

20 -30 Mollison Street, Abbotsford

Economic Assessment of Proposed Development

24 May 2017

Instructions

Charter has been instructed by Urban Pty Ltd (on behalf of owners of the subject site), to consider and independently assess the economic impacts and benefits of the proposed commercial development at 20 – 30 Mollison Street, Abbotsford (the subject site).

Property Description

1. The subject site is effectively flat and contains a land area of 1,844 sq.m. and is currently improved with a total leasable floorspace of approximately 2,030 sq.m.;
2. Current improvements are characterised as a combination of:
 - Older-style, single storey warehouse of approximately 1,070 sq.m. at the north-east corner of Mollison and Nicholson Streets; and
 - 2 level standalone office building of 960 sq.m.
3. The larger warehouse is occupied by a longstanding tenant (operating in the fashion industry) as a warehouse whilst the office building was recently leased to an electrical engineering and technology services company.
4. The property currently offers 2 on-site carspaces to service the warehouse and a further 2 carspaces for the office building.
5. The subject site is currently within an Industrial 3 Zone and is not affected by any overlays which have been placed over several nearby properties.

Location Description

6. The subject site is within the south-western quadrant of the Abbotsford West Core Industrial and Business (CIB) Node which is identified in the Yarra Business and Land Strategy, 2012 (YBLS). Within this Node there is a mix of zones including Industrial 1 and 3, Commercial 2 and Mixed Use as well as varying land subdivision and built form typologies.
7. Adjoining the precinct to the south and west are General Residential and Neighbourhood Residential Zones. There is a further pocket of NRZ land within the Node.
8. This Node is located adjacent to the Yarra River with the prevailing built form, zoning and many uses recognised in the YBLS as responding its historic role as a manufacturing precinct rather than “reflect(ing) the changing nature of the Yarra economy” (p. 46). This Strategy further deems “that the economic base of this precinct should be broadened to ensure ongoing viability”(p. 46).
9. Surrounding developments to the subject site includes:
 - Open-air carpark (Mollison Street) and associated converted office - warehouse to the east (Crescent House) which has approval for a major 5 level office redevelopment;
 - small-scale warehouses to the north (along Nicholson Street);
 - medium-density residential development to the south and east that have both involved the refurbishment and redevelopment of heritage buildings;
 - a new residential apartment building to the south of the subject site is also currently being marketed.
10. Current users in the Industrial 3 Zone, along the south side of Mollison Street and the east side of Nicholson Street, are typically small scale businesses involved in a range of industries although primarily in the engineering, fashion, automotive or food industries. Buildings tend to be generic single level (in limited cases, 2 storey) accommodation of limited added-value to the underlying land component providing low density employment. There appear to be few standalone office users in these adjoining properties although several buildings accommodate small office components.

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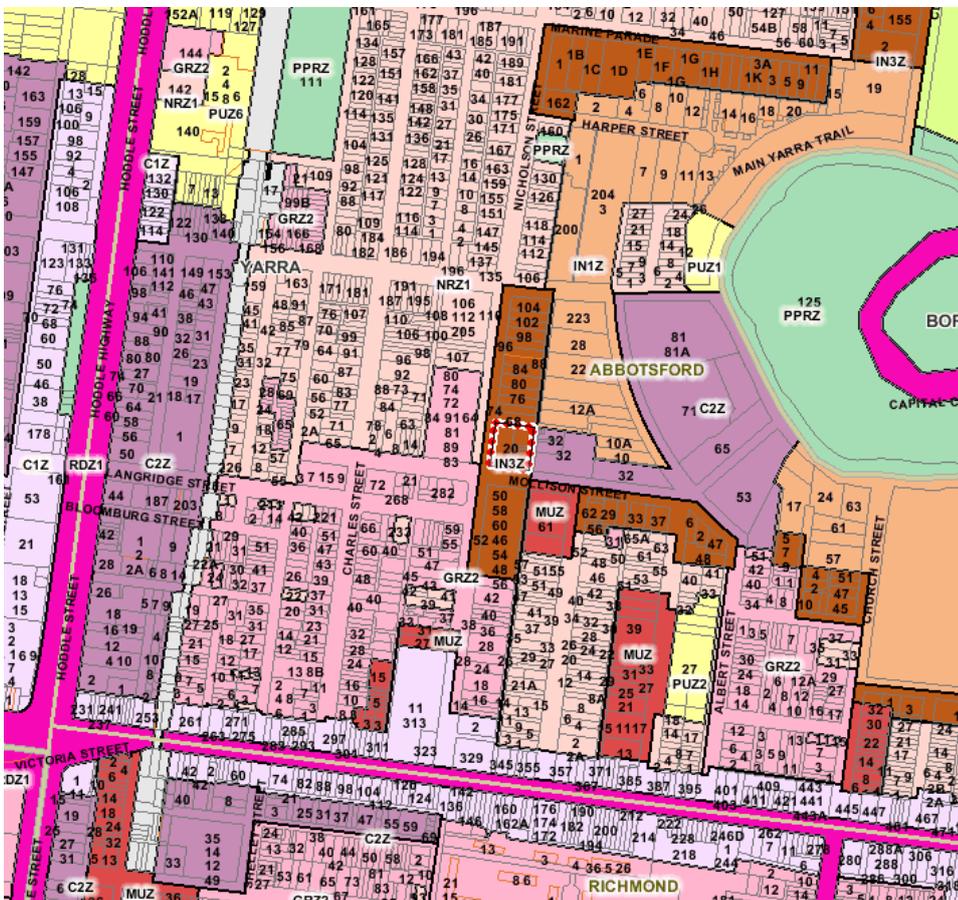
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12. The eastern part of the precinct, generally zoned Industrial 1 and Commercial 2, are characterised by larger lots accommodating dated industrial buildings that are used by business in a range of miscellaneous industries rather than businesses in related economic sectors. Most buildings provide lower grade office / warehouses offering low-intensity employment.
13. The most notable tenant in the precinct is Nike whose Victorian administrative headquarters (and warehouse) is located at 28 – 52 Victoria Crescent. This building contains approximately 2,100 sq.m. of offices and 3,000 sq.m. of warehousing.
14. To date there has been limited redevelopment of sites for higher-order commercial development. The most contemporary development has been the Riverview Commercial Centre (@5,000 sq.m. NLA across 18 office / showroom 2 level units at 71 Victoria Crescent built in 2009 - 2010).
15. Within the Abbotsford West CIB Node there are several consolidated properties, particularly along Victoria Crescent, that offer the potential for large-scale redevelopment. The largest consolidated sites range between 3,500 – 5,900 sq.m.
16. The Abbotsford West CIB Node is within a true mixed use setting given the range of commercial and industrial zones within its boundaries and the adjoining residential uses that provide it with a distinctive inner city location context which is highly sought after by a range of emerging businesses in the emerging new economy sectors.

Figure 1: Land Use Zoning around the subject site



Source: Planning Maps Online

Proposed Development

17. The proposed development is described as a 12 level commercial building incorporating approximately 10,100 sq.m. of office floorspace complimented by a range of ancillary facilities including child care, theatre / presentation suite, wellness centre, café / retail, business incubator, rooftop garden, end-of-trip facilities for use of occupiers.
18. A further point of difference to the building's design is the higher provision of meeting and break-out areas and void spaces to encourage collaboration between occupiers in the building (whether they be from the same company or otherwise).

19. The proposed combination of functions and facilities within the commercial building represent a unique offering in the Melbourne office market. It is a 'destination' created through the multiple uses which makes it more attractive. The co-location of these facilities is designed to provide the proposed development a clear point of difference from other new supply alternatives both locally and in the broader region.
20. There are currently no major office buildings, or major employment nodes, in Abbotsford, nor across Yarra, that offer integrated child care facilities with perhaps the exception of the facility at St Vincent's Hospital. Most child care facilities have been retrofitted into non-specialised existing buildings.
21. The convenience of these facilities, especially child care, is expected to act as a strong incentive for businesses to precommit to the proposed building as this factor is likely to assist those businesses in attracting and retaining talent.
22. This factor is particularly important to businesses in the Knowledge and Creative industries whose growth opportunities can be challenged by their ability to compete successfully for the limited pool of staff with requisite skills and experience. The importance of child care is reinforced by the younger age profile of workers in this industry and higher propensity to require this infrastructure to re-enter the workforce.
23. A high quality building with unique features in a vibrant and highly accessible location, such as in the Abbotsford West CIB Node, which appeals to skilled staff is expected to be more attractive to prospective tenants, even if at a rent premium, than a conventional building in a similar location. The basis of this assessment is evidenced from analysis of higher Green-star rated buildings which have been demonstrated to outperform conventional buildings with respect to achieving higher rents, lower vacancy and better operational efficiency. The lower running costs of the building are transferred to lower occupancy costs to tenants.

Policy Context

24. Over an extended period, the City of Yarra has proactively sought to encourage higher employment generation within its historic employment and business nodes by protecting the opportunities for renewal and redevelopment by limiting the encroachment of residential development. This approach has allowed these Nodes to create vibrant local economies and respond to the macro-economic changes affecting all industries.
25. Most recently, the *Yarra Business and industrial Land Strategy* (adopted June 2012) provides guidance to development over the forward 10 – 15 years and has superseded the *Industrial and Business Land Strategy Review 2004*. The latest Strategy seeks to ensure that *"New development should help meet our wider social, environmental and economic objectives"*.
26. In addition, the City of Yarra's Draft *Economic Development Strategy 2016 – 2020* (EDS) follows the *Economic Development Strategy 2009-2014* and updated background research. This EDS seeks to "foster greater investment and jobs growth in the municipality" with particular focus across the Knowledge and Creative industries and the strategic goal of Yarra becoming a Smart City.
27. The EDS recognises that in order to become a Smart City, Yarra must *"maintain and grow economic clusters"* (Direction 1). The EDS recognises Cremorne and Collingwood (Gipps Street) as existing Creative Clusters with Richmond (Bridge Road) and Fitzroy (Victoria Parade) also nominated as Health & Education Clusters.
28. As part of this Direction, the City of Yarra will be required to "coordinate major site redevelopment" (p. 15, EDS) with a strategic priority being to "investigate possible planning mechanisms which ensure the development of quality commercial office space".
29. Collectively, these policies in addition to Plan Melbourne's directions, reinforce the importance of attracting new commercial development to support Melbourne's attractiveness to business operating in traditional (manufacturing) and increasingly new economic sectors such as Knowledge, Creative, Innovation, Design, Digital and Technology industries that require highly skilled workforces.
30. The transition of Yarra's historic industrial precincts to accommodate businesses from targeted new economic sectors will require a significant transformation and diversification of the prevailing building stock. Whilst heritage factories will continue to be successfully re-purposed as lower-cost, incubator spaces for emerging and start-up companies there is an equal need for more high-performance, contemporary and innovative office projects to match the requirements of established small, medium and larger businesses and also to allow Yarra to compete within the metropolitan context.
31. In this context, the proposed redevelopment of 20 -30 Mollison Street, Abbotsford should be favourably considered.

Economic Context

32. The transformation of Melbourne's (and Yarra's) local economy from its post-war manufacturing base to a much higher orientation towards a range of services industries is well documented by the City of Yarra in its suite of policies and underpinning background reports that support those policies.
33. Whilst Manufacturing remains important to Yarra's economy, albeit in output value terms more so than employment, it is continuing to experience significant structural changes. Textiles and clothing manufacturing were particularly concentrated through Yarra although the local manufacturing industry is now characterised by boutique and specialist fashion manufacturers as well as more advanced and specialist businesses focused on innovation and design within this industry.

34. Yarra's EDS clearly articulates the growing role and strategic importance of the Knowledge and Creative industries to Yarra's economic prosperity and availability of viable jobs for its local workforce. These sectors have experienced strong growth over the last decade with clusters of excellence emerging in both Cremorne and Collingwood (Gipps Street).
35. The Knowledge sector is highlighted in the EDS as including the following broad industries:
 - Health;
 - Education;
 - Architectural and engineering services;
 - Finance;
 - Advertising; and
 - Information Technology.
36. The Creative sector is highlighted in the EDS as including the following broad industries:
 - Architecture, Design and Visual Arts;
 - Software and Interactive Content;
 - Advertising and Marketing; and
 - Music and Performing Arts.
37. From the real estate perspective, businesses in these Creative and Knowledge sectors need appropriate accommodation to firstly incubate their initial growth phase and then collaboration opportunities to mature their development as they become more established. To date, the conversion of former industrial buildings (especially those with heritage attributes) have been successful in meeting the needs for emerging businesses with lower cost accommodation being available from the many obsolete industrial buildings given their lower quality fitouts and services.
38. As Knowledge and Creative businesses become more successful and require larger accommodation, there is a reduced availability of appropriate commercial accommodation which is forcing some businesses to be less efficient across multiple locations or relocating to other City Fringe or Central City office markets where such supply is more available (purpose built accommodation will create efficiencies).
39. Importantly, the Abbotsford West CIB Node is relatively less mature in its renewal and transformation cycle than observed in other Business Nodes across Yarra especially as observed in Cremorne and Collingwood (Gipps Street) although it has the necessary attributes and structural factors to emulate the success of the current clusters.
40. Ongoing disruption and innovations across every industry in the local, metropolitan, national and global economies will continue to reinforce the importance of knowledge-intensive industries as a driver of job creation across Yarra.

Property Market Context

41. The City of Yarra's office market represents a meaningful concentration in the metropolitan context with over 300,000 sq.m. of corporate office floorspace (in buildings containing 1,000+ sq.m. office). This office submarket forms part of the City Fringe office region which benefits from its proximity to the much larger CBD office market as well as its high level of accessibility to a highly skilled local labourforce.
42. Within Yarra, the major concentrations of existing floorspace are contained in Richmond and Cremorne (approximately 80,000 sq.m. each) followed by Abbotsford and Burnley (each with approximately 40,000 sq.m.).
43. Yarra's industrial precincts also accommodate a high number of smaller commercial projects (less than 1,000 sq.m.) which are not measured in this analysis. Typically, these smaller projects represent conversions of former industrial buildings, especially those with a heritage attribute, which appeal to the Creative industries that are particularly concentrated through Cremorne / Richmond and Collingwood.
44. New office supply across Yarra has been limited since the late 2000s because of weaker market fundamentals affected by increased supply in the early-mid 2000s and weaker occupier demand in the immediate post-GFC environment. In addition, the strength of the residential apartment market biased investment into the new commercial sector.
45. Net effective rents began to increase through 2015 across the City Fringe with demand also accelerating which coincided with a slowdown in the residential apartment market. Accordingly, new commercial projects are now (2016 – 2017) approaching the cusp of becoming feasible.
46. The delivery of new supply (office, residential or other asset types) is dependent on a number of financial and market realities and critically the ability for a developer to make an appropriate risk-adjusted return. The investment of capital is not based on planning policy nor Government intentions, but rather by an investor or developer seeking to maximise the profitability of a project. This is an important distinction in considering how new investment will occur within Yarra into the future.

47. The prospects for new commercial office buildings from 2017 will be heavily influenced by the constrained funding environment and increasingly risk-adverse financiers who will be requiring higher pre-construction lease precommitments (up to 60% - 70% depending on building size) for new office projects. Accordingly, a planning permit in isolation without the required precommitments will imply that many approved office projects will simply not proceed. This precommitment threshold is particularly important for large buildings who will be required to attract multiple tenants, especially given the space requirements of suburban tenants is usually modest and there are few tenants requiring more than 5,000 sq.m. in one line.
48. New office supply in the City Fringe submarket will continue to compete against the CBD office market where there is typically greater availability of smaller remnant floorspace in new buildings that can be priced competitively.
49. The competitive advantage of new suburban office buildings is typically their location and building design attributes that are able to appeal to users from a broader range of economic sectors than the financial sector who typically underpin major new CBD office buildings.
50. An alternative driver of new commercial development is where a major occupier has a direct financial interest in a land holding and they are able to use their own floorspace requirements to underpin the delivery of a new building that is specifically designed to meet their own requirements. Until recently, most office developers have been outbid by residential developers.
51. The risk profile associated with new office development is very high as the development timeframes are usually long. Accordingly, commercial developers tend to have to be more experienced. Without tenure or an interest in a site (as per an investor) a developer wanting to undertake a new office project will likely be either priced out or be unable to pay a sufficient premium to motivate an existing owner to sell. Furthermore, even if the site was to be secured at a premium there is considerable uncertainty in relation to tenant demand given that Yarra is not viewed as part of the CBD office market.
52. Whilst approvals for commercial redevelopment of major sites have existed for some time across the Abbotsford West CIB Node, these have not been enacted to date. There has been limited willingness of landowners to undertake commercial development in this CIB because of a combination of factors including:
 - the precinct’s relative lack of retail and associated amenity (although the Victoria Street strip is approximately 300 m from the precinct’s southern boundary);
 - on-going long term leases to sitting tenants;
 - speculation about the potential for rezoning to facilitate residential redevelopment that will deliver higher financial returns; and
 - lack of confidence to undertake redevelopment in the absence of a local catalyst project that creates an identify for this precinct.
53. Property market fundamentals across Melbourne’s City Fringe region, including in Abbotsford, have improved considerably since 2015 with higher rents, lower yields, reducing vacancy (now 3.5% from 5% in late 2016) and increasing demand from tenants looking for alternative spaces to accommodate their growing requirements, especially for higher-order office floorspace and as a means of attracting and retaining key talent.
54. New potential supply in Yarra is increasing as opportunities in the apartment market cool from recent peak levels and developers look to re-enter the commercial development after a long period of inactivity. Within this context, finance is constrained and competition between projects to secure precommitment is increasing. Accordingly, those projects that offer real points of difference, including ancillary facilities that appeal to staff, will be placed to attract tenant precommitments.
55. Yarra’s position in the City Fringe office subregion is improving as gentrification of its resident community continues to attract more higher-skilled workers that businesses wish to attract.

Policy Achievements

Economic Benefits

56. Currently the existing improvements at 20 - 30 Mollison Street, Abbotsford are estimated to have the capacity to directly accommodate up to 50 full-time equivalent (FTE) jobs p.a. based on typically observed workspace ratios for its warehousing and suburban office components.
57. If the subject site is redeveloped with the proposed development being in accordance with the submitted plans, the completed office and ancillary facilities will support the generation of approximately **600 FTE jobs p.a.** on an ongoing basis.
58. **The potential of employment from the subject site upon redevelopment is estimated to be 12 times more significant than the employment generation potential of the current improvements at the subject site and economic benefits from commercial uses (rather than residential uses) will improve the area.**

59. In addition to the direct jobs, the project will create wider, indirect benefits for the economy due to required inputs to construction and ongoing operation of new facilities, which need to be created to fuel demand, as well as the wages earned by people working on the construction and the operation phase post-completion. Wages then earned in production in other industries induce additional demand and further output, which again induces further employment in other industries. There will be flow-on effects support for a **further 710 FTE jobs p.a.** across the broader economy (including locally).
60. In addition, the construction of the proposed building will directly support the equivalent of around **150 annual FTE jobs** (assuming a notional construction period of 1 year). This level of economic activity would induce the creation of a further **240 FTE jobs** across the broader economy.
61. A building of scale in the Abbotsford West CIB Node, such as the proposed 12 level project at 20 – 30 Mollison Street, is considered as necessary to act as a catalyst for regeneration of the precinct and to create a distinct identity to encourage further renewal.
62. This catalytic effect was observed in the Abbotsford Trenerry Place Node with the redevelopment of the former Yarra Falls Mills site into the Global Headquarters of Computershare in Abbotsford in 2004. This 16,000 sq.m. office redevelopment was undertaken by Computershare itself as the precommitted tenant and site owner to allow consolidation from several smaller local facilities.
63. The presence of such a large tenant, and redevelopment, gave confidence to other site owners to intensify commercial development of their sites in the precinct including most notably the adjoin site at 436 Johnstone Street (9,200 sq.m. office) which attracted large tenancies.
64. The Abbotsford West CIB Node is currently considered to be an underutilised 15.1 ha precinct. It is estimated to contain 93,000 sq.m. of floorspace (2010) which is clearly capable of accommodating a broader range of office, commercial and industrial users in a more suitable mix of buildings. The average Plot ratio of 61% in this Node compares to around 80% in the more advanced Cremorne and Collingwood Clusters which highlights that the Abbotsford West CIB Node is relatively underdeveloped for a precinct of its scale and location attributes.
65. The identified increase in employment density associated with the subject site could be expected to be replicated across a number of key sites upon their redevelopment from lower-order office-warehouses to commercial office projects.
66. Upon redevelopment of several sites, as identified in other renewal precincts, the Node would create its own critical mass and reputation which would in turn attract more, and increasingly higher-order, users.

Community Benefits

67. In addition to the direct economic benefits from additional job creation, there would be expected to be a range of social and community benefits flowing from the proposed redevelopment.
68. The nature of jobs to be created in the knowledge and creative industries will align with a range of policy objectives as well as align more closely to the increasing concentration of the local labour force with the requisite skills to engage in these industries.
69. These local workers will have a greater opportunity to reduce their commuting time to their workplace with consequential social and environmental benefits to be created.
70. The catalytic effects of the proposed development, especially with its inclusion of ancillary facilities, will encourage much greater engagement and cohesion with the local residential and business community as users of the site whether to access the gallery space, child care facility, wellness centre or café / retail.

Conclusions

71. I conclude from the foregoing analysis that the proposed redevelopment of 20 – 30 Mollison Street will have a range of highly positive economic and community benefits. These benefits are far more significant than the benefits currently being derived from the current improvements upon the subject site.
72. Importantly, it is further understood that the proponent of the project, as a longstanding local occupier, will relocate their own architectural design business to the new building. Should this eventuate, this precommitment will provide a real point of difference to other competing commercial buildings being currently proposed and substantially de-risks the project from a financier's perspective which will support the project's ability to secure construction finance (which is becoming increasingly difficult to obtain).
73. The proposed scale of development is considered supportable in the local market context given the proposed design's strong alignment with the expressed needs and aspirations of maturing businesses in the Knowledge and Creative industries across Yarra.
74. Should this project not be approved, and nor proceed, agglomeration benefits will be lost and there will be an elevated risk that successful business within existing Knowledge and Creative clusters at Cremorne and Collingwood will need to relocate to available office floorspace outside Yarra which will dilute the effectiveness of the City of Yarra's various economic development and land use strategies.

Yours sincerely
Charter Keck Cramer



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