

Economic and Social Impact Report
Impact of Increased Density at 232-240 Elizabeth Street, Surry Hills



Prepared by Planning Lab

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Introduction

Planning Lab has been engaged by Stasia Holdings Pty Ltd to prepare an Economic and Social Impact Report of the proposed increase to the non-residential floor space ratio of 232-240 Elizabeth Street, Surry Hills. The increased density is being proposed under a planning proposal along with a maximum building envelope. The indicative concept design accompanying the planning proposal envisions the demolition of the existing structures on site for replacement with a new 10-storey commercial building with three basement levels.

The proposed increase in commercial GFA is a response to market demand for commercial office space within Surry Hills and on the Sydney CBD fringe. The proposal also responds to the State planning priority to achieve a 30-minute city by locating additional commercial floor space within short walking distance from Central Train Station.

The City of Sydney has requested the preparation of an Economic and Social Impact Report to discuss the social and economic benefits of the planning proposal. This Report demonstrates that there is sufficient demand for commercial floor space within Surry Hills to warrant the increased density. The analysis also demonstrates that the demographics of Surry Hills are favourable towards the type of employment likely to be available during the building's operational phase. Accordingly, the Report finds that the proposed increase in available floor space on the subject site will have a positive social and economic impact.

Methodology

The following have been undertaken in the preparation of this Report:

- a site visit;
- a review of the strategic land use policies applicable to the site and proposal;
- a socio-economic review of available ABS Census data; and,
- a summary of commercial office leasing trends;

Resources

The following resources were used to produce this report:

- Australian Bureau of Statistics (2011). Census of Population and Housing
- Australian Bureau of Statistics (2016). Census of Population and Housing
- Australian Bureau of Statistics (2021). Census of Population and Housing
- Knight Frank (2019) Sydney City Fringe: Office Market Report – June 2019
- Knight Frank (2020) Sydney CBD: Office Market Report – September 2020
- Knight Frank (2021) Sydney CBD: Office Market Report – September 2021
- Knight Frank (2022) Sydney CBD: Office Market Report – September 2022

Project Context

Site Location

The subject site is located at 232-240 Elizabeth Street, Surry Hills within the City of Sydney Local Government Area (LGA). It is located approximately 300 metres north of Central Train Station (Figure 1). The surrounding area is characterised by a mix of commercial and residential land uses. The ground level is typified by active retail tenancies. Development along Elizabeth Street is dominated by buildings greater than 6 storeys in height.

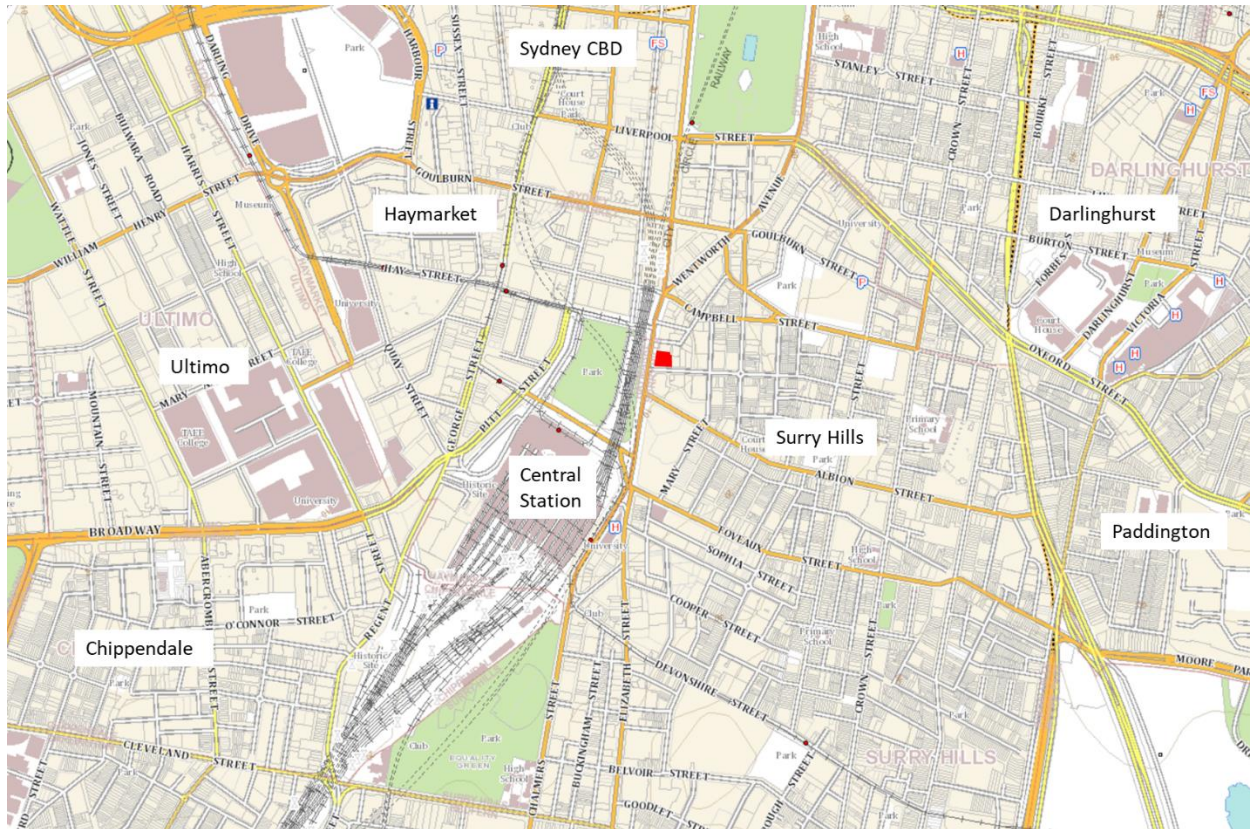


Figure 1 - Site location

Planning Proposal

The Planning Proposal that this assessment supports seeks to amend the site's permissible maximum floor space ratio (FSR) from 5:1 to 7:1 where a non-residential development is proposed.

The subject site has an area of 905.6m². Under the existing FSR of 5:1, a maximum gross floor area (GFA) of 4,528m² is permitted. Under the proposed non-residential FSR of 7:1, a maximum GFA of 6,339m² would be permitted. This is a proposed maximum GFA increase of 1,811m² for non-residential land uses. It is anticipated that the development would provide ground floor retail space and that the upper levels would likely be occupied by commercial offices. Therefore, the additional GFA would be utilised entirely by commercial office space.

The *City of Sydney Development Contributions Plan 2015* estimates an occupancy of 21m² of GFA per worker in an office premises with 4 or more storeys. It also estimates 21m² of GFA per worker in a food and drink premises (ie, restaurant, café & takeaway premises). These figures, along with the indicative concept design, have been used in table 1 to estimate the increase in workers accommodated on the site between a commercial development with an FSR of 5:1 against 7:1.

It should be noted that the site is zoned MU1 Mixed Use which permits the development of shop top housing or residential flat buildings. It is possible that an application under the current controls could provide no employment floor space.

Table 1 - Proposed increase to floor space and occupancy

| Attribute | Existing FSR Control | Proposed FSR Control | Difference |
|---------------------------|----------------------|----------------------|---------------------|
| Maximum GFA | 4,528m ² | 6,339m ² | 1,811m ² |
| Est Retail GFA | 452m ² | 452m ² | Nil |
| Est Retail workers | 21.5 | 21.5 | Nil |
| Est office GFA | 4,076m ² | 5,887m ² | 1,811m ² |
| Est office workers | 194.1 | 280.3 | +86.2 |
| Total workers | 215.6 | 301.8 | +86.2 |

The increased FSR would accommodate an estimated 86.2 additional office workers and would ensure that the site was developed for commercial purposes rather than as a residential flat building. In comparison to a residential flat building, the indicative concept design would provide floor space for an additional 301.8 jobs.

Strategic Planning and Policy Framework

Greater Sydney Region Plan—A Metropolis of Three Cities

The Greater Sydney Region Plan provides direction for the future development of the Greater Sydney Region. Of relevance to the proposed development is the target to facilitate 817,000 new jobs by 2036 and the objective to create a 30-minute city.

The proposal to increase the maximum permissible non-residential GFA on the subject site would increase additional employment opportunities in a central and accessible location. Given the demographic characteristics of the area, the proposed development is likely to be an attractive place to work for local residents, allowing residents to work close to home. The proposal is will contribute positively towards the 2036 employment target and the objective for a 30-minute city.

Eastern City District Plan

The Eastern City District Plan identifies Surry Hills as being within the ‘Harbour CBD’ which is described as the “established economic heart” of Greater Sydney.

Planning Priority E7 is growing a stronger and more competitive Harbour CBD. The Eastern City District Plan estimates there to have been 496,900 jobs in the Harbour CBD area (excluding North Sydney) in 2016 and forecasts between 662,000 – 732,000 jobs by 2036 which is an increase of between 165,100 - 235,100 jobs over the 20-year period. The plan also emphasises the importance of high amenity levels to attract employers and their workers to the Harbour CBD.

The Eastern City District Plan describes strong growth in residential property values against commercial property values since 2009. It identifies residential property as a competitor to commercial land uses that needs to be managed so as not to compromise the CBD’s economic value.

The proposed development aims to create a new infill building that is of commensurate scale with existing surrounding development, provides additional commercial floor space and improves the site’s relationship to the public domain with a new through site link. The proposed increase to FSR would allow a potential additional 86.26 office workers in comparison with the existing FSR control. The proposal is consistent with The Eastern City District Plan’s intention to support additional employment capacity and improved amenity in the Harbour CBD.

City Plan 2036: Local strategic planning statement

The City Plan 2036: Local strategic planning statement sets a land use vision for the City of Sydney until 2036. It sets a range of land use priorities for the City.

Of relevance to the proposed development is Priority P2 which is “developing innovative and diverse business clusters in City Fringe”. Surry Hills is identified as being part of the Eastern Creative Precinct which makes a valuable contribution to the City’s economy.

Priority P2 includes the following objectives:

| Objectives | Comment |
|---|--|
| <i>City Fringe is a leading place for investment and innovation and is known for its specialised economic role, knowledge intensive clusters, urban amenity and character</i> | The subject site is located just outside of the Sydney CBD area where the CBD transitions to the City Fringe. The proposal would allow for the creation of additional commercial floor space in this valuable and well-connected location. |
| <i>Walkable, high amenity and technologically connected places support knowledge sharing and collaboration between diverse businesses, institutions and global talent</i> | The subject site is within Surry Hills which exhibits high levels of amenity, is walkable and has excellent access to public transport. The proposal would deliver a through site link |

| | |
|--|---|
| | between Foster and Reservoir Streets, increasing walkability. |
| <i>The Innovation Corridor is globally competitive with specialised knowledge intensive, research and innovation-based clusters, industries and institutions</i> | N/A – the subject site is not within the Innovation Corridor. |
| <i>The Eastern Creative Precinct is a thriving, regionally significant cluster of creative sector business, arts and cultural enterprises</i> | The proposal would provide for additional commercial floor space within the Eastern Creative Precinct. |
| <i>Genuine mixed-use village areas celebrate distinct economic, social, heritage and cultural characteristics</i> | The proposal has the potential to include ground floor retail uses to contribute to the vibrancy of the area. |

In considering the City Fringe Area, the LSPS states (emphasis added):

“The economic opportunities of the City Fringe relies in part on the capacity for clusters to grow. Our capacity study shows that 52 per cent of the remaining floor space capacity available within current planning controls in City Fringe is likely to be for uses other than residential. However, 70 per cent of this available capacity is within business zones that allow residential development.

Without intervention, residential development may constrain City Fringe’s capacity to contribute up to 53,800 additional jobs by 2036 to meet the baseline District Plan jobs targets for the Harbour CBD. We also need to improve the diversity of enterprise spaces and balance other uses, including housing, community, recreational and cultural uses, or risk losing out to other global economies that are continually moving towards a knowledge-based innovation economy.”

The subject site is within a MU1 mixed use zone which permits residential development. With the recent removal of accommodation bonuses for residential land uses within Central Sydney, locations of the City Fringe, such as the subject site, are likely to experience increased residential demand. The proposed site specific control would only be available to a non-residential development incentivising commercial development.

The planning proposal is consistent with the Priorities of the City Plan 2036: Local strategic planning statement.

Local Economic Profile

The proposed development will have economic impacts at multiple levels within the community. The greatest impact will be upon people living in the local area around the site. There will be an impact on the wider City of Sydney LGA in which the site is located and a more diffuse impact on the Greater Sydney Region. The 2021 Australian Bureau of Statistics (ABS) census data has been used in this assessment.

The subject site is located within ABS Surry Hills Statistical Area 2 (Surry Hills) (SA2). This data has been used to build a profile of the local community. The Surry Hills SA2 has been benchmarked against statistics for the City of Sydney LGA (City of Sydney) and the Sydney Greater Capital City Statistical Area (Greater Sydney).

Changes to the economic and social environment generated by the proposed development will be most significant within Surry Hills and are the focus of this report. However, in an overall sense, economic and social outcomes will also be generated across the City of Sydney and the wider metropolitan area.

Existing Community and Economic Profile

Key findings of the analysis are as follows:

Population and Age Structure

- Between 2016 and 2021, the number of residents in Surry Hills decreased by 588 to 15,828 residents in 2021, or an average annual rate of -0.7%. This reversed the previous growth trend that occurred between 2011 and 2016.
- The population of the Surry Hills is relatively young with a median age of 35 years. This is slightly older than the City of Sydney's median age of 34 years but slightly younger than the Greater Sydney median age of 36 years.
- Approximately 71.2% of the residents in the Surry Hills were aged between 20-64 years. This is fewer people in that age range than across the City of Sydney where 80.2% were between 20-64 years but more than the Greater Sydney Region where 60.7% of people are in that range.
- The population data indicates that the City of Sydney, and Surry Hills in particular, is attractive to people of working age.

Education

- 54.9% of residents (over 15 years of age) in Surry Hills have obtained a level of education equal to a bachelor degree or higher. This is slightly higher than for the City of Sydney at 52.6% and much higher than the Greater Sydney rate of 33.3%.

Occupation and Employment

- 70.9% of people living in Surry Hills (over the age of 15 years) are in the labour force. This is higher than the proportion in the City of Sydney at 68.7% and higher than the Greater Sydney Region at 60.0%.
- Surry Hills has a substantially greater number of residents who fall within the occupation categories of 'professionals', 'managers' or 'clerical and administrative workers' than the

City of Sydney or Greater Sydney. These are the occupational categories most likely to be employed in the proposed building.

| Occupation (top responses) | Surry Hills | City of Sydney | Greater Sydney |
|--|-------------|----------------|----------------|
| Professionals | 45.9% | 41.6% | 29.3% |
| Managers | 20.2% | 18.7% | 15.2% |
| Clerical and Administrative workers | 9.4% | 10.6% | 13.8% |
| Total | 75.5% | 70.9% | 58.3% |

Summary

The Surry Hills statistical area and the City of Sydney LGA have younger than median populations. This population is both more highly educated and more likely to be engaged in the labour market than the Greater Sydney Region average. Residents of Surry Hills are also much more likely to be employed in typically ‘white collar’ occupations. The demographics of Surry Hills and the City of Sydney are favourable to staffing commercial office space.

Commercial Office Market in Surry Hills

This Report accompanies a Planning Proposal to increase the permissible density of the subject site. The realisation and completion of a development under the proposed controls would be likely to take at least four years from the lodgement of a Planning Proposal.

The following section examines the commercial office market in the Sydney CBD and Surry Hills.

Current Trends in Commercial Office Space Market

The Covid-19 pandemic saw a reduction in demand for commercial office space within the City of Sydney CBD. The Knight Frank Sydney CBD Reports from September 2020, September 2021 and September 2022 recorded average vacancy rates of 5.6%, 9.2% and 10.1% respectively. Notably, during this time an additional 255,930m² of additional floor space became available due to building completions.

While average vacancy rates have increased since the beginning of the Covid-19 pandemic, Knight Frank (2022) forecasts that vacancy rates have likely peaked. Their forecast notes that unemployment is historically low and job vacancies are near record highs. These economic attributes

will likely drive demand for more office space in the near future. The analysis also notes that demand for leasing floor space over the 18 months to September 2022 has been strongest in the technology sector (33%) followed by financial services (21%) and professional services (16%). Knight Frank (2022) forecasts that there will not be a substantial increase in CBD office supply until 2024 which will be focused around over station developments. These developments will involve the demolition of some existing ageing office stock which will cause displacement.

While the above relates to the CBD, the site is located in the closest area of the City Fringe which will react to changes in the CBD market. Rents have continued to rise slowly in the Sydney CBD since 2020 despite higher vacancy rates. This will encourage some tenants who are priced out of the CBD to continue seeking nearby alternatives.

Knight Frank released a Sydney City Fringe Market Report in June 2019 which found there was an undersupply of commercial floor space in the City Fringe area. That report recorded Surry Hills as having a commercial vacancy rate of only 3.2% at that time. It noted that Surry Hills was an attractive area for tenants and had recorded average vacancy rates below the Sydney CBD average since 2011. The research accounted for this noting that businesses were increasingly looking to promote flexibility for their workforce and provide superior amenities through the nearby co-location of exciting restaurant and bar concepts.

Much of the floor space likely to be delivered in the near future will occur as part of large over-station developments which will draw large corporations and leaseholders into new premium office space. The subject site can offer office space to suit multiple smaller or mid-size businesses that are forced out of the Sydney CBD market or who value the Surry Hills location.

Proposal's Response to Commercial Office Trends

The proposed amendment to the Sydney LEP 2012 would permit an additional 1,811m² of commercial GFA to be realised on the subject site within the City Fringe market. While demand for commercial office space has fallen within the Sydney CBD following the Covid-19 pandemic, it is forecast to rebound in the future. Demand is likely to continue in the Surry Hills area as the area offers a cheaper alternative to the Sydney CBD and is attractive to create industries.

Social and Economic Benefits

The following section examines the social and economic benefits of the proposed development.

Employment

Once operational, a commercial building on the subject site in accordance with the indicative concept design would support up to 280.3 office jobs in addition to 21.5 retail jobs. This is 86.2 additional office jobs in comparison to a commercial development carried out with an FSR of 5:1.

The increased FSR would help ensure that the site was developed for commercial purposes rather than as a residential flat building. In comparison to a residential flat building, the indicative concept design would provide floor space for an additional 301.8 jobs.

Surry Hills, has a concentration of employers in the Professional, Scientific and Technical Services industries. Firms occupying these office spaces will demand highly skilled workers. As illustrated by the demographic analysis, Surry Hills has a relatively high proportion of highly educated workers. Notwithstanding this, the site is in proximity to sustainable public transport options and thus has access to a relatively large pool of highly skilled workers.

Increased Local Expenditure

Additional employees will increase retail trade in the local area. This benefits a range of local businesses including; local cafés; restaurants; bars; shops selling take-home groceries; and, personal services such as gyms and hairdressers.

Assuming that employees spend an average of \$15 per working day on local food and beverages, this would result in total annual spending on local businesses of around \$1.13 million per annum.

- $(301.8 \text{ workers} \times (\$15 \times 5)) \times 50 = \$1,131,750$

Of this, \$323,250 per annum would be attributable to the additional 86.2 office workers.

- $(86.2 \text{ workers} \times (\$15 \times 5)) \times 50 = \$323,250$

There will also be additional spending on retail goods, entertainment, leisure activities and personal services. Some of this spending will be retained within the Surry Hills area and will be of benefit to the wider retail/commercial precinct along Crown Street and surrounding areas. Additional spending will inevitably also be directed towards retail shops and services within the Sydney CBD.

The extent of spending by workers on non-food items is difficult to estimate but will be positive for Surry Hills and the wider City of Sydney LGA.

Urban Improvement

The proposed building envelope includes a new through-site link between Reservoir Street and Foster Lane. This is intended to work in conjunction with a through site link newly created at through site link at 52 Reservoir Street to enliven Foster Lane. The indicative concept design demonstrates that a through-site link could be activate along its entire extent encouraging greater permeability of the block and improving the local character.

Promotion of Active Transport

Commercial development on the subject site will encourage the use of active and public transport modes.

The demographic analysis undertaken in this report demonstrates that there is a large pool of prospective employees within the Surry Hills and wider City of Sydney LGA areas. Employees living

close to their place of work are more likely to walk or cycle to work. The inclusion of end of trip facilities will further encourage active transport.

The site is located approximately 300m walk from Central Station where Train, Light Rail and Bus services can all be readily accessed. This encourages the use of public transport to access the site.

Efficient and Productive Use of Land

The site is located on the City Fringe and in the Eastern Creative Precinct. This area hosts existing office space but there continues to be high demand for more. The planning proposal has the potential to deliver a high-quality re-development of the site for office uses. The subject site can accommodate a scale of offices that will attract and retain additional professional services business that are consistent with the employment needs of the local workforce.

Conclusion

The key findings of this report are as follows:

- The proposed increased density being tied to commercial uses will incentivise a commercial development over a residential development. A commercial development at an FSR of 7:1 will accommodate an estimated 301.8 jobs. This is 86.2 more office jobs more than a commercial development at an FSR of 5:1.
- The proposed increase in achievable commercial density is generally consistent with the land use and economic outcomes sought by relevant key strategic planning documents.
- Demographic analysis shows that residents of the City of Sydney and Surry Hills more specifically are well suited to work opportunities likely to arise in a commercial office on the subject site.
- The commercial office market in Sydney and the City Fringe, which includes Surry Hills, has higher vacancy than in 2020 due to changes following the Covid-19 pandemic though vacancy rates appear to have peaked and no substantial new floor commercial space is expected to enter the market until 2024.
- Surry Hills has had consistently lower vacancy rates than the Sydney CBD between 2011-2019. More recent data is not available.
- Surry Hills is an attractive location for businesses operating in creative and technology-based industries.
- The site is well located in relation to public transport and has a large population within a 30 minute commute catchment.

This Report finds that the proposed density increase on the subject site, restricted to non-residential land use, will have a positive impact on the economy of Surry Hills and the Sydney of Sydney LGA. The redevelopment will also improve the site's urban presentation and increase the permeability of the block. Overall, the proposal is anticipated to have a positive economic and social impact.