

Johnston Street Economic Advice

Final Report

City of Yarra
August 2015



Independent insight.



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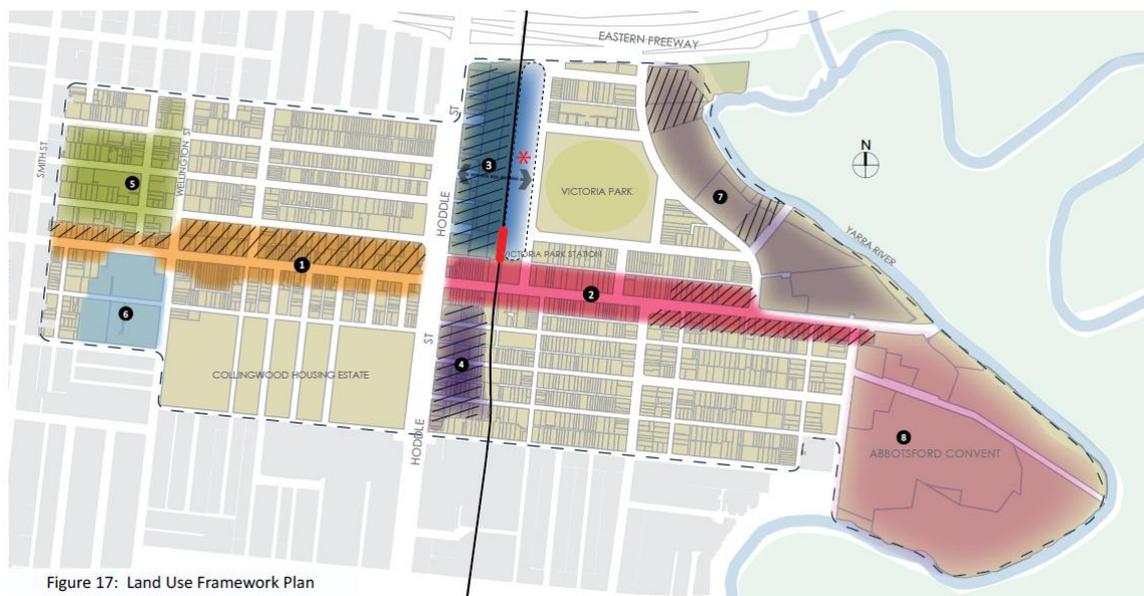
1 OVERVIEW

SGS Economics and Planning (SGS) have been engaged by the City of Yarra to undertake an economic assessment to help inform land use planning of the Johnston Street Activity Centre. This report is required to assist the preparation of the Johnston Street Structure Plan and associated planning scheme amendments.

The recommendations presented are based on; discussion with council on the relevant issues, review of background documents and the existing knowledge base of the consulting team. In addition, we have analysed land use survey and floorspace data of Johnston Street sourced from the City of Yarra.

Specifically this document provides specific advice to council on the role of properties within precincts 1 (Johnston Street Central) and 2 (Johnston Street East) of the Johnston Street Structure Plan area (Figure 1).

FIGURE 1 JOHNSTON STREET STRUCTURE PLAN PRECINCTS



Source: City of Yarra

The analysis in this report features:

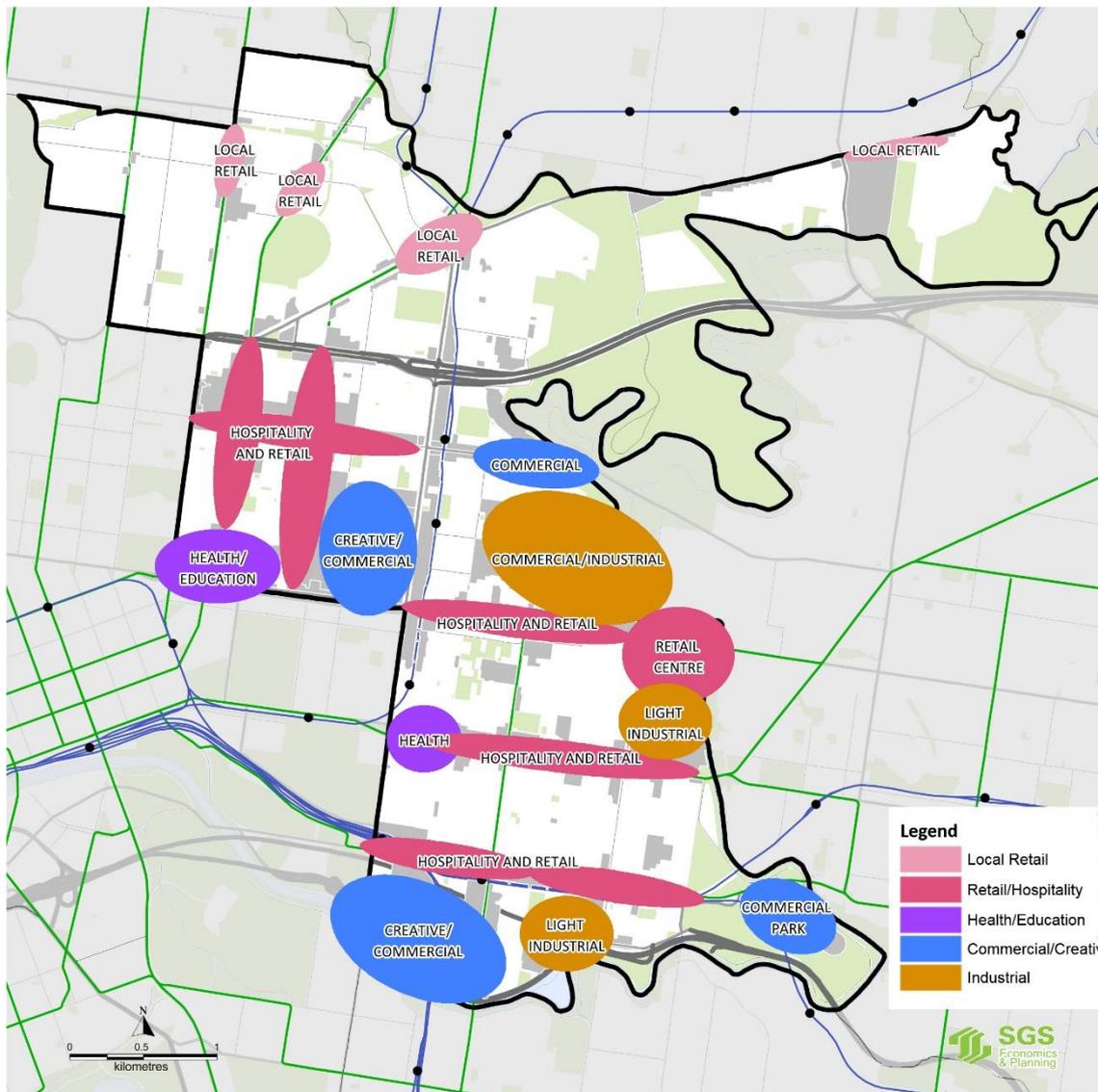
- Regional context summarising location, role and unique characteristics of the Johnston Street Structure Plan area.
- Appraisal of current land uses including the pattern of recent development and what the land uses collectively offer to the community in their current forms
- Assessment of future development options, with the business as usual outcome used as a base case. Potential rezonings which could facilitate alternative land use outcomes are then discussed.
- The relative merits of each option is then critically discussed in terms of potential positive and negative outcomes, including whether there is a case for triggering a rezoning.
- Strategic policy recommendations, focusing on the key land use and economic development outcomes council should be aiming to achieve. This will be accompanied by relevant zoning recommendations, with consideration of the likely impacts of implementation.

2 CONTEXT

The City of Yarra is positioned at the centre of an evolving metropolitan economy which is undergoing significant restructuring. The retail sector is evolving, the future of inner city employment lands is experiencing various pressures and the service sectors are projected to boom. Meanwhile, population growth is increasingly placing pressure on the City of Yarra to accommodate considerable levels of dwelling growth.

Figure 2 provides a conceptual overview of the various employment and retail precincts across Yarra. From a retail perspective Yarra is largely defined by its diverse retail strips. These also provide a strong hospitality function, are the focus of the night-time economy and in some cases, have a sub-regional or metropolitan role.

FIGURE 2 HIGH LEVEL CONCEPTUAL STRUCTURE OF YARRA'S PRECINCTS



Source: SGS Economics and Planning

Johnston Street is one of the City of Yarra's major east-west arterials, carrying significant volumes of traffic, with parking constraints also a significant issue when it comes to development and land uses. This level of through-traffic has traditionally offered considerable exposure for a range of businesses, particularly small scale bulky retail, showrooms and wholesalers. However the area in general is not currently considered to be a prime retail destination – a definition which is afforded to the five largest Activity Centres in Yarra (Smith Street, Brunswick Street, Victoria Street, Bridge Road and Swan Street).

The 100 metre strip of Johnston Street immediately east of Hoddle Street is zoned as Commercial 1 Zone and provides some level of convenience options for local residents, with the remainder of the Structure Plan area maintaining a regional role in supporting employment and business opportunities. This results in different types of business activity occurring along different sections of Johnston Street and sometimes inconsistent interfaces with the streetscape. The section immediately west of Hoddle Street also provides access to and from Victoria Park Station and street activation with public realm improvements will enhance the role of the station and its function within the activity centre.

Recent policy documents for the Johnston Street precinct have focused on the potential intensification of land uses in the area – particularly regarding the numerous sites which are currently underutilised or vacant around Victoria Park Station, including land owned by VicTrack. Opportunities have been identified to introduce residential uses into some areas where there is currently low scale office and other commercial uses as a means of stimulating core Activity Centre activities and related commercial investment. Areas of land that front onto Hoddle Street have also been identified in Plan Melbourne as part of an Urban Renewal Corridor.

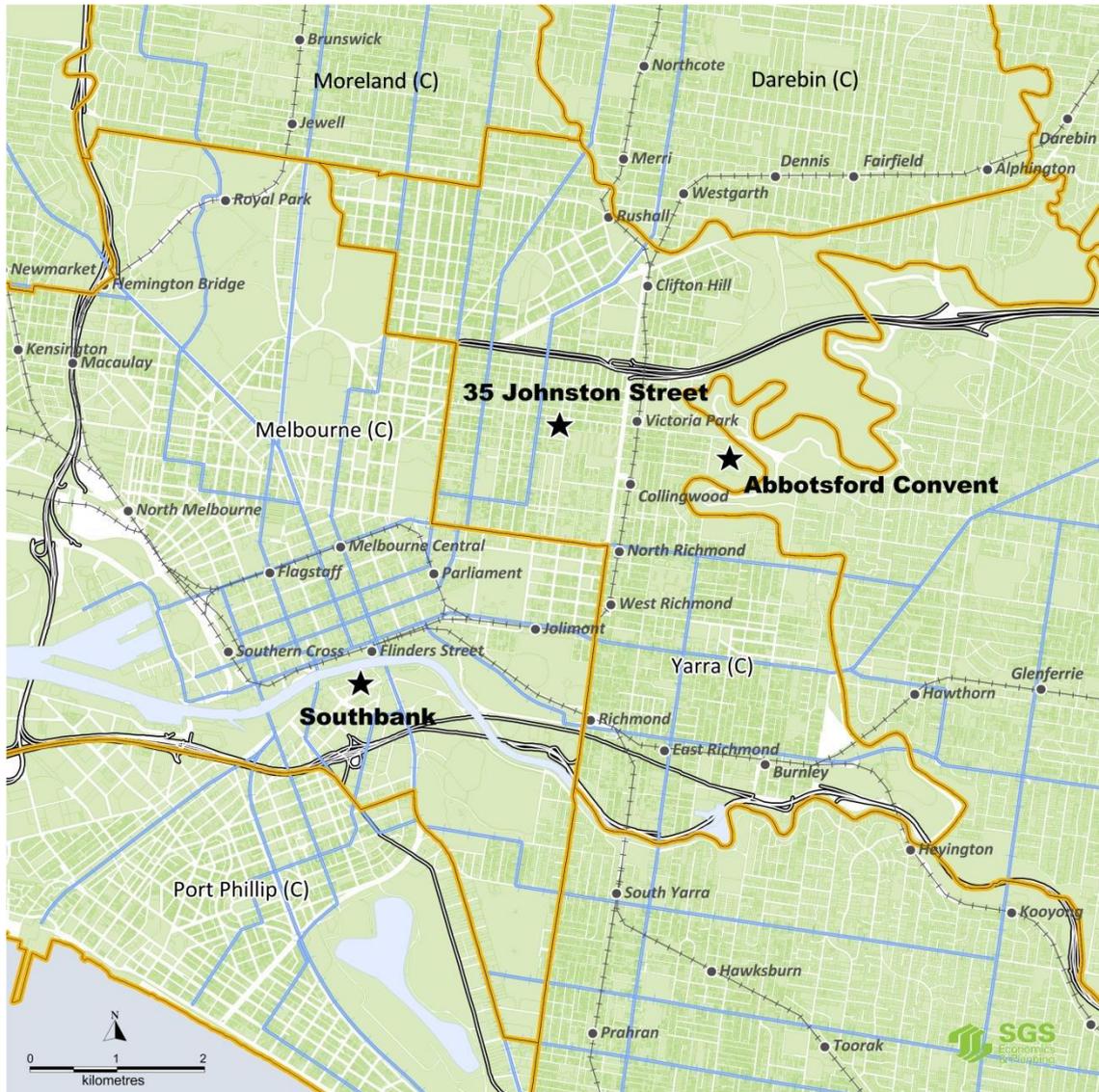
It should also be noted that the Johnston Street area is the subject of significant public sector investment in arts and cultural facilities (see Figure 3), as well as Council's own investment in the revitalisation of Victoria Park.

The Abbotsford Convent is an important cultural precinct of Melbourne, hosting various cultural institutions spanning art, music and food, including the Collingwood Children's Farm. It also hosts important community gatherings. Owned and operated by the Not-for-Profit Abbotsford Convent Foundation, the convent is the subject of significant public sector investment and donations from the broader community.

The State Government has also invested significant financial and reputational capital in the relocation of Circus Oz to its birthplace in 35 Johnston Street, Collingwood. In announcing this multi-million dollar commitment in the 2011-12 Budget, the Premier and Minister for the Arts said that "the funding would transform the old Collingwood TAFE site in Johnston Street into a world-class circus arts centre and a purpose-built home for Circus Oz". The Premier further emphasised the site as a pre-eminent destination for family entertainment, as well as an incubator for important cultural exports from the State.

These anchor cultural facilities should collectively provide sufficient stimulus for the Johnston Street Central and Johnston Street East precincts to evolve into a unique Activity Centre anchored by the arts, culture and entertainment sectors. Any land use directions should therefore be cognisant of the need to leverage off public sector investments. Public realm improvements and potential way-finding signage are identified as means by which to connect the arts and cultural activities occurring at the two ends of Johnston Street (east of Smith Street, within the study area).

FIGURE 3 SIGNIFICANT ARTS AND CULTURAL FACILITIES



Source: SGS Economics and Planning

3 PRECINCT ANALYSIS

This section forms an appraisal of the conditions affecting Johnston Street Central (Collingwood) and Johnston Street East (Abbotsford).

Context

Location: Johnston Street Central (Collingwood) and Johnston Street East (Abbotsford), between Smith Street and the Yarra River

Zones: Commercial 1, Commercial 2, Mixed Use

Characteristics: Adjacent to Smith Street and Brunswick Street retail/entertainment precincts, Abbotsford Convent, busy thoroughfare, good access to Eastern Freeway, access to Victoria Park Station, divided by Hoddle Street

History and Evolution

Johnston Street evolved as a major east-west thoroughfare through Collingwood by the 1880s and a tram service operated from 1887 until 1939, which was replaced by buses. The commercial function of the street had a variety of land uses including shops and local businesses, a number of hotels and residential uses above shops. The side streets off Johnston Street contained a mixture of Victorian-era row housing and factories built in the late 19th and early 20th centuries, complementing the main shopping strip.

The historical evolution of the street as a commercial and retail strip is characterised by two storey Victorian and Edwardian buildings which had residential uses above commercial use at the ground floor. Current zoning (Commercial 2 Zone) on the northern side prevents this from occurring despite the fact that these heritage buildings were purpose built with shop-top housing. There are a small number of properties along Johnston Street which have no street activation with shop front windows completely painted over that appear to have a land use that is most likely residential in nature.

Current Role

The City of Yarra has recently undertaken a land use audit for Johnston Street. This data is presented below. Note that this audit was focused on the ground floor of properties with Johnston Street frontages only.

FIGURE 4 LAND USE FLOORSPACE (SQM) – GROUND FLOOR

Use category	C1Z	C1Z %	C2Z	C2Z %	Total	Total %
Dwellings	222	0.8%	1,181	3.1%	1,403	2.1%
Service industry	1,952	6.4%	4,629	12.3%	6,581	9.6%
Clothing/accessories	3,508	11.4%	1,063	2.8%	4,571	6.6%
Electrical	1,058	3.5%	-	0%	1,058	1.6%
Hospitality	6,399	20.6%	2,074	5.4%	8,473	12.2%
Gallery/studio	4,556	14.7%	1,826	4.8%	6,382	9.3%
Household goods	2,800	9%	6,778	18.1%	9,578	13.9%
Medical/cosmetic	1,536	5%	1,450	3.8%	2,986	4.4%
Office	4,271	13.8%	16,179	43.1%	20,450	29.8%
Vacant	4,601	14.8%	2,540	6.6%	7,141	10.5%
Total	31,231	100%	37,393	100%	68,624	100%

Source: City of Yarra 2015 Rates database, City of Yarra 2015 Land Use Survey

Overall, this precinct consists of a diverse mix of uses which are well suited to their main road location. The top three uses are office (20,450sqm), household goods (9,578sqm) and hospitality (8,473sqm).

The vacancy rate for this entire precinct is 10% - which is considered to be moderately high for an Activity Centre precinct. Most concerning is the 15% vacancy rate observed for Commercial 1 Zoned sites, which suggests that this location is presently struggling to attract core retail uses, as well as other commercial uses. This is a relatively complex problem which is influenced by a number of factors including:

- A lack of regional demand for Johnston Street retail floorspace given the level of demand absorbed by Commercial 1 Zoned land supply in more attractive locations further west along Johnston Street as well as Brunswick Street and Smith Street
- A lack of local demand for Johnston Street retail floorspace given the lack of dwellings and population within the Johnston Street precinct
- Sub-optimal pedestrian amenity for core retail and hospitality uses given the presence of heavy traffic along Johnston Street
- Small lots and potential overshadowing of side street dwellings (to the south of Johnston Street) collectively reducing the redevelopment feasibility of these lands
- In some cases, outdated building/shop frontages which could be subject to revitalisation
- A general lack of investment impetus given constraints relating to heritage provisions and current zoning (Commercial 2 Zone)

The Commercial 2 Zoned lands contain hospitality uses along with bulky goods and offices. Collectively they contribute to the local economy by providing a moderate level of local employment opportunities, but not to the extent of constituting a core employment precinct. Figure 5 below shows the estimated present employment yield of the precinct which have been derived from the floorspace data quoted in Figure 4; the employment figures (995 jobs) of the Commercial 2 Zoned lands are of particular interest.

FIGURE 5 ESTIMATED EMPLOYMENT LEVELS BASED ON FLOORSPACE COMPOSITION OF FIGURE 4

Use category	Floorspace per Job ¹	Jobs in C1Z lands	Jobs in C2Z lands	Total jobs
Dwellings	-	-	-	-
Service industry	55	35	84	119
Clothing/accessories	32	110	33	143
Electrical	58	18	-	18
Hospitality	29	221	72	293
Gallery/studio	29	157	63	220
Household goods	44	64	154	218
Medical/cosmetic	29	53	50	103
Office	30	142	539	681
Vacant	-	-	-	-
Total		800	995	1,787

Source: SGS analysis of (i) City of Yarra 2015 Rates database and (ii) City of Yarra 2015 Land Use Survey

Likely Future Role

There are some divergent market trends prevailing over the City of Yarra. This generates some significant levels of uncertainty regarding what the likely outcomes could be.

Base case – Retain Commercial 2 Zone

This is not a core employment precinct of the City of Yarra. It also contains many small lots which prevent larger developments from establishing in the area unless there is any reason for large scale investment to fund site amalgamations.

As discussed in Section 2, there would be significant benefits to the community if public sector investments in nearby arts and cultural facilities were leveraged to enhance land use in the broader Johnston Street Activity Centre.

The Commercial 2 Zone has largely proven to be an impediment for private sector investment, and has essentially prevented reinvestment on sites where buildings and frontages are largely outdated.

Retaining the Commercial 2 Zone would likely result in an underutilisation of sites and could become a barrier to optimising benefits which would be provided by investments to the arts and cultural facilities.

Rezoning to Commercial 1 Zone/ Activity Centre Zone

If the Commercial 2 Zoned lands are rezoned to a Commercial 1 Zone, there are generally three land use possibilities for land owners.

- Land uses change along with site amalgamation and/or redevelopment

¹ Sourced from employment land audits undertaken by SGS around Metropolitan Melbourne

- Land uses change without site amalgamations and/or redevelopment
- Land uses remain unchanged

Whilst it is difficult to predict the exact outcome for individual sites, recent planning permit activity in this precinct suggests that the most likely long term outcome for C1Z sites along this precinct is mixed use development with site amalgamations of smaller lots where feasible.

Existing core retail businesses including those in clothing, household goods², hospitality, galleries and medical uses are likely to remain in the area. This is possible in the event of any redevelopment - as long as Council is able to ensure that ground floor frontages of new buildings can meet the design requirements of such businesses and activities. Indeed the combination of an increased population catchment (due to residential development), prominent main street frontages and an ever increasing presence of the arts and culture scene generating foot traffic both during day and night times should improve the viability of such businesses. The foundations are in place along various parts of Johnston Street to expand upon existing retail and other complementary commercial uses (such as bars and cafes).

Given that this precinct is not a core employment area, there may be little net economic loss if those office based businesses relocated to core employment areas such as the Gipps Street Precinct in Collingwood. Service industries such as car mechanics and similar businesses, generally represent an underutilisation of Activity Centre sites both in terms of economic output as well as employment yields and are once again more suited to locations with clusters of similar light industrial and commercial activity, which can also be observed in the Easey Street Precinct north of Johnston Street.

Recent planning permit applications received by the City of Yarra in this precinct suggest that on most redeveloped sites we can eventually expect a combination of ground floor retailing along with dwellings on the upper floors. The development of employment floorspace on upper floors is unlikely in the prevailing economic climate, and would require elements of vertical zoning to be mandated (through perhaps an Activity Centre Zone).

A local activity centre planning policy specific to Johnston Street may provide some guidance in terms of the preferred future character and mix of land uses to achieve strong economic and employment outcomes in conjunction with dwelling growth which is suited to the activity centre function of Johnston Street. A preferred mix of ground floor retail, lower level office and upper level residential could be specified for sites that have the capacity (size requirements) to accommodate this type of mixed use development model. Finer grain heritage sites may have less capacity to achieve these aspirations.

If the Commercial 2 Zoned areas are rezoned to the Commercial 1 Zone, it can be expected that something in the order of 32,000 sqm of commercial employment floorspace is achievable. 32,000sqm represents an approximate 15% reduction on the 37,393 sqm of existing ground floor commercial floorspace of the Commercial 2 Zoned areas. This is because in most recent C1Z redevelopments of Activity Centre sites around inner Melbourne, a portion of the ground floor is required for a foyer, lifts and entries. We should note that this is the prevailing form of development around Inner Melbourne; it could well evolve into different development typologies in the medium to long run.

Applying a general retail floorspace to employment ratio of 30sqm per job, we can expect that this would yield approximately 1,000 to 1,100 jobs – a slight increase on the existing level of employment (995 jobs in C2Z lands) due to greater levels of employment density that can be achieved on core retail floorspace compared to some other uses such as service industry and household goods. This scenario however, assumes that there would be sufficient retail floorspace demand to avoid vacancies.

² The household goods stores identified along Johnston Street are best described as 'high density' household goods, with store sizes generally less than 500sqm. These activities can be retained in Activity Centres by collocating with core retail activities without the need for a separate bulky goods precinct.

We have applied a sensitivity analysis to demonstrate the level of employment which would be achieved under various vacancy scenarios:

FIGURE 6 RETAIL EMPLOYMENT SENSITIVITIES UNDER VARIOUS VACANCY SCENARIOS

Existing C2Z	C1Z 0% vacancy	C1Z 5% vacancy	C1Z 10% vacancy	C1Z 15% vacancy
995 jobs	1,059	1,006	954	901

These vacancy rates would be dependent upon the volume of residential development which can be accommodated in the area. Significant expansion of the local residential population in combination with an expanding arts and culture scene should see sufficient demand for retail and hospitality services leading to less than 5% retail vacancy. However if residential development is not achieved (with site amalgamation likely to be a potential impediment), 10% or 15% vacancies are possible. However even in this case, the employment outcome would be similar when compared against the existing employment yield.

As mentioned earlier however, the nature of recent planning permit applications along Johnston Street suggest there is strong market demand for mixed use development that comprises ground floor retail (generally two shops) with a significant residential component in the upper floors.

Underutilised sites

Underutilised sites in the context of this report refers to land areas or properties with low-scale built form accommodating a relatively low intensity of commercial use with moderate to low employment numbers. The potential exists on these sites to expand upon the existing commercial floor area/space to accommodate greater numbers of employees in more purpose built, contemporary spaces. This generally requires re-investment/redevelopment of sites, which is generally not occurring in the Commercial 2 Zone. Within the Commercial 2 Zone along Johnston Street there also a number of upper levels either not being used, or being used illegally for residential uses. Rezoning to the Commercial 1 Zone would also legitimately allow the use of upper levels of buildings for residential purposes which is beneficial to many business types, particularly the creative industries.

Options Assessment

The two zoning options are assessed on their merits in the matrix below.

Option	Benefits	Costs
Retain existing zoning arrangements	Protection of existing employment generating uses – particularly office and service industry.	<p>Vacancies and land underutilisation are likely to be perpetuated without much sign of redevelopment or revitalisation.</p> <p>Retaining the C2Z will result in a missed opportunity to leverage off the public sector investment in arts and cultural facilities along this corridor.</p> <p>Stifles redevelopment opportunities for purpose built contemporary commercial spaces/buildings (noting that heritage buildings will continue to be protected under the Heritage Overlay and there are opportunities on larger sites for new mixed use development set back from the heritage streetscape).</p>
Rezone the precinct to C1Z	<p>Allowing residential uses will improve development feasibility and is likely to stimulate private sector investment.</p> <p>If dwelling construction occurs, there will be an increase in population in the local area, supporting local population serving businesses.</p> <p>A natural expansion of the broader Fitzroy-Collingwood retail precinct.</p> <p>With significant growth of local population through facilitating medium to high density development, there should be sufficient demand for retail and population servicing employment to offset the loss of existing employment in this location.</p>	<p>Loss or displacement of some employment generating uses (office, service industry). Most new developments in Commercial 1 Zoned lands are unlikely to contain office or service industry floorspace. However these uses may not be 'lost', but instead relocate to core employment precincts including the Gipps Street Precinct and Easey Street Precinct which is within the study area.</p>

Discussion

Rezoning to the Commercial 1 Zone allows opportunities for changes in land use that are currently not available under the current Commercial 2 Zoning. Current land use activity would be able to continue to operate and potentially the expansion of land use opportunities would benefit Johnston Street as an emerging activity centre with a mix of retail, commercial and service based industries, in addition to the incremental growth in population that would occur under the Commercial 1 Zone.

Making residential land use a legitimate activity on the northern side of Johnston Street would allow small businesses (including art galleries and studios) to have the added convenience of being able to live

above downstairs activities. The emergence of the Collingwood Arts Precinct on the former TAFE site could also benefit from on-site residential activity (artist living quarters).

Recommendations

Policy recommendation:

Facilitate the transition of this precinct to mixed use by rezoning all properties with a Johnston Street frontage that is currently zoned Commercial 2.

Rationale:

The facilitation of large scale population growth would lead to significantly increased demand for retail, hospitality and services, and is assessed as the best means of re-activating ground floor sites along Johnston Street.

Allowing the market to reinvest in this area is the best means of leveraging the public sector investments in arts of cultural facilities into wider economic benefits.

Service industry and office uses would benefit from relocating to core employment precincts elsewhere in the City of Yarra, including the Gipps Street precinct. As the table below indicates, a rezoning can address three of the five major causes of under investment identified for this precinct:

Issues	Impact of rezoning
A lack of regional demand for Johnston Street retail floorspace given the level of demand absorbed by Commercial 1 Zoned land supply in more attractive locations further west along Brunswick Street and Smith Street	No impact
A lack of local demand for Johnston Street retail floorspace given the lack of dwellings and population within the Johnston Street precinct	Facilitation of residential development will increase local demand for retail and population serving businesses
Sub-optimal pedestrian amenity for core retail and hospitality uses given the presence of heavy traffic along Johnston Street	No impact, although other measures could be employed by council to improve traffic and amenity outcomes
Small lots and potential overshadowing of side street dwellings (to the south of Johnston Street Central) collectively reducing the redevelopment feasibility of these lands	Allowing for residential development will significantly enhance the feasibility of site amalgamation and redevelopment. Overshadowing of dwellings not an issue on the northern side of Johnston Street
In some cases, outdated building/shop frontages which require revitalisation	Site redevelopment will ensure that outdated building/shop frontages are redeveloped

Zoning recommendation:

Rezone Commercial 2 Zoned properties along Johnston Street to Commercial 1 Zone.

Given the analysis above, the C1Z would appear to be the most appropriate option because it is likely to be sufficient in delivering on the rationale supporting the policy recommendation. We also note that mandated ground floor retail employment activities alone would likely deliver an employment neutral outcome compared to persisting with the existing C2Z.

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