

# C88 Amendment - Hobsons Bay

## Altona North Precinct: Business Area Assessment

Prepared for Submitter #82  
[on behalf of land owners at Property#8 and Property #9]

Date of Issue of the Report: 13 November 2017

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# C88 Amendment – Hobsons Bay.

## Altona North Precinct: Business Area Assessment

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### Instructions.

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#### Our Reference

Charter Contact	Robert Papaleo
Report Author	Robert Papaleo
Job No.	TBA

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# 1. Expert Evidence Statement

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## Instructions

I was engaged by Submitter #82 on behalf of land owners (Property#8 and Property #9) within the Altona North Precinct's proposed Business Area to undertake an independent assessment of the market-based opportunities for the Altona North Precinct to accommodate office development pursuant to the Comprehensive Development Plan proposed by Amendment C88. Furthermore, I was instructed to consider the suitability of land holdings within the Business Area to undergo development incorporating offices.

My instruction was by letter dated 13 October 2017.

## Summary of Expert's Opinions

1. My research and assessment concludes that Altona North is not currently, nor is it expected to become in the foreseeable future, a suitable location for the significant quantum of planned new office floorspace (33,000 sq.m. gross) that is suggested by the Altona North Comprehensive Development Plan (CDP).
2. I strongly believe that office development opportunities in this location are constrained by Altona North's poor location fundamentals and transport connectivity, user (tenants) preferences for alternative choices across metropolitan Melbourne and the lack of strategic policy support as a metropolitan-significant activity centre.
3. I do not believe that the Altona North Precinct is a suitable, nor attractive, destination for tenants with significant office floorspace requirements. Any future tenants will be need to express their demand via precommitment at rent levels equivalent to the economic cost of production (plus a risk-adjusted profit margin) in order to induce developers to deliver new contemporary office floorspace. Economic rents are substantially higher than prevailing market rents in the locality which will undermine the ultimate asset value upon completion and reduce the propensity for financiers to participate in such projects.
4. I believe that these above factors will continue to persist and accordingly the participants required to deliver the planned office supply (including developers, investors and financiers) will perceive that Altona North is a much higher risk proposition than alternative and more mature development, or investment, opportunities. The relative lack of attraction of Altona North for commercial uses will severely undermine the prospect of the CDP's office yield of 33,000 sq.m. from ever being reached in the foreseeable future.
5. The designated "Business Area" (or "Commercial / Mixed Use" sub-precinct as it is also referred to in the CDP) fronting the proposed north-south connector road is considered less suitable and less attractive to significant new office floorspace users than a location within the designated Town Centre site (which will offer a convenient range of retail amenities for future workers) or the presently under-developed and abutting site fronting 216 Blackshaws Road which already includes a contemporary medical centre. These sites are proposed to accommodate only 1,300 sq.m. and 5,400 sq.m. office components respectively under the CDP.
6. The fragmented land ownership, and lower-order light industrial uses, to the rear of 216 Blackshaws Road will inhibit the creation of an integrated mixed-use precinct that also incorporates 232 and 248 Blackshaws Road sites within the Business Area. These latter sites are planned to accommodate substantial office components of over 13,000 sq.m. each notwithstanding their inferior locations.

8. The CDP's aspiration to achieve mixed-use outcomes within the Business Area, by the incorporation of residential apartments above ground and first floor retail / commercial uses is also highly unlikely to be realised especially because the commercial components within such buildings will not be feasible. The proposed low rise form (up to 5 levels) of buildings in the Business Area, as well as the significant impost created by the need to offer carparking to prospective tenants and residents, will imply that the negative financial impacts of the commercial component cannot be diluted by the resultant small number of potentially more-profitable residential apartments across the 3<sup>rd</sup> – 5<sup>th</sup> levels.
9. The proposed typology of mixed-use buildings within the Business Area, that incorporates substantial areas of retail, commercial as well as residential apartments, is almost unprecedented across Melbourne, especially within suburban low-medium rise buildings.
10. The site at 232 Blackshaws Road will also be impacted by the proposed creation of a new north-south connector road which significantly reduces the attractiveness of this site for future development. The remaining developable land will be a long (@200 metres) and narrow (@33 metres) parcel requiring rear vehicular access. This site will be difficult to develop as a series of office or mixed-use buildings given the resulting inefficient floorplates (as well as more inefficient and costly carparking) in addition to the variety of broader office market limitations relating to its location.
11. The site at 248 Blackshaws Road will be relatively removed from the retail amenity associated with the Town Centre and would be a less appealing site for standalone office or mixed use development given the scale of the parent site and the difficulty of achieving the proposed mixed-use outcomes in addition to the variety of broader office market limitations relating to its location.
12. I consider that there is a clear lack of strategic justification for the CDP to adopt an office floorspace budget of 33,000 sq.m. especially given that the evidence base relied upon in the planning process to justify this quantum of demand (and supply) is fundamentally flawed and simply incorrect.
13. I believe that there is a material risk that sites within the Business Area will remain vacant (or substantially underutilised) over the long term given the low demand from office users willing to pay the required economic rents to drive new supply. This outcome will undermine the achievement of various design and economic development objectives of urban renewal across the broader Altona North Precinct especially given these site's prominence along the proposed north-south connector road (boulevard).

### **Expert Witness**

The expert evidence statement has been prepared by:

Mr Robert Patrick Papaleo  
National Executive Director - Research

Charter Keck Cramer  
Level 19, 8 Exhibition Street  
Melbourne Vic 3000

### **Credentials**

Academic qualifications include:

- Bachelor of Planning and Design (Planning) (Hons.) - The University of Melbourne (1994)
- Bachelor of Business (Property) (Distinction) - RMIT (1998)

My experience in strategic planning, economic assessments and property market analysis has been gained at Charter Keck Cramer (since 1997) and Ratio Consultants (1995-1997). My combined understanding of urban planning, urban economics and real estate development matters has qualified me to complete the ensuing assessment.

### **Additional Experts**

I have discussed this matter with various colleagues at Charter Keck Cramer who have relevant knowledge relating to both this site (Clint Jellis: National Executive Director - Advisory) and the suburban office property market (Steven Kingston: Director: Accommodation Solutions; Glenn Lampard – Strategic Research Principal - Commercial). Data to support my findings was analysed by Jordan Lim (Analyst).

### **Facts, Matters, Assumptions, Reference Documents and Data Used**

Data used to complete the assessment was compiled from the following sources and as stated through the ensuing report:

- Australian Bureau of Statistics – various including 2006, 2011 and 2016 Census;
- City of Hobsons Bay – Amendment C88 Exhibition Documents (various);
- Charter Keck Cramer – Suburban Office database.

### **Provisional Opinions**

None.

### **Questions Outside the Expert's Expertise**

- Consideration of effectiveness of proposed planning controls to deliver the intended office floorspace provisions.
- Consideration of retail floorspace provision.

### **Report Incompleteness or Inaccuracies**

None.

### **Expert's Declaration**

I have made all the inquiries that I believe are desirable and appropriate and that no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Panel.

Robert Papaleo, B.P.D., B.Bus. (Property),  
Director Strategic Research  
13 November 2017

## 2. Business Area Assessment.

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### Strategic Justification for Office.

#### Pre- Exhibition

1. Planning for the Altona North Precinct has long considered the importance of incorporating a local retail-focussed town centre to service the future residential population across the site. I am instructed that planning for Commercial uses (including offices) did not appear to be a focus of planning throughout the evolution of Precinct 15 prior to the exhibition of Amendment C88.
2. The Council's Vision Document (October 2016) introduced the Broadway Spine concept and referred to a Mixed Use Activity Centre extending across this spine and incorporating the Town Centre. This document reinforced the then prevailing expectation that the overall precinct's urban renewal focus would be primarily of a residential nature. Whilst it highlighted the need to make some provision for offices in this precinct, it did not quantify the expected floorspace yield of commercial or office floorspace.
3. VPA's proposed pre-exhibition (February 2017) CDP indicated that the overall urban renewal precinct would accommodate up to 7,000 sq.m. of commercial floorspace.

#### Altona North Comprehensive Development Plan [June 2017].

4. The exhibited Altona North Comprehensive Development Plan (CDP) expresses a vision that the Altona North Precinct *"represents an opportunity to develop a "sustainable residential community that will support 7,000 people ... with a full range of facilities to provide a mixed-use development that integrates with and enhances the existing urban environment"*<sup>1</sup>.
5. The CDP Vision expresses the aspiration to incorporate a new 'town centre' as well as an integrated 'business area' centred around the proposed north-south connector road (boulevard) which will be created between 232 and 248 Blackshaws Road (by excising the western edge of 232 Blackshaws Road). This 'business area' is referenced as the "Commercial / Mixed Use" sub-precinct in the Future Urban Structure plan<sup>2</sup> that is anticipated to accommodate buildings of up to 5 levels (residential above retail and commercial uses on the ground and first floors)<sup>3</sup>.
6. The exhibited CDP (June 2017) referenced the Summary Land Budget in the Altona North Development Contributions Plan 2017- 2037 (DCP) which assumed 33,000 sq.m. (gross) of new commercial floorspace across 2.86 ha of land<sup>4</sup> across the Business area and Town Centre sub-precincts.
7. Importantly, the CDP does not provide any justification for this quantum of floorspace.
8. The proposed 33,000 sq.m. of new commercial floorspace is planned to be distributed as follows<sup>5</sup>:

–	Town Centre sub-precinct (on the first level)	1,300 sq.m.
–	Business Area sub-precinct	31,720 sq.m.
–	Existing (Property #10)	5,400 sq.m.
–	New (Property #9)	13,320 sq.m.
–	New (Property #8)	13,020 sq.m.

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<sup>1</sup> VPA (2017) *Altona North Comprehensive Development Plan*, p. 6

<sup>2</sup> *Ibid*, p. 8

<sup>3</sup> *Ibid*, Plan 4, p. 11

<sup>4</sup> *Ibid*, Table 1, p. 5

<sup>5</sup> *Ibid*, Table 5, p. 27

## Post- Exhibition

9. It appears that the only justification for the proposed level of commercial floorspace is contained in the *Altona North Precinct – Commercial Office Floorspace Provision* report prepared by Essential Economics (EE) and issued by the VPA in September 2017.
10. Significantly, the analysis within this report does not arrive at an independent conclusion of the Altona North Precinct’s likelihood of capturing any underlying office demand available in the region. The report itself states that “*estimates of potential floorspace supply associated with the Altona North CDP as prepared by the VPA* (my emphasis) *indicate a total provision of 33,000 sq.m. in floorspace terms*”<sup>6</sup>.
11. This statement does not explain or clarify how this figure was derived by the VPA nor does EE provide any critical analysis of VPA’s estimate that it appears to have simply accepted and adopted as a forecast of demand.
12. The only attempt at estimating future demand by EE relates to the overall Hobsons Bay LGA rather than the Altona North Precinct. The analysis indicates that expected future white collar employed residents across the Hobsons Bay LGA could theoretically support an additional 105,000 sq.m. of office floorspace (between 2016 and 2031) if all of Hobsons Bay’s white collar employed residents worked within the LGA itself. Notwithstanding that EE correctly identifies this white collar job self-containment in Hobsons Bay LGA is not likely, it does not provide a further specific forecast of office floorspace demand.
13. This econometric approach to highlight potential demand at the overall LGA level appears to be an attempt to justify a pre-determined yield target (as seemingly instructed by the VPA). Importantly, the yield of 33,000 sq.m. is a gross floorspace estimate<sup>7</sup> whilst EE’s calculation method is based upon an assumed Workspace Ratio of 20 sq.m. net floorspace per employee. The effect of this misunderstanding by EE is a significant overstatement of potential employment created within the 33,000 sq.m. of gross (or 26,400 sq.m. of net) office floorspace. Rather than 1,650 jobs being created, the more correct estimate following this same methodology should be 1,320 jobs (assuming an 80% floorspace efficiency ratio).
14. The demand assessment by EE also fails to acknowledge the reality that for any level of demand to be expressed, local property market and investment fundamentals have to be robust and supportive enough to enable this quantum of new floorspace to be built and accepted by users and purchasers at the required rents to ensure that new supply is feasible. These important market and industry factors were not considered by EE.

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## Office Market Context.

### Office Market Scale

15. Melbourne’s metropolitan office market is dominated by supply available within its CBD, Docklands and surrounding City Fringe suburbs as a reflection of a range of transport, economic, institutional and historic factors.
16. Charter Keck Cramer maintains a proprietary office database which monitors the supply of office buildings of more than 1,000 sq.m. floorspace<sup>8</sup>. This database highlights the following patterns:
  - Whilst Melbourne’s suburban office market is expanding it continues to be characterised by its bias towards supply being more easily delivered to the Eastern and South-Eastern regions, as opposed to the North and West. The supply-side response reflects spatial economic patterns and differential demand from businesses requiring office floorspace.

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<sup>6</sup> Essential Economics (2017) *Altona North Precinct – Commercial Office Floorspace Provision*, p. 17 and 24

<sup>7</sup> Ibid, p. 27 (Table 10)

<sup>8</sup> notionally lettable by private users and so excludes office space within civic, education, health and like facilities



- Suburban office supply is also highly concentrated in particular centres and suburbs characterised by either a) higher retail / other amenities and high surrounding house prices that tend to accommodate executives who make corporate accommodation choices (such as Hawthorn and Camberwell); b) proximity to major universities and other institutions (such as Mount Waverley and Notting Hill); or c) high levels of past Government infrastructure investment or public sector decentralised offices (Dox Hill, Dandenong, Footscray).
  - No completed offices of more than 1,000 sq.m. recorded in Hobsons Bay LGA.
17. Across suburban Melbourne (excluding the Central and City Fringe suburbs), it is found that there are only 25 suburbs containing more than 25,000 sq.m. of office floorspace (in buildings of more than 1,000 sq.m.).
  18. Of these 25 suburbs, the Eastern region accounts for 11 suburbs followed by 9 in the South-East region, 3 in the North and 2 in the West (Footscray with @75,000 sq.m. and Essendon with @52,000 sq.m.). These statistics highlight the longstanding and continuing difficulty in attracting new office supply to the North and West regions of Melbourne notwithstanding the process of gentrification that has been occurring across these regions in the past 2 decades which have not stimulated the intensification or emergence of new local office clusters.
  19. This analysis highlights the small number of suburbs containing more than 25,000 sq.m. of office stock, especially in the North and West, which puts an important perspective upon the 33,000 sq.m. (gross) of office suggested by Amendment C88.
  20. Given the nature of the sites in the Business Area proposed to accommodate the planned offices, it is suggested that they would have to generally be larger buildings containing at least 1,000 sq.m. of office floorspace so this above analysis is considered meaningful to establish a benchmark for the future Altona North Business Area.

#### Local Market Analysis

21. The City of Hobsons Bay is currently updating its Activity Centres Strategy and commissioned analysis by EE<sup>9</sup> which incorporates a field survey-based estimate of commercial floorspaces across the LGA's centres (any floorspace sizes). This primary research indicates that there was a total of approximately 28,000 sq.m. of office floorspace. Importantly, only 8,000 sq.m. was contained within 'dedicated' office buildings (purpose built buildings or above ground floor tenancies) with the balance of supply within 'shopfront offices' (at ground floor).
22. Whilst this survey provides a metric of supply it is also effectively a measure of expressed, rather than underlying, demand for offices across Hobsons Bay that have been historically built in response to demand pressures.

**Table 21: Commercial office floorspace in Hobsons Bay Activity Centres, 2014**

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

Source: Essential Economics

23. There is little comparable local evidence of office market transactions or opportunities for demand to be expressed through leases for new office floorspace around Altona North given that historic supply has been so minimal and demand has also been so scarce.

<sup>9</sup> Essential Economics (December 2016) *Hobsons Bay Activity Centres Strategy: Technical Report*, p. 101

25. The most recent commercial development in Hobsons Bay LGA is Millers Junction (Altona North) which has provided over 70 office-warehouses (each over 2 levels). This project was completed between August 2016 and May 2017. A site survey in November 2017 has indicated that there are 17 units still available for lease and at least another 12 further units which do not appear to be currently occupied<sup>10</sup>. The estimated unit vacancy rate of around 35% highlights that whilst the project has been completed, the units are not supporting economic activity and job creation whilst vacant. Currently only 1 unit appears to be clearly utilised as dedicated office floorspace (by a local legal firm).
26. A further stage of Millers Junction is currently marketing with asking prices being only marginally higher than observed when the initial stages were sold, primarily to local investors and owner-occupiers, in 2015. The lack of price growth highlights that underlying demand from users and investors is weak which is in direct contrast to the sentiment and assertions in the EE report.
27. The only available dedicated office building (500 sq.m.) for lease in Altona North is located on Macarthurs Road (600 m from Borrack Square centre). This premise has been available since at least May 2017 and discussion with the agent suggests that there has been no interest from users notwithstanding the modest asking rent of \$80 p.s.m.. This is a very low asking rent for office floorspace, albeit it is of low quality, and the absence of enquiries is also in direct contrast to the sentiment and assertions in the EE report.
28. The most successful recent example of a local suburban office development is currently occurring nearby at Williams Landing (outside Hobsons Bay LGA). Construction of a 12,860 sq.m. office to accommodate Target (relocating from Geelong) has commenced. In addition, a new office suite building of 5,500 sq.m. is also currently marketing.
29. The factors underpinning these Williams Landing projects are however instructive to consider. These include that the site has Princes Freeway exposure, development is occurring within a 225 ha masterplanned community but about 10 years after the residential component commenced and 4 years after a \$120 million investment in a new rail station and bus interchange (and major carparking facility) was delivered within the 50 ha new town centre. These unique factors highlight that it cannot be considered as comparable to what is proposed at the Altona North Precinct which will have a bus route as its only form of public transport.

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#### **Assessment of Strategic Justification for Office Floorspace.**

30. I strongly believe that the planned level of office floorspace has not been adequately justified by the evidence provided to Panel in the Essential Economics report<sup>11</sup>. This is reinforced by the unexplained changes in office floorspace provision across the Precinct throughout the planning process.
31. The commercial yield of 33,000 sq.m. exhibited in Amendment C88 appears to be, at best, an aspirational target that is devoid of any sound evidence base. At worst, this yield appears to be a back-solved and contrived number to support a higher employment estimate. Given the low probability of the estimated demand eventuating, the CDP incorporates a dangerous impediment to its overarching objectives ever being achieved. The undeveloped 'business area' land has no prospects of receiving acceptance for the proposed quantum of supply from users, developers, financiers nor investors alike which could result in urban blight at a gateway location to the urban renewal precinct.
32. I consider that the analysis undertaken to support the 33,000 sq.m. office floorspace yield contained in the 'business area' is fundamentally flawed. Furthermore, the evidence base relied upon has not been founded upon any form of neither reliable, nor meaningful, market evidence.
33. EE's approach to considering demand with reference to the number of property sales, building approvals and discussion with local real estate agents is incorrect and too crude to provide a reliable basis to justify important planning policy.
34. Property sales data is inherently volatile, especially given the small number of annual observations, and building classifications are notoriously inaccurate in this dataset. Furthermore, there is no meaningful analysis of this data by EE.

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<sup>10</sup> Site survey by Robert Papaleo in November 2017

<sup>11</sup> Essential Economics (2017) *Altona North Precinct – Commercial Office Floorspace Provision*

35. Building approvals data is also considered to be unreliable at the local level given data classification issues and reliance upon estimated value of construction (by development applicants). Even if this approach is asserted to be somewhat reliable (and approvals actually translate into completed supply, this analysis still only indicates supply (or expressed demand) for 1,850 sq.m.p.a. across Hobsons Bay LGA<sup>12</sup>. This quantum is considerably lower than the adopted assumption of 3,300 sq.m.p.a. for Altona North in isolation<sup>13</sup>.
36. I also consider that EE's reference to discussions with local real estate agents, who are not commercial market experts given the absence of such a market in the locality, is unreliable. Furthermore, the conclusion about demand being strong because there are "*few office properties for lease or sale in Hobsons Bay*"<sup>14</sup> via real estate websites is patently incorrect. This observation of only a few available properties is due to historic low supply and weak market ad demand conditions.
37. My conclusion about the veracity of EE's analysis is highlighted by several simplistic statements that are not supportable by observations of real market evidence either within Altona North or adjoining suburbs<sup>15</sup>.
38. Whilst it may be appropriate to suggest that there is latent demand for new office accommodation, in order for such a statement to be reliable it needs to be qualified with evidence of users prepared to precommit their occupancy at levels of rents that are commensurate with the economic cost of production (at least \$300 p.s.m.). The current evidence suggests local market rents are sub \$100 p.s.m., albeit for lower quality stock, in the absence of higher-specification floorspace which has not been delivered to date because developers, investors and financiers believe that it is too risky to build such accommodation without a firm precommitment.
39. It is noteworthy that EE did not reference recent data about the local office market from its own earlier research undertaken for the City of Hobsons Bay (December 2016) in its assessment of the Altona North Precinct for the VPA. The conclusions reached in these two reports are significantly different with the assessment for VPA indicating underlying office demand of 3,300 sq.m.p.a. at Altona North in isolation compared to an estimate for all of the Hobsons Bay LGA of 400 – 1,300 sq.m.p.a. (between 2014 – 2036)<sup>16</sup>. I cannot rationally reconcile such a significant difference in opinion from EE.
40. The 2016 supply analysis by EE<sup>17</sup> is useful and should have been considered in its C88 assessment for the VPA (September 2017) as it provides a useful perspective and benchmark for the scale of the office yield proposed by Amendment C88. The proposed supply would equate to almost 120% of the existing office supply (in all its forms) or a 410% difference relative to the existing dedicated office supply across all of Hobsons Bay Activity Centres.
41. From its own 2016 supply analysis, EE could have determined the relationship between white collar residents in the LGA and office floorspace. In 2016 there 22,400 white collar working residents which implies a ratio of 1.25 sq.m. of total office floorspace per white collar resident in 2016<sup>18</sup>.
42. If this same ratio is applied to EE's own forecast of 28,860 white collar residents in 2031, the resultant future total office floorspace requirement across Hobsons Bay would be in the order of 33,500 sq.m.. This metric suggests increased office floorspace demand of 5,520 sq.m. over the 2016 – 2031 period which is significantly different from EE's estimate of 105,000 sq.m. additional potential floorspace<sup>19</sup> over the same period as indicated in their report for the VPA.
43. EE's inferred justification of its forecast office demand is based on the unqualified and overly simplistic assumption that it should be driven and directly related to the number of local residents in white collar jobs. Therefore, EE believes that expected future growth of white collar residents in Hobsons Bay will underpin office floorspace demand at Altona North.

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<sup>12</sup> Essential Economics (2017) *Altona North Precinct – Commercial Office Floorspace Provision*, p. 12

<sup>13</sup> Ibid, p. 17

<sup>14</sup> Ibid, p.16

<sup>15</sup> Ibid, pp 15 -16

<sup>16</sup> Essential Economics (December 2016) *Hobsons Bay Activity Centres Strategy: Technical Report*, p. 102 (derived from Table 22)

<sup>17</sup> Ibid, p. 101

<sup>18</sup> Ibid, p 101 (Table 21) and ABS 2016 Census

<sup>19</sup> Essential Economics (2017) *Altona North Precinct – Commercial Office Floorspace Provision*, p. 9 (Table 2.2)

45. Whilst there has been growth in white collar residents across Hobsons Bay between 2006 and 2016, it has actually been lower than the metropolitan benchmark (2.3% p.a. vs 2.4% p.a.) and its pace of growth has slowed in the 2011- 2016 period relative to 2006-2011.
46. In comparison to Hobsons Bay LGA, the rate of growth in white collar residents has been stronger over the last decade in nearby municipalities such as Maribyrnong and Moreland (4.9% p.a. and 3.7% p.a. respectively). These LGAs however have not experienced a corresponding, nor meaningful, increase in office floorspace construction driven by private sector users. It is however noted that the State Government's precommitment to a 20,000 sq.m. new building completed in Footscray in 2014 may be partly responsible for the strong increase in Maribyrnong LGA's white collar resident increase since 2011.
47. EE's estimate of 105,000 sq.m of potential office floorspace demand created by Hobsons Bay LGA residents between 2016 and 2031 is derived by suggesting that each additional white collar resident will support 20 sq.m. of new office floorspace. EE also further claims this estimate to be "*conservatively on the low side*"<sup>20</sup>. EE fails to fully highlight that underlying demand will flow to locations where jobs are available and not remain self-contained within the same LGA given that white collar labour markets operate regionally. A likely part-explanation of the increased number of white collar residents in Hobsons Bay is that it represents one of the most affordable housing markets proximate to the CBD and other job-rich locations such as Docklands and is therefore attractive to seeking home ownership and priced out of alternative inner city locations.
48. It is further assumed by EE that the Altona North Precinct will be able to capture a share of this underlying demand which justifies Amendment C88's proposed level of office floorspace given that "*the subject site would only account for a very small of total residents in white collar occupations over the 10 year forecast period*"<sup>21</sup> which equates to approximately 6% of Hobsons Bay's future white collar jobs.
49. EE's assertion that office supply should respond to housing choices of white collar workers is both unrealistic and overly simplistic. This approach, whilst consistent with the strategic planning aspiration for 20 minute cities, denies the reality that office occupancy decisions are made by organisations (rather than the aspiration for employees to work locally). Whilst access to an appropriately qualified labourforce is certainly one of the considerations for any organisation, there are several other important factors especially relating to accommodation costs that determine such decisions.
50. My analysis of the latest 2016 Working Population Profile Census results reveals that 46% of Hobsons Bay's white collar (as defined by EE: Professionals, Managers and Clerical workers) workforce of 13,681 employees occupied within blue collar industries (primarily manufacturing, construction and transport). Only 16% of Hobsons Bay's local white collar jobs (4,940 employees including full-time and part-time) are within industries that are typically considered to accommodate office (such as IT, media, finance, insurance, real estate, professional and technical services).
51. The supportability of the proposed 33,000 sq.m. of office floorspace at Altona North is also inconsistent with metropolitan and Hobsons Bay's own strategic planning directions. Altona North is ranked very low in the hierarchy of activity centres given longstanding policy support for nearby Metropolitan Activity Centres at Footscray and Sunshine as well as National Economic Clusters at Sunshine and Werribee East. Furthermore, within Hobsons Bay there are Major Activity Centres at Altona Gate, Altona Beach and Williamstown. The attraction of office demand to Altona North, whether by private or public sector users would most likely be at the expense of more significant activity centres that have been identified as appropriate to accommodate higher-order functions because of their transport infrastructure, retail amenity and past government investment.

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<sup>20</sup> Ibid, p. 9

<sup>21</sup> Ibid, p. 20 (Table 4.1)

53. A further challenge to the achievement of Amendment C88's overarching urban design and other objectives resulting from the office floorspace budget of 33,000 sq.m. is the very significant quantum of floorspace that will need to be dedicated to carparking, especially given the aspiration to minimise at-grade provision. At the standard carparking ratio of 3 spaces per 100 sq.m. of office floorspace (net), it is calculated that there could be in the order of 23,500 sq.m.<sup>22</sup> of carparking floorspace required within the 'business area'. Whilst carparking dispensation may be sought, tenants would expect a conventional provision of carparking spaces given that the Altona North Precinct is only serviced by a bus route.
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#### **Site Considerations.**

54. The 232 Blackshaws Road site, after excision of its western portion to enable construction of the north-south boulevard, will become a development site with unusual proportions. The resultant wide frontage to the new boulevard and narrow depth will not support efficient office floorplate and carpark designs and configurations.
55. The inefficient floorplate and carparks will result in the following market outcomes:
- Unappealing /unattractive to prospective users due to higher operating and occupancy costs because of design inefficiencies;
  - More costly to deliver by a developer, especially if basement carparking is required, which will push-up the economic costs of production and required pre-commitment rent;
  - Higher pre-commitment rent will further dilute any latent potential occupier demand.
56. Inability to secure a precommitted office tenant(s) will undermine any project's attractiveness to a prospective financier for a mixed-use project even if apartments are successfully sold off-the-plan.
57. Mixed use projects (including ground floor retail, and low-rise residential apartments above as predominant use and sandwiched commercial / office) are difficult to deliver and still uncommon in Melbourne.
58. Saleability of commercial level(s) will be limited to individual strata unit purchasers due to lack of attraction to a commercial investor given risks around owner corporation issues with higher number of residential entitlements outweighing the interests of commercial entitlements with each class of entitlement potentially unaligned on major interests.
59. Commercial office users will be more attracted to locations adjacent to the retail amenity of the proposed town centre.
60. Inability to deliver mixed-use developments will imply that the north-south boulevard will not be activated which will have a detrimental impact on the overall urban renewal precinct's attractiveness.
61. The currently strata-subdivided industrial units at 216 Blackshaws Road adjoining to the east of the subject site still have a considerable viable economic life remaining into the long term. Until economic obsolescence of these units is reached, redevelopment of this site is unlikely to be achievable.
62. It will be difficult to agglomerate individual land owners of the current strata-subdivided industrial units together with the eastern remnant land to deliver an efficient outcome that will support a redevelopment that is consistent with the CDP's design, land use and design objectives.
63. Prospective and purported economic benefits accruing from the site's redevelopment for significant office development are therefore unlikely to be realised until the very long term.
64. The 248 Blackshaws Road site is considerably larger than 232 Blackshaws Road which will imply that its absorption by users is likely to be considerably longer. Whilst this site offers greater design flexibility, given its dimensions, there is a material risk that it may only be able to attract demand from a shallow pool of prospective office users which could imply that the only form of viable development to crystallise any value from the underlying land will represent lower-order uses (such as office-warehouses) and an underdevelopment of the site ultimately.
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<sup>22</sup> Assume 80% efficiency ratio of gross to net office floorspace and 30 sq.m. per carspace (including vehicular circulation allowance)

### 3. Conclusion.

65. I consider that there will be very limited office floorspace demand in Altona North over the foreseeable future other than for small office and commercial uses from businesses that support local residential populations such as medical, health, community and education services. These uses typically existing within retail centres and in traditionally within the peripheral shopfronts along retail strips which is already evidenced throughout Hobsons Bay.
66. I consider that Amendment C88 makes sufficient provision for offices by its allocation of 1,300 sq.m. of office within the town centre sub-precinct. I believe that this allocation is appropriate in that it is the most likely location that office users would wish to offer their services to customers from.
67. Should there be an overflow of office demand, it would be next-best suited to the redevelopment of the underutilised property at 216 Blackshaws Road which adjoins the town centre and would potentially deliver a much more integrated overall town centre than what is currently envisaged by the CDP for discrete town centre and business area sub-precincts.
68. Collectively, the town centre sub-precinct and 216 Blackshaws Road provide more than sufficient opportunity for the Altona North Precinct to accommodate any latent future office demand into the foreseeable future.

## Appendix – Curriculum Vitae.

# Robert Papaleo

National Executive Director - Research  
BPD. (Planning) Hons, B.Bus. (Prop)

**CHARTER.**  
KECK CRAMER



Robert Papaleo joined Charter in 1997 to establish the Research unit and was appointed a Director in 2002. Robert has undertaken major research, advisory and consultancy engagements that have delivered insights to corporate and government Clients across various real estate sectors in all Australian capital cities.

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**Leaders in  
Property  
Intelligence.**

Robert has created national databases across the greenfield and apartment markets that monitor market and project performance across Australia.

Robert's diverse experience provides an appreciation of wider demand, supply, policy and industry issues impacting upon real estate markets and property development opportunities.

### PROFESSIONAL BACKGROUND

Academic qualifications and relevant industry associations.

- » Bachelor of Planning and Design (Planning) (Hons.) - The University of Melbourne (1994)
- » Bachelor of Business (Property) (Distinction) - RMIT (1998)
- » Member Research Committee - Property Council of Australia (1999 - 2003; 2015 - Present)
- » Member Economic Development Committee - Property Council of Australia (2013 - 2014)
- » Member Residential Developer Committee - Property Council of Australia (2009 - 2010)
- » Member Planning Committee - Property Council of Australia (2006 - 2008)
- » Member of Reference Group - Victorian Retail Planning Policy Review, representative of Property Council of Australia (2007 - 2009)

### SPECIALISATION

#### Discipline Specialisations

- » Property market research.
- » Project assessment and advice.
- » Urban economic and planning policy analysis.
- » Expert witness.

#### Property Sectors Specialisations

- » Mixed use.
- » Apartments and medium density.
- » Greenfield residential estates.
- » Commercial.
- » Infrastructure and urban renewal.

### INDUSTRY EXPERIENCE

A selection of major projects undertaken for Public Sector clients include:

- » Casey Housing Strategy.
- » Metro One Rail (Melbourne) - Assessment of station locations and development opportunities.
- » North-West Rail (Sydney) - Peer review of station precinct development opportunities.
- » Future Housing Supply in Established Areas - Strategic considerations.
- » Industry Liaison - Infrastructure projects.
- » Office Relocation Strategy for State Government Agency - ERC Gateway Business Case Analysis.
- » Review of Central City Accommodation Plan - Victorian State Government.
- » Impact of Global Financial Crisis on Victoria's new housing supply.
- » Urban Renewal Strategy - High Street & Plenty Road (Darebin).
- » Activities Centres: Future Development Opportunities - Residential and Commercial (Dandenong, Box Hill, Footscray Frankston, Ringwood, Glen Waverley, Southland, Moonee Ponds, Coburg, Geelong, Preston).
- » High Rise Public Housing Estates (multiple) - Feasibility Assessment of development options.

A selection of major projects undertaken for Private Sector clients include:

#### Property Research & Strategic Market Analysis

- » Due Diligence and Review of Investment / Development Strategies (several across Melbourne, Sydney, Perth, Adelaide).
- » Identification of Strategic Residential and Mixed Use Landbanking Opportunities.
- » Greenfield Estates - National Submarket and Project Benchmarking.
- » Market Assessments - Opportunities across Commercial, Retail, Hotel & Residential Markets.
- » Identification of Trends in Residential Living Preferences and Development Opportunities.



- » State of Market - Residential Apartments in Melbourne (since 2001).
- » Residential Apartment Development Opportunities Assessments - Melbourne, Sydney, Brisbane, Perth, Adelaide, Canberra.
- » Business and Industrial Parks - Future prospects.
- » Office, Retail and Industrial Property Market Assessments (Melbourne and interstate).
- » Yarraville Gardens (Bradmill site) - Economic Assessment of proposed re-zoning.
- » Cranbourne West Growth Area: Precinct Structure Plan - Assessment of office and industrial development prospects.
- » Nagambie Resort - Proposed Residential and Commercial Development: Economic Impact Assessment.

#### Project Assessments & Advice

- » Identification of development opportunities for major strategic sites.
- » Highest and best use studies (various).
- » CBD and Docklands - Identification of apartment market segment opportunities.
- » Estate One Business Park, Dandenong South - Economic Assessment.
- » University Hill - Development Prospects and Economic Impact Assessment.
- » Travancore Mixed Use Project - Market Assessments and Project Recommendations.
- » Lancaster Gate Neighbourhood Activity Centre - Economic Impact Assessment.
- » Glenferrie Place, Hawthorn - Student Apartments: Demand and Supply Study.
- » Travancore Office Tower Project - Economic Impact Assessment.
- » Cranbourne North Structure Plan - Assessment of Residential Land Market Characteristics.

#### Briefings and Other Presentations

- » Property Council of Australia - Planning Briefings, Market Outlooks, Professional Development Workshops.
- » Urban Development Institute of Australia - Research Briefings, State Conferences.
- » Market and Site Briefings and Workshops for Private and Government Clients.
- » Urban Development Institute of Australia - National Congress .
- » Robert is an active participant across industry associations and frequently provides keynote presentations and media commentary about various residential and commercial property related matters.

#### Expert Witness &

#### Economic Planning Policy Analysis

- » Residential apartments in outer suburban activity centres.
- » Greenfield Land Supply Adequacy Assessment (Sydney).
- » Sanctuary Lakes Shopping Centre - Economic Assessment of Proposed Extension.

## Robert Papaleo

National Executive Director -  
Research

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