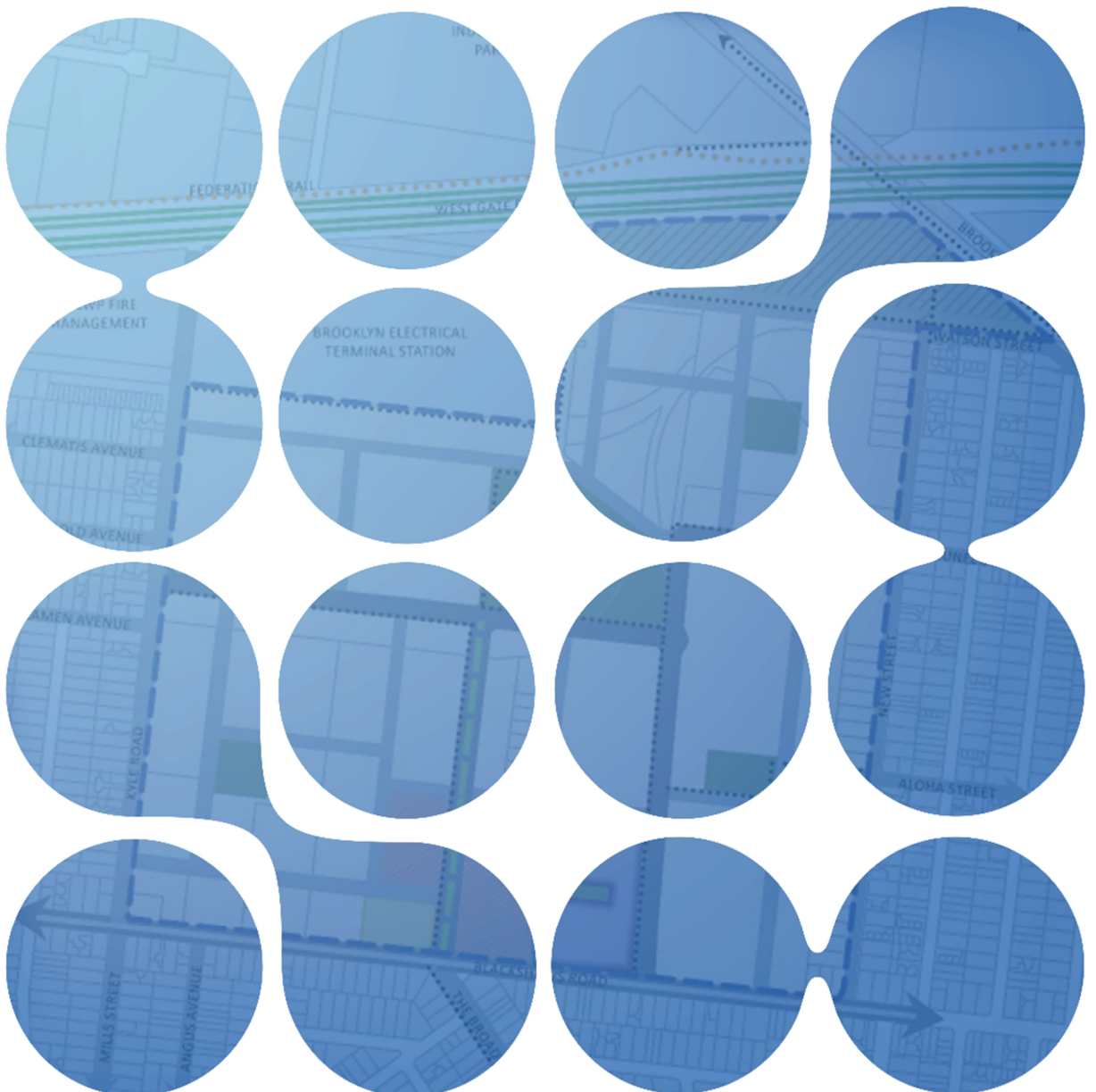


Economic expert witness statement

Hobsons Bay Planning Scheme Amendment C88
Precinct 15 Altona North

Prepared for Precinct 15 Landowners Consortium
10 November 2017



Deep End Services

Deep End Services is an economic research and property consulting firm based in Melbourne. It provides a range of services to local and international retailers, property owners and developers including due diligence and market scoping studies, store benchmarking and network planning, site analysis and sales forecasting, market assessments for a variety of land uses, and highest and best use studies.

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Document Name

Precinct 15 Landowners Consortium report - Hobsons Bay Am C88 -
Economic expert statement - J Ganly - 10 Nov 17

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Contents

1	Introduction	1
1.1	Background	1
1.2	Instructions	2
1.3	Approach	2
1.4	Expert witness details	3
2	Amendment C88	6
2.1	Overview	6
2.2	CDZ2	7
2.3	CDP	9
2.4	CDP Background Report	13
2.5	Vision Document	14
2.6	Summary	15
3	Consideration of business area	17
3.1	Introduction	17
3.2	CDP land and employment forecasts	17
3.3	Commercial office context	18
3.4	Strategic justification	19
3.5	EE report	20
3.6	Strategic assessment	24
3.7	Implications for CDP	25
4	Consideration of local town centre	26
4.1	Introduction	26
4.2	Proposed planning control	26
4.3	Economic assessment	28
4.4	Implications for the CDP	29
5	Conclusions	30

Appendices

Appendix A Curriculum Vitae for Justin Ganly

**Appendix B Melbourne Suburban Office Market Overview February
2017, Knight Frank**

Tables + Figures

Table 1—CDZ2 Table of uses	8
Table 2—Indicative development schedule for transport analysis	13
Table 3— Commercial office supply in Hobsons Bay activity centres	21
Table 4—Indicative commercial office floorspace growth	23
Figure 1—C88 Amendment area	6
Figure 2—Map 1 to Schedule 2 to Clause 37.02	7
Figure 3—Town Centre Concept Plan	12
Figure 4—Melbourne suburban office market indicators	19



Introduction

1.1 Background

- ⁰¹ I have been instructed in this matter by Norton Rose Fulbright, acting on behalf of the Precinct 15 Landowners Consortium (“Landowners Group”) in relation to proposed Amendment C88 (“Am C88”) to the Hobsons Bay Planning Scheme.
- ⁰² Am C88 has been prepared by Hobsons Bay City Council to facilitate the redevelopment of former industrial land for residential and mixed-use development.
- ⁰³ The amendment applies to the land generally bounded by the West Gate Freeway, New Street, Blackshaws Road and Kyle Road in the suburbs of Altona North and South Kingsville.
- ⁰⁴ This area has been referred to as “Precinct 15” during the planning process, and I continue to refer to it as such in this statement.
- ⁰⁵ The Landowners Group is made up of 13 owners of land within Precinct 15.
- ⁰⁶ The proposed amendment places most of Precinct 15 within the Comprehensive Development Zone (“CDZ”) and applies Schedule 2 (“CDZ2”) to ensure that future development is generally in accordance with the Altona North Comprehensive Development Plan, June 2017 (“CDP”).
- ⁰⁷ Most of the developable area of Precinct 15 is proposed for townhouses and medium rise apartments, containing an eventual population of around 7,000 residents.
- ⁰⁸ A “local town centre” is proposed on 2.15ha of land with frontage to Blackshaws Road. The centre is envisaged to include a supermarket, shops and a small component of offices, with opportunities for integrated residential development.
- ⁰⁹ A “business area” on 2.86 ha of land is proposed to the west of the local town centre, and is envisaged to contain a significant commercial office component and opportunities for integrated residential development.

¹⁰ I note that an economic assessment of the proposed retail facilities within the local town centre component was prepared by my office in March 2015 and was exhibited along with Am C88. I was not personally involved in that study.

1.2 Instructions

¹¹ My instructions in this matter were provided to me by letter dated 26 October 2017 as follows:

- *Review this memorandum and the background materials in your brief;*
- *Confer with instructing solicitors and counsel where necessary;*
- *Prepare an expert report that provides your opinion on economic matters associated with the Amendment, specifically:*
 - a. The appropriateness of the extent of land designated to the west of the town centre as 'mixed use/commercial area' (see Figures 4 and 10 of the Comprehensive Development Plan);*
 - b. The appropriateness of the planning controls insofar as they relate to the retail and commercial land, including the requirement to obtain a permit for use of the land as a supermarket;*
 - c. Your response to any issues raised in submissions, the Economic Impacts report prepared by SGS Economics & Planning dated September 2015 and the Commercial Office Floorspace Provision report prepared by Essential Economics dated September 2017; and*
- *If required, appear at the Panel Hearing on 20-24 November, 4-8 December and 9-13 December (reserve) for the purpose of presenting your expert opinion concerning these matters.*

1.3 Approach

¹² In responding to my instructions I have:

1. Visited the site and surrounds.
2. Reviewed the amendment documentation.
3. Reviewed submissions made to the proposed Am C88 by affected parties.
4. Reviewed other background documents including:
 - a. Precinct 15, North Altona, Neighbourhood Activity Centre Economic Impact Assessment (March 2015), prepared by my colleague Chris Abery of Deep End Services ("DES");*
 - b. Precinct 15 Altona North, Economic Impacts Independent Peer Review (September 2015), prepared by SGS Economics and Planning ("SGS") on behalf of Hobsons Bay City Council;*
 - c. Hobsons Bay Activity Centres Strategy Technical Report (December 2016), prepared by Essential Economics ("EE") 2016 in association with Hansen Partnership and Martyn Group on behalf of Hobsons Bay City Council; and*
 - d. Altona North Precinct Commercial Office Floorspace Provision (September 2017), prepared by Essential Economics ("EE") on behalf of the Victorian Planning Authority ("VPA").*
5. Considered the quantum of land set aside for the business area, in the context of the attributes of the site and other matters relating to the demand and supply of land for office development.

6. Considered the planning controls relating to the town centre and how these further the aim of providing a local town centre for provision of services to the community.
7. Come to a conclusion as to whether changes to the proposed planning controls should be made to better guide the future development of Precinct 15.

1.4 Expert witness details

¹³ The following expert witness details are provided as required in Planning Panels Victoria's *Guide to Expert Evidence*.

Name and address of expert

Mr Justin Ganly
 Managing Director
 Deep End Services Pty Ltd
 Suite 304, 9-11 Claremont Street
 South Yarra Victoria 3141

Expert's qualifications and experience

- Graduate Diploma of Applied Finance & Investment, Securities Institute of Australia.
- Bachelor of Engineering (Chemical) (First Class Honours), University of Melbourne.
- Managing Director of Deep End Services since 2003.
- Retail and property consultant for KPMG, Coopers & Lybrand and Coles Myer from 1993 to 2003.

A full CV is included at *Appendix 1*.

Expert's area of expertise to make report

- Activity centre network planning.
- Thorough understanding of retail and commercial land use and development patterns throughout Victoria.
- Preparation of sales forecasts for new, expanded and refurbished supermarkets.
- Market demand analysis for property development including retail, commercial, industrial and residential.
- Demographic analysis.
- Population and land use forecasting.

Other significant contributors to the report

I was assisted in the preparation of this report by Matthew Lee, Principal at Deep End Services.

Instructions that defined the scope of the report

My instructions were received from Norton Rose Fulbright on 26 October 2017 as detailed in section 1.2 of this statement.

Facts, matters and assumptions upon which the report proceeds

Stated in relevant sections of this statement.

Documents, materials and literature used in preparing this report

Stated in relevant sections of this statement.

Summary of the opinions of the expert

1. The proposed designation of 2.86 hectares of net developable land as a “business area” to accommodate an anticipated 31,740 sqm of commercial office development does not reflect underlying market demand and does not respond to the Vision for the site as a residentially-focussed mixed-use precinct.
2. An earlier version of the CDP indicates a much smaller overall office component of 7,000 sqm and there is no strategic analysis to support the significant increase in the anticipated commercial office component.
3. Post exhibition economic analysis to support the proposed commercial office provision, prepared on behalf of VPA by Essential Economics, is flawed and is inconsistent with analysis conducted by the same firm in the Hobsons Bay Activity Centres Technical Report (December 2016).
4. A more realistic development outcome would be a smaller office precinct of between 6,000 sqm and 10,000 sqm of commercial floorspace to be delivered over time, with an expectation that this would contain a relatively wide mix of uses being those of the type not wishing to locate within an activity centre environment. This outcome would be generally consistent with the earlier CDP analysis and associated thinking, and is more likely to be achievable given demand and supply conditions in the region.
5. Changes to the planning controls applicable in the business area would be appropriate to enable more flexibility to introduce residential dwellings or to reduce the size of the business area.
6. The consistent vision for the town centre has been that it should be a neighbourhood-level facility which provides a supermarket and a range of shops, services, cafés and offices.
7. The proposed CDZ2 is inconsistent with the approach taken in planning for activity centres in mature areas such as Altona North. Indeed, the proposed controls are at odds with the thrust of VC100 and other Victorian planning reforms that aim to promote flexibility and growth opportunities.
8. Economic analysis undertaken by my office confirms that a full-line supermarket is appropriate at this location and would generate a net community benefit. I do not agree with the SGS peer review which suggests a smaller supermarket.
9. To facilitate this outcome, the CDZ2 should be amended to delete the requirement for a planning permit for a supermarket within the town centre, consistent with the approach in the C1Z.

Provisional opinions not fully researched

- None.

Questions outside the expert's expertise

- None.

Report incompleteness or inaccuracies

- None.

2

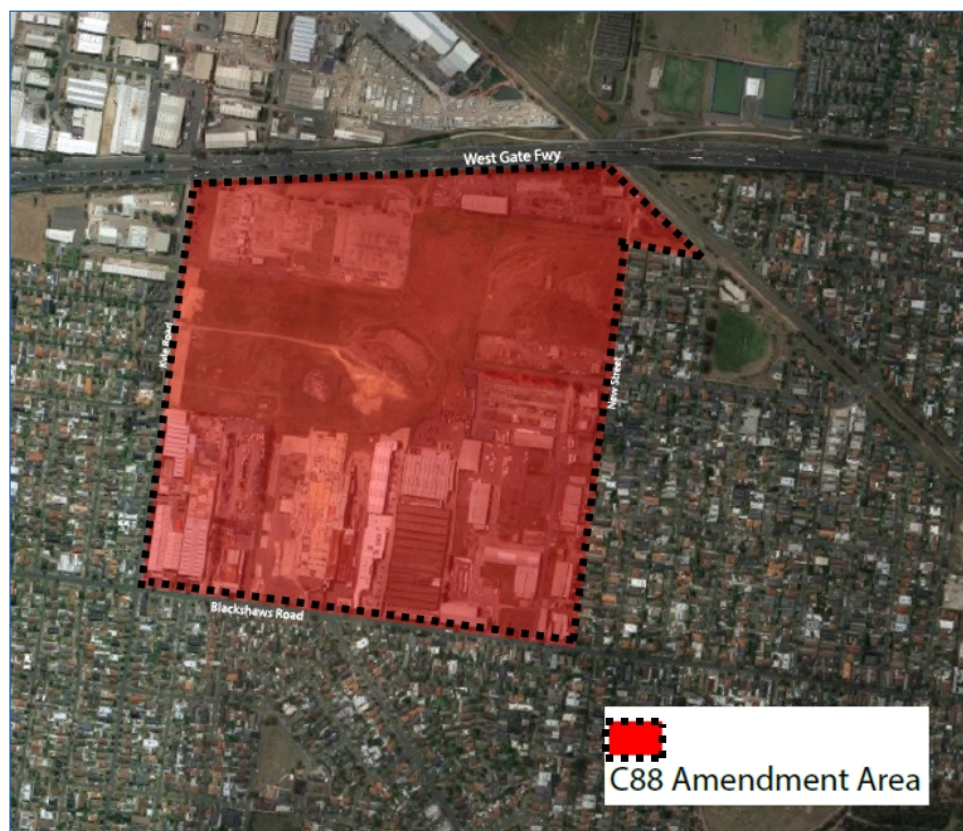
Amendment C88

2.1 Overview

¹⁴ Am C88 applies to land formerly identified as “Precinct 15” and bounded by West Gate Freeway, New Street, Blackshaws Road and Kyle Road as indicated in Figure 1 below.

**Figure 1—C88
Amendment area**

Source: Explanatory
report



¹⁵ The precinct consists of 67 hectares of vacant and remnant industrial land which was identified as a *Strategic Redevelopment Area* in the Hobsons Bay Industrial Land Management Strategy, 2008 (“ILMS”).

¹⁶ The ILMS concluded that the precinct had little prospect of retaining its former industrial economic role, and recommended that the precinct transition to residential and mixed-use development.

¹⁷ Am C88 seeks to facilitate this transition by applying planning controls which aim to replace the former industrial uses with “a residential and mixed use development including provision for local shops and services, parks and offices” (Am C88 Explanatory Report).

¹⁸ The amendment applies the CDZ2 and incorporates the Altona North Comprehensive Development Plan, June 2017 (“CDP”).

2.2 CDZ2

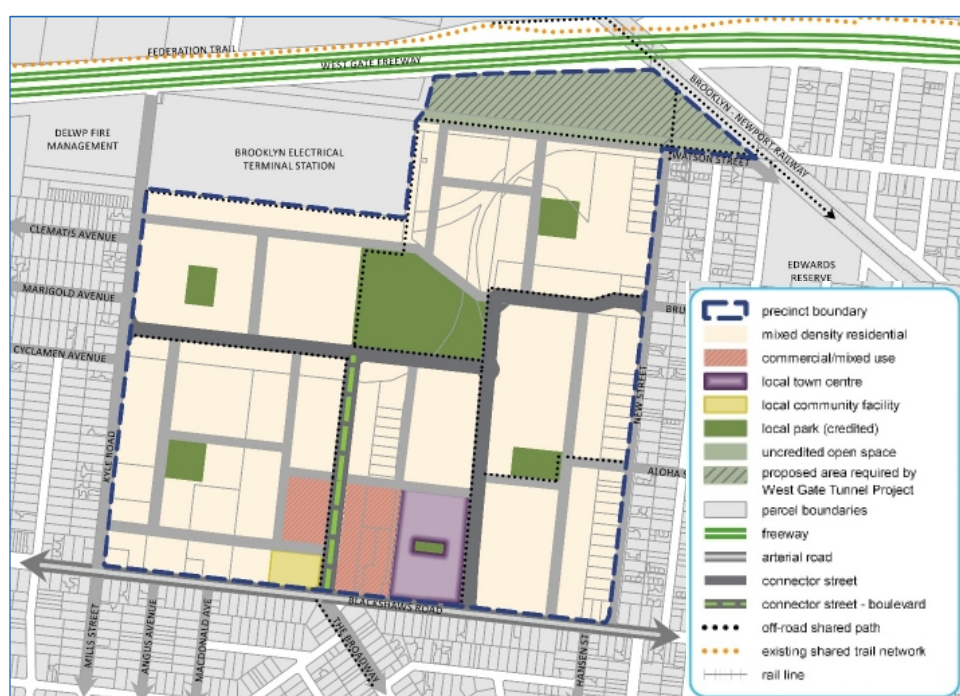
¹⁹ CDZ2 applies to most of the precinct (with the exception of the Brooklyn electrical terminal station) and has the following listed purposes:

- To facilitate transition from an industrial precinct to a mixed use precinct;
- To facilitate the orderly integration of residential, business and local town centre land uses; and
- To ensure that new sensitive uses do not unreasonably impact on the ongoing operation of industrial uses.

²⁰ Map 1 to CDZ2 is shown in Figure 2 below, and is a replication of the Future Urban Structure Plan (“FUSP”) from the CDP. The map identifies the location of the local town centre along Blackshaws Road, with the adjacent business area nominated for “commercial/mixed use” to the immediate west.

Figure 2—Map 1 to Schedule 2 to Clause 37.02

Source: Am C88 Exhibited CDZ2



²¹ CDZ2 sets out the permit requirements for development of different land uses within each part of the precinct. Table 1 summarises these controls as they relate to a selection of land use categories that are typically located within a town centre or adjacent business area. I note that reference to “business area” is understood to refer to that part of the FUSP designated for “commercial/mixed use” in Map 1 to CDZ2.

**Table 1—CDZ2
Table of uses**

Note: * also excludes adult sex bookshop, department store, gambling premises

Source: Am C88 Exhibited CDZ2

Land use	Section 1 (no permit required)	Section 2 (permit required)
Retail premises* (excl. supermarket)	Local town centre	Business area
Supermarket		Local town centre
Office	Local town centre Business area	
Gym (indoor recreation)	Local town centre Business area (NB must be in existing building) Combined gross floor area < 500 sqm	Permit required if contained in new building, but no other condition listed
Cinema	Local town centre Business area	
Child care	Local town centre Business area	
Service industry	Local town centre Business area (NB must be in existing building) Combined gross floor area < 500 sqm	
Industry		Local town centre Business area
Accommodation (dwellings)	Residential area Local town centre or business area where above ground (7.2m)	

²² Of relevance to my instructions is the inclusion of supermarket as a Section 2 use requiring a permit.

²³ As I expand on later, this is inconsistent with the normal application of the Commercial 1 Zone (“C1Z”) to a neighbourhood activity centre, in which Shop – including supermarket – is a Section 1 “as-of-right” use.

²⁴ I also note that the Table of uses introduces a development control for Accommodation which requires all dwellings to be 7.2m above natural ground level within the local town centre and business area.

²⁵ This essentially means that all dwellings in these areas are to be in the form of shop-top housing or above commercial premises on the 2nd level or higher, which is a relatively onerous control in this location and may have the unintended consequence of inhibiting a mixed use outcome in these parts of the precinct.

2.3 CDP

²⁶ The CDP is a long-term plan to help guide the precinct's transition and redevelopment, and is proposed to be incorporated into the Hobsons Bay Planning Scheme at Clause 81.01. It provides the basis for the land use planning controls introduced at Clause 37.02 (CDZ2) and elsewhere in the Scheme.

Vision

²⁷ The overall Vision for the CDP is to:

"... develop a vibrant, accessible and sustainable residential community that will support approximately 7,000 people in high quality homes with a full range of facilities to provide a mixed use development that integrates with and enhances the existing urban environment" (CDP, p6)

²⁸ The Vision section describes the CDP as facilitating a "new community in the heart of an existing residential area". Residential built form is expected to be low-rise on sensitive edges, transitioning to medium rise apartments within the site.

²⁹ Reference is made to the proposed new local town centre, which is described as

"... essential to linking existing and future communities. It is envisaged to include a supermarket, cafés, restaurants and other specialty retail with the ability for apartments to be located above the ground floor. The town centre will include civic spaces to encourage pedestrian activity and the ability to hold small public events. The town centre will integrate with the existing mixed-use centre at 216-230 Blackshaws Road that includes a large medical centre and the future 'business area' which will incorporate a new community centre."

³⁰ With respect to the business area, the CDP anticipates

"... a mix of office and residential uses to encourage the creation of local jobs. Combined with the town centre, and some of the existing uses within the existing Business Park, the area will integrate as a mixed use centre over time to encourage activity and intensification along Blackshaws Road and the north-south spine roads."

³¹ The objectives listed at Section 2.2 of the CDP include

- O6: To transition the area from industrial to residential and appropriately manage interfaces with any continuing uses.
- O11: To create a safe and vibrant mixed use local town centre with pleasant public spaces and a range of jobs and services appropriate to the scale of the centre.
- O12: Encourage local jobs through the provision of a mixed use town centre and business area.
- O13: To encourage high quality commercial development that fronts Blackshaws road around the town centre and business area to enhance the presentation of the precinct.

Development outcomes

³² *Plan 4 – Sub-precincts* (p11) identifies the land use outcome for the town centre as fine-grained retail, supermarket, cafés and restaurants, with residential above and integrated with the existing commercial area to the west. The land use outcome for the business area is for a mix of commercial and residential, with the existing commercial area retained and future uses integrated.

³³ Both the local town centre and the business area are envisaged to have a built form of up to 4 storeys plus 1 storey set back.

³⁴ Table 2 (CDP, p12) provides additional directions as follows:

Business Area

- Mixed use for the existing commercial area comprising of commercial, light industrial uses and residential above.
- In the undeveloped area, predominantly offices and other suitable uses at ground floor with the potential for residential properties to be located above ground floor. Some residential uses may be appropriate at ground floor if it can be demonstrated that it is not a prominent location and allows for the Boulevard connector to remain punctuated with active frontages at street level.
- The existing commercial area at Shaws Business Park will continue in its existing capacity and over time may intensify and integrate further with the new development for this area and the proposed town centre. Physical linkages between the existing and proposed centre should be encouraged to assist in the transition towards an integrated centre in the future.
- Buildings should be built to the property boundary adjoining the street frontage, or otherwise have activity within the front setback. Active frontages should be located on street corners, along Blackshaws Road and distributed along the Boulevard connector to ensure activity at ground level.
- Car parking and service infrastructure should be located to the rear of primary pedestrian access points.

Local town centre

- A mixed use town centre made up of fine grain retail, a supermarket, offices and cafés.
- Residential can be located above.
- A civic space will provide the community with a flexible, central meeting space.
- Encourage the town centre to be oriented toward a 'main' street.
- The supermarket will include an overhead/underground car park or a car park at grade that could convert in the future to a more intense town centre development. Car parking should not be visible from key street frontages.
- Buildings should either be built to the property boundary adjoining the street frontage or should allow a front setback for on-street dining. Ground level facades should be articulated into sections no greater than 8m wide in order to establish a fine grain built form. Shops along Blackshaws Road should ensure an active frontage is provided.

Employment and local centres

³⁵ Table 3 (CDP, p25) identifies an anticipated employment outcome of 1,038 jobs across the precinct, consisting of:

- 165 jobs within the town centre
- 714 jobs within the business area
- 10 jobs at the community centre
- 150 home-based jobs.

³⁶ Table 5 (CDP, p27) sets out the forecast commercial and retail floorspace outcomes:

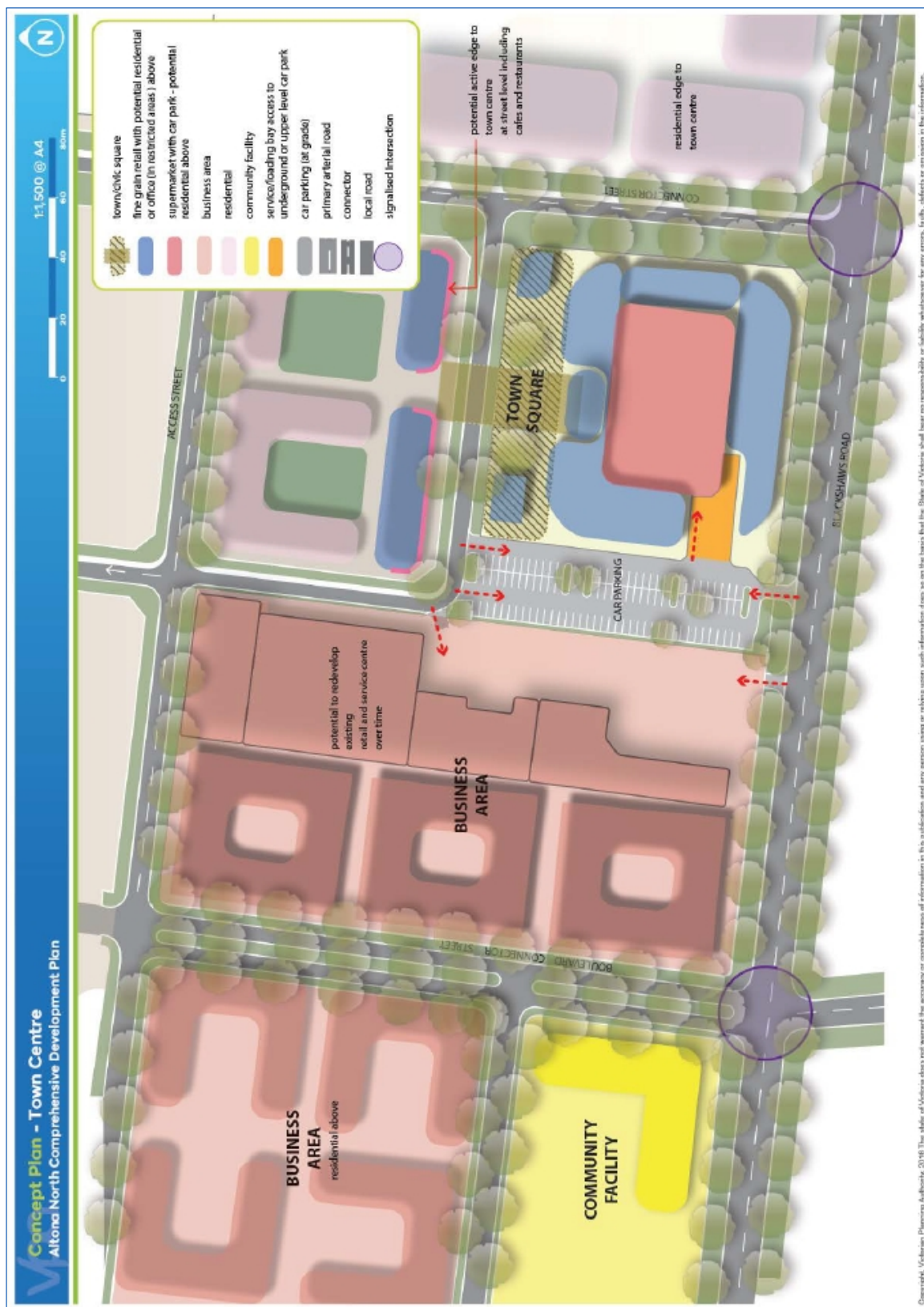
- Local town centre:
 - Supermarket: 2,420 sqm
 - Retail (food & beverage): 3,060 sqm
 - Total retail (rounded): 5,500 sqm
 - Commercial (first floor): 1,300 sqm
 - Total centre: 6,800 sqm
- Business area:
 - Commercial – existing: 5,400 sqm
 - Commercial – proposed: 26,340 sqm
 - Total commercial: 31,740 sqm.

³⁷ At 5,500 sqm the local town centre would generally be categorised as a small to medium neighbourhood facility. This is consistent with the most recent activity centre strategic planning being undertaken on behalf of Hobsons Bay City Council, as I expand on later.

³⁸ The business area, with 31,740 sqm of dedicated commercial office development plus a small amount (1,300 sqm) situated within the local town centre, would represent a very significant commercial office precinct in a suburban Melbourne context and in the context of existing office provision in Hobsons Bay.

³⁹ Floorspace outcomes are based on a concept plan at Figure 10 of the CDP, as depicted in Figure 3 on the following page.

Figure 3—Town Centre Concept Plan



Insert source/notes/desc

2.4 CDP Background Report

- ⁴⁰ The CDP is informed by the *Altona North Background Report* which summarises the technical investigations prepared for the redevelopment of Precinct 15 and responds to the vision and objectives of the precinct as identified by Hobsons Bay City Council in the *Vision Document* (October 2016).
- ⁴¹ With respect to the business area, I note that the Background Report does not make any reference to a significant commercial office precinct being developed within Precinct 15.
- ⁴² In fact, the local town centre and adjacent area is referred to as the “mixed use area” in this document.
- ⁴³ The section on urban design built form (Background Report, p15) describes the “mixed use area” as containing residential development but does not refer to any significant commercial office use.
- ⁴⁴ The section on integrated transport network summarises a report by GTA (*Precinct 15 Altona North Integrated Transport Study*, December 2016). This section also fails to refer to a significant commercial office precinct.
- ⁴⁵ In fact, the GTA report is undertaken for a development outcome which includes only 7,000 sqm of commercial office floorspace, as described in this extract:
- “The Comprehensive Development Plan anticipates that the rezoning of the site will be to a predominantly residential use with a mixed-use town centre and some public open space. The anticipated development schedule is presented in Table 4.1 and the conceptual land use plan is shown in Figure 4.1.”* (GTA, p29)
- ⁴⁶ The Table 4.1 referred to is replicated as Table 2 below:

Table 2—Indicative development schedule for transport analysis

Source: GTA (2016), p29

Use	Size
Residential	Approx. 3,000 dwellings in a mixture of densities
Mixed use zone	Potential for up to 5,550m ² retail floor space (4,200m ² supermarket + 1,350m ² specialty retail) and 7,000m ² of leasable office floor space

- ⁴⁷ It appears that the significant provision of commercial office floorspace contained in the CDP is the result of revisions to the anticipated development outcome that have occurred since December 2016.
- ⁴⁸ In relation to the local town centre, the Background Report (refer section 8.3, p29) includes a discussion of the economic analysis prepared by my office on behalf of the landowner group (“EIA”), and a subsequent peer review undertaken on behalf of Hobsons Bay City Council by SGS Economics and Planning (“peer review”).
- ⁴⁹ The EIA demonstrated support for a neighbourhood shopping centre consisting of a supermarket of 4,200 sqm and around 1,350 sqm of additional specialty retail floorspace. These are the parameters included in the GTA analysis (refer Table 2 above) and therefore I assume that the earlier version of the CDP supported this floorspace outcome.

⁵⁰ Although the peer review recommended a lower floorspace allocation of 4,500 sqm with a “small/mid-sized supermarket”, the Background Report states that *“the VPA have limited the amount of ‘as of right’ leasable floorspace for a Supermarket to 3,200m2, this restriction aims to encourage finer grain retail into the precinct”* (Background Report, p30).

⁵¹ The subsequent summary of how these issues are to be resolved prior to the planning scheme being exhibited states as follows (Background report, p31):

- *The Comprehensive Development Plan shows a new town centre located on Blackshaws Road including retail space, a civic space (of 1000 m2) to be vested in the Council as public space, a mixed use area (for a combination of residential and commercial land uses) alongside the proposed community facility.*
- *The schedule to the Comprehensive Development Zone will allow development of up to 4,500 m2 retail in the town centre ‘as of right’ and 3,200 m2 leasable floorspace of supermarket in the town centre ‘as of right’. Permits are required for building works associated with these activities.*
- *The Comprehensive Development Plan does not preclude residential apartments in the town centre and business areas.*
- *This matter is sufficiently resolved for inclusion in the planning scheme amendment documentation for public exhibition.*

⁵² In summary, there appear to be several discrepancies between the recommendations contained in the Background Report and the eventual content of the CDP and the associated CDZ2. Moreover, an earlier version of the CDP appears to have adopted a third outcome which was consistent with the results of the EIA with respect to town centre floorspace recommendations.

2.5 Vision Document

⁵³ I have also reviewed the Vision Document prepared on behalf of Hobsons Bay City Council in October 2016, which is appended to the Background Report.

⁵⁴ My interpretation of this document is that Precinct 15 is envisaged primarily for residential development, consistent with the earlier recommendations contained in the Hobsons Bay ILMS.

⁵⁵ Limitations on development type and capacity are highlighted as follows:

“While other parts of the City are located within walking distance of fixed rail public transport, it is important to note that Precinct 15 should not be characterized as a ‘Transit Oriented Development Site’ (TOD).

“The precinct only has access to bus services which run along Blackshaws Road and there is limited capacity to support redevelopment in the existing road based transport network. In this context, it is important for strategic planning purposes to arrive at an overall yield for the precinct that will maximize the efficient redevelopment of the land but which will not overwhelm the adjacent urban areas or the existing transport network.” (Vision Document, p5)

⁵⁶ The emphasis on residential development outcomes is highlighted in the Precinct Vision described on p7 of the Vision Document, where the only reference to commercial development is in the following lines (my emphasis added):

- Consolidate the Altona North community by supporting progressive remediation and redevelopment of the land for residential and mixed use purposes
- Deliver complementary land uses such as community centre, employment opportunities, open space, retail and other services that will contribute to the vitality of the precinct.

⁵⁷ In relation to the Mixed Use Activity Centre component (p10), the following extracts are also relevant:

“The mixed use activity centre is located on Blackshaws Road and is intended to meet the daily and convenience shopping needs of the future community.

Rather than being just a retail centre, the new mixed use activity has been purposely located and configured to:

- *Incorporate/co-locate a multi-purpose community facility and provision for offices*
- *Make provision for supporting commercial uses, specialty shops and restaurants/café’s in addition to a supermarket*
- *Be the focus for job creation within the precinct along with mixed use land.”*

2.6 Summary

⁵⁸ Am C88 responds to the earlier strategic work in the ILMS which recognised Precinct 15 as a strategic redevelopment site primarily for residential housing.

⁵⁹ The amendment introduces the CDP as an incorporated document providing the strategic basis for future development, implemented via the CDZ2. The critical aspects of the CDP and the CDZ2 as they relate to my area of expertise are:

1. The designated “business area” is relatively large, at 2.86 ha, and is anticipated to contain 31,740 sqm of commercial office floorspace over time, making it a very large suburban office precinct in the context of Melbourne’s inner west.
2. The size of the commercial office precinct has been increased in recent revisions to the CDP and I note, for instance, that the integrated transport study of December 2016 was completed on the basis of a commercial office provision of just 7,000 sqm.
3. The CDZ2 requires that residential dwellings within the business area and local town centre only occur in the form of shop-top housing or above commercial offices (and only on the 2nd level or higher of such buildings).
4. Earlier versions of the CDP made reference to the “mixed use area” as the combination of the local town centre and business areas, and anticipated that residential dwellings were a significant land use component within this area.
5. The CDP anticipates a local town centre of around 5,500 sqm, anchored by a supermarket with forecast floorspace of 2,420 sqm, plus 3,060 sqm of additional retail uses. This is inconsistent with the Background Report which recommends as-of-right development of 4,500 sqm including a supermarket of 3,200 sqm.

6. The earlier version of the CDP referred to a centre of 5,550 sqm containing a supermarket of 4,200 sqm and specialty retail of 1,350 sqm.
 7. Although the CDZ2 does not contain any floorspace limitations, it introduces an unusual arrangement in which use of land for a supermarket of any size requires a planning permit, notwithstanding that a supermarket is explicitly supported as a future land use outcome.
- ⁶⁰ I address these aspects in the next two sections of my statement.

3

Consideration of business area

- 3.1 Introduction** ⁶¹ This section of my statement provides assessment of Am C88 as it relates to the business area, and includes consideration of:
- The strategic justification for the proposed quantum of commercial office development;
 - The attributes of the site and its attractiveness as a location for commercial office development; and
 - Potential commercial office development outcomes.
- 3.2 CDP land and employment forecasts** ⁶² The CDP designates 2.86 ha for commercial/mixed use development within the “business area” situated to the immediate west of the proposed local town centre.
- ⁶³ The land use budget at Table 1 of the CDP shows the following distribution:
- 1.13 ha of land associated with properties accommodating existing commercial development at Shaws Business Park (216 Blackshaws Road), and
 - 1.73 ha associated with properties to be redeveloped for new commercial uses on adjacent land to the west.
- ⁶⁴ At Table 5 (p27) the CDP estimates that the business area will accommodate 31,740 sqm of commercial floorspace distributed as follows:
- Existing: 5,400 sqm
 - New: 26,340 sqm.
- ⁶⁵ When combined with the proposed inclusion of approximately 1,300 sqm of commercial office floorspace within the town centre, the resulting commercial office provision would be around 33,000 sqm.

⁶⁶ At Table 3 (p25) the CDP forecasts that the business area will provide 714 jobs distributed as follows:

- Existing: 282 jobs
- New: 432 jobs
- Total 714 jobs.

⁶⁷ The employment outcomes above are based on broad calculations made on a per gross hectare basis which grossly underestimate typical office-based employment outcomes, particularly for the undeveloped portion of the business area.

⁶⁸ Indeed, a typical rate of 1 job per 20 sqm of office floorspace would yield an employment estimate of 1,650 jobs for 33,000 sqm of office floorspace.

3.3 Commercial office context

⁶⁹ At 33,000 sqm overall, this is a significant office precinct in the suburban Melbourne context.

⁷⁰ For example, data published by Knight Frank in its publication *Melbourne Suburban Office Market Overview February 2017* indicates that the total supply of suburban office floorspace throughout Melbourne's North & West district – comprising the area extending from Carlton and Brunswick through to Moonee Ponds and Essendon and to Footscray (refer Figure 4) – is approximately 238,000 sqm.

⁷¹ I have appended the Knight Frank report to this statement as Appendix B.

⁷² The proposed 33,000 sqm commercial office floorspace at the subject site is therefore equivalent to 14% of the total office supply stock in this region, which is a sizeable proportion given the site's attributes which I discuss later.

⁷³ The Knight Frank research also indicates an average supply pipeline over the last 15 years of between 50,000 sqm and 60,000 sqm across suburban Melbourne.

⁷⁴ The proposed quantum of floorspace at Precinct 15 is therefore equivalent to around 60% of the total annual net absorption of office floorspace across the whole of suburban Melbourne.

⁷⁵ I have also reviewed information contained in the *Hobsons Bay Activity Centres Strategy Technical Report*, prepared by Essential Economics in December 2016 in association with Hansen Partnership and Martyn Group.

⁷⁶ This report draws on floorspace surveys of all activity centres in Hobsons Bay, and estimates that the total amount of occupied office floorspace within the municipality at these centres is 27,600 sqm, most of which is associated with uses such as banks, travel agents etc which tend to locate within retail-based activity centres.

⁷⁷ According to Essential Economics, only 7,630 sqm of dedicated commercial office floorspace was found to exist in Hobson Bay's activity centres.

⁷⁸ The proposed inclusion of 31,740 sqm of dedicated commercial office floorspace therefore represents more than four times the existing supply in Hobsons Bay.

**Figure 4—
Melbourne
suburban office
market indicators**

Source: Melbourne
Suburban Office
Market Overview,
Feb 2017, Knight
Frank Research

Grade	Total Stock (m ²)	Vacancy Rate (%)	12 Month Net Absorption (m ²)	Average Prime Net Face Rent (\$/m ²)	Average Prime Incentive (%)	Average Secondary Net Face Rent (\$/m ²)	Average Prime Core Market Yield (%)	Average Secondary Core Market Yield (%)
City Fringe	1,033,539	3.1	6,979	400–425	10–15	325–375	5.75–6.25	7.00–7.50
Inner East	555,749	6.2	-7,571	360–380	10–20	280–300	5.75–6.50	6.75–7.25
Outer East	868,046	10.7	50,480	290–340	20–30	200–250	6.25–7.25	7.25–7.75
South East	338,773	10.9	4,033	250–280	20–30	185–220	6.50–7.50	7.25–7.75
North & West	238,189	6.8	N/A	300–340	15–25	180–240	6.50–7.50	7.50–8.00
Total*	3,034,296	7.0	53,921	354	18.5	277	6.42	7.34



3.4 Strategic justification

- 79 I provide these comparisons to highlight the large scale of office development envisaged for the site, particularly for a part of Melbourne that is not a recognised office market and has not been incorporated in any of the office market subregions identified by Knight Frank (refer Figure 4).
- 80 Other than the EIA prepared by my office and the subsequent peer review in relation to the local town centre, no other economic reports were released as part of the exhibited amendment.
- 81 The proposed scale of office development within the business area therefore does not appear to have been based on any economic analysis of demand and supply factors associated with this property class.
- 82 As detailed in section 2 of this statement, the CDP itself does not refer to the business area as being envisaged as a significant location in a suburban context for commercial office uses.
- 83 Indeed, as I have shown, the Vision section of the CDP (at section 2.1, p6) concentrates mainly on the role of the precinct as a location for residential development, with only a few references to the business area accommodating opportunities for mixed use development and local employment.
- 84 The Background Report does not even mention the “business area”, referring to the combined local town centre and adjacent precinct as the “mixed use area”.
- 85 I also observe that the technical report on transport integration, prepared by GTA, makes reference to an earlier version of the CDP in which the commercial office component is stated to be 7,000 sqm.

3.5 EE report

⁸⁶ This compounds the implications of the lack of strategic justification for the large increase in anticipated office floorspace development in the business area.

⁸⁷ In July 2017, during the period in which Am C88 was on exhibition, the VPA commissioned Essential Economics to assess the office component of Precinct 15 (*Altona North Precinct Commercial Office Floorspace Provision*, September 2017). This report was finalised on 26 September 2017.

⁸⁸ Given that the EE report was finalised after submissions to Am C88 closed, the report appears to be an attempt to provide an “after the fact” justification for the proposed increased scale of the commercial office component.

⁸⁹ The aim of the report is said to be to analyse the “*potential for commercial office floorspace in a development precinct in Altona North*”. In my opinion, however, there are several significant shortcomings in the methodology and data inputs used, as I describe in the following paragraphs.

Office supply

⁹⁰ The existing locations for commercial office development are described in several sections of the report, including:

- Section 1.3 which summarises the attributes and components of existing activity centres in Altona North;
- Section 1.4 which describes the integrated warehouse/office product being developed at Millers Junction Business Park;
- Section 2.4 which examines commercial property sales and permit activity as a proxy for commercial office supply; and
- Section 2.5 which identifies a small number of recent or planned developments in Millers Junction and Altona.

⁹¹ Unusually, when attempting to describe the existing context for commercial office development at the subject site, the EE report makes no reference to the information on commercial office supply that is published in the Activity Centres Strategy Technical Report which I referred to earlier in this statement (see Section 3.3).

⁹² This technical report includes the results of floorspace surveys undertaken by EE for all activity centres in the municipality. Other than industrial precincts, where the main format for commercial offices is an integrated warehouse/office or showroom product, these activity centres represent the major location for dedicated commercial office floorspace.

⁹³ The technical report shows that the total amount of occupied commercial office floorspace in Hobsons Bay’s activity centres is 27,620 sqm, as set out below in Table 3 which replicates Table 21 from the Activity Centres Technical Report (p101).

**Table 3—
Commercial office
supply in Hobsons
Bay activity centres**

Source: Activity
Centres Strategy
Technical Report,
Essential Economics,
Dec 2016

Precinct	Occupied Dedicated Office	Vacant Dedicated Office	Total Dedicated Office	Dedicated Office Vacancy Rate	Occupied Shopfront Office	Total Occupied Office
North Precinct	2,470m ²	340m ²	2,810m ²	12.1%	5,600m ²	8,070m ²
South-East Precinct	3,240m ²	0m ²	3,240m ²	0.0%	7,180m ²	10,420m ²
Central Precinct	1,560m ²	0m ²	1,560m ²	0.0%	4,460m ²	6,020m ²
West Precinct	360m ²	0m ²	360m ²	0.0%	2,750m ²	3,110m ²
Total Hobsons Bay	7,630m²	340m²	7,970m²	4.3%	19,990m²	27,620m²

- ⁹⁴ Of relevance is that almost 20,000 sqm (72%) of the office supply consists of “occupied shopfront office” floorspace, which refers to “shopfront tenancies that could otherwise be used as retail tenancies and can include banks, travel agents and medical consulting rooms etc” (Activity Centres Technical Report, p5).
- ⁹⁵ This is analogous to the ancillary commercial office provision of 1,300 sqm made for the Precinct 15 local town centre.
- ⁹⁶ Just 7,630 sqm of occupied office floorspace is in the form of “dedicated office”, which is defined by EE as “purpose-built office buildings and offices located above ground floor shopfront tenancies” (Activity Centres Technical Report, p5).
- ⁹⁷ This is the form of development that is proposed in the CDP for the “business area” within Precinct 15.
- ⁹⁸ The absence of reference to this material means that the EE report prepared for the VPA in September 2017 provides no credible analysis of existing supply and past commercial office development trends. This is obviously a key factor when assessing future development opportunity on the Precinct 15 site.

Office floorspace demand

- ⁹⁹ The EE report examines commercial office floorspace demand for Hobsons Bay with reference to the future growth in the number of resident workers within particular “white collar” occupations, to which an average office floorspace “demand ratio” of 20 sqm per worker is applied.
- ¹⁰⁰ Thus, with forecast growth of 6,430 in the resident labour force over the period 2016 to 2031, of which 5,240 are predicted to work in white collar occupations, the resulting increase in “office floorspace supported” is 105,000 sqm.
- ¹⁰¹ The EE report states that this is likely to be “on the conservatively low side”, although it is acknowledged that this demand may result in new office floorspace demand beyond the municipal boundary.
- ¹⁰² The analysis is intended to show that the opportunity for locally-provided commercial office development is significant. However, there are several flaws with this approach.
- ¹⁰³ First, the underlying premise that all white collar workers generate demand for commercial office floorspace is not correct.

¹⁰⁴ This can be shown by making the same calculations for the whole of the Melbourne metropolitan area:

- According to the 2016 Census, there are 2.054 million people who work within Greater Melbourne in all industries;
- Of these, a total of 1.095 million work as managers, professionals, clerical and administrative workers – this represent 54.2% of all employees who I would class as working in “white collar” occupations; and
- If each of these workers generates demand for office floorspace at 20 sqm per worker (as per the EE calculations), this implies that the total demand for commercial office floorspace in Melbourne as a whole is 21.9 million sqm.

¹⁰⁵ This quantum is totally at odds with the available research by Knight Frank showing total office supply of 4.55 million sqm within the Melbourne CBD and an additional 3.03 million sqm in the major suburban markets.

¹⁰⁶ The error that has been made in the EE report is to assume that all people with white collar roles actually work in commercial office environments.

¹⁰⁷ In fact, many managers, professionals, clerical and administrative staff work in other environments including schools, medical offices, industrial warehouses, recreational facilities, etc.

¹⁰⁸ Only a proportion of people working in these occupations have jobs in dedicated offices.

¹⁰⁹ Second, the analysis ignores the fact that people living in Hobsons Bay have convenient access to a wide range of existing, emerging and planned significant office precincts including:

- Melbourne CBD;
- Docklands;
- Fisherman’s Bend; and
- Footscray CBD.

¹¹⁰ All of these precincts can be reached within 20 minutes, an outcome better than that espoused via the concept of the 20-minute city in Plan Melbourne which does not contemplate people’s places of employment being so conveniently accessible.

¹¹¹ Moreover, the EE analysis simply ignores the relatively poor attributes of the Precinct 15 site as a location for commercial office development in comparison to the above locations which are much better placed to attract and accommodate significant increased office provision.

Office development potential

- ¹¹² EE concludes that the planned accommodation of 33,000 sqm at Precinct 15 would provide an appropriate response to the need to promote locally-based white collar employment opportunities, and that this demand could be absorbed over a period of 10 to 15 years.
- ¹¹³ Although I agree that the site could accommodate some local office-based employment within a mixed use precinct, my concern is that the scale of office development now being proposed is simply far too ambitious, as it would imply an average absorption rate of 3,300 sqm per year over a ten year project timeframe.
- ¹¹⁴ It is my opinion that this is very unlikely to be achieved when I compare it to the length of time it took for office development at University Hill to take place and the development trends at other suburban locations to the north and west.
- ¹¹⁵ For example, only now are the first commercial office developments occurring at Williams Landing, many years after the precinct was first proposed as a significant office precinct and five years after the suburb's train station was opened.
- ¹¹⁶ I am also concerned that the EE analysis does not make any reference to the work that was undertaken by the same firm in preparing the Activity Centres Strategy Technical Report.
- ¹¹⁷ That report contains a section in which future office development potential is analysed, concluding that the commercial office floorspace growth potential in Hobson Bay's activity centres is between 8,760 sqm and 27,820 sqm over a 22-year timeframe as indicated in Table 4 below which is extracted from the Activity Centres Technical Report.

Table 4—Indicative commercial office floorspace growth

Source: Activity Centres Strategy Technical Report, Essential Economics, Dec 2016

Category	Total Hobsons Bay	
	Low Scenario	High Scenario
2014		
Retail floorspace	135,550m ²	135,550m ²
Office floorspace	27,620m ²	27,620m ²
Total	163,170m²	163,170m²
Occupied office space share of total	17%	17%
2036		
Retail floorspace	178,550m ²	196,550m ²
Office floorspace	36,380m ²	55,440m ²
Total	214,930m²	251,990m²
Occupied office space share of total	17%	22%
Growth, 2014-2036		
Retail floorspace	+43,000m ²	+61,000m ²
Office floorspace	+8,760m ²	+27,820m ²

- ¹¹⁸ In summary, the EE report of September 2017 provides an “academic” approach to the analysis of demand and supply of commercial office floorspace, based on analysing the number of resident workers in key occupations and converting this into office floorspace.

¹¹⁹ The approach fails to reflect the particular circumstances of the subject site, the alternative (and competing) locations where transition to office uses could occur, and the practical and achievable development opportunity.

¹²⁰ Moreover, the EE report appears to have neglected to utilise the information and analysis contained in the technical report undertaken recently on behalf of Hobsons Bay City Council which also reinforces the expectation that the majority of office development will take place within the municipality's major activity centres.

¹²¹ Consequently, it is my opinion that that the EE report should be regarded as aspirational at best.

3.6 Strategic assessment

¹²² The site has some attractive features for limited commercial development, including:

- An existing set of commercial tenants;
- A planned new local town centre providing retail and other services;
- A new residential base likely to contain relatively large shares of well-educated residents in professional occupations;
- Relatively close proximity to the regional road network; and
- Frontage to Blackshaws Road.

¹²³ Against this, however, there are several less attractive features of the site:

- Public transport access is poor, even with the planned rerouting of local bus routes through the site;
- Although the site is adjacent to West Gate Freeway, access onto the freeway is relatively circuitous via Millers Road or Melbourne Road;
- The site is within an isolated region in which there is relatively low levels of through traffic and poor access to a large regional labour force, especially by comparison to the major suburban office precincts in eastern Melbourne;
- Proximity to other significant commercial precincts, including Footscray CBD, Fisherman's Bend, South Melbourne and other inner west sites, as well as Melbourne CBD and Docklands, means that competition is strong; and
- Within Hobsons Bay, other activity centres are better placed to accommodate more significant office floorspace development, in particular sites such as Williamstown, Newport and Spotswood, all of which have good rail access and have strong policy support.

¹²⁴ I am of the opinion that the following must also be considered:

- Demand for suburban commercial office suites is generally driven by:
 - Larger corporate uses seeking freehold title or ability to lease purpose-built space;
 - Government departments and other more institutional occupants; and
 - Smaller businesses seeking strata units or small suites for lease.
- Given the nature of the Altona market and the poor access to rail transport, prospective tenants at Precinct 15 are unlikely be drawn from the first two categories.
- Demand from the third category is largely determined by the number of professional small business owners living in the surrounding and 'outbound' regions such as Wyndham.
- The isolated nature of Hobsons Bay and local and outbound demographic profile means that the scale of demand from potential small business owners is very limited.

¹²⁵ On the basis of the attributes of the site and the broader demand and supply conditions, I believe that Precinct 15 has an opportunity to develop as a small commercial node containing between 6,000 sqm and 10,000 sqm of office floorspace.

¹²⁶ This is generally consistent with the earlier CDP which proposed a total of 7,000 sqm of office floorspace within the "mixed use area".

¹²⁷ A development of this scale could emerge over a period of around 10 years, developed as small 'blocks' of, say, 2,000 sqm each, developed sequentially over this period.

¹²⁸ I note that the existing commercial uses at 216 Blackshaws Road are a mix of medical suites, small scale commercial uses (e.g. gym) and office/warehouse product. These are appropriate interim uses, with their transition to more intensive formats likely to emerge over a relatively long time period.

3.7 Implications for CDP

¹²⁹ In my opinion, those parts of the CDP which refer to the forecast commercial office development outcome should be adjusted to reflect a far lower likely scale of commercial office development (i.e. between 6,000 sqm and 10,000 sqm, subject to market forces).

¹³⁰ This would need to be accompanied by either a reduction in the area designated for such uses, or changes to the planning controls which provide more flexibility in accommodating residential development within this area, in accordance with its previous designation as "mixed use area".

4

Consideration of local town centre

- 4.1 Introduction** ¹³¹ This section of my statement provides assessment of Am C88 as it relates to the local town centre, and includes consideration of:
- The proposed planning controls implemented in CDZ2;
 - The “forecast floorspace” guidance contained in the CDP, including the reference to the size of the supermarket; and
 - The economic analysis undertaken by my firm on behalf of the Landowners Group, and the peer review conducted by SGS on behalf of Hobsons Bay City Council.
- 4.2 Proposed planning control** ¹³² The CDP envisages the development of a local town centre providing neighbourhood-level shopping services to the surrounding community.
- ¹³³ The underlying zone normally applied to a centre of this type is the Commercial 1 Zone (C1Z), which was introduced through the commercial zone reforms implemented by VC100 and has the following purposes:
- To implement the State Planning Policy Framework and the Local Planning Policy Framework, including the Municipal Strategic Statement and local planning policies.
 - To create vibrant mixed use commercial centres for retail, office, business, entertainment and community uses.
 - To provide for residential uses at densities complementary to the role and scale of the commercial centre.
- ¹³⁴ These purposes are essentially identical to the vision expressed in the CDP for the local town centre within Precinct 15 as a location for supermarket, other shops, cafés, and offices integrated with residential uses.

¹³⁵ Under the C1Z, use of land for Retail premises (including a supermarket) is permitted as-of-right.

¹³⁶ The CDZ2 proposed by Am C88 alters the normal condition that would apply to a local town centre within the C1Z by nominating “supermarket” as a Section 2 use requiring a permit.

¹³⁷ I note that CDZ2 includes the remaining land uses within the definition of Retail premises (other than department store, adult sex bookshop and gambling premises) within Section 1, meaning that there is no limit on the amount of retail floorspace in these categories.

¹³⁸ The justification for this departure from the normal approach taken in the Victorian planning system as it applies to activity centres is somewhat confused, as there are several inconsistencies between the CDP, the Background Report, and an earlier version of the CDP which is referred to in the GTA technical report on integrated transport.

¹³⁹ These comprise:

- The CDP includes reference in Table 5 (CDP, p27) to forecast retail floorspace, in which the local town centre is proposed to contain 5,500 sqm including a supermarket of 2,420 sqm.
- The Background Report includes a summary of the EIA and peer review and concludes that the CDZ should allow development of up to 4,500 sqm retail floorspace as-of-right, including up to 3,200 sqm as-of-right for a supermarket.
- The earlier version of the CDP used to inform the GTA traffic analysis includes a supermarket of 4,200 sqm as part of a centre of 5,550 sqm, which is consistent with the analysis presented in the EIA conducted on behalf of the Landowners Group.

¹⁴⁰ My opinion is that it is clear that the Precinct 15 local town centre should be a neighbourhood-level facility containing a supermarket, specialty shops and other service-oriented uses such as food & beverage as well as business services in the form of offices.

¹⁴¹ The only matter of dispute appears to be the size of the supermarket, and the CDZ2 has been designed to provide Council with an opportunity to control this through a permit requirement process.

¹⁴² Given that the CDP and the Background Report both acknowledge the need for a local town centre anchored by a supermarket in what is a well-established municipality in Melbourne, the application of CDZ2 in its proposed form provides a level of planning control which appears to contradict the thrust of VC100.

¹⁴³ Indeed, the Explanatory Report for VC100 states that:

“The new commercial zones aim to provide greater flexibility and growth opportunities for Victoria’s commercial and business centres, responding to changing retail, commercial and housing markets by allowing for a wider range of uses to support mixed use employment”.

4.3 Economic assessment

¹⁴⁴ Having supported the concept of a neighbourhood-level centre accommodating a supermarket, the current form of CDZ2 therefore appears to contradict the intent of the commercial zone reforms.

¹⁴⁵ Moreover, the control on the supermarket component does not appear to have been informed by economic analysis, as the CDP Background Report already discounted the SGS peer review by concluding that the centre should contain a full-line supermarket as-of-right.

¹⁴⁶ My office conducted an EIA of the proposed local town centre component in March 2015. The EIA was subsequently exhibited as a background document to Am C88.

¹⁴⁷ The EIA presents an assessment of the likely trading impacts arising from the development of a centre containing a supermarket of 4,200 sqm and 1,350 sqm of specialty retail floorspace.

¹⁴⁸ As part of this assessment the EIA was able to highlight the significant undersupply of supermarket floorspace and relatively poor accessibility that Hobsons Bay residents have to a range of supermarkets at which to shop.

¹⁴⁹ The EIA provides a very detailed examination of the potential sales generated by the development, and the likely effects this might have on other nearby centres. The conclusion was that these impacts were reasonable and that the development as planned would generate a net community benefit.

¹⁵⁰ A peer review of the EIA was conducted by SGS Economics and Planning on behalf of Hobsons Bay Council.

¹⁵¹ The peer review supported the overall methodology used in the EIA, but disagreed on a number of elements, and concluded that a small or mid-sized supermarket would be more appropriate.

¹⁵² It is my opinion that the SGS analysis contains many flaws, including:

- The claim that the undersupply of neighbourhood centre floorspace and supermarket provision would only be relevant in a relatively self-contained area because of the influence of centres further afield. This represents a poor understanding of the Hobsons Bay retail sector, which is one of the most self-contained in Melbourne due to the influence of Port Phillip Bay, the Yarra River entrance, West Gate Freeway, Kororoit Creek and major industrial precincts.
- The failure to correctly interpret the analysis showing that access to supermarkets is poorer in Hobsons Bay than in most parts of Melbourne.
- The suggestion that the proposed centre is too large because it “*would not be in keeping with what is expected of a NAC in this area*”. Such opinion indicates a fundamental lack of understanding about the need for local communities to be provided with an appropriate array of retail services in convenient locations.
- Disputation of forecast supermarket sales levels, but failure to provide alternative analysis.

¹⁵³ Overall, the SGS peer review is unpersuasive and, in my opinion, there is strong evidence to support a new town centre containing a full-line supermarket.

4.4 Implications for the CDP

- ¹⁵⁴ In my opinion, the proposed planning controls are inconsistent with the general emphasis on greater flexibility in planning for commercial centre development in Victoria arising from VC100 and there is confusion between the CDP and background studies with a range of suggested sizes for the supermarket component.
- ¹⁵⁵ Notwithstanding the results of the SGS peer review, the appropriate outcome is for a neighbourhood level activity centre anchored by a full-line supermarket.
- ¹⁵⁶ To facilitate this outcome, the CDZ2 should be amended to delete the requirement for a planning permit for a supermarket, consistent with the general approach in the C1Z.

5

Conclusions

¹⁵⁷ My conclusions can be summarised as follows in relation to Hobsons Bay Amendment C88:

1. The proposed designation of 2.86 hectares of net developable land as a “business area” to accommodate an anticipated 31,740 sqm of commercial office development does not reflect underlying market demand and does not respond to the Vision for the site as a residentially-focussed mixed-use precinct.
2. An earlier version of the CDP indicates a much smaller overall office component of 7,000 sqm and there is no strategic analysis to support the significant increase in the anticipated commercial office component.
3. Post exhibition economic analysis to support the proposed commercial office provision, prepared on behalf of VPA by Essential Economics, is flawed and is inconsistent with analysis conducted by the same firm in the Hobsons Bay Activity Centres Technical Report (December 2016).
4. A more realistic development outcome would be a smaller office precinct of between 6,000 sqm and 10,000 sqm of commercial floorspace to be delivered over time, with an expectation that this would contain a relatively wide mix of uses being those of the type not wishing to locate within an activity centre environment. This outcome would be generally consistent with the earlier CDP analysis and associated thinking, and is more likely to be achievable given demand and supply conditions in the region.
5. Changes to the planning controls applicable in the business area would be appropriate to enable more flexibility to introduce residential dwellings or to reduce the size of the business area.
6. The consistent vision for the town centre has been that it should be a neighbourhood-level facility which provides a supermarket and a range of shops, services, cafés and offices.

7. The proposed CDZ2 is inconsistent with the approach taken in planning for activity centres in mature areas such as Altona North. Indeed, the proposed controls are at odds with the thrust of VC100 and other Victorian planning reforms that aim to promote flexibility and growth opportunities.
 8. Economic analysis undertaken by my office confirms that a full-line supermarket is appropriate at this location and would generate a net community benefit. I do not agree with the SGS peer review which suggests a smaller supermarket.
 9. To facilitate this outcome, the CDZ2 should be amended to delete the requirement for a planning permit for a supermarket within the town centre, consistent with the approach in the C1Z.
- ¹⁵⁸ In arriving at my conclusions, I have made all the inquiries that I believe are desirable and appropriate and no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Panel.



JUSTIN GANLY
Managing Director, Deep End Services
10 November 2017

Appendix A Curriculum Vitae for Justin Ganly

Current Position	Managing Director, Deep End Services Pty Ltd
Previous Positions	<p>Associate Director, KMPG February 1999 – June 2003</p> <p>National Real Estate Analyst, Coles Myer January 1998 – February 1999</p> <p>Managing Consultant, Coopers & Lybrand Consultants August 1993 – December 1997</p> <p>Senior Consultant, Andersen Consulting January 1990 – July 1993</p>
Academic Qualifications	<p>Graduate Diploma of Applied Finance and Investment Securities Institute of Australia, 2003</p> <p>Bachelor of Chemical Engineering (First Class Honours) University of Melbourne, 1989</p>
Professional Affiliations:	<p>Board Member, MAB Corporation Advisory Board</p> <p>Member, Property Council of Australia</p> <p>Associate Member, Large Format Retail Association</p> <p>Member, Victorian Planning & Environmental Law Association</p> <p>Member, Urban Land Institute</p>
Skills / Attributes:	<ul style="list-style-type: none"> • Experienced economic expert • Well-developed modelling and forecasting skills • Clear and thorough communicator in both written and verbal presentations • Experience in dealing with all major retailers in Australia and New Zealand • Detailed knowledge of all major property classes within Australia and New Zealand • Developing knowledge of markets in Asia, USA and the Middle East • Well known in the business community via involvement with clients and through regular commentary in publications such as the <i>Australian Financial Review</i>, <i>The Australian</i>, <i>The Age</i> and the <i>Sydney Morning Herald</i>

Professional Experience:

Managing Director, Deep End Services (July 2003 – current)

Justin established Deep End Services in July 2003 and now employs thirteen staff based in Melbourne and one based in Sydney

Deep assists clients with a common requirement - the need to quantify the effects of the location of their business or property on sales, profitability, growth and income.

“DEEP” represents three core service areas:

- Demand Evaluation
- Economics
- Planning

Within each of these three areas, Deep End Services provides consulting advice to retailers, property owners, property developers and others such as financial institutions, infrastructure providers and industry associations. The products offered included:

- Store network planning and sales forecasting
- Acquisition due diligence
- Feasibility analysis
- Economic impact assessment

Deep’s property clients include:

- AMP, Australand, Axiom Properties, Brookfield Multiplex, Cbus Property, Charter Hall Retail REIT, Dennis Family Corporation, Harvey Norman, ISPT, Lend Lease, MAB Corporation, Macquarie Bank, Mirvac, Orica, Pellicano, Places Victoria, Stockland, Villawood, Walker Corporation and Westfield

Deep’s retail clients include:

- ALDI, Anaconda, Baby Bunting, Beacon Lighting, Clark Rubber, Coles, Costco, Gazal Group, Harris Scarfe, Noni B, Officeworks, Oroton, Petbarn, Pillow Talk, Spotlight, The Good Guys and Woolworths

Deep’s other clients include:

- Archer Capital, InterContinental Hotels Group, KPMG, Large Format Retail Association, Medibank Private, Melbourne Racing Club, Newcastle Permanent Building Society, NSW Department of Planning & Environment and Reading Entertainment

**Professional
Experience Cont’:**

Associate Director, KPMG (February 1999 - 2003)

Based in Melbourne, but working on assignments throughout Australia and New Zealand, Justin worked closely with Bernard Salt, Australia’s leading business demographer, to provide consulting services to clients requiring independent assistance on retail, property, demand and/or demographic issues.

Services and clients at KPMG and Coopers & Lybrand Consultants included:

- Planning & litigation support (AMP, Coles, Myer, Macquarie CountryWide)
- Shopping centre development (AMP, Gandel, Leda, Macquarie CountryWide)
- New location feasibility studies (Bunnings, Melbourne Museum, Reading Cinemas)
- Store location network strategies (Freedom Furniture, Barbeques Galore, Rebel Sport)
- Demand analysis (Strandbags, Just Jeans, Jeans West)
- Specialty store micro-siting (Australia Post, Terry White, Strandbags).

National Real Estate Analyst, Coles Myer (January 1998 - 1999)

Employed as Coles Myers’ National Estate Analyst in a position within the Shared Services team based at Tooronga in Melbourne.

The key responsibilities in this position were the development of store sales forecasting models for all major Coles Myer brands (including Myer Grace Bros, Kmart, Target, Coles and Bi-Lo) plus delivery of sales forecasts for proposed new or refurbished stores for use in capital allocation decisions.

Managing Consultant, Coopers & Lybrand Consultants (August 1993 - December 1997)

Employed as a Managing Consultant in C&LC’s Property Group, which comprised up to 40 staff located in offices in Melbourne, Sydney, Brisbane, Adelaide and Canberra.

The Melbourne operation was responsible for providing consulting advice to clients involved in retail, property ownership and property development in Australia, New Zealand and South East Asia. This group transferred to KPMG in early 1998.

Senior Consultant, Andersen Consulting (January 1990 - 1993)

Employed as a Senior Consultant in the Systems Integration Group in the Melbourne office and was involved in systems installation such as the design and installation of a retail property management system in Auckland.

Appendix B Melbourne Suburban Office Market Overview February 2017, Knight Frank

RESEARCH



MELBOURNE SUBURBAN

OFFICE MARKET OVERVIEW FEBRUARY 2017

HIGHLIGHTS

With the Melbourne Suburban office market having recorded its highest annual net absorption level since 2010, total suburban office vacancy fell to 7.0%.

Gross suburban office supply totalled 42,333m² in 2016, 25% below the 15-year average. With limited vacancies within recently completed offices, speculative development has risen.

For a third consecutive year, investment activity in the Melbourne Suburban office market reached an all time high, driven by demand from domestic unlisted funds and syndicates.

KEY FINDINGS

New supply levels are projected to continue to ease, however **speculative development is forecast to reach 10-year highs**

The Melbourne suburban office vacancy rate fell to 7.0%, with only the Inner Eastern region increasing over 2016

Average prime suburban office **net face rents increased by 6.7%, double the 10-year average**

With opportunities scarce in the CBD, investor demand has further **compressed suburban office yields to all-time lows**



RICHARD JENKINS
Director — VIC Research

Follow Richard at @RJenkinsR

SUPPLY & DEVELOPMENT

Gross suburban office supply totalled 42,333m² in 2016, 25% below the 15-year average. The Outer Eastern precinct accounted for 88% of new suburban office supply, led by Chadstone Tower One, at 1367 Dandenong Road, Chadstone (15,788m²) and Building C, 211 Wellington Road (10,295m²) which was pre-committed by BMW Australia Finance.

Looking ahead, new supply levels are forecast to continue to ease with 40,208m² expected to be delivered this year. Major projects that are expected to be completed in 2017 include: GPC Asia Pacific's new purpose built office at Stamford Business Estate (4,000m²) and Pellicano's speculative development (4,710m²) at 19 Corporate Drive, in the Parkview Estate at Moorabbin.

The limited availability of space within recently completed suburban offices has led to an increase in speculative development. Of the new supply that is under construction, only 30% is pre-committed. Speculative suburban office development is forecast to reach its highest level in 2017 since 2008.

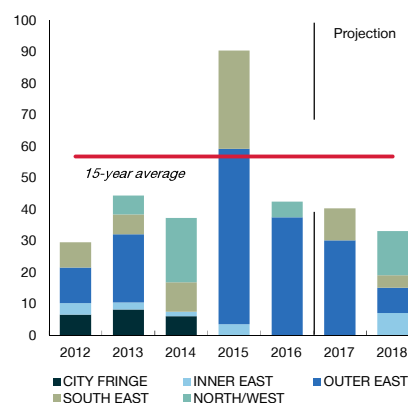
As has been the trend since 2015, gross new suburban office supply will be concentrated in the Outer East. In 2017, the Outer East is forecast to account for 75% of Melbourne's suburban annual supply. Major developments scheduled for completion in 2017 in the Outer East include: Stage 2 at Caribbean Park, Scoresby (16,000m²) and a 5,498m² speculative office within the Casey

Business Park in Narre Warren.

Buoyed by the increasing white collar employment base, the North & West precinct is also gathering momentum. At Essendon Fields, a 4,970m² office was completed in 2016, while Target which will relocate from North Geelong, has pre-committed to a new office at Cedar Woods' Williams Landing development.

Coupled with the diminishing level of new supply, increasingly suburban office stock is being permanently withdrawn for a change of use, particularly for residential development. In 2016, 18,383m² of suburban office stock was permanently withdrawn with a further 8,129m² expected to be withdrawn in 2017, of which, interestingly, the majority is located in the Outer East region.

FIGURE 1
Gross Supply Pipeline by Region
Suburban Office (000's m² excl. refurbishments)



Source: Knight Frank Research

TABLE 1
Melbourne Suburban Office Market[^] Indicators as at January 2017

Grade	Total Stock (m ²)	Vacancy Rate (%)	12 Month Net Absorption (m ²)	Average Prime Net Face Rent (\$/m ²)	Average Prime Incentive (%)	Average Secondary Net Face Rent (\$/m ²)	Average Prime Core Market Yield (%)	Average Secondary Core Market Yield (%)
City Fringe	1,033,539	3.1	6,979	400—425	10—15	325—375	5.75—6.25	7.00—7.50
Inner East	555,749	6.2	-7,571	360—380	10—20	280—300	5.75—6.50	6.75—7.25
Outer East	868,046	10.7	50,480	290—340	20—30	200—250	6.25—7.25	7.25—7.75
South East	338,773	10.9	4,033	250—280	20—30	185—220	6.50—7.50	7.25—7.75
North & West	238,189	6.8	N/A	300—340	15—25	180—240	6.50—7.50	7.50—8.00
Total*	3,034,296	7.0	53,921	354	18.5	277	6.42	7.34

Source: Knight Frank Research

* weighted by stock area ^ refer back cover for definition of Melbourne Suburban geographic boundaries

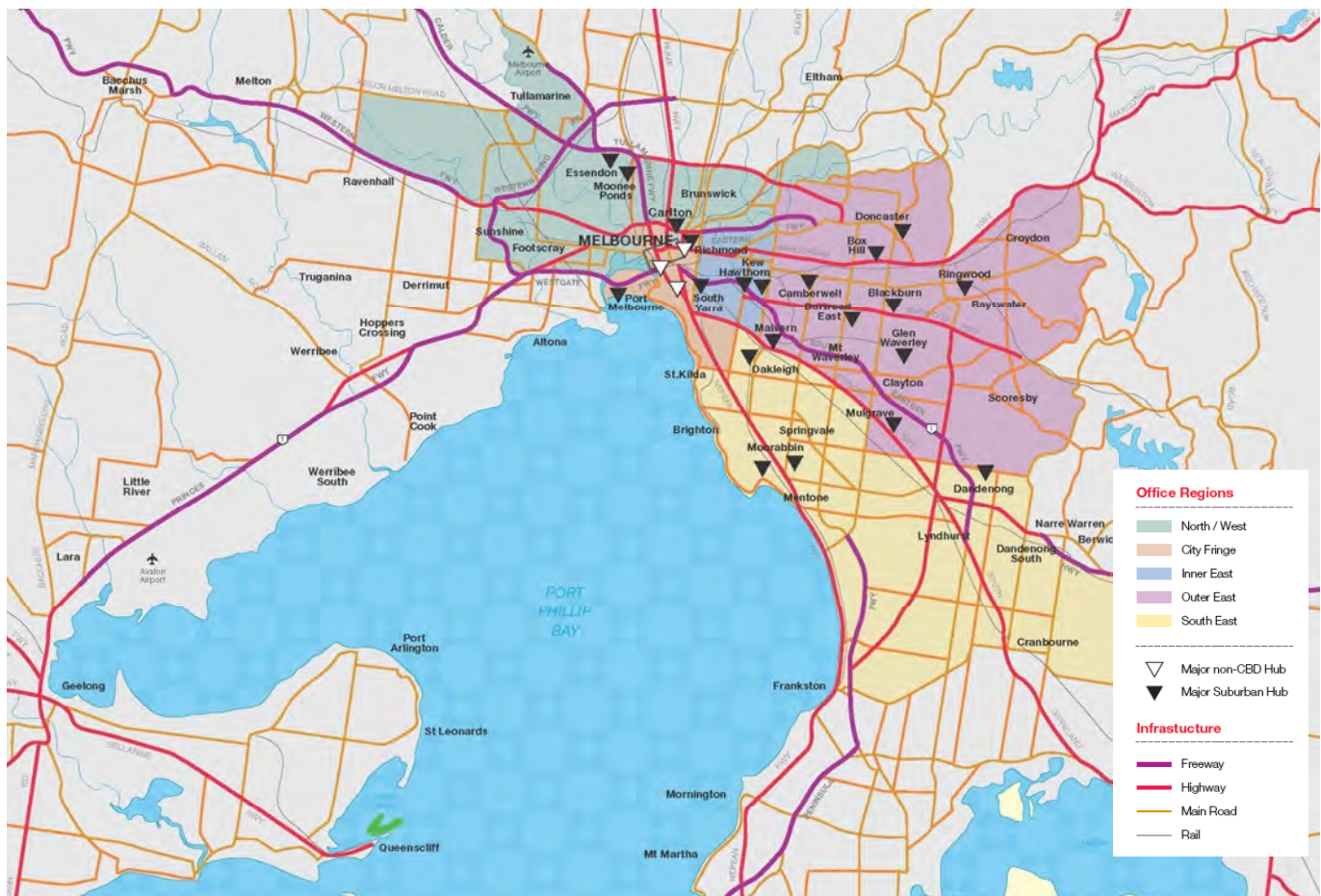
TABLE 2

Major Office Supply – Melbourne Suburban Office

Address	Suburb	Region	Area (m ²)	Developer/Owner	Stage	Est. Date of Compl.
Bld A, 211 Wellington Rd	Mulgrave	Outer East	3,880 [#]	Frasers/CIP	Complete	Q1 2016
545 Blackburn Rd	Mt Waverley	Outer East	7,400	Fortune Family	Complete	Q3 2016
Bld C, 211 Wellington Rd	Mulgrave	Outer East	10,295	Frasers/CIP [†]	Complete	Q4 2016
T1, 1367 Dandenong Rd	Chadstone	Outer East	15,788	Novion/Gandel	Complete	Q4 2016
6 English St	Essendon Fields	North & West	4,970	Essendon Airport	Complete	Q4 2016
Stamford Business Estate	Rowville	Outer East	4,000	Frasers	U/C	Q1 2017
66 Victor Cr	Narre Warren	South East	5,498	Lettieri Group	U/C	Q2 2017
Caribbean Park	Scoresby	Outer East	16,000	Spooner Family	U/C	Q3 2017
19 Corporate Dr	Moorabbin	South East	4,710	Pellicano	U/C	Q4 2017
10 Nexus Cr	Mulgrave	Outer East	10,000	Salta	DA Approved	Q4 2017
1-3 Janefield Dr	Bundoora	North & West	4,000	Norddenne	U/C	Q2 2018
139 Camberwell Rd	Hawthorn	Inner East	7,000 [#]	Paul Tuddenham	U/C	Q2 2018
Williams Landing	Williams Landing	North & West	10,000	Cedar Woods	DA Applied	Q2 2018
Cube 2, Victor Cr	Narre Warren	South East	4,000	MAB	DA Approved	2018+
Larkin St	Essendon Fields	North & West	6,000	Essendon Airport	DA Applied	2018+
506-508 Church St	Richmond	City Fringe	20,000	Alfasi Property	Mooted	2018+
54 Wellington St	Collingwood	City Fringe	15,000	Grocon	DA Approved	Q1 2019

Source: Knight Frank Research # office component † sold to Growthpoint Properties Nov 2015

Suburban Office Regions



Suburban Stock: Includes office stock in the Melbourne metropolitan area above 1,000m² in size. It excludes stock in the CBD and the major office markets of St Kilda Road and Southbank.

TENANT DEMAND & RENTS

Reflecting the employment growth across Victoria, the Melbourne Suburban office market recorded its highest annual net absorption level since 2010. Similar to Melbourne's CBD office market, net absorption observed in the suburban office market was above the historical average with 53,921m² absorbed over the 12 months to January 2017. In fact, Melbourne's suburban office market has recorded positive net absorption for seven consecutive years.

According to the Australian Bureau of Statistics, over 2016, 119,900 jobs were created in Victoria, towering over the nearest state—South Australia where 7,200 jobs were added with only 2,000 jobs created in New South Wales.

Much of the Victorian employment growth related to Victoria's population growth which continues to be Australia's fastest growing state. Major employment growth was recorded in the Health Care, Education, Construction and Accommodation & Food Services sectors. Whereas, the traditional white collar employment sectors of Finance, Professional Services and Government all grew, albeit modestly, over 2016.

Reflecting the employment growth, Melbourne suburban office tenants which expanded over 2016 included: Cabrini Health (Health Care), Dennis Family Homes (Construction), Australian Pharmaceutical Industries (Retail Trade), BMW Australia Finance (Retail Trade) and Save the Children (Health Care).

TABLE 3
Suburban Vacancy Rates by Grade

Grade	Jan-15	Jan-16	Jan-17
A Grade	7.5	9.4	9.1
Prime	7.5	9.4	9.1
B Grade	4.7	6.1	6.9
C Grade	6.0	4.4	4.6
Secondary	5.2	5.1	5.6
Total	6.3	7.5	7.0

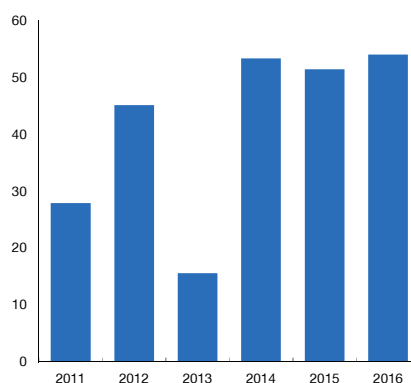
Source: Knight Frank Research

Deviating from the recent trend of tenants migrating into the CBD from the suburbs, constrained by the relatively limited uncommitted new supply pipeline within the CBD and Southbank office markets, tenants sought quality suburban offices instead. Tenants which recently relocated into the Suburban office market include: Vicinity Centres from the CBD to Chadstone, Bauer Media from the Docklands to Richmond and IVE Group also from the Docklands to Richmond.

Interestingly, the Outer Eastern precinct accounted for 94% of the total net absorption within the Melbourne suburban office market in 2016. The high level of net absorption within the Outer East was largely driven by the completion of newly precommitted projects and speculative developments over the last 18 months. Tenants who relocated into the recently completed Outer Eastern offices included: Mazda (Bld A, 211 Wellington Rd, Mulgrave), SunRice (Chadstone Tower 1, Chadstone) and Austbrokers Countrywide (Caribbean Park, Scoresby).

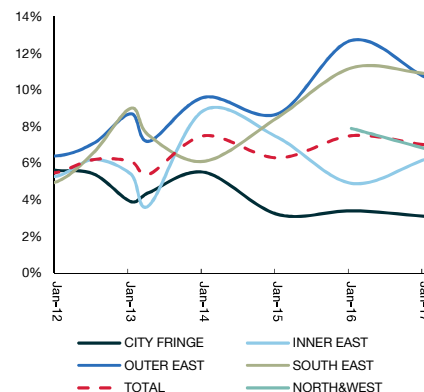
With the Melbourne Suburban office market having recorded above average positive net absorption, vacancy rates fell slightly with demand surpassing the level of new supply delivered to the market over 2016. Total suburban office vacancy fell to 7.0%, down from 7.5% in January

FIGURE 2
Suburban Office Net Absorption
per calendar year (000's m²)



Source: Knight Frank Research

FIGURE 3
Suburban Vacancy Rate by Region
Total Vacancy (%)



Source: Knight Frank Research

2016. Although total vacancy has fallen, the current level remains 110 basis points above the historical average. Mirroring the Suburban office market, Melbourne's CBD and Southbank office market also recorded vacancy falls over the course of 2016.

Having reached a six-year high as at January 2016, impacted by major tenant relocations and speculative development, A-grade vacancy rate decreased to 9.1% as at January 2017 as tenants occupied quality suburban office space during 2016. In contrast, secondary office vacancy levels increased with both B-grade and C-grade vacancy rates rising. B-grade office vacancy rates increased to 6.9% as at January 2017, its highest level since 2014, up from 6.1%, 12 months earlier. C-grade suburban office vacancy levels also increased up to 4.6% from 4.4% over 2016.

While the secondary office vacancy rate rose over 2016, looking forward, as obsolete offices are redeveloped, typically for residential purposes, significant vacancy rises should be constrained. Knight Frank Research has identified 151,790m² of office stock expected to be permanently withdrawn from the Melbourne suburban office market in the medium term (2018+). Unsurprisingly the vast majority of identified permanent withdrawals of office

stock forecast in the Melbourne Suburban office market is of secondary quality with A-grade office buildings only accounting for 28% of total forecast withdrawals.

Over 2016, vacancy decreased in all precincts with the exception of the Inner Eastern region. Vacancy within the City Fringe marginally fell to 3.1%, and is the only sub-region below its historical average. Excluding offices offered for a short-term basis in anticipation of gaining rezoning approval, the City Fringe vacancy further decreased to 2.5%. The current vacancy rate in the City Fringe is at its lowest level in 15 years.

As the population continues to increase and the immediate residential population becomes more skilled and educated, increasingly occupiers are considering offices within the North & West region. Vacancy in the North & West region as at January 2017 fell to 6.8%. Essendon Fields' recent development of a number of new offices has seen several tenants commit to the precinct including: Wilson

Security, the Commonwealth Bank and Bostik.

In terms of leasing options by size, the past 12 months saw a slight reduction in options greater than 1,000m². However, the number of available leasing options lower than 1,001m² increased to 116 compared to 81 a year ago.

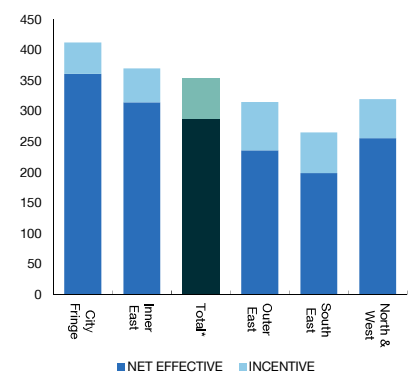
Looking ahead, over the next three years, white collar employment in Melbourne's Suburban office market is forecast to grow on average by 1.8% per annum, slightly down from the average growth of 2.0% recorded over the past three years. Over the next three years, employment growth in the suburban office market is expected to be driven by growth in the Health Care, Retail Trade and Education sectors.

Rental Levels

With total suburban office vacancy having fallen, average prime suburban office net face rents increased at the fastest rate in six years. In the 12 months to January 2017, average suburban A-grade net face

rental levels increased by 8.3% to \$354/m². Average prime suburban rental growth was underpinned by strong rental growth in both the City Fringe and Inner Eastern precincts. Despite the relatively high vacancy rate, prime Outer Eastern office rents also grew over the year, reflecting the tightening A-grade vacancy levels in the precinct and premium for new construction.

FIGURE 4
A-grade Net Rents and Incentives
By region as at January 2017 (\$/m²)



Source: Knight Frank Research
* weighted by area

TABLE 4

Recent Leasing Activity Melbourne Suburbs

Address	Precinct	NLA (m ²)	Term (yrs)	Lease Type	Tenant	Start Date
54 Wellington St, Collingwood	City Fringe	3,000	N/A	Precomm	The Commons	Q1-19
Bld 2, 572-576 Swan St, Richmond	City Fringe	7,201	14.3	New	Country Road Group	Q2-18
Williams Landing	North & West	~10,000	N/A	Precomm	Target	Q1-18
Bld 1, 572-576 Swan St, Richmond	City Fringe	8,519	15	New	Country Road Group	Q3-17
Stud Rd, Rowville	Outer East	4,000	12	Precomm	GPC Asia Pacific	Q1-17
570 Church St, Richmond	City Fringe	7,000	10	New	Red Energy	Q1-17
109 Burwood Rd, Hawthorn	Inner East	850	10	New	ESP TLA	Q1-17
T1, 1341 Dandenong Rd, Chadstone	Outer East	1,700	7	New	Victory Corporate Offices	Q1-17
700 Springvale Rd, Mulgrave	Outer East	550	5	New	Altus Developments	Q4-16
695 Burke Rd, Hawthorn East	Inner East	795	6	New	API	Q4-16
Bld 8, 658 Church St, Richmond	City Fringe	906	5	New	IVE Group	Q4-16
121 Cardigan St, Carlton	City Fringe	1,556	2	New	John Holland	Q3-16
Bld 8, 658 Church St, Richmond	City Fringe	2,200	5	New	Designworks	Q3-16
1180 Toorak Rd, Camberwell	Inner East	460	5	New	Infoactiv Group	Q3-16
2 Brandon Park Dr, Wheelers Hill	Outer East	1,200	6	New	OpenCorp	Q3-16
347 Burwood Hwy, Burwood East	Outer East	1,000	N/A	New	Aust. Child Care Projects	Q3-16
8 Nexus Crt, Mulgrave	Outer East	704	3	New	Nestle	Q2-16
333 Police Rd, Mulgrave	Outer East	539	5	New	Chobani	Q2-16
131 Waverley Rd, Malvern East	Inner East	1,300	15	New	Paisley Park	Q1-16

Source: Knight Frank Research

INVESTMENT ACTIVITY & YIELDS

For the third consecutive year, office investment activity in the Melbourne Suburban office market reached an all-time high.

Investment sales activity (above \$10 million) in 2016 within the suburban office market totalled \$1.016 billion from 24 properties. The volume of sales achieved in 2016 was in fact 228% higher than the long term average. Moreover, suburban office investment accounted for 23% of all office transactions (by value) across all Melbourne's office markets.

Domestic unlisted funds and syndicates suburban office acquisitions also reached record high levels in 2016. Australian unlisted funds and syndicates acquired 44% of all sales by value spending \$443 million.

While offshore groups still accounted for 23% of all sales, cross-border investment into the Melbourne suburban office market totalled \$228 million, down from the \$323 million invested in 2015. Chinese-based investors acquired the majority of suburban assets purchased

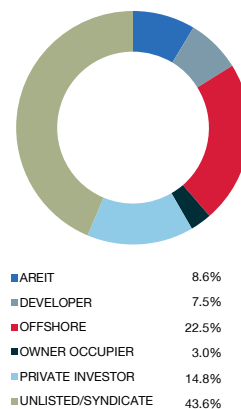
by foreign investors with the acquisitions focused on redevelopment opportunities.

Although the number of suburban office transactions was lower than the historical average, investment activity was boosted by a higher than average number of transactions in excess of \$30 million. Over the course of 2016, there were 10 sales in excess of \$30 million, accounting for 76% of total sales volume. Indeed, local syndicator Newmark Capital's purchase of the Como Centre in South Yarra for \$202.7 million was Melbourne's largest suburban office transaction (full share) on record. Albeit the Como Centre incorporates 6,650m² of retail space, a 113-room hotel, a 614-bay car park along with office space of 25,700m² spread across four towers.

With all-time high sales volumes recorded in the Inner East (\$443.1 million), the precinct was the focal point of investment activity accounting for 44% of all suburban office transactions (by value). Investors remained active in the City Fringe with office sales totalling \$342 million.

FIGURE 5

Suburban office sales by purchaser \$10 million+ sales 2016



Source: Knight Frank Research

Interestingly, owner occupiers' divestment levels reached an all-time high over 2016 with \$269.1 million of suburban office assets sold. The majority of owner occupier transactions involved occupiers selling obsolete offices to both domestic and offshore developers seeking redevelopment opportunities, typically residential, in the suburban market.

TABLE 5

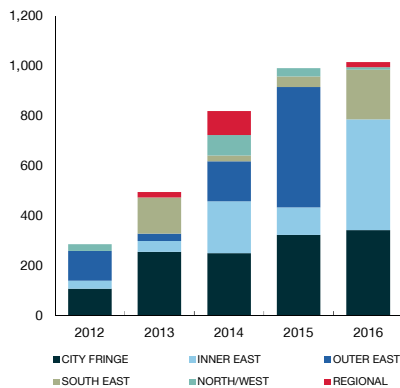
Recent Sales Activity Melbourne Suburbs

Address	Price (\$ mil)	Core Mkt Yield (%)	NLA (m ²)	\$/m ² NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
675 Victoria St, Abbotsford	20.40	3.43*	3,612	5,648	3.8	Hooker Cockram	Terraplex P/L	Dec-16
9-11 Prospect St, Box Hill	16.00	N/A [‡]	2,657	6,022	N/A	Murray Baird	Offshore Developer	Dec-16
16-18 Cato St, Hawthorn East	24.70	6.00*	5,317	4,645	N/A	Douglas Kefford	Private Investor	Dec-16
10 Wesley Crt, Burwood East	19.55	6.97*	4,287	4,560	N/A	Private Investor	Private Investor	Dec-16
1 Lakeside Dr, Burwood East	10.80	7.73	2,765	3,906	1.8	Private Investor	Offshore Investor	Nov-16
582 Swan St, Richmond	10.01	6.18	1,615	6,198	3.3	Zig Inge Group	Offshore Investor	Nov-16
15-31 Pelham St, Carlton	37.05	6.10	6,178	5,997	4.4	Forza Capital	Private Investor	Oct-16
620 Church St, Richmond	23.30	5.16*	3,614	6,447	N/A	Vantage Property	Private Investor	Sep-16
800 Toorak Rd, Hawthorn East	140.50 [#]	5.45	39,399	7,132	13.3	Investa Office Fund	Charter Hall (DOF)	Sep-16
45 Assembly Dr, Dandenong South	20.75	7.00*	4,432	4,682	N/A	Cbus Property	IOOF Investment	Aug-16
630 Church St, Richmond	23.50	5.10*	3,184	7,381	N/A	Property Bank Aust.	Private Investor	Jun-16
826-830 Whitehorse Rd, Box Hill	28.00	N/A [‡]	2,837	9,870	N/A	Navy Health & Scope	Xiong Chen	Jun-16
452-484 Johnston St, Abbotsford	80.80	6.56*	16,577	4,875	7.0	Computershare	LYZ Property Group	Jun-16
650 Chapel St, South Yarra	202.70	5.98*	25,693	7,889	N/A	Mirvac	Newmark Property	May-16

Source: Knight Frank Research * initial yield ‡ bought for potential residential conversion # 50% share

FIGURE 6

Suburban Office Sales \$10 million+ By Region (\$m)



Source: Knight Frank Research

With investment opportunities scarce in the CBD office market, investors continue to broaden their interest into suburban office markets. Within the Melbourne suburban office market, Core Plus/Value Add transactions accounted for 63% of all sales over 2016. In total, \$633.73 million of suburban offices were purchased for Core Plus purposes, up from the \$518.9 million spent on Core Plus assets in 2015.

Whilst the level of suburban offices purchased for a change of use did not surpass the all-time high set in 2015, \$190.28 million was spent in 2016 on offices for redevelopment purposes in the short term. With local and state governments continuing to encourage density in well supported locations, assets purchased for future redevelopment in 2016 included: Malaysia-based developer Salcon Berhad acquisition of 16-22 Claremont Street, South Yarra (\$37.88 million) and 826 – 830 Whitehorse Road, Box Hill (\$28.0 million). In total, 29,874m² of suburban office space was purchased during 2016 for a likely change of use in the short to medium term.

The significant weight of capital seeking Melbourne suburban office investments from all buyer groups continued the trend of yield compression for both prime and secondary assets.

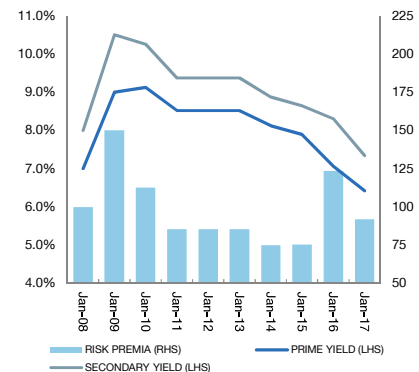
Over 2016, average prime office yields compressed by 65 basis points to 6.42%

and range between 5.75% and 7.50%. Average prime yields now stand 170 basis points lower than the historical average of 8.12%. Average prime yields have fallen below the previous benchmark suburban yields of 2008. As demonstrated with the recent sales of 800 Toorak Road, Hawthorn East (5.45% core market) and 15–31 Pelham Street, Carlton (6.10% core market) transactional yields for quality stock sit below the average yield range for the broader suburban market.

Similar to the trend observed in the prime market, suburban secondary office yields have also now fallen below their previous nadir set in 2008. Average secondary office yields compressed by 96 basis points to 7.34% and range between 6.75% and 8.00%.

FIGURE 7

Suburban Yields & Risk Spread Core Market Yields & Prime vs Secondary Spread (bps)



Source: Knight Frank Research

Outlook

- Boosted by the nation-leading employment growth of Victoria, white collar employment growth within the Melbourne Suburban office market is forecast to continue to increase. Sectors supported by population growth and infrastructure spending are projected to underpin employment growth of 93,300 additional jobs in the suburban market over the next three years.
- Melbourne's suburban gross office supply is projected to remain below average over the next three years, however with rental growth gaining momentum, speculative development levels are increasing to capitalise on pent-up tenant demand.
- Despite the trend of tenants migrating into the CBD and increased speculative development, the Melbourne Suburban office vacancy rate is likely to remain relatively curbed with the withdrawal of obsolete office stock. With tenants increasingly focused on the attraction and retention of staff, there is an increasing risk of secondary vacancies lingering longer in spite of the discounted

rental levels unless landlords regenerate the accommodation to current tenant preferences.

- With vacancy in the CBD office market forecast to decrease further coupled with limited space within the Sydney CBD office market, tenants are likely to increasingly explore the Melbourne Suburban office market (as has been demonstrated by the relocation of David Jones from Sydney). With the Melbourne Suburban office market offering access to a skilled workforce in a cost effective practice, elevated net absorption levels should be sustained for prime suburban office space.
- With diminishing options in Melbourne's other office markets, Melbourne suburban office rents are projected to continue to increase, with prime office properties anticipated to significantly outperform secondary suburban offices.
- As CBD asset prices continue to rise amid the lack of opportunities, investors are likely to continue being driven up the risk curve and target suburban assets.



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Suburban Stock Definition:

Includes office stock in the Melbourne metropolitan area above 1,000 m² in size. It excludes stock in the CBD and the major office markets of St Kilda Road and Southbank.

Major suburbs for each region are as follows:

City Fringe: Carlton, Richmond, East Melbourne, Port Melbourne

Inner East: Hawthorn, Camberwell, Kew, Malvern, South Yarra

Outer East: Box Hill, Mt Waverley, Mulgrave, Burwood

South East: Cheltenham, Moorabbin, Dandenong

North/West: Footscray, Moonee Ponds, Essendon

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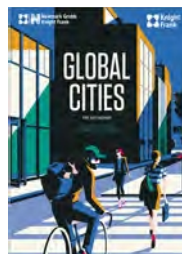
Melbourne CBD
Office Overview
September 2016



Melbourne Industrial
Vacancy Analysis
February 2017



Australian CBD &
Non-CBD Top Sales
2016



Global Cities
The 2017 Report

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