	
Less Purchasers Costs	-	-		-	-		-	
NET SALE PROCEEDS	62,266,506	103,485,959		243,392,292	262,222,308		131,512,080	
Rental Income	-	-		-	-		-	
Less Outgoings & Vacancies	-	-		-	-		-	
Less Letting Fees	-	-		-	-		-	
Less Incentives (Rent Free and Fit Out Costs)	-	-		-	-		-	
Less Other Leasing Costs	-	-		-	-		-	
NET RENTAL INCOME	-	-		-	-		-	
Interest Received	-	-		-	-		-	
Other Income	-	-		-	-		-	
TOTAL REVENUE (before GST paid)	62,266,506	103,485,959		243,392,292	262,222,308		131,512,080	
Less GST paid on all Revenue	-	-		-	-		-	
TOTAL REVENUE (after GST paid)	62,266,506	103,485,959		243,392,292	262,222,308		131,512,080	
COSTS								
Land Purchase Cost	(3,295,317)	10,106,563		21,609,875	24,751,647		18,124,421	
Land Transaction Costs	-	541,351		1,174,033	1,346,831		982,333	
Construction (inc. Construct. Contingency)	47,442,651	55,129,903		118,994,925	121,676,672		61,940,926	
Professional Fees	5,693,118	6,615,588		14,279,391	14,601,201		7,432,911	
Statutory Fees	474,427	551,299		1,189,949	1,216,767		619,409	
Miscellaneous Costs 1	-	-		-	-		-	
Miscellaneous Costs 2	-	-		-	-		-	
Miscellaneous Costs 3	-	-		-	-		-	
Project Contingency (Project Reserve)	2,680,510	3,114,840		6,723,213	6,874,732		3,499,662	
Land Holding Costs	-	-		-	-		-	
Pre-Sale Commissions	-	-		-	-		-	
Finance Charges (inc. Line Fees)	-	-		-	-		-	
Interest Expense	3,745,713	8,847,271		20,383,182	22,358,123		12,040,121	
TOTAL COSTS (before GST reclaimed)	56,741,101	84,906,815		184,354,568	192,825,972		104,639,784	
Less GST reclaimed	(83,778)	(188,501)		(439,167)	(499,233)		(244,103)	
Plus Corporate Tax	-	-		-	-		-	
TOTAL COSTS (after GST reclaimed)	56,657,323	84,718,314		183,915,401	192,326,739		104,395,681	

PERFORMANCE INDICATORS	1	2	3	4	5	6	7	8
1 Gross Development Profit	5,609,183	18,767,645		59,476,891	69,895,569		27,116,399	
2 Net Developer's Profit after Profit Share	5,609,183	18,767,645		59,476,891	69,895,569		27,116,399	
3 Development Margin (Profit/Risk Margin)	9.43%	20.95%		30.45%	34.15%		24.52%	
Target Development Margin	20.00%	20.00%		20.00%	20.00%		20.00%	
4 Residual Land Value (Target Margin)	(7,765,535)	10,586,624		31,926,469	38,985,085		20,901,719	
5 Breakeven Date for Cumulative Cash Flow	Dec-2015	Jul-2016		Jun-2017	Aug-2017		Aug-2016	
Discount Rate (Target IRR)	20.00%	20.00%		20.00%	20.00%		20.00%	
6 Net Present Value	-	-		-	-		-	
8 Benefit Cost Ratio	1.000	1.000		1.000	1.000		1.000	
9 Project Internal Rate of Return (IRR)	20.00%	20.00%		20.00%	20.00%		20.00%	
10 Residual Land Value (NPV)	(3,295,317)	10,106,563		21,609,874	24,751,647		18,124,421	
Peak Debt Exposure	56,814,893	83,692,997		179,369,132	186,830,979		102,950,218	
Date of Peak Debt Exposure	Feb-2015	Feb-2015		Feb-2015	Feb-2015		Feb-2015	
11 Breakeven Date for Project Overdraft	Dec-2015	Jul-2016		Jun-2017	Aug-2017		Aug-2016	
Total Equity Contibution	-	-		-	-		-	
Peak Equity Exposure	-	-		-	-		-	
Date of Peak Equity Exposure	N.A.	N.A.		N.A.	N.A.		N.A.	
12 IRR on Equity	N.A.	N.A.		N.A.	N.A.		N.A.	
Weighted Average Cost of Capital (WACC)	8.50%	8.50%		8.50%	8.50%		8.50%	

YIELD ANALYSIS	Qty	Area	Qty	Area		Qty	Area	Qty	Area		Qty	Area	
SALES		SqM		SqM			SqM		SqM			SqM	
Residential - 1 Bedroom Units	85	0	190	0		439	0	499	0		228	0	
Commerical Office	1	0	1	0		1	0	1	0		1	0	
TOTAL	86	0	191	0		440	0	500	0		229	0	
TENANCIES		SqM		SqM			SqM		SqM			SqM	
TOTAL		0		0			0		0			0	

Footnotes (based on current Preferences):

1. Development Profit: is total revenue less total cost including interest paid and received
2. Developer's Net Profit after distribution of profit share.
3. Development Margin: is profit divided by total development costs (inc selling costs).
4. Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
5. Breakeven date for Cumulative Cash Flow: is the last date when total debt and equity is repaid (ie when profit is realised).
6. Net Present Value: is the project's cash flow stream discounted to present value.
   It includes financing costs but excludes interest and corp tax.
8. Benefit:Cost Ratio: is the ratio of discounted incomes to discounted costs and includes financing costs but excludes interest and corp tax.
9. Internal Rate of Return: is the discount rate where the NPV above equals Zero.
10. Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.
11. Payback date for the equity/debt facility is the last date when total equity/debt is repaid.
12. IRR on Funds Invested is the IRR of the equity cash flow including the return of equity and realisation of project profits.

Comparison of Options

ESTATEMASTER Development Feasibility

Summary of Comparison of Options

Princes Highway Corridor Strategy

Estate Master Licensed to: Jones Lang LaSalle Sydney

	1	2	3	4	5	6	7	8
	1a Gateway	1b Gateway	1c Gateway		4a School	4b School	4c School	
	Showroom only	Grd Retail & Resi	Showroom & Office		Current Contols - Comm & Resi	Resi only	Car show room	
	3,500. GFA 5,880. Site 5,880. SqM	95. Units 5,880. Site 5,880. SqM	- 5,880. Site 5,880. SqM		- 11,080. Site 11,080. SqM	- 11,080. Site 11,080. SqM	- 11,080. Site 11,080. SqM	
	Miscellaneous Under Review	Miscellaneous Under Review	Miscellaneous Under Review		Miscellaneous Under Review	Miscellaneous Under Review	Miscellaneous Under Review	
REVENUE								
Total Sales Revenue	10,500,000	54,281,220	13,900,000		172,079,048	196,836,200	15,000,000	
Less Selling Costs	(210,000)	(2,437,142)	(556,000)		(7,660,665)	(8,857,629)	(600,000)	
Less Purchasers Costs	-	-	-		-	-	-	
NET SALE PROCEEDS	10,290,000	51,844,078	13,344,000		164,418,383	187,978,571	14,400,000	
Rental Income	-	-	-		-	-	-	
Less Outgoings & Vacancies	-	-	-		-	-	-	
Less Letting Fees	-	-	-		-	-	-	
Less Incentives (Rent Free and Fit Out Costs)	-	-	-		-	-	-	
Less Other Leasing Costs	-	-	-		-	-	-	
NET RENTAL INCOME	-	-	-		-	-	-	
Interest Received	-	-	-		-	-	-	
Other Income	-	-	-		-	-	-	
TOTAL REVENUE (before GST paid)	10,290,000	51,844,078	13,344,000		164,418,383	187,978,571	14,400,000	
Less GST paid on all Revenue	-	-	-		-	-	-	
TOTAL REVENUE (after GST paid)	10,290,000	51,844,078	13,344,000		164,418,383	187,978,571	14,400,000	
COSTS								
Land Purchase Cost	(3,540,095)	4,880,888	(7,599,692)		16,727,471	21,804,193	1,350,293	
Land Transaction Costs	-	253,939	-		905,501	1,184,721	59,756	
Construction (inc. Construct. Contingency)	9,875,250	28,458,173	15,355,313		83,870,603	87,226,015	8,000,000	
Professional Fees	1,185,030	3,414,981	1,842,638		10,064,472	10,467,122	960,000	
Statutory Fees	98,753	284,582	153,553		838,706	872,260	80,000	
Miscellaneous Costs 1	-	-	-		-	-	-	
Miscellaneous Costs 2	-	-	-		-	-	-	
Miscellaneous Costs 3	-	-	-		-	-	-	
Project Contingency (Project Reserve)	557,952	1,607,887	867,575		4,738,689	4,928,270	452,000	
Land Holding Costs	-	-	-		-	-	-	
Pre-Sale Commissions	-	-	-		-	-	-	
Finance Charges (inc. Line Fees)	-	-	-		-	-	-	
Interest Expense	362,953	3,994,712	407,620		13,998,766	16,848,540	997,739	
TOTAL COSTS (before GST reclaimed)	8,539,843	42,895,162	11,027,006		131,144,207	143,331,120	11,899,788	
Less GST reclaimed	-	(96,689)	-		(282,728)	(357,884)	-	
Plus Corporate Tax	-	-	-		-	-	-	
TOTAL COSTS (after GST reclaimed)	8,539,843	42,798,473	11,027,006		130,861,479	142,973,236	11,899,788	
PERFORMANCE INDICATORS								
1 Gross Development Profit	1,750,157	9,045,605	2,316,994		33,556,904	45,005,335	2,500,212	
2 Net Developer's Profit after Profit Share	1,750,157	9,045,605	2,316,994		33,556,904	45,005,335	2,500,212	
3 Development Margin (Profit/Risk Margin)	20.00%	20.00%	20.00%		24.22%	29.64%	20.00%	
Target Development Margin	20.00%	20.00%	20.00%		20.00%	20.00%	20.00%	
4 Residual Land Value (Target Margin)	(3,540,095)	4,880,888	(7,599,692)		19,909,572	29,422,331	1,350,293	
5 Breakeven Date for Cumulative Cash Flow	Mar-2015	Sep-2015	Mar-2015		Nov-2016	Mar-2017	Mar-2015	
Discount Rate (Target IRR)	20.00%	20.00%	20.00%		20.00%	20.00%	20.00%	
6 Net Present Value	1,524,180	989,461	2,880,746		-	-	561,122	
8 Benefit Cost Ratio	1.343	1.036	1.595		1.000	1.000	1.072	
9 Project Internal Rate of Return (IRR)	N.A.	22.62%	(661.03%)		20.00%	20.00%	26.15%	
10 Residual Land Value (NPV)	(1,990,653)	5,833,487	(4,671,201)		16,727,471	21,804,193	1,890,510	
Peak Debt Exposure	8,479,778	42,871,159	11,121,975		128,759,154	139,565,050	11,910,161	
Date of Peak Debt Exposure	Feb-2015	Feb-2015	Feb-2015		Feb-2015	Feb-2015	Feb-2015	
11 Breakeven Date for Project Overdraft	Mar-2015	Sep-2015	Mar-2015		Nov-2016	Mar-2017	Mar-2015	
Total Equity Contibution	-	-	-		-	-	-	
Peak Equity Exposure	-	-	-		-	-	-	
Date of Peak Equity Exposure	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
12 IRR on Equity	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Weighted Average Cost of Capital (WACC)	8.50%	8.50%	8.50%		8.50%	8.50%	8.50%	

YIELD ANALYSIS	Qty	Area	Qty	Area	Qty	Area		Qty	Area	Qty	Area	Qty	Area	
SALES		SqM		SqM		SqM			SqM		SqM		SqM	
Residential - 1 Bedroom Units	0	0	95	0	0	0		283	0	358	0	0	0	
Commerical Office	1	0	1	0	2	0		1	0	1	0	1	0	
TOTAL	1	0	96	0	2	0		284	0	359	0	1	0	
TENANCIES		SqM		SqM		SqM			SqM		SqM		SqM	
TOTAL		0		0		0			0		0		0	

Footnotes (based on current Preferences):

1. Development Profit: is total revenue less total cost including interest paid and received
2. Developer's Net Profit after distribution of profit share.
3. Development Margin: is profit divided by total development costs (inc selling costs).
4. Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
5. Breakeven date for Cumulative Cash Flow: is the last date when total debt and equity is repaid (ie when profit is realised).
6. Net Present Value: is the project's cash flow stream discounted to present value.
   It includes financing costs but excludes interest and corp tax.
8. Benefit:Cost Ratio: is the ratio of discounted incomes to discounted costs and includes financing costs but excludes interest and corp tax.
9. Internal Rate of Return: is the discount rate where the NPV above equals Zero.
10. Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.
11. Payback date for the equity/debt facility is the last date when total equity/debt is repaid.
12. IRR on Funds Invested is the IRR of the equity cash flow including the return of equity and realisation of project profits.

9.2 Literature Review

9.2.1 Australian Industry Overview – Deloitte Motor Industry Services

Dealership Profitability

- *The past two ...significantly above average profits for dealers... a catalyst to change work cultures, cull out inefficiencies, improve staff retention, tighten expenses and negotiate more competitive deals from distressed suppliers.*
- *An interesting observation during these volatile times was the gap between the average and Top 5% best performing dealers is widening.*

New vehicle profitability

- *The Australian automotive industry is one of the most open and competitive markets in the world...more brands than the USA...for example Alfa, Fiat, Renault and Citroen were not represented in the USA*
- *...very competitive market which has long been characterised by lean margins and weak new vehicle profitability. After allocating a share of dealership overhead expenses such as rent and administration costs, the average Australian dealer loses money selling new vehicles.*
- *The correlation between inventory levels and gross margins is direct. 2009 was a period where inventory levels fell as a result of vehicle manufacturers slashing production in response to the GFC which consequently lifted gross profit margins for almost all non-luxury brands.*

Used vehicle performance

- *The used vehicle department has long been one of the most challenging aspects of operating a franchised dealership. The market is influenced by many factors, particularly the new vehicle market and general economic conditions.*
- *At a dealership level it is recognised time and again, the key to a well-run used vehicle operation is inventory management.*
- *The impact of the internet has become pervasive across the commercial world. Its impact on the automotive industry has grown considerably over recent years. All dealerships with only a miniscule number of exceptions have an internet website. Many now have dedicated departments devoted to managing internet lead enquiries and online activity.*
- *The biggest issue impacting used vehicles now and into the future is the share of real estate to display. Over time as new vehicle volumes have grown, more dealership real estate has been absorbed by new vehicle showrooms and display. To counter this, Dealers need to secure more of their front apron for used vehicle display.*

Finance and Insurance

- *...profits flowing from the sale of core products are at best marginal while secondary products contribute to the bulk of the overall bottom line. This is precisely the case for automotive dealers who typically lose money selling their core product (motor vehicles). They have become increasingly adept, though at the same time dependent upon related activities such as finance and insurance, aftermarket products, parts, accessories, servicing and repairs.*
- *The contribution to total dealership profit of finance and insurance (F&I) is very significant.*

Fixed Operations (Parts & Service)

- *Parts and service are now referred to collectively as 'fixed operations', implying they operate at a fixed, less volatile level but critically, operate together. This inherent feature was graphically illustrated during trading conditions of the GFC.*

- *This regular, more certain contribution clearly demonstrates the importance of building up strong parts and service operations in order to provide a buffer in volatile times. Astute dealers have long recognised this and have devoted more time to the so called 'back end' of the business, rather than the attention the 'front end' of the business tends to demand.*
- *Fixed operations importantly plays a vital role in helping to offset the profitability drain commonly experienced in the vehicle departments. Vehicle operations are historically volatile, going up and down through product and economic cycles while parts and service provide relatively stable income.*
- *A dealership's ability to buffer any economic storm is often measured by 'parts and service absorption' or the ability of the parts and service income to cover total dealership fixed expenses. The higher the percentage, the easier it is for the dealership to trade profitability in times of weak vehicle demand. The current Profit Focus benchmark is 55-60%.*
- *Decades ago most automotive dealers were a one stop shop for all vehicle service needs. Many provided fuel, tyres, body shop and full mechanical servicing. Over time other service providers steadily entered the market and took away sizeable slices of the income cake. It has only really been the last few years that a larger more coordinated formal attempt to reclaim this traditional share of the industry has been made.*

9.2.2 Automotive retail, service and repair industry in New South Wales– Manufacturing Skills Australia

The report identifies that in NSW employment by specialist area within the automotive industry was as follows.

Table 20: Employment by Sector, Auto Industry in NSW

Employment by sector	%
Repairs and maintenance	63%
New & used vehicle retailing	18%
Parts and tyre retailing	11%
Fuel retailing	5%
Parts wholesaling	4%

Source: Manufacturing Skills Australia

This report identified that within NSW in car retailing there was roughly;

- 700 businesses employing 1-19 people
- 220 businesses employment 20- 199 people and
- Less than 20 businesses employing greater than 200 people.

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