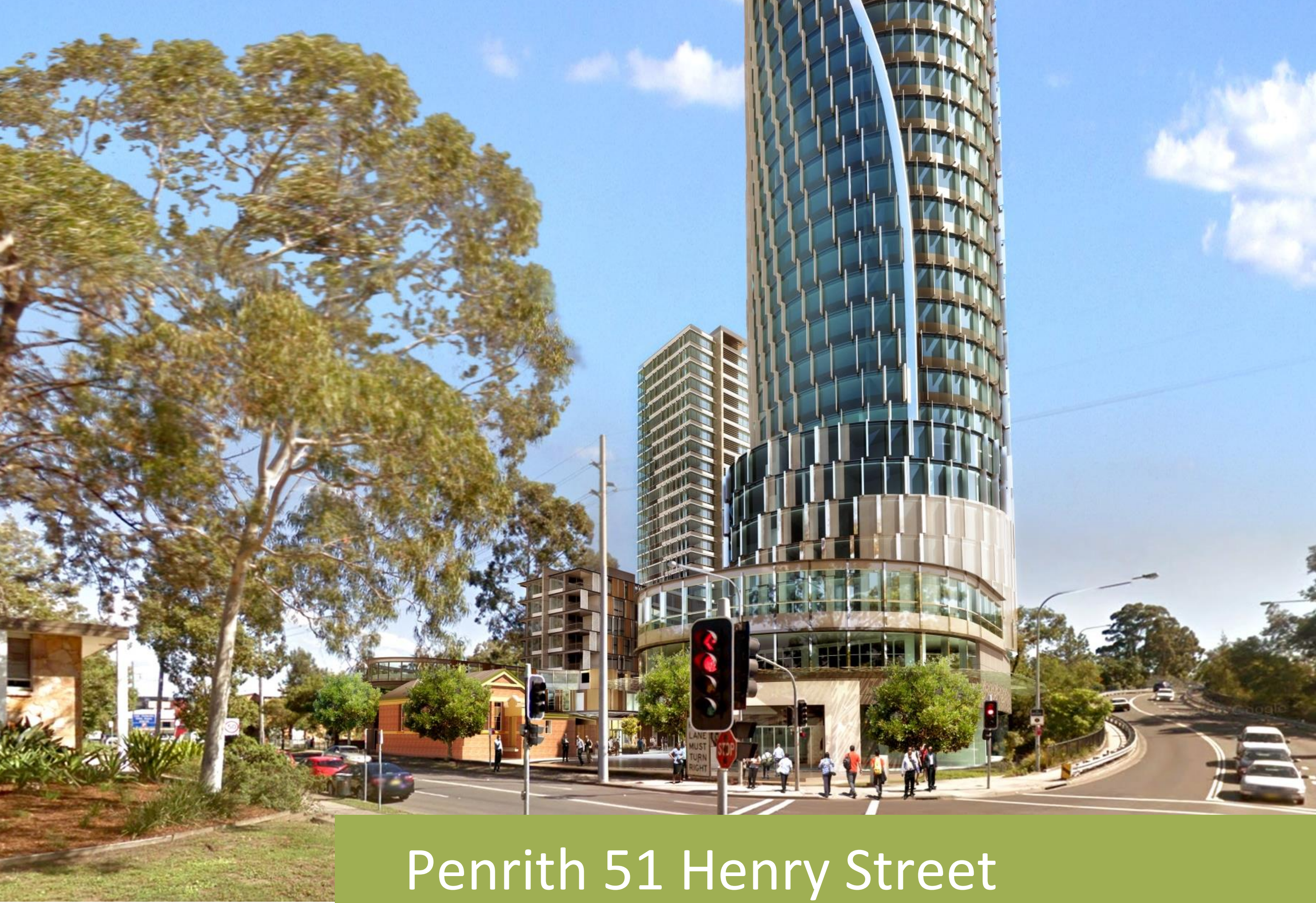

Penrith 51 Henry Street

Economic Impact Assessment

Prepared for Dickson Rothschild

August 2016

HillPDA CONSULTING

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EXECUTIVE SUMMARY

This report was prepared by HillPDA as commissioned by the owners of a site at the corner of Henry Street and Evan Street (51 Henry Street) in the Penrith CBD (hereafter known as the subject site). The site was the former Department of Education Regional Office. The purpose of this report is to present the findings of the Economic Impact Assessment (EIA) relating to the redevelopment of the subject site.

The Planning Proposal is for the rezoning of the land to permit high density mixed use development on the subject site. The site is well positioned on the eastern entrance to the CBD some 700 metres from Westfield and Penrith Train Station.

The proposed development includes the retention of the heritage cottage (Penrith Infants Department constructed in 1884) and the construction of 2 new towers. Within the towers the mix is as follows:

- 9 retail tenancies totalling 1,571sqm GFA;
- 100 room hotel;
- 454 residential apartments

Planning Review

The proposed development would provide residential and employment uses, deliver greater housing diversity and increased housing supply within the Penrith City Centre. It would encourage Penrith to grow and provide impetus for further investment. These outcomes are all in line with the goals and directions of the "A Plan for Growing Sydney".

The Penrith Urban Strategy 2031 identifies Penrith as the Regional City having "a full range of business, government, cultural, entertainment and recreational activities. By 2031 it is expected to have 7,500 dwellings within a 2km radius, 15,000 residents and 150,000 to 250,000sqm of retail floor space.

The Strategy targets Penrith City Centre with the opportunity to provide over 3,700 more medium to high density dwellings by 2031. The Strategy further identifies the opportunity for retail space to grow by way of mixed use developments to continue to cater for existing and future needs. As such, the Planning Proposal is in accordance with the opportunities and actions outline within

Council's Strategy by providing a high density mixed use development 700 metres from Penrith Station.

The Demand for Housing

Until recently apartments above three levels with lift access were not viable in Penrith. This is now changing. Penrith's CBD with its wide retail offer (anchored by the Westfield major regional shopping centre), its wide range of entertainment and services and its express train services to Parramatta and Sydney CBD have made this area strongly desirable.

House and unit prices have increased by more than 50% over the past three years and development activity has increased significantly. The subject site is ideally located for high density residential at the eastern end of the CBD some 800m walking distance from Westfield and the train station.

The Base Case

The site was used for educational purposes but is now currently vacant. Whilst it could be redeveloped for a complying land use this option is not likely to happen in the foreseeable future due to lack of demand and feasibility.

One option is a commercial office building. However net facing rents in Penrith are too low comparative to construction costs. It has not been viable to develop a commercial office building in Penrith (unless it has a pre-committed government tenant) and neither will it be viable in the foreseeable future. Commercial will only work if it is subsidised by residential as part of a mixed use development.

Retail is a further complying option and the demand for retail space in the Penrith CBD is expected to increase over the next 10 years by a further 30,000sqm due to population growth in the trade area. However the success of space is dependent on its location. Activity is concentrated in Westfield, Nepean Village and along High Street. All other locations such as Henry Street, the arcades, High Street east of Lawson Street and the side streets are inferior locations with significantly lower rents and higher vacancies.

Notwithstanding some retail uses on the subject site may add some attraction and improve the overall mix and marketability of development. Following complete development over the next decade or two there may be sufficient population within walking distance to the north and east to support some convenience retail such as a small format supermarket or grocery store, and several services including hair and beauty and real estate services.

Also some adaptation of the existing heritage building for retail or retail services would also be an appealing use of the building. A themed restaurant is a possibility.

Given the difficulties of development with complying land uses and the position of the site on the eastern end of the Penrith CBD the owners are seeking a rezoning to permit high density mixed use development as described above.

Economic Impacts of the Planning Proposal

Construction Impacts

HillPDA has estimated the cost of construction at $206m. $206m of construction would generate a further $271 million of activity in production induced effects and $203 million in consumption induced effects. Total economic activity generated by construction of the proposal is estimated at $680 million.

Based on the estimated construction cost 562 job years would be directly generated by the proposed development. Due to multiplier impacts the proposal is forecast to generate a total of 2,130 job years directly and indirectly in construction.

Employment on Site

HillPDA estimates a total of 175 workers on site following full development comprising 57 jobs in retail, 7 working in the heritage building, 75 in the hotel and 36 working at home.

These workers will receive $6.9m each year in remuneration (measured in constant 2015 dollars).

Industry value added, or contribution to the local economy, is estimated to be $9.5m every year.

Expenditure in Penrith CBD

Development will contribute to additional spend in the Penrith CBD. The source of this additional spend will be workers at $0.8m, residents at $10.1m and tourists at $3.0m. Assuming 75% capture of resident spend and 67% of tourist spend then retailers in Penrith CBD will enjoy $10.3m more trade every year (measured in constant 2014 dollars) as a result of the planning proposal.

Other Impacts

Other impacts include:

- Stimulating further interest and investment in Penrith CBD;
- Contributing to meeting housing targets consistent with the objectives of "A Plan for Growing Sydney" and the "Penrith Urban Strategy 2031";
- Activating the street front with retail and active commercial uses;
- Retaining and adapting the heritage building for active commercial use, such as a restaurant or similar function;
- Providing a high density "transit orientated development" within walking distance to Penrith Station thereby making a strong contribution towards urban consolidation.
- This will result in improved efficiencies, reducing dependency on private motor vehicle usage and shifting demand more on to public transport.

1 INTRODUCTION

This report was prepared by HillPDA as commissioned by the owners of a site at the corner of Henry Street and Evan Street (51 Henry Street) in the Penrith CBD (hereafter known as the subject site). The site was the former Department of Education Regional Office. The purpose of this report is to present the findings of the Economic Impact Assessment (EIA) relating to the redevelopment of the subject site.

The Subject Site

For context the subject site is located at the Eastern end of the Penrith CBD – some 700 metres to the east of Penrith Station and Westfield Penrith (Figure 1).

Figure 1: Subject site

Source: HillPDA, MapInfo 12.5

The Planning Proposal

The proposed development includes the retention of the heritage cottage (Penrith Infants Department constructed in 1884) and the construction of 2 new towers. Within the towers the mix is as follows:

- 9 retail tenancies totalling 1,571sqm GFA;
- 100 room hotel;
- 454 residential apartments

Study Structure

To meet the requirements of the project brief this Study is set out in the following manner:

- **Chapter 2** - provides a summary of the planning and legislative context of relevance to the development with a particular focus on housing, economic development and retail uses;
- **Chapter 3** - examines the demand for housing in the locality;
- **Chapter 4** – summarises the population growth and growth in retail demand in the Penrith LGA and City Centre;
- **Chapter 5** – examines the base case option and the viability of redeveloping the site under existing zoning controls; and
- **Chapter 6** - considers and quantifies a range of economic impacts which would likely eventuate from the proposed development.

2 CONTEXTUAL REVIEW

This Chapter undertakes an appraisal of the planning and legislative context for the Subject sited based on State, Subregional and local planning guidelines. It considers matters relating to a housing and economic perspective.

A Plan for Growing Sydney

NSW Department of Planning and Environment (NSW DPE) published the *A Plan for Growing Sydney* in December of 2014. It seeks to achieve the following outcomes:

A competitive economy with world-class services and transport;

- A city of housing choice, with homes that meet our needs and lifestyles;
- A great place to live with communities that are strong, healthy and well connected; and
- A sustainable and resilient city that protects the natural environment and has a balanced approach to the use of land and resources.

By 2031, Sydney's economic output will almost double to $565 billion a year, with this economic growth being fuelled partly by an additional 689,000 new jobs over the period. Sydney will also experience a population growth of about 1.6 million persons, with 900,000 of this population growth occurring in Western Sydney. To meet this population growth, an additional 664,000 new dwellings will need to be constructed.

To address the projected economic, employment and population growth that Sydney will experience the draft Plan seeks to promote and facilitate growth which acknowledges market considerations and which integrates transport, infrastructure and land use.

Direction 1.4 of the draft Plan seeks to increase the productivity of western Sydney through growth and investment. As part of this direction, the draft Plan identifies that Western Sydney will require new jobs, located close to existing centres and transport nodes with improved access to knowledge jobs. The direction also highlights the need to provide improved scale and a mixture of job opportunities in order help people work closer to home.

Direction 2.1 seeks to accelerate housing supply across Sydney. By accelerating the delivery of different dwelling types, this direction would help reduce pressure on rising housing prices. The target of this direction is the delivery of 664,000 new dwelling by 2031.

Direction 2.2 seeks to accelerate urban renewal across Sydney with the target of providing homes closer to jobs. The direction highlights the importance of urban renewal in helping to provide housing within Sydney and to achieve the dwelling target. Urban renewal Precincts should be chosen that are in or near centres with good connectivity to economic and social facilities.

Direction 2.3 seeks to improve housing choice to suit the different needs and lifestyles of Sydney's population. The direction aims at requiring local housing strategies to plan for a range of housing types.

Draft SEPP (Competition) (2010)

Following a review undertaken by the NSW DPE and the Better Regulation Office into how economic growth and competition were impacted by the planning system, a new Draft State Environmental Planning Policy (SEPP) has been prepared and was placed on public exhibition in July 2010.

The proposed state-wide planning policy removes artificial barriers on competition between retail businesses. The draft SEPP proposes:

- The commercial viability of a proposed development may not be taken into consideration by a consent authority, usually the local council, when determining development applications;
- The likely impact of a proposed development on the commercial viability of other individual businesses may also not be considered unless the proposed development is likely to have an overall adverse impact on the extent and adequacy of local community services and facilities, taking into account those to be provided by the proposed development itself; and
- Any restrictions in local planning instruments on the number of a particular type of retail store in an area, or the distance between stores of the same type, will have no effect.

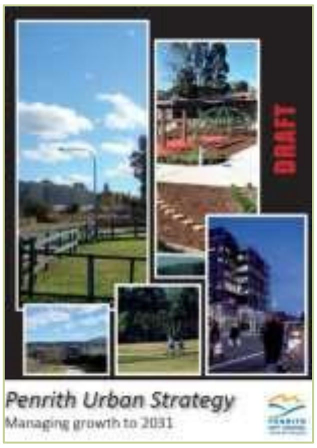
NSW Draft Centres Policy (2009)

Over the past few years there has been a growing awareness and investigation of barriers to competition in Australia, particularly in the retail industry. As a result, the Australian Government directed state governments and planning authorities to review the flexibility of planning regulations and policies regarding retail development. In response, the NSW Department of Planning (as was, now the NSW DPE) released the draft Centres Policy in April 2009.

The draft Centres Policy focuses around six key principles. The principles relate to:

1. The need to reinforce the importance of centres and clustering business activities;
2. The need to ensure the planning system is flexible, allows centres to grow and new centres to form;
3. The market is best placed to determine need. The planning system should accommodate this need whilst regulating its location and scale.
4. Councils should zone sufficient land to accommodate demand including larger retail formats;
5. Centres should have a mix of retail types that encourage competition; and
6. Centres should be well designed to encourage people to visit and stay longer.

Penrith Urban Strategy, Managing Growth to 2031



The Penrith Urban Strategy 2031 (the Strategy) was developed by Council and HASSELL in 2008-09. The Strategy identifies issues, opportunities and constraints associated with accommodating growth within existing urban and new release areas. The Strategy provides guiding principles and actions for future development and capacity within centres located within the Penrith LGA.

The Strategy identifies Penrith as the Regional City having "a full range of business, government, cultural, entertainment and recreational activities. By 2031 it is expected to have:

- 7,500 dwellings within a 2km radius;
- 15,000 residents;
- 150,000 to 250,000sqm of retail floor space; and
- 110,000 to 250,000sqm of commercial office space.
- 950 dwellings at a range of medium to high density developments;
- Increased density;
- Need for greater range of housing types and densities to meet future needs of the wider community; and
- Possibility for retail to grow by way of mixed use developments to continue to cater for existing and future needs.

Opportunities include:

- Good access to transport, particularly Penrith Railway Station
- Strong activity focus through the retail and commercial uses along High and Henry Street, Westfield Penrith Plaza, Centro, TAFE and industrial uses to the north of the City Centre
- Strong demand for housing in the vicinity of a train station
- Good access to local services and schools
- Under-utilisation of a number of sites in close proximity to the city centre where consolidation and redevelopment may be able to meet future mixed use and housing demand and
- Limited environmental constraints to urban growth.

By 2031 more than 3,700 new dwellings are envisaged within the catchment of 2km radius. The strategy identifies a "need for greater range of housing types and densities to meet future needs of the wider community"

Key Findings

State planning policy encourages urban renewal of areas with good connectivity to transport and strategic centres with the aim of providing housing and employment opportunities. The benefit of providing greater residential densities closer to centres of employment and services is recognised in State planning polices for reducing commute times and congestion, while increasing productivity and access to, and patronage of, social and public transport infrastructure.

The proposed development would provide residential, retail and employment uses while delivering greater diversity and increased housing supply in the Penrith City Centre. It would encourage Penrith to grow and provide impetus for further investment. These outcomes are all in line with the goals and directions of the "*A Plan for Growing Sydney*".

The increased population within the redevelopment would also increase employment opportunities for local residents and demand for retail and commercial services. The major proportion of this floorspace demand would be directed to Penrith CBD, further providing impetus for investment and urban renewal.

Penrith Council's Urban Strategy 2031 further highlights the need to encourage a variety of housing choice and mixed use developments within Penrith CBD with a particular focus on the provision of apartments style living. The subject site is located on the eastern gateway end of the city centre.

As such, the indicative development options as outlined in the Planning Proposal are in accordance with the opportunities and actions outlined by the Strategy as it would provide a high density mixed use development within Penrith City Centre.

3 DEMAND FOR HOUSING

Low interest rates and improved business confidence has succeeded in stimulating the residential property sector in NSW, despite uncertainties in the global economy. Increased construction activity and business and consumer confidence has grown in most sectors.

The development of residential housing is driving more widespread renewal than any other land use at present, representing the 'highest and best use' in most areas. Sales of development sites reflect this sentiment, with sites offering residential development opportunities observed to be principally driving activity.

Late 2013 was the start of a property bubble in the Sydney market which has resulted in significant price rises, an increase in development activity, buyer enquires and clearance rates. In our view the current levels of demand in Sydney reflect sustained pent up demand for dwellings. Residential property prices and investor interest over the 5-10 years prior to 2013 were flat and construction activity was failing to keep up with long term demand (which resulted in average household sizes or occupancy rates increasing slightly in the last inter-censual period). The recent upward trend in the residential market is a correction to the previous years of low growth and activity.

While construction in the residential market and infrastructure is continuing to be the forefront of NSW's economy, there still remains some undersupply of housing in parts of Sydney. Further, investor demand has continued to strengthen.

The Penrith Market

The 2011 Census recorded a resident population of 11,813 persons for the suburb of Penrith. Of the 4,934 occupied dwellings recorded, separate houses accounted for 48%, semi-detached dwellings 26% and apartments 26%. Very few apartments were in buildings of four or more storeys (194 apartments).

Between St Marys and Penrith, along the Western Line, lie the suburbs of Werrington and Kingswood with populations of 3,849 and 9,108 at 2011 respectively.

Table 1 below provides a comparison the composition of dwellings within these suburbs, as at 2011.

Table 1: Penrith Dwelling Composition as at 2011

	Penrith	Kingswood	Werrington	St Marys
Total Dwellings	10,781	3,417	1,443	4,103
Total Units	2,038	677	256	585
Units as a share of Total Dwellings	19%	20%	18%	14%
% of units in a 1 or 2 storey block	30%	16%	46%	53%
% of units in a 3 storey block	52%	51%	46%	41%
% of units in a block of 4+ storeys	17%	32%	7%	2%

Source: Census 2011 (percentages do not add to 100% as they exclude units attached to houses)

Land is zoned R3/R4 to varying degrees around each of the railway station in the listed suburbs. The majority of apartments are older style (20+ years) in two and three-storey walk-ups.

In 2015, 205 unit sales were made in the suburb of Penrith, a similar number to St Marys.

Table 2: Annual Unit Sales

	Penrith	Kingswood	Werrington	St Marys
2007	178	112	92	88
2008	179	90	110	118
2009	230	189	96	173
2010	182	151	55	151
2011	219	162	63	175
2012	180	108	50	216
2013	238	156	117	227
2014	225	176	72	254
2015	205	123	71	224
2016	41	22	17	40

Source: : RP Data; 2016 includes 5 months' data.

Historical sales price for units and houses in Penrith and neighbouring suburbs are provided in table 3 below.

Table 3: Historic Median House Price by Suburb (End March)

	Units, $				Houses, $			
	Penrith	Kingswood	Werrington	St Marys	Penrith	Kingswood	Werrington	St Marys
2007	230,000	213,000	198,000	193,000	304,000	304,000	285,000	292,000
2008	233,000	217,000	211,000	203,000	328,000	297,000	311,000	284,000
2009	231,000	217,000	218,000	212,000	330,000	304,000	299,000	279,000
2010	244,000	250,000	238,000	236,000	342,000	324,000	324,000	298,000
2011	269,000	273,000	255,000	264,000	351,000	339,000	350,000	337,000
2012	261,000	272,000	250,000	271,000	360,000	346,000	336,000	340,000
2013	251,000	266,000	252,000	268,000	361,000	351,000	358,000	346,000
2014	291,000	307,000	283,000	319,000	405,000	396,000	390,000	415,000
2015	330,000	353,000	343,000	358,000	516,000	499,000	454,000	484,000
2016	390,000	413,000	390,000	428,000	642,000	586,000	584,000	580,000

Source: Residex Suburb Reports

The above suburbs have achieved 55% growth in the median price of an apartment in the past 3 years. The median house price has increased more at around 78% in Penrith and 68% in the other suburbs.

The 8 storey "Thornton Central" development in Penrith has demonstrated strong demand for units in close proximity to rail and amenities in the western suburbs (all 342 in stages 1 and 2 units have presold). Arguably Penrith's express train service to Parramatta and Sydney CBD and the strength of its CBD offering is making the locality far more desirable than the other localities to the east.

- It is important to note that these developments all comprise buildings below 10 storeys.

New developments and "off-the-plan" sales in the area include the following:

- Thornton has apartments in 9 storey buildings selling at around $7,000 to $8,000/sqm
- 114-116 Station Street, Penrith is a seven storey apartment building with asking prices ranging from $485,000 to $690,000 ($7,263/sqm to $8,800/sqm);
- 337-339 Great Western Highway, St Marys is a seven storey building with prices from $375,000 to $570,000 ($5,700/sqm to $6,650/sqm);
- 180 Great Western Highway, Kingswood has 2-bedroom apartments ranging from $480,000 to $520,000 (average $5,555/sqm);

Note that with new apartments Penrith is achieving considerably higher sale values than the suburbs to the east. Again this is largely the result of Penrith's offering in the CBD and express train service.

Until recently apartments above three levels with lift access were not viable in Penrith. This is now changing. Penrith's CBD with its wide retail offer (anchored by the Westfield major regional shopping centre), its wide range of entertainment and services and its express train service to Parramatta and Sydney CBD have made this area strongly desirable.

Implications for No. 51 Henry Street

The subject site is ideally located for high density residential at the eastern end of the CBD some 800m walking distance from Westfield and the train station.

4 DEMAND FOR RETAIL FLOORSPACE

This Chapter defines a trade area for Penrith CBD. It subsequently examines retail floorspace demand based on household expenditure growth forecasts by:

- Examining demographic characteristics for the residents within the trade area;
- Deriving population forecasts;
- Using household retail expenditure data to calculate the increase in total expenditure generated in the trade area as a result of population and expenditure growth;
- Applying target turnover rates to retail expenditure to determine floorspace demand; and
- Considering demand in the context of existing and proposed developments.

Trade Area Identification

The trade area served by any retail centre/facility is determined by the consideration of:

- The strength and attraction of the centre and / or store as determined by factors such as the composition, layout, ambience/ atmosphere and car parking in the centre / facility;
- Competitive retail centres, particularly their proximity to the subject centre/facility and respective sizes, retail offer and attraction;
- The location and accessibility of the centre / facility, including the available road and public transport network and travel times; and
- The presence or absence of physical barriers, such as rivers, railways, national parks and freeways.

Typically CBDs and regional centres (centres generally with more than 100,000sqm of retail space) comprise more than 30% of total retail space and capture 20% to 25% of total household expenditure in retail goods and services.

It is generally recognised that Penrith CBD is the major centre for the three outer western Sydney LGAs of Penrith, Blue Mountains and Hawkesbury.

Demographics of the Trade Area

Demand for retail floorspace is dependent not only on the number of households in the trade area, but also on the demographic characteristics of those households. In particular higher income households generate a higher demand for retail services. Please note that for the purpose of this demographic review the ABS SA4 geographical boundary known as Outer West Sydney has been analysed and benchmarked against comparable data for the Greater Sydney Metropolitan Area.

The demographic snapshot for the trade area in 2011 indicates the following:

- There were 288,200 people living within the area as of 2011;
- The average household size in the MTA was slightly lower (2.5 persons per occupied dwelling) than that recorded for Greater Sydney at 2.7 persons per dwelling;
- The age profile of the trade area, with 63% of persons aged below 45 years, is similar to Greater Sydney (also at 63%);
- The trade area has a high rate of home ownership at 72% compared to Greater Sydney at 65% and a lower proportion of renters 25% compared to Greater Sydney at 32%;
- Family households dominated household structure in the MTA (76%) compared to Greater Sydney (73%);
- Couple families with children accounted for half of all family types in the trade area (48%);
- The trade area had a very high representation of detached dwellings (84% of total dwellings) compared to 61% for Greater Sydney;
- Compared to Greater Sydney, a higher proportion of working residents in the trade area are employed in blue collar occupations such as trade workers, machinery operators, drivers and labourers;
- The proportion of unemployed residents in the MTA at 5.3% was slightly lower than Greater Sydney at 5.7%;
- Residents within the MTA had a lower earning potential when compared to greater Sydney with 71% of persons earning a weekly personal income of less than $1,000 per week compared to 63% for Greater Sydney; and

- Households within the MTA also had a lower median weekly household income of $1,347 which was $100 or 8% lower than Greater Sydney ($1,447).

Population Growth

Population forecasts for the trade area have been sourced from Pitney Bowes AnySite 2014.[1] AnySite provides a forecast of population growth generally consistent with Forecast.ID to 2024.

The trade area housed 336,400 residents in 2014. By 2024, the population is forecast to reach 368,000. This equates to an increase of more than 31,000 (9.5%) additional persons. The growth rate is around 0.9% per annum.

Forecast Household Expenditure

For the purposes of this report, household expenditure was sourced from AnySite Data 2014 which provides household expenditure by broad commodity type.

Based on the above, and assuming population forecasts as discussed above, HillPDA has forecast household retail expenditure in the trade area as provided in the following table. Note the forecasts assume growth in real retail spend per capita of 1.0% per annum consistent with the long term trend in historic spend[2].

Table 4: Main Trade Area Expenditure Broad Commodity Type 2014-24 ($m2014)

YEAR	2014	2019	2024
Food and Groceries	1,451.2	1,600.1	1,753.5
Liquor Take-Away	246.0	271.2	297.2
Take-Away Food	190.8	210.3	230.5
Apparel	417.0	459.8	503.9
Homewares and Manchester	147.0	162.1	177.6
Bulky Goods	550.9	607.4	665.6
Other Goods	872.5	962.0	1,054.2
Selected Personal Services	160.5	176.9	193.9
Liquor Consumed On Premises	130.1	143.5	157.2
Meals in Pubs, Clubs, Restaurants	313.7	345.9	379.1
TOTAL	4,479.7	4,939.2	5,412.7

Source: Pitney Bowes Anysite 2014 and HillPDA

The MTA generated approximately $4.48b of retail expenditure in 2014. Over the period to 2024 total retail expenditure is forecast to

[1] A product of Pitney Bowes Software (2014)
[2] HillPDA estimate based on ABS Retail Sales, Population estimates and CPI

increase by $933m to $5.4b as a result of population and expenditure growth.

The ABS Retail Survey (1998-99 Cat No. 8624.0) provides a cross tabulation of commodity type by store type (defined by ANZIC). Multiplying the percentages in the cross tabulation by total dollars spend generates household expenditure by retail store type. This is provided in the following table.

Table 5: Trade Area Expenditure by Retail Store Type ($m2014)

Year	2014	2019	2024
Supermarkets and Grocery Stores	1,460.2	1,610.0	1,764.3
Take-away Liquor Stores	173.9	191.8	210.1
Specialty Food Stores	170.7	188.2	206.2
Fast-Food Stores	252.9	278.8	305.5
Restaurants, Hotels and Clubs*	443.8	489.4	536.3
Department Stores	315.6	348.0	381.3
Apparel Stores	370.1	408.1	447.2
Bulky Goods Stores	650.0	716.7	785.4
Other Personal and Household Goods	662.7	730.7	800.8
Selected Personal Services**	160.5	176.9	193.9
Total Retailing	**4,660.4**	**5,138.5**	**5,631.0**

Note that totals in the above two tables do not necessarily equal due to other revenue such as wholesaling and hiring of equipment.
*Hotels and Clubs only includes the Restaurant and Catering component. Other sources of revenue such as gaming and accommodation are excluded.
** Personal services include hair and beauty, clothing alterations, photo processing, optical dispensing and video hiring.

The above table indicates that by 2024 a total of $5.6b of retail sales will be generated by household expenditure within the trade area.

Retail Floorspace Demand

Demand for floorspace is estimated by dividing total household expenditure captured by benchmark retail turnover densities (RTD) measured as $/sqm/annually. For the purpose of this analysis, HillPDA have adopted the following target RTDs and assumed a real growth rate of 0.5% per annum.[3]

[3] This is in line with historic trends. Expenditure per capita has increased at around 1.1% above CPI every year since 1986. Around half of this increase has translated into an increase in retail floorspace per captia (from 1.8spm in the 1980s to around 2.2sqm today). The balance of the increased in expenditure has translated into a real increase in turnover per square meter rates

Table 6: Benchmark Turnover Levels 2014

Year	$/sqm
Supermarkets and Grocery Stores	11,000
Take-away Liquor Stores	12,000
Specialty Food Stores	8,000
Fast-Food Stores	8,000
Restaurants, Hotels and Clubs	5,000
Department Stores	3,600
Clothing Stores	6,000
Bulky Goods Stores	3,700
Other Personal and Household Goods Retailing	4,900
Selected Personal Services	3,500
Total Retailing	**5,933**

Source: National average from ABS Retail Survey 1998-99, escalated to 2014 dollars; Urbis Retail Averages, Shopping Centre News and other Consultancy Reports.

Demand for retail floor space is shown in the table below.

Table 7: Demand for Retail Floorspace in the Trade Area (sqm)

YEAR	2014	2019	2024
Supermarkets and Grocery Stores	132,744	142,756	152,587
Take-away Liquor Stores	14,494	15,587	16,660
Specialty Food Stores	21,336	22,945	24,526
Fast-Food Stores	31,608	33,992	36,333
Restaurants, Hotels and Clubs	88,767	95,462	102,037
Department Stores	87,666	94,279	100,771
Clothing Stores	61,683	66,336	70,904
Bulky Goods Stores	175,675	188,926	201,937
Other Personal and Household Goods	135,253	145,455	155,472
Selected Personal Services	45,843	49,301	52,696
Total Retailing	795,069	855,040	913,923

Source: HillPDA Estimate

By 2024 residents within the trade area would generate sufficient demand for 700,000sqm of non-bulky goods retail floorspace. Around 30% to 35% (more than 200,000sqm) of this should be accommodated in the Penrith CBD. From 2014 to 2024 demand for non-bulky goods retail space in the trade area will grow by 93,000sqm and around 30,000sqm should be provided in the Penrith CBD.

Hence the modest level of retail space proposed on the subject site will meet less than 7% growth in demand for Penrith CBD over the next decade. As a result there will be no adverse impacts on the Penrith CBD resulting from the proposed modest level of retail space on the subject site.

5 THE BASE CASE

The base case refers to the “do nothing” option – that is retaining the existing zoning on site. This chapter provides an assessment of the economic contribution that the current site makes to the local and wider economy.

Currently the site is vacant and hence is making no contribution to the local economy. However it could be redeveloped for a complying land use under its current commercial zone. In this section we investigate the likelihood of this option.

The Office Market

The table below provides current commercial listings in St Penrith.

Table 8: Commercial Real Estate Rents

Location	Net Rent	Floor Area	$/sqm
57 Station Street, Penrith	145,750	530	275
4/2-6 Castlereagh Street, Penrith	36,000	125	288
2003/21-23 Riley Street, Penrith	153,700	530	290
2002/21-23 Riley Street, Penrith	24,360	84	290
3003D/21-23 Riley Street, Penrith	48,778	168	290
Shop 71, 27 Riley Street, Penrith	47,600	170	280
Suite 2, 36 Woodriff Street, Penrith	123,000	408	301

Source: Property Information Monitor, HillPDA

There are also three suites available at 21-23 Station Street in newly refurbished space at Westfield Penrith Plaza with an asking net rent of around $300/sqm.

The above suites are B and C grade stock. One would expect A-grade commercial space to rent more - say $350 to $400/sqm. Nevertheless the net rent is insufficient to meet the cost of amortisation of land acquisition and construction. Accordingly commercial space is not viable in the current and foreseeable future.

The slow take-up of office space in Penrith (particularly the private sector) of course is not unique to Penrith. Traditional commercial centres (with even stronger prices) such as Liverpool, Epping, Burwood and Chatswood have not produced any stand-alone A-grade office buildings over the past 20 or more years. Chatswood for example has a higher average net face rent ($455/sqm) than Penrith yet there has been almost no development of A-grade office space in Chatswood over the past couple of decades and the vacancy rate remains fairly high at around 12%. There are a few current proposals, such as at 815 Pacific Highway, that involve replacing the older commercial stock with new A-grade space, but it requires a significant level of residential floor space as part of a mixed use development to fund it.

Implications for No. 51 Henry Street

An optimistic outcome for an A-grade office building on the subject site is $400/sqm net rent with 92.5% occupancy and 7% yield. This achieves an end sale value of $5,300/sqm or (say) $4,500/sqm GFA. However the cost to design and construct A-grade commercial space is as high as residential if not more - generally at around $5,000 to $5,500/sqm GFA (after factoring in parking costs, site costs and external works, design and application fees, interest, etc). After factoring in land and incentives (25% to 30%) the returns are worse and profit falls well into negative territory.

It has never been viable to develop a stand-alone commercial building in Penrith - unless it is a major government occupier - and neither will it be viable in the foreseeable future. Commercial will only work if it is subsidised by residential as part of a mixed use development.

The Retail Market

Table 14 below provide retail rents in Penrith CBD as well as current average rent for speciality space with Station Plaza (March 2016) and St Marys Village (July 2015) and recent listings for the Jordan Springs Shopping Centre.

Table 9: Retail Real Estate Rents

Location	Net Rent	Floor Area	$/sqm
Shop 13, Lakeside Pde, Jordan Springs	64,000	99	646
Shop 19, Jordan Springs Shopping Centre	45,000	45	1,000
Shop 18, Jordan Springs Shopping Centre	75,000	85	878
St Marys Village (specialties)	3,244,679	3,801	854
St Marys Station Plaza (specialties)	678,580	1,403	484
Level 1, 95 Queen Street, St Marys	44,000	460	96
251 Queen Street, St Marys	65,000	350	186
2/159 Queen Street, St Marys	34,000	105	324
8/458-470 High Street, Penrith	62,000	192	323
Shop 2, 140 Henry Street, Penrith	20,000	59	339

Source: Source: Property Information Monitor, HillPDA

Retail rents vary considerably depending on location, positioning, size of tenancy and footfall. Speciality space at single level St Marys Village and Jordan Springs Shopping Centre is leasing in excess of $800/sqm, compared to the current average for the single level Station Plaza of $484/sqm. In Penrith's indoor centres (Westfield and Nepean Village) the net rents for specialty stores are in the $1,000 to $2,000/sqm range. Along High Street they fall to around $400 to $700/sqm (for small shops of around 60sqm to 120sqm) and in fringe locations the rent falls to $300/sqm or lower.

High Street between Westfield and Lawson Street has very few vacancies - generally no more than one or two at any time. However the small shops in the arcades are typically no more than half occupied. The reasons for the poor performance of the arcades are several including:

- Very low footfall;
- Lack of anchors or attractors to draw people through them; and
- Poor amenity.

Henry Street is secondary mixed use main street comprising of larger format lower rent retailers such as Rivers, commercial buildings including the Tax Office and education and community uses including TAFE. The main retail anchor is the Henry Lawson Centre which includes the Good Guys, Amart Sports, music store, Koorong Bookstore, medical centre and pharmacy.

Beyond (or east of) the Henry Lawson Centre retail is virtually non-existent. There is very little footfall as the majority of patrons in the Henry Lawson Centre park there.

Implications for No. 51 Henry Street

The primary area for retail is Westfield, Nepean Village and High Street. All other locations such as Henry Street, the arcades, High Street east of Lawson Street and the side streets are inferior locations with significantly lower rents and higher vacancies. Any specialty or speculative retail on the site would have a net rent of no more than $300/sqm making retail on its own unviable. The alternative is to have a committed anchor tenant that would attract shoppers - for example a Coles or Woolworths supermarket with ancillary specialties. However this option is not desirable from a planning perspective notwithstanding that it is a compliant land use. Retail should be concentrated along High Street. A large full-line supermarket on the subject site would result in a dilution of activity and redirect some trade away from High Street. There would be a lack of continuity in retail between the subject site and High Street which may not necessarily be a desirable outcome. It would result in more dispersion of CBD retail activity rather than a concentration of it.

Notwithstanding some retail uses on the subject site may add some attraction and improve the overall mix and marketability of development. Following complete development over the next decade or two there may be sufficient population within walking distance to the north and east to support some convenience retail such as a small format supermarket or grocery store, and one or two services including hair and beauty and real estate services.

Also some adaptation of the existing heritage building for retail or retail services would also be an appealing use of the building. A themed restaurant is a possibility.

Conclusion

Redevelopment of the subject site at No. 51 Henry under the current zone and without incentives is not viable. Commercial offices and/or retail space is clearly not viable. Educational use is also not viable without an institutional investor.

Given the site's location on the eastern gateway to the Penrith CBD, mixed use residential with a small component of ground floor retail is clearly the highest and best use of the site. Without the planning proposal No. 51 Henry Street is likely to remain vacant and sterile thereby undermining the objectives of the Land and Environment Planning and Assessment Act 1979 in relation to "the economic and orderly use of land"

A mixed use zone and inclusion of the site in the Key Sites Planning Proposal would improve the viability of development. It will assist the transformation of Penrith CBD into a vibrant mixed use centre where people live, work, shop and play.

6 ECONOMIC IMPACT OF THE PROPOSED DEVELOPMENT

This Chapter examines the economic benefits of the proposal during the construction and post construction phases of the proposed development. Economic benefits such as employment generation, increased workers and local residents' expenditure and other economic multipliers are explored.

Economic Impacts during Construction

Total construction cost has been estimated at $206 million based on the following assumed rates:

	GFA (sqm)	$/sqm	$m
Residential	38,574	3,300	127.3
General Retail (shell only)	1,571	2,700	4.2
Heritage (restaurant)	198	2,000	0.4
Hotel (excluding FFE)	7,730	3,900	30.1
Car Parking	564	50,000	28.2
Site Costs and External Works	3.0%	of above	5.7
TOTAL	48,073		196.0
+ Contingencies	5.0%	of above	9.8
TOTAL			**205.8**

The construction industry is a significant component of the economy accounting for 6.7% of Gross Domestic Product (GDP) and employing almost one million workers across Australia.[4] The industry has strong linkages with other sectors, so its impacts on the economy go further than the direct contribution of construction. Multipliers refer to the level of additional economic activity generated by a source industry.

There are two types of multipliers:

- **Production induced**: which is made up of:
  - first round effect: which is all outputs and employment required to produce the inputs for construction; and
  - an industrial support effect: which is the induced extra output and employment from all industries to support the production of the first round effect; and
- **Consumption induced**: which relates to the demand for additional goods and services due to increased spending by the

[4] Source: IBIS World Construction Industry Report 2015

wage and salary earners across all industries arising from employment.

The source of the multipliers adopted in this report is ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0). These tables identify first round effects, industrial support effects and consumption induced multiplier effects at rates of $0.65, $0.67 and $0.99 respectively to every dollar of construction.

The table below quantifies associated economic multipliers resulting from the construction process.

Table 10: Construction Multipliers ($m)

	Direct Effects	Production Induced Effects		Consumption Induced Effects	Total
		First Round Effects	Industrial Support Effects		
Output multipliers	1	0.646	0.673	0.989	3.309
Output ($million)	206	133	139	204	683

Source: Hill PDA Estimate using data from ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0)

$206m of construction would generate a further $272 million of activity in production induced effects and $204 million in consumption induced effects. Total economic activity generated by construction of the proposal is estimated at $683 million.

Note that the multiplier effects are national, and not necessarily local. The ABS states that:

"Care is needed in interpreting multiplier effects; their theoretical basis produces estimates which somewhat overstate the actual impacts in terms of output and employment. Nevertheless, the estimates illustrate the high flow-on effects of construction activity to the rest of the economy. Clearly, through its multipliers, construction activity has a high impact on the economy."

In particular the multiplier impacts can leave the impression that resources would not have been used elsewhere in the economy had the development not proceeded. In reality many of these resources would have been employed elsewhere. Note that the NSW Treasury guidelines state:

"Direct or flow on jobs will not necessarily occur in the immediate vicinity of the project – they may be located in head office of the

supplier or in a factory in another region or State that supplies the project".[5]

Nevertheless, economic multiplier impacts represent considerable added value to the Australian economy.

Construction Related Employment

Every one million dollars of construction work undertaken generates 2.73 job years directly in construction[6]. Based on the estimated construction cost 563 job years[7] would be directly generated by the proposed development as shown in the table below.

Table 11: Construction Employment

	Direct Effects (Job Years)	Production Induced Effects		Consumption Induced Effects	Total Job years
		First Round Effects	Industrial Support		
Multipliers	1	0.643	0.695	1.338	3.676
Job Years per $million	2.73	1.83	1.98	3.81	10.48
Total job years	563	378	409	786	2,136

Source: Hill PDA Estimate using data from ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0) adjusted by CPI to 2014

The ABS Australian National Accounts: Input-Output Tables 2008-09 identified employment multipliers for first round, industrial support and consumption induced effects of 0.64, 0.70 and 1.34 respectively for every job year in direct construction. Including the multiplier impacts the proposal is forecast to generate a total of 2,136 job years directly and indirectly in construction.

Retail Expenditure from Construction Workers

Construction workers on site would generate additional sources of retail expenditure. This would be spent predominately on convenience-related items such as lunches, coffees, snacks and so on. A recent survey conducted by URBIS found that workers in Sydney CBD on average spend $11,000 per annum in the CBD on food, entertainment and other retail items. Given that the retail offer in Penrith is lower than Sydney CBD, HillPDA has applied a more conservative assumption of retail spend of $25 a day or $5,750 per

[5] Source: Office of Financial Management Policy and Guidelines Paper: Policy and Guidelines: Guidelines for estimating employment supported by the actions, programs and policies of the NSE Government (TPP 09-7) NSW Treasury
[6] Source: ABS Australian National Accounts: Input – Output Tables 2008-09 (ABS Pub: 5209.0) adjusted to 2014 dollars
[7] Note: One job year equals one full-time job for one year

annum per worker for 46 working weeks during the construction period.

On this basis existing retailers in Penrith would enjoy around $3.3 million revenue from construction workers on site during the period of construction.

Economic Impacts of the Proposed Development

Employment Generation

Following construction, the development would support permanent employment in retail and commercial operations on site. The residential component would also accommodate some jobs. According to ABS 7.6% of workers undertake majority of paid work at home (ABS Locations of Work 2008, Cat 6275.0). Given that there are an average of 1.5 working residents per household in Penrith LGA (ABS Census 2011) then almost one in 10 dwellings in the LGA provide paid employment.

For the purpose of the forecast we have assumed a more conservative rate of 1.1 working residents per household given smaller household sizes in apartments. The table below provides an estimate of the number of jobs that would be supported on site following construction and occupation.

Table 12: Estimated Employment Generation

Land Use	Employment Density	GLA	Units	Jobs
General Retail*	1 / 25 sqm	1,428	sqm	57
Heritage (restaurant)	1 / 25 sqm	180	sqm	7
Hotel	0.75 / room	100	rooms	75
Work at Home**	1 / 12 units	431	apartments	36
Total				**175**

Source: ABS Retail Surveys 1990-91 and 1998-99
* Assumes 90% of GFA is leasable and occupied
** Source: 7.6% of workers undertake the majority of work at home (ABS Locations of Work 2008 Cat 6275.0). A rate of 1.2 working residents per household was assumed and 5% vacancy.

As indicated within the table above, the development would facilitate the creation of approximately 175 jobs on site. Currently the site is vacant and hence employs no workers.

Salaries

Based on IBIS World Industry Reports 2014/15, HillPDA has estimated a combined potential annual worker salaries at approximately $8.6

million for workers within the shopping centre. A breakdown by land use can be seen in the table below.

Table 13: Estimated Salaries

	Jobs	Average Wage	Total ($m)
Supermarket	57	$32,700	$1.9
Retail general	7	$59,100	$0.4
Commercial general	75	$32,000	$2.4
Home Based Businesses	36	$62,000	$2.2
Total	**175**	**$39,493**	**$6.9**

Source: IBIS World Industry Reports; and ABS Average Weekly Earnings (Cat 6302).

Hence the development will result in increasing total salaries by around $6.9 million every year.

Industry Value Added

Industry Value Added (IVA) refers to the market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added). The components include compensation of workers, net taxes on production and imports and gross operating surplus. IVA may be referred to as the contribution made to the local economy (GDP).

Table 14: Estimated Industry Value Added of Proposal

	Jobs	IVA/Worker	Total ($m)
Supermarket	57	$48,000	$2.7
Retail general	7	$84,000	$0.6
Commercial general	75	$50,000	$3.8
Home Based Businesses**	36	$68,200	$2.5
Total	**175**	**$54,477**	**$9.5**

Source: IBIS World Industry Reports and Hill PDA

As shown in the above table, the proposed development would contribute around $9.5 million every year to the local economy. Currently the site is vacant and hence makes no contribution to the local economy.

Benefits to Penrith City Centre

Expenditure from Workers

The 139 non-resident workers on site are expected to spend around $0.8m every year on retail goods and services in the Penrith CBD.

Expenditure from Residents

The development would benefit the City Centre and existing retailers by accommodating additional residents. HillPDA estimates an additional 758 residents on site based on average household sizes by bedroom number[8] and a 5% vacancy rate for 454 apartments proposed.

Average spend per resident in Penrith LGA is around $13,300 per annum[9]. Total spend generated by residents on site is expected to be $10.1m.

Most of that expenditure is expected to be spent in the Penrith CBD – in the order of 75%. Some will go to other centres and out-of-centre locations. For instance around 16% will go to purchasing bulky goods items from Mulgoa Road and similar locations and around 6% will relate to tourism-out expenditure. Hence Penrith CBD retailers are expected to enjoy around $7.5m more revenue from residents on the subject site every year (measured in constant 2014 dollars).

Expenditure from Tourists

Tourism, and in particular the accommodation sector, are key contributors to national economic activity and employment. A report by TRA (State of the Industry 2015, November 2015) shows that the tourism sector contributes 5.4% to the national GDP (direct 2.7% and indirect 2.7%). The sector directly employs approximately 534,000 persons or 4.6% of total employment, and indirectly employs a further 391,100 persons (as suppliers, etc).

In New South Wales in 2012/13, the tourism sector contributed directly $13.3 billion or 2.8% to the Gross State Product, and a further $15.1 billion indirectly, according to TRA. In total, tourism was worth $28.4 billion or 6.0% of the New South Wales economy. The sector generated 158,000 direct jobs or 4.4% of total employment, and a further 109,000 jobs indirectly.

The proposed 100 room hotel on the subject site would generate an estimated total of 23,700 occupied room nights every year assuming an occupancy rate of 65%. Assuming an average room rate of $165 per night (4-star quality), the proposed hotel would generate a total annual room revenue of approximately $3.9 million. Total revenue of the hotel is expected to be $6.1m per year.

[8] ABS 2011 Penrith LGA Expanded Community Profile
[9] Mapinfo Anysite 2014 Expenditure Data

With an average occupancy of 1.5 persons per room and an average spend per visitor night of around $85 per person on food and retail goods and services[10], the total amount of annual spending generated by hotel guests would be in the order of $3.0 million every year (in 2014 dollars). Assuming two thirds of this is spent in Penrith, this is a further $2.0m in retail expenditure captured by Penrith CBD retailers.

Total Expenditure in Penrith

Total estimated spend by residents, workers and tourists on the subject site in the Penrith CBD will be around $10.3m every year (measured in 2014 dollars).

Other Economic Benefits

Investment Stimulus

Where a significant property investment decision has been made, it is generally viewed as a strong positive commitment for the local area. Such an investment can in turn stimulate and attract further investment. The direct investment in the Subject site would support a wide range of economic multipliers which would in turn support investment in associated industries. It would also raise the profile of Penrith to potential investors.

The provision of high density residential development on the Subject site would increase the economic benefits of the scheme to surrounding businesses, services and the financial feasibility of public transport. The benefits of residential uses in Penrith CBD are recognised in planning policy increasing the demand for retail, commercial and transport services and hence increasing the viability of these services.

The proposed development would create additional business opportunities in this locality associated with future residents and employment floorspace on site. It would increase the profile of this area and in so doing increase the financial feasibility of mixed use development, potentially acting as a catalyst on surrounding sites.

Increased Housing Supply

*A Plan for Growing Sydney (*the Plan*)* provides core directions in the provision of housing within Sydney, these being:

1. Direction 2.1: Accelerate housing supply across Sydney;

[10] Tourism Research Australia, Sydney Region and Blue Mountains Profiles, September 2014

2. Direction 2.2: Accelerate urban renewal across Sydney; and
3. Direction 2.3: Improve housing choice to suit different needs and lifestyles.

The proposed development would be meeting each of these three directions. Furthermore, the proposed development would provide high density development in close proximity to existing public transport infrastructure, a key initiative of the Plan. It would likely decrease the need for future residents to use personal transportation reducing traffic congestion and increasing environmentally sustainable alternatives.

Street Activation

The development of a mixed use development comprising uses such as commercial, retail and residential located on the Subject site would create increased pedestrian traffic having the effect of further activating the local area. This street activation would have the benefits of increasing security, increasing trade for retailers through increased passing trade and increase investment within the local area.

Transit Orientated Development

High density residential and mixed use development close to major public transport nodes (particularly rail stations with express train services) meets urban consolidation objectives. It results in improved efficiencies, reduces dependency on private motor vehicle usage and encourages the use of public transport.

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