

An aerial photograph of the Bondi Junction Commercial Centre. The top half of the image shows a clear blue sky with several large construction cranes. A semi-transparent white box is overlaid on this section, containing the title and reference number. The bottom half of the image shows a dense urban landscape with various commercial buildings, including one with a 'Westfield MYER Target coles' sign, and a street with a bus.

Bondi Junction Commercial Centre Review – 2019 update

Our ref: A17/0104

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EXECUTIVE SUMMARY

The purpose of this report is to build an evidence base as a response to the Greater Sydney Commission's (GSC) Eastern City District Plan (District Plan); which sets out the State Government's growth strategy for metropolitan Sydney to 2036, and *A Metropolis of Three Cities*, which sets out the GSC's 40 year vision (to 2056) to manage growth and change for Greater Sydney in the context of social, economic and environmental matters. . The Bondi Junction Commercial Centre Review (BJCCR) focuses particularly on commercial office development. It is envisaged that the BJCCR will also be used as a decision making tool and reference point to support Strategic Town Planning and Economic Development decisions and potentially as a springboard for future work in Bondi Junction.

This report includes an analysis of broader trends and drivers in the economy, local planning and development history of Bondi Junction, as well as issues and trends, development projections, capacity and viability in Bondi Junction. The key findings, conclusion and recommendations are outlined below.

1.1.1 Key findings

Metropolitan strategy and trends

The Eastern City District Plan identifies Bondi Junction as a Strategic Centre and outlines various priority directions for Bondi Junction:

- Protect capacity for job targets and a diverse mix of uses to strengthen and reinforce the economic role of the centre
- Consider potential options for future public transport connections to the south east of the District to accommodate forecast population and employment growth, and better connect the district
- Expand the centre's function and type of land uses, and knowledge-intensive jobs
- Improve access from the centre of Bondi Junction to nearby open space and recreation facilities such as Queens Park, Centennial Park, Moore Park and Bondi Beach
- Recognise the centre's health attributes to support the Randwick health and education precinct and mechanisms for increasing floorspace for health uses, including a health-focused business incubator
- Investigate opportunities to improve and diversify night-time economy offerings
- Promote place making initiatives to improve the quality of public spaces

Globalisation has changed the structure of the Australian economy, with implications for the economic geography of Sydney. Manufacturing has moved to the west and advanced business services, which are higher up the value chain, have become more important for the economy. In addition to the growth of knowledge industries in Sydney, the health and education industries are forecast to be a rapidly growing employment sector for Sydney and Australia in general.

Sydney has also changed from a city of production to a city of consumption, with tourism playing an important role. In the context of a shifting economic geography, areas within Sydney's Global Economic Corridor such as Bondi Junction, are of increasing importance for current and future employment generation.

Suburban office market development history

Significant commercial office development across suburban centres in Sydney occurred during the late 1970s and 1980s. The driver for this growth was supply shortages in the Sydney Central Business District (CBD), decreasing vacancy rates, increasing net effective rents and the need to identify lower

cost development sites, albeit which were still accessible to the highly skilled and 'executive' labour force of the North Shore and Eastern Suburbs.

However, commercial office development in Sydney's suburban centres has been minimal since the mid-1990s, given increased competition with suburban business parks – such as Macquarie Park and Norwest – which have absorbed the majority of floor space demand. The success of business parks in Sydney has been driven by motorway access, larger floorplate sizes and relatively lower rents and prices.

There has been a push for high-rise residential development in major centres located on train stations in Sydney since the mid-1990s. The benefits have been seen as twofold – locating residents closer to jobs and fostering the night-time economy of centres. High levels of residential growth around the centres has occurred at Hornsby, St Leonards, Chatswood and North Sydney in the north, and Bondi Junction, Hurstville, Parramatta and the Sydney CBD.

Residential development began 'crowding out' commercial office development across all centres. The continued development of residential at the expense of further commercial development was seen as relatively benign until significant office stock, including towers, started to be converted to residential uses. Concern with the level of residential development in the traditional commercial core of key centres was identified by councils in the early 2000s, with the view that such development was infringing on the opportunities for commercial floor space expansion, and ultimately the role of the centres as employment hubs. This trend has occurred within Sydney on the North Shore, Parramatta, the Sydney CBD, in areas of Melbourne as well as internationally in Vancouver and London.

In response, local governments have changed their planning policies to limit the encroachment of residential development and encourage commercial office development in key centres. For example, North Sydney Council (North Sydney) has implemented a non-residential floor space ratio (FSR), Willoughby Council is planning to implement differential height controls and contributions rates, while the City of Stonnington (Melbourne) allow residential development only on the 3rd level or above.

Bondi Junction development history

Bondi Junction has always been a relatively significant commercial centre within the Sydney Region. The centre's pattern of commercial development over recent decades has been one of fairly rapid construction of new office space stock in the 1980s. Despite an average annual growth rate of 5,500sqm, a long period occurred during the 1990s and up to the early 2000s where there was minimal office construction activity. The staggered growth in commercial office development in Bondi Junction underscores the importance of a long-term view when planning for office development.

Bondi Junction's role as a regional centre is underscored by its mix of retail, hospitality and entertainment services as well as commercial office market presence. The centre plays an important role providing space for the Eastern Suburbs office market, with health being one of the larger sectors occupying office space. Almost two-thirds of workers within the Waverley (data for Bondi Junction was not available) live outside of the local government area (LGA), with more than one-fifth of workers coming from neighbouring LGAs of Randwick and Woollahra.

In recent years the role of Bondi Junction in servicing the surrounding area as a regional centre has been diminished through the conversion of previous retail and office uses to mixed use residential buildings. Analysis of development data demonstrates that there is a supply pipeline of approximately 92,000sqm of residential floor space, but a loss of approximately 9,000sqm of commercial floor space.

Despite the large floorplate demand for suburban centres as outlined in Section 3.3.2, tenancies in Bondi Junction are typically smaller than in other locations, with a significantly higher proportion of tenancies between 100 and 500sqm.

Bondi Junction policy change

The *Bondi Junction Strategic Plan Economic Overview* recommended that Council identify and protect the remaining prime commercial sites in the Bondi Junction centre, as well as providing some incentives to encourage commercial development and redevelopment in the centre. Similarly, the *Waverley Economic Development Strategy* promotes attraction of new businesses and the further development of commercial office space in Bondi Junction to “improve access to a diversity of employment opportunities including highly skilled jobs in the knowledge industries.” The Bondi Junction Urban Design Review (BJUDR) informed changes to the *Waverley Local Environmental Plan 2012* (WLEP2012) with the aim of facilitating development in the short-term to “stimulate the local economy and provide jobs and business opportunities sooner rather than later”.

The B3 Commercial Core zone was reduced in WLEP2012 (Amendment No. 2), following the BJUDR and other studies in Bondi Junction, resulting in a potential future loss of 64,000sqm of office floor space. The aim of WLEP2012 (Amendment No. 2) was to create a greater mix of uses, facilitate development and to foster the night-time economy. The creation of additional capacity for 38,000sqm of office floor space to offset future losses was planned for the B3 zone around Westfield however this additional capacity was not created.

Bondi Junction economic profile and commercial viability

Bondi Junction is a large suburban commercial office market, similarly sized to Chatswood, however it is not considered a metro market that attracts major companies and headquarters like Chatswood, North Sydney or Parramatta. Bondi Junction’s economic catchment is sub-regional, servicing the Eastern Suburbs and surrounds with tenants including local professionals, health providers and institutional bodies. At the same time, Bondi Junction has solid market fundamentals with a vacancy rate lower than the Sydney average and other suburban and metro markets, and comparable – and in some instances higher – rents for similar grade office floor space. The balance of evidence suggests that there is strong underlying demand for commercial office floor space Bondi Junction.

Feasibility testing for specific sites in Bondi Junction indicates that commercial office development is currently feasible. With vacancy levels the lowest they have been in a decade, it is likely that new commercial office development would be absorbed by the market. However, developers face difficulty in securing financing if unable to secure 50-60% pre-commitments within their development.

Bondi Junction office floor space supply and demand

Using NSW Government employment projections, the forecast outlined demand for an additional 97,332sqm of employment floor space by 2036. Three different capacity scenarios were completed to provide a detailed understanding of Bondi Junction’s potential to accommodate future employment growth within the B3 Commercial Core zone. Under an optimistic scenario (Scenario A) there is approximately 111,000sqm of floor space capacity within Bondi Junction. Assuming the loss of employment floor space associated within towers in the B4 zone, then employment floor space capacity in Bondi Junction reduces to 45,000sqm (Scenario B). Discounting further key sites that aren’t likely to be redeveloped reduces capacity by a further 64,000sqm resulting in negative capacity of -19,000sqm of capacity (Scenario C) and a shortfall of office space of 83,000sqm by 2036.

There has been a loss of approximately 9,000sqm of existing commercial floor space in Bondi Junction as a result of recent residential developments since 2014. There is forecast to be a further loss of 19,000sqm of existing commercial floor space with current and recently approved DAs in the pipeline

at the time of writing. This potential trend is supported by the evidence of similar losses of employment floor space within the North Shore office market and across Strategic Centres in Metropolitan Sydney. Therefore, the loss of 64,000sqm of employment floor space as outlined by the Bondi Junction Urban Design Review – which optimistically assumes first floor employment uses remain – appears likely.

1.1.2 Conclusion

Commercial offices generally accommodate the growing knowledge based, professional and technical services which underpin high value contemporary economies. However, such development is increasingly tied to location – typically to amenity and activity rich, well connected and skilled labour accessible areas. Only a few key centres qualify within greater Sydney. Those Strategic Centres within the Global Economic Corridor are well placed to accommodate future office growth and support their economic catchments as well as a broader market.

The B3 Commercial Core zone of the *Standard Instrument – Principal Local Environmental Plan* was specifically designed to protect areas within strategic centres for employment uses taking a long-term perspective. The widespread application of the B4 Mixed Use zone in key centres was, at the time, initiated with good intention – to create a balance of residential and commercial development. Given the much higher returns now achieved for residential development, this original purpose has not come to fruition. The empirical evidence demonstrates that in most cases such an approach ‘prices out’ employment uses and thereby sterilises the potential for a greater employment role in future.

In simple terms, planning to either entrench or encourage existing commercial and office clusters, or to develop new clusters, is a long-term task. However, there remains intense short-term pressure for residential development in most of Sydney’s existing strategic centres. Bondi Junction is a centre where residential development is pricing out commercial potential significantly. Chatswood, North Sydney, Parramatta and the Sydney CBD itself are under similar pressure given a medium to long-term view. While a B4 Mixed Use zone does allow for pure commercial office towers, in centres with scarce opportunities allowing a simple market contest between residential and office is likely to be ‘won’ by residential, which may undermine long-term employment potential and economic competitiveness. The cannibalisation of commercial office for residential is contradictory with State Government objectives to allow capacity for future employment growth. Local governments across Sydney – including Willoughby, North Sydney, Parramatta and City of Sydney – Melbourne and internationally in London and Vancouver (where very high house prices prevail) have recognised this emerging problem and are seeking to address it before it becomes a crisis.

1.1.3 Recommendations

In light of the evidence contained within this assessment, Council should be cautious about supporting any further reduction of the B3 Commercial Core zone. Floor space zoned B3 Commercial Core in Bondi Junction is too limited and valuable (for either employment or alternative uses) to be subject to a relatively arbitrary case by case approach for rezoning. The current zoning arrangement in Bondi Junction provides a clear and visible framework for where residential mixed use is and is not acceptable.

Protecting the B3 zone provides clarity and consistency which subsequently gives certainty to the community, businesses and the development industry. Commercial office and residential developers need certainty. The withering away of the B3 Commercial Core in Strategic Centres sends an ambiguous signal to the market at best. Ad hoc rezoning of B3 zones undermines the integrity of the zoning system, signalling that immediate development addressing short-term residential market

demands is more important than creating and reinforcing a polycentric city structure that promotes long-term environmental sustainability, social equity and economic success. The economic success of Metropolitan Sydney depends on successful Strategic Centres that can service their economic catchment.

Therefore, it is important that Council 'hold the line' in relation to the remaining B3 Commercial Core area. Commercial centres and business parks in Sydney and Melbourne, and elsewhere around the world have long lead times from conception to delivery, spanning decades in some instances (for example Macquarie Park was established in the mid-1960s and is still growing as an employment centre – although new residential development is placing pressure on this precinct). In the next 20 to 30 years current capacity 'low-hanging fruit' in the City of Sydney will be filling. If Commercial Core areas in Bondi Junction and across Sydney are continually reduced for residential development, an opportunity will have been lost.

Securing the B3 zone and promoting office uses in the B4 zone reflects a long-term view that grasps the cumulative effect of individual development decisions. A long-term view necessitates a 'structural' lens not a 'cyclical' one. Cyclical factors or short-term residential development imperatives should not be allowed to cloud 'bigger picture' planning visions. A structural view promotes long-term public economic benefits against damage from short-term private financial gains. By protecting the B3 zone and promoting office uses in B4 zone, Council secures much needed commercial floor space to sustain the longer-term growth of the Bondi Junction Strategic Centre.

Based on the balance of evidence in this report, the following recommendations should be considered:

- **Protect the B3 Commercial Core zone from any future rezoning** - The B3 Commercial Core zoning is used within the Bondi Junction Strategic Centre to focus on providing the provisions for employment and services of the wider regions and the local community. This zoning provides for solely commercial based uses to protect the employment floorspace within the centre from residential uses.
- **Implement a minimum non-residential FSR in the B4 zone** – To ensure that an employment future in Bondi Junction is secured, Council should implement a centre-wide application of a minimum non-residential FSR to Bondi Junction in the existing zoned B4 Mixed Use zone. This requirement should seek to ensure no net loss of non-residential floor space at a minimum and where possible an increase on existing provision of non-residential floor space.
- **Prohibit serviced apartments and hotels in the B3 and as part of any minimum non-residential FSR** – To ensure an office outcome in the B3 zone, serviced apartments and hotels should be prohibited in this zone. To support the minimum non-residential FSR control in the B4 zone Council should prohibiting serviced apartments and hotels applying to the non-residential component of floor space.
- **Consider allowing differential controls for office development in the B4 zone** – Similar to the City of Sydney, consider changing the FSR and height controls to favour office development in the B4 zone. This could include merit assessment of these developments.
- **Consider applying incentives for office development in the B4 zone** – To encourage further office development above and beyond the non-residential FSR, additional FSR and height could be allowed as an incentive / trade-off; subject to merit assessment.
- **Identify future areas for residential growth to reduce conflict with commercial** – In the short-term, there are sufficient sites within existing residential zones and the B4 zone to supply residential development. Beyond this, Council could investigate whether low density areas adjacent to Bondi Junction could accommodate greater residential supply.

2. INTRODUCTION

2.1 Background

Bondi Junction has experienced significant change in the past several years, with residential towers emerging on the landscape and more to come in the supply pipeline. Residential development pressure is set to continue in Bondi Junction with recent development interest and formal Planning Proposals to further reduce the B3 Commercial Core zone. Residential development is resulting in a loss of commercial office floor space with potential for this trend to continue. At the same time, there are a number of economic development challenges and opportunities for Bondi Junction identified as priorities in the *Waverley Economic Development Strategy* (WEDS). These include increasing the competitiveness and diversity of employment generating uses in Bondi Junction to ensure that local residents have access to the broadest range of goods and services. A further economic development priority for Bondi Junction is to improve access to a diversity of employment opportunities including highly skilled jobs in the knowledge industries.

Against this backdrop of residential pressure and economic development priorities, there is a wealth of information on issues, trends and opportunities occurring in Bondi Junction contained in strategic studies and data analytics services to which Council subscribes. Strategic studies that have been completed for Bondi Junction include the *Bondi Junction Strategic Plan Economic Overview*, *Bondi Junction Urban Design Review (BJUDR)* and the *Bondi Junction Floor Space Study*; while other broader studies, such as the WEDS, have important implications for Bondi Junction. Council's subscribed statistics and analytics services include Atlas .id, Economy .id, City Scope and RP Data.

To facilitate effective strategic town planning and economic development decisions and future work, a need was identified to consolidate existing and relevant planning and economic development information, and undertake complementary new research, into a single document.

2.2 Purpose and scope of study

2.2.1 Project purpose

The purpose of this report is to build an evidence base as a response to the Greater Sydney Commission's (GSC) Eastern City District Plan (District Plan); which sets out the State Government's growth strategy for metropolitan Sydney to 2036, and *A Metropolis of Three Cities*, which sets out the GSC's 40 year vision (to 2056) to manage growth and change for Greater Sydney in the context of social, economic and environmental matters. The Bondi Junction Commercial Centre Review (BJCCR) focuses particularly on commercial office development. The BJCCR will provide a comprehensive evidence base that collates and synthesises existing work, as well as additional research. It is envisaged that the BJCCR can also be used as a decision making tool and reference point to support Strategic Town Planning and Economic Development decisions and potentially as a springboard for future work in Bondi Junction.

There are currently plans to develop a separate Council Housing Issues Paper to inform the CDP and Council's evidence base for future residential strategies. The BJCCR can form part of a suite of Council documents, along with the Housing Issues Paper and potential transport and sustainability issues papers, which together will provide a coverage of pertinent local issues to inform the CDP and forthcoming review of the Metropolitan Strategy.

This report includes an analysis of broader trends and drivers in the economy, local planning and development history of Bondi Junction, as well as issues and trends, development projections,

capacity and viability in Bondi Junction. It will be a standalone report that provides a snapshot of commercial issues and trends in Bondi Junction. It will provide a robust evidence base for identifying constraints and opportunities for future development in Bondi Junction commercial centre.

2.2.2 Scope of works

The key matters to be investigated as a part of this study include analysis of:

- Broader trends and drivers that have shaped the economic geography of Metropolitan Sydney and their implications for Bondi Junction.
- Bondi Junction's role and function within the region and district/Eastern Suburbs.
- The amount and type of employment and floor space in Bondi Junction.
- Council strategies and actions completed for Bondi Junction.
- Bondi Junction's development history, including recent development trends.
- The balance of forecast floor space demand and capacity up to 2036.
- Existing and potential constraints, including viability, to the development of employment generating floor space.
- Opportunities to accommodate future employment generating development.
- Appropriate planning policy and economic development mechanisms required to address challenges and pursue opportunities.

3. STRATEGIC CONTEXT: TRENDS AND DRIVERS

Overview

This section provides an analysis of broad trends and drivers that have shaped the economic geography of Metropolitan Sydney with a focus on understanding how these factors have shaped Bondi Junction. The trends analysis reviews the factors that have shaped suburban employment centres across Sydney such as: the drivers of large scale office development in these locations; the introduction of residential uses; the conversion of commercial floor space into residential uses; and minimum non-residential floor space ratios. This broad trends analysis helps ‘set the scene’ for a more detailed analysis of Bondi Junction. It differentiates between general and specific factors that have influenced Bondi Junction’s development.

3.1 Metropolitan strategic planning

The Greater Sydney Region Plan ‘*A Metropolis of Three Cities*’ (Region Plan) prepared by the NSW Government was finalised and released in March 2018, and sets forth the forty year vision to 2056 of a metropolis comprised of three cities, the Eastern Harbour City, the Central River City and the Western Parkland City, and the notion of a 30 minute city for the majority of Sydneysiders. The 30 minute city is the notion that most people should have access to their nearest metropolitan centre or cluster by public transport within 30 minutes; and where everyone can travel to their nearest strategic centre by public transport seven days a week to access jobs, shops and services. This is integral for economic competitiveness and will make Greater Sydney a more attractive place for investment, businesses and skilled workers.

3.1.1 Role and function of Strategic Centres

A Metropolis of Three Cities defines Strategic Centres as ‘locations that currently or are planned to have least 10,000 jobs. These are priority locations for employment, retail, housing, services and mixed-uses’. Bondi Junction is estimated to currently have 13,800¹ jobs; bordering on the lower – albeit relatively arbitrary – limit for Strategic Centres. The Eastern City District Plan outlines a number of directions that apply to Strategic Centres. Direction 46(a) ‘Protect capacity for jobs targets and a diverse mix of uses to strengthen and reinforce the economic role of the centre’ highlights the importance of concentrating office development in Strategic Centres.² It creates benefits for businesses and local residents and reinforces ‘agglomeration economies’ that are important for productivity and economic growth of Sydney. Direction 46(c) of the Eastern City District Plan requires action to “expand the centre’s function and type of land uses and knowledge intensive jobs” which also requires the protection and promotion of commercial floorspace.³ Given the classification of Strategic Centres as locations with employment of at least 10,000 jobs, and the direction to grow office floor space in Strategic Centres, it is important that Waverley Council ensures the best planning controls are in place to ensure the role and function of Bondi Junction as a place with a critical mass and growing employment is achieved.

¹ Economy .id, 2015, Waverley Council area Employment locations - All industries.

² NSW Department of Planning and Environment, 2018, *A Metropolis of Three Cities*

³ NSW Department of Planning and Environment, 2018, *A Metropolis of Three Cities*.

3.1.2 Organising principles of A Metropolis of Three Cities

A *Metropolis of Three Cities* is centred on ten directions that serve as a reference point upon which the conceptual framework of the Metropolitan Strategy is built. These directions are:

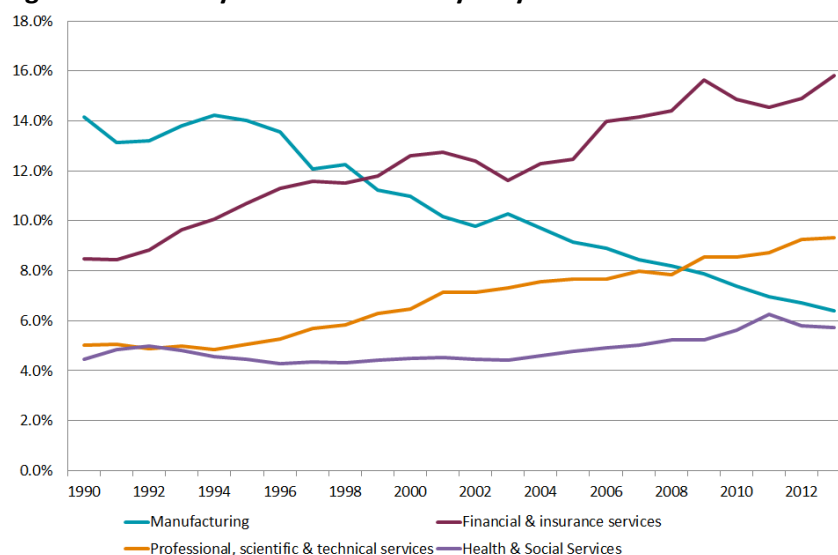
1. A city supported by infrastructure: Infrastructure supporting new developments
2. A collaborative city: Working together to grow a greater city
3. A city for people: Celebrating diversity and putting people at the heart of planning
4. Housing the city: Giving people housing choices
5. A city of great places: Designing places for people
6. A well connected city: Developing a more accessible and walkable city
7. Jobs and skills for the city: Creating the conditions for a stronger economy
8. A city in its landscape: Valuing greenspaces and landscape
9. An efficient city: Using resources wisely
10. A resilient city: Adapting to a changing world

Direction 7 is most relevant to Bondi Junction Strategic Centre as it aims to create the conditions for a stronger economy, which can be done through promoting commercial floorspace. In summary, the role and function of Strategic Centres, and one of the key organising principles of the Metropolitan Strategy, is to encourage job growth within Strategic Centres that have a critical mass of employment. Based on this evidence, protecting and promoting employment outcomes should take precedence over encouraging residential growth where these two goals compete.

3.2 Broader economic trends

The economic geography of Sydney is evolving. Broader macroeconomic trends and drivers brought about by globalisation and influencing Australia have also shaped – and continue to shape – Sydney's economic geography. The traditional, heavier 'secondary' industries such as manufacturing constitute a decreasing share of employment across the city, while the tertiary and quaternary sectors (knowledge and service industries) have increased in importance.

Figure 1 – Industry Income share of Sydney's GDP for selected sectors



Source: SGS Economics and Planning, 2016.

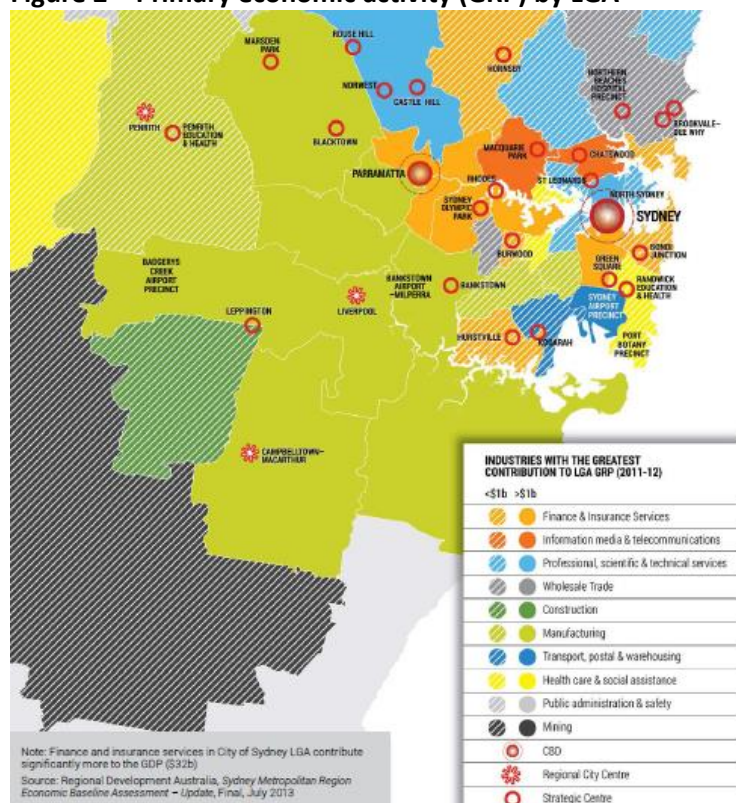
The unbundling of the value chain and migration of production activities across borders has had a far-reaching impact on the Australia's economic structure and the structure of our cities. Given the lower labour costs of other countries, Australia's competitive advantage has been achieved by specialising

in higher up the value chain in advanced business services in the 'Finance and insurance', as well as 'Professional, scientific and technical service industries'. The growing significance of these service industries in Sydney is evident in the continued strong demand for office space in the CBD and selected office centres and business parks in accessible suburban locations.

As well as business services, retail services have grown in importance. Sydney has also changed from a city of production to a city of consumption, with tourism playing an important role. Nowhere is this more evident than the Sydney CBD, where once working harbours have continually been transformed over the years into tourist destinations and old manufacturing and warehousing areas such as Surry Hills are being transformed into vibrant mixed use areas with a range of office, retail and residential uses to become the 'new engines of prosperity'.⁴

Notwithstanding the above, manufacturing is still an important industry within Sydney, with the majority of economic output (in Gross Regional Product terms) coming from manufacturing in those LGAs on the western periphery of greater Sydney (Figure 2). The map of primary economic activity displays the importance of knowledge and service industries in the inner city, northern and eastern parts of greater Sydney – the 'Eastern Economic Corridor'. Large industrial areas focussed on freight and logistics have also emerged on the urban periphery, clustered around orbital motorway on/off ramps.

Figure 2 – Primary economic activity (GRP) by LGA

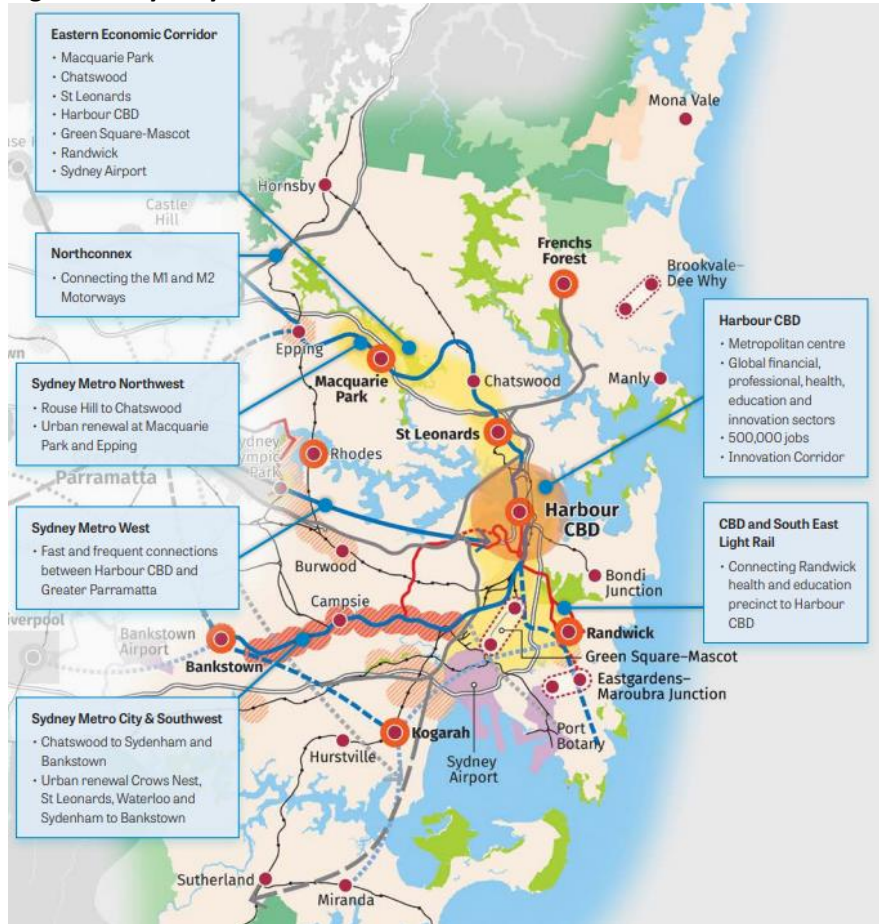


Source: DPE, 2014.

In the context of a shifting economic geography, areas within Sydney's Eastern Economic Corridor (defined by the shaded yellow arc in Figure 3) such as Bondi Junction, are of increasing importance for current and future employment generation.

⁴ Moretti, E. 2012, *The New Geography of Jobs*.

Figure 3 – Sydney’s Eastern Economic Corridor



Source: DPE, 2018.

Despite the ability of telecommunications technology to reduce the impact of distance; geography and location are as important as ever. Clustering has advantages associated with ‘agglomeration economies’ including access to a deeper pool of employees and clients, greater firm interaction and knowledge spillovers. So rather than dispersing to low-cost locations, knowledge sector jobs continue to cluster in and around the Sydney CBD, with approximately two-thirds of finance and insurance output and 40 percent of professional services output coming from the City of Sydney.⁵

In addition to the growth of knowledge industries in Sydney, the health and education industries are forecast to be a rapidly growing employment sector for Sydney and Australia in general. Population growth and an ageing demographic structure are driving the growth of this sector, with the most pronounced shift at opposite ends of the age spectrum – residential care and child care being the two largest growth industries.⁶ The geographical distribution of this growth is expected to be distributed and driven by population, rather than a need to cluster employment and services.

⁵ NSW Department of Planning and Environment, 2015, A Plan for Growing Sydney.

⁶ Waverley Council, 2015, Waverley Economic Development Strategy.

3.3 Commercial centre trends

This section steps down from the macro-level structural changes that have been affecting the urban structure and geography of Sydney, to examine the trends that have been occurring across Sydney at a more detailed spatial level. It explores how traditionally suburban centres, such as Bondi Junction, have changed over time, including the development of significant commercial office space outside the Sydney CBD, the development of suburban enclosed shopping centres and business parks, and the introduction of residential development in business centres.

3.3.1 Development of suburban office markets

Significant commercial office development across suburban centres in Sydney occurred during the late 1970s and 1980s. The driver for this growth was supply shortages in the Sydney CBD, decreasing vacancy rates, increasing net effective rents⁷ and the need to identify lower cost development sites, which were still accessible to the highly skilled and 'executive' labour force of the North Shore and Eastern Suburbs. The formation of the office market in North Shore (including North Sydney, St Leonards and Chatswood) and other Strategic Centres such as Burwood and Hurstville occurred during the commercial office market upswing of the 1970s and 1980s. Office floor space in suburban centres has been largely 'supply-led' – driven mostly by speculative developers inducing demand, rather than large tenants seeking to leave the Sydney CBD. The Metropolitan Sydney office market is an 'overflow' market and the construction boom in the North Shore and Bondi Junction was related to overflow of demand from the Sydney CBD.⁸

During the 1990s, commercial office development in suburban centres decreased markedly as a result of the following:

- significant overbuilding of new office space in the Sydney CBD in the late 1980s and early 1990s;
- the recession of 1990-92 which impacted heavily on the commercial office space sector;
- the substantial construction of new office space in suburban office parks such as Macquarie Park and Norwest; and
- the recession in the high-tech/telecommunication sector between 2000-02.⁹

Net effective rents peaked in 1989 and declined during the 1990s and did not reach the 1989 peak until 1999-2000. This period of lower rents in the Sydney CBD in the 1990s "significantly eroded the competitive position of suburban centres and acted as a disincentive to investment in new office development either in the CBD or in suburban centres".¹⁰

Commercial office development in Sydney's suburban centres has been minimal since the mid-1990s, with the exception of projects in Parramatta, which were primarily for public sector organisations.¹¹

3.3.2 Development of suburban business parks

Across Sydney, several business parks have been developed over the last few decades. The five major business parks in Sydney are Macquarie Park-North Ryde, Homebush-Rhodes, Mascot, Norwest and Sydney Olympic Park. These comprise over 1.24 million square metres of office space; accounting for 12 percent of Sydney's total office space. These business parks increased dramatically in size (over

⁷ Gross rents minus concessions.

⁸ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

600,000sqm) over the 2000s.¹²

The success of business parks in Sydney has been driven by motorway access, multi-modal access and services, proximity to skills and supply chains, single ownership structure, floorplate size and flexibility, and relatively low rents and prices. Low land prices are a result of low levels of speculative purchases due to a high proportion of owner-occupiers, as well as commercial only zonings.¹³

Suburban office markets cater to a different type of tenant compared to the CBD. Tenants typically seek larger floor plates over 1200sqm. Tenants in Sydney Olympic Park reportedly have similar floor plate size requirements while those at Rhodes and Norwest Business Park are larger at 1500sqm or greater.¹⁴ Changing business requirements, particularly in the form of demand for large floor-plate purpose-built offices has led to a degree of floor space 'leakage' to business parks during the late 1990s and throughout the 2000s.

For business parks, parking provision is an important driver of the office market, with parking typically included in the lease at a rate of one space per 25 square metre of office floor area. Similarly, the cost of parking is an important consideration. Monthly parking costs in Bondi Junction are \$300 per space, whereas those in Sydney Olympic Park are considerably cheaper at \$150-\$220 per space.¹⁵ While parking is one of the key criteria for tenants in business parks, access to public transport is still an important factor for many tenants. For example, availability of public transport was seen as the most important attribute for businesses choosing to locate in North Sydney CBD, while being close to the Sydney CBD was the second most important attribute.¹⁶

While many of the tenants attracted to business parks have relocated from the Sydney CBD or the North Shore office market, there has been several recent instances of tenants relocating back to traditional centres, such as Sony moving from Macquarie Park to North Sydney and Commonwealth Bank moving from Sydney Olympic Park to Redfern.

3.3.3 Introduction of residential uses into strategic centres

As a result of NSW Government urban consolidation targets, increasing land values and a growing body of urban research, there has been a push for high-rise residential development in major centres located on train stations in Sydney since the mid-1990s. The benefits have been seen as twofold – residents have better access to jobs and the night-time economy of centres are enhanced by local residents. Vibrant, diverse, mixed-use centres characterised by high density residential, office employment and retail are attractive to creative workers because they foster interaction and knowledge sharing.¹⁷

High levels of residential growth around centres has occurred at Hornsby, St Leonards, Chatswood, North Sydney, Bondi Junction, Hurstville, Parramatta and the Sydney CBD.

However, over time the value equation has shifted in favour of residential over commercial office. The returns from office development dropped dramatically following the Global Financial Crisis (GFC) in the 2000s, while at the same time residential prices have increased rapidly in Sydney since 2012.

¹² SGS Economics and Planning, 2013, Kogarah Employment Lands and Economic Development Strategy.

¹³ Ibid.

¹⁴ Urbis, 2015, Achieving A-Grade Office Space in the Parramatta CBD, Economic Review.

¹⁵ SGS Economics and Planning, Parramatta CBD Planning Framework: Economic analysis, August 2014

¹⁶ Ibid.

¹⁷ Florida, R. The Rise of the Creative Class, 2003.

Hence property development in and around centres in the past decade has been heavily focussed on residential development to the exclusion of commercial office development.

Sydney case study – Chatswood CBD

“The Chatswood CBD has long been identified as a strategic hub for office employment, with large scale commercial office development dating back to the 1980s. Chatswood is also a long established retail destination, with two major centres, Chatswood Chase and Westfield also establishing in the 1980s. While Chatswood is a traditional hub for office and retail development, the retail sector has fared particularly well in recent decades. With over 200,000sqm of retail space, Chatswood is the single largest retail centre outside the Sydney CBD, with a catchment that extends from North Sydney to Hornsby and east to the northern beaches. The modest growth forecast for jobs within the CBD office precinct is reflective of a longer trend that has seen jobs leave the centre, particularly since the early 2000s. As the figure below illustrates, the Chatswood centre gained jobs between the census periods 1996 to 2001, but since 2001 has lost over 3,000 jobs – the majority of these would be commercial office related.

From the mid-1990s Chatswood City Centre saw the development of residential and particularly high density residential, in amongst the existing commercial and retail uses. The initial decision to allow residential development in the commercial core was, in large part, a response to urban consolidation targets set by the State Government. Once permitted, residential development occurred at a pace more rapid than anticipated, with strong market demand from the residential sector outbidding the commercial sector for redevelopment of prime sites.

The influx of high density residential developments into Chatswood CBD was acknowledged by Council as a threat to the viability of the commercial centre, and in 1999 Willoughby Council acted to limit the amount of residential floor space in Chatswood CBD. More recently, the Willoughby Local Environmental Plan 2012 includes planning provisions to support the retention of the Chatswood CBD office core, with increased densities offered as an incentive to promote the redevelopment of underdeveloped and obsolete sites for employment uses”.¹⁸

To date there has been no new commercial office development in Chatswood since the changes to the Willoughby LEP. However, there have been several new serviced apartment high-rise developments within the Commercial Core zone. The development of serviced apartments could be seen as residential masquerading as commercial development.

Similarly in Hornsby, for example, concern with the level of residential development in the traditional commercial core was identified by Hornsby Shire Council in the early 2000s, with the view that such development was infringing on the opportunities for commercial floor space expansion, and ultimately the role of the centre as an employment hub. In response, Council proposed that the remaining sites within the centre suitable for commercial development have their zoning amended to prohibit multi-unit housing. This was seen as a long-term strategy to reserve the limited opportunities for employment generating land uses.¹⁹

However, it is not just North Shore office markets contending with the ‘crowding out’ of commercial office development. Both the Sydney CBD and Parramatta have also been experiencing difficulties in managing the conflict between the two uses.

Recently, the City of Sydney developed the Central Sydney Planning Strategy to deal specifically with this issues. The strategy identifies the encroachment of apartments on traditionally prime office space as posing "a direct risk to the Australian economy" and says it "must be rebalanced to retain

¹⁸ SGS Economics and Planning, Strategic implications for Macquarie Park: Stage 2, March 2014.

¹⁹ Ibid.

Metropolitan Sydney's international competitiveness".²⁰ The report to the City of Sydney Transport, heritage and planning sub-committee notes that:

"Speculated office to residential conversions since 2012 represent a loss of over 380,000sqm of existing employment floor space and a minimum loss of over 150,000sqm of potential employment floor space under current planning controls".²¹

The heavy development of residential uses in Parramatta, at the expense of commercial office development, has been identified by the City of Parramatta as a "potential issue". The City of Parramatta is seeking to redress this issue by increasing the area of land zoned B3 Commercial Core, requiring a minimum amount of commercial space in new buildings in the B4 Mixed Use zone, and by prohibiting serviced apartments in new buildings in the Commercial Core zone.²² The Property Council NSW stressed the importance of promoting commercial office development in Sydney criticising that "sometimes strategic planning at a local level is absent or lacking teeth and this means that zoning and planning can occur in a piecemeal approach rather than with a forward thinking, strong vision".²³

International case studies – Westminster, UK and Vancouver, Canada

City of Vancouver

Following on from a long-term land use policy (Metro Core Jobs and Economy Land Use Plan) to accommodate economic growth and jobs in the CBD the City of Vancouver introduced a series of planning interventions to manage residential and promote commercial office development within the CBD:

- "(a) a prohibition on market residential floor space in the CBD, except in limited situations that achieve other City strategic objectives such as heritage revitalisation, affordable housing or cultural amenity;
- (b) in Metro Core fringe areas, a minimum commercial floor space requirement for all development; and
- (c) a requirement to replace existing office floor space in the conversion of a significant office building to residential.

The City of Vancouver reports that the planning interventions have been successful. Since 2009, the City has approved over 640,000sqm of office floor space in 45 developments. The viability of commercial investments improved.

City of Westminster

In 2014, the City of Westminster, London, initiated a similar review of their planning controls. The review considered policies for mixed use and office to residential conversions in the Central Activities Zone in the West End. The City of Westminster's initial report states that "the importance of growing Westminster's office base, rather than shrinking or stabilising it, cannot be understated."

Despite the continuous rise of commercial rents, the review found that residential returns have been far stronger. This was a reversal of the conditions which had informed the planning controls that favoured residential accommodation.

Commercial floor space withdrawals, along with a lack of new commercial development, reduced the ability of the market to compete on a national and international scale. New residential product was delivering a prime and super prime product, inaccessible to the majority of the population. The public was losing out

²⁰ Saulwick, J. and Visentin, L., CBD boom time: City of Sydney says the only way is up, Sydney Morning Herald, July 14 2016.

²¹ City of Sydney Transport, heritage and planning sub-committee, The Central Sydney Planning Strategy - Planning proposal to amend Sydney Local Environmental Plan 2012 – Amendments to Sydney Development Control Plan 2012, 19 July 2016.

²² Duke, J., Is Sydney's love affair with new units threatening future of office space?, Sydney Morning Herald, November 23 2016.

²³ Ibid.

twice, as economic competitiveness and employment potential were being lost and the residential gain did not assist typical residents to access the property ladder.

The City of Westminster is addressing the issue by reversing their current policy position. Mixed use and office to residential conversion policies are being revised to require developments to include a minimum proportion of employment floor space at a rate that delivers growth. Controls now favour the delivery of office floor space by requiring that any loss of office floor space is replaced by an equal amount of office floor space elsewhere in the locality, ensuring there is no net loss of commercial office floor space”.²⁴

Conversion of office space to residential

The continued development of residential at the expense of further commercial development was seen as relatively benign until significant office stock, including commercial towers, started to be converted to residential uses. Research predicts that there will be a loss of approximately 180,000sqm of office floor space from conversions up to 2019, leading to the “virtual elimination of a number of smaller office markets” in Sydney.²⁵ The highest concentrations of office to residential conversion have been identified to occur in Burwood, Hurstville and the North Shore office market including Epping, St Leonards and North Sydney.

Recent experience in the North Shore office market – Metropolitan Sydney’s largest office market outside of the CBD – indicated that there has been a loss of around 80,000sqm of commercial floor space in the B4 Mixed Use zone in North Sydney LGA since 2007.²⁶ These losses have predominantly occurred in St Leonards/ Crows Nest (20,000 sqm loss since 2015 and predicted 36,000 sqm loss to 2020),²⁷ the periphery of North Sydney CBD (predicted 48,000 to 60,000 sqm loss to 2020)²⁸ and Milsons Point. As demonstrated in the above case study, Chatswood has experienced a similar trend, revealing that office to residential conversion is very likely in high value and accessible locations. Recent research predicts that more than 128,000sqm of floor space will be withdrawn from the North Shore office market over 2016 to 2019, equal to about 8.7 per cent of the market in this four-year period.²⁹

3.3.4 Securing a truly mixed use outcome

Current mixed use development outcomes

Typical mixed use developments are predominantly residential development with a relatively small proportion of non-residential floor space, usually at ground level. Recent developments in the B4 Mixed Use zone in Waverley, and across Sydney, have seen only a veneer of retail development at the ground level, shared with other ground floor uses such as car park entries and building services. While uncommon, there are some examples of truly mixed use buildings. The ‘Beau Monde’ apartment development in North Sydney incorporates a significant mix of uses with separate entrances for the residential and commercial components of the building. The residential component– which comprises around 240 apartments spread over 29 floors – was an addition to the existing commercial and retail premises on the first seven storeys of the building.

²⁴ City of Sydney Transport, heritage and planning sub-committee, The Central Sydney Planning Strategy - Planning proposal to amend Sydney Local Environmental Plan 2012 – Amendments to Sydney Development Control Plan 2012, 19 July 2016.

²⁵ CBRE, 27 May 2015, ‘Residential conversions to reshape Sydney’s suburban office markets’

²⁶ ‘North Sydney Economic Development Strategy and associated Planning Proposals’, North Sydney Council Meeting, 15 December 2014.

²⁷ CBRE, 27 May 2015, ‘Residential conversions to reshape Sydney’s suburban office markets’

²⁸ Ibid.

²⁹ Cummins, C. 20 May 2016, ‘St Leonards office market is born again’, Sydney Morning Herald.

There are a number of reasons why 'genuine' mixed use buildings with a significant amount of non-residential floor space (particularly in vertically separated formats) are uncommon, including:

- Potential investors in the residential and commercial development have different objectives. For example, institutional investors in commercial developments may want to avoid the added complexity of dealing with a residential strata plan.
- Securing tenant pre-commitments for office space is difficult, and this is complicated by combining it with apartment pre-sale requirements for the residential component of the development.
- Banks view 'innovative' building formats as risky and are therefore less likely to provide development finance.³⁰

Residential developments typically provide higher returns, particularly in more marginal office markets, so in a building of the same total area there is a disincentive to provide a large proportion of commercial development as this may compromise the financial return. Anecdotal evidence suggests that commercial tenants might not view a truly mixed use building as being as prestigious as a conventional commercial building and there may also be a reluctance to share a foyer and common areas with residential tenants, although this can be overcome by providing separate entrances and lift risers for the commercial and residential parts of the building.³¹

Council policy changes

A number of councils have changed their planning policies to limit the encroachment of residential development and encourage commercial office development in key centres. For example, North Sydney Council (North Sydney) has implemented a non-residential FSR, Willoughby Council is planning to implement differential (and more favourable) height controls and contributions rates for commercial buildings, while the City of Stonnington in Melbourne allow residential development only on the 3rd level or above.

Non-residential FSRs have been introduced by a number of councils to stem the loss of commercial office floor space in B4 Mixed Use zones. A non-residential FSR requires that a certain amount of non-residential floor space be provided. The purpose of a non-residential FSR is to maintain and encourage commercial office uses. North Sydney has experienced a loss of commercial office buildings from conversions of commercial floor space to residential in Milsons Point, St Leonards and North Sydney CBD itself. Waverley Council consulted with North Sydney officers on the effectiveness of this control within North Sydney in achieving an office employment outcome. Planning officers from North Sydney indicated that the policy had been largely unsuccessful in enforcing a minimum commercial office outcome for essentially two reasons. Firstly, developers were constructing serviced apartments rather than commercial office as serviced apartments are defined as a non-residential use in the Standard Instrument LEP and therefore were permissible. This created a situation where an effectively residential-type use was circumventing the intended requirement for commercial office uses. North Sydney subsequently changed their LEP controls to exclude serviced apartments that contain less than 50 serviced apartments (to allow genuine serviced apartment development) from the calculation of a development's non-residential floor space ratio. The second reason the minimum non-residential FSR was unsuccessful can be attributed to developers successfully submitting Clause 4.6 'Exceptions to the development standards' to reduce the minimum requirement for a non-residential floor space. This occurred despite the fact that the majority of sites have a very low minimum non-residential FSR of 0.5:1.

Recently, North Sydney pursued a Voluntary Planning Agreement (VPA) with a developer for the handover of commercial floor space to be managed by the council as part of meeting the non-

³⁰ SGS Economics and Planning, Parramatta CBD Planning Framework: Economic analysis, August 2014

³¹ Ibid.

residential FSR and associated this with an exceedance of allowable FSR. However, this attempt foundered when the subject site was compulsorily acquired by the state government for the metro rail expansion.

Similarly Willoughby Council (Willoughby) has been aiming to encourage commercial office development in the Chatswood CBD. The Council currently has a 'Chatswood CBD Draft Planning and Urban Design Strategy' on exhibition which proposes changes to planning policy. These include the removal of a height limit for commercial office buildings in the B3 Commercial Core zone; mirroring the City of Sydney's approach with the Central Sydney Planning Strategy. Also, Willoughby plan to implement a differential contributions scheme for commercial and residential development. The plan is to capture a share of value uplift from commercial buildings only after an exceedance of the 10:1 FSR; whereas value capture for residential development will sought for any exceedance over the base FSR.

The City of Stonnington (Stonnington) in Melbourne, located just to the south east of the CBD, has faced difficulty in enforcing a commercial office outcome in their mixed use zone. Based on a series of studies completed Stonnington has implemented controls that allow residential only on the 3rd level or above. This ensures that at least the ground and first floor of development provide capacity for commercial uses. A cost-benefit analysis³² was completed to understand the impacts of imposing a mandatory minimum two storeys of commercial development for all mixed use development in Chapel Street, Melbourne. The results demonstrated that this intervention would have a positive impact from a broader perspective with access to employment and service land uses, despite a lower rate of profitability (compared to a standard residential focussed mixed use development) in the short-term. Stonnington indicated that the policy has been a success with new developments accepting the requirement.

Looking at the evidence, enforcing a commercial office outcome in mixed use areas has seen mixed results. North Sydney's non-residential FSR does not appear to have been successful. On the other hand, Stonnington's policy of enforcing commercial uses on the first two floors has been successful and Willoughby and the City of Sydney's policy changes are still in their early stages. Nevertheless, if a non-residential FSR is implemented in concert with a limitation on 'serviced apartments' and refusal of Clause 4.6 Variation requests, then it represents a 'next best' option (compared to loss of floor space) for maintaining and encouraging commercial uses.

³² SGS Economics and Planning, 2014, Chapel ReVision – Economic feasibility on draft Activity Centre Zone and Advice.

4. BONDI JUNCTION CONTEXT

Overview

Bringing the focus down from a high level, this section of the study provides an analysis of Bondi Junction specific information, trends and issues. In doing so, this section provides an understanding of the current situation in Bondi Junction and how local characteristics, development and planning actions have – and continue to – shape the centre. The planning history for Bondi Junction including selected planning strategies and planning changes will be reviewed. The history of employment and residential floor space development in Bondi Junction will also be examined to understand the historical drivers behind this development.

4.1 Planning history

4.1.1 Relevant strategies and studies applying to Bondi Junction

Community Strategic Plan 2018 – 2029

The Waverley Community Strategic Plan (CSP) provides guidance and direction for the role and function of the Bondi Junction centre. With an overarching aim to promote Bondi Junction as a business hub, the CSP outlines the following directives to reach this aim:

- 4.2 Ensure Bondi Junction and Waverley's villages continue to have a diverse range of businesses, local jobs and services
 - 4.2.1 Enhance the commercial core of Bondi Junction to increase employment
- 6.2.2 Deliver improved access to popular destinations such as Bondi Junction, Bondi Beach and local villages

Draft Local Strategic Planning Statement

The Draft Local Strategic Planning Statement (Draft LSPS) discusses the importance of Bondi Junction as a strategic centre and the role in which this plays in promoting the local economy. The Draft LSPS places importance on protecting commercial floorspace and opportunities for employment and as such outlines the following actions for Bondi Junction:

- 11.5 Maintain the existing floorspace in Bondi Junction
- 11.6 Grow the employment floorspace in Bondi Junction
- 11.7 Investigate mechanisms to maintain and encourage health related uses in Bondi Junction
- 11.9 Encourage a diversity of land uses in Bondi Junction
- 11.13 Promote Bondi Junction as a knowledge and innovation hub, with opportunities for business to business interaction

Eastern City District Plan

The Eastern City District Plan identifies Bondi Junction as a Strategic Centre, and sets out specific job targets and actions for the Centre. These are listed below.

- Protect capacity for job targets and a diverse mix of uses to strengthen and reinforce the economic role of the centre
- Consider potential options for future public transport connections to the south east of the District to accommodate forecast population and employment growth, and better connect the district

- Expand the centre’s function and type of land uses, and knowledge-intensive jobs
- Improve access from the centre of Bondi Junction to nearby open space and recreation facilities such as Queens Park, Centennial Park, Moore Park and Bondi Beach
- Recognise the centre’s health attributes to support the Randwick health and education precinct and mechanisms for increasing floorspace for health uses, including a health-focused business incubator
- Investigate opportunities to improve and diversify night-time economy offerings
- Promote place making initiatives to improve the quality of public spaces

Waverley Economic Development Strategy

Waverley Council developed its first Economic Development Strategy in 2015. The Waverley Economic Development Strategy (WEDS) focuses on retaining existing business and attracting new business that support the creation of local jobs and investment. The WEDS outlines a series of strategic directions and actions to strengthen the Waverley economy and cement Bondi Junction’s role as the ‘economic heartbeat of the Eastern Suburbs’.

Four high level priorities and nine actions are included in the Strategy, namely:

- Renew – destination marketing, place management and destination development
- Innovate – improving competitiveness and increasing diversity
- Collaborate – industry partnerships and government partnerships
- Enable – reducing barriers and business support

Some actions from the WEDS that are pertinent to Bondi Junction are:

- Identify and promote clear branding that highlights the character of Bondi Junction and key commercial village centres
- Promote Waverley’s competitive advantage to attract new business
- Encourage investment in the sustainable supply of commercial office space
- Investigate the establishment of co-working office spaces for existing industries including knowledge intensive (professional services)

Bondi Junction Urban Design Review

In 2012, Council and the NSW Department of Planning and Environment (DPE) jointly commissioned The *Bondi Junction Urban Design Review*³³ (BJUDR) to address site specific items as well as matters relating to generic controls in Bondi Junction. Following consultation with landowners, recommendations from the BJUDR were incorporated as amendments to WLEP2012. The amendments aimed to facilitate development in the short-term to “stimulate the local economy and provide jobs and business opportunities sooner rather than later”. The findings of the Review are discussed below in Section 4.1.2.

Bondi Junction Floor Space Study

Waverley Council commissioned SGS Economics and Planning (SGS) to complete the Bondi Junction Floor Space Study (BJFS) to collate floor space and employment data for Bondi Junction. The project was commissioned to better understand the current and future floor space demands and provide a baseline data set for evidence based planning.

The survey identified 537,000sqm of employment floor space in Bondi Junction and 331,000sqm residential floor space. Forecasts identify significant growth in both Retail Trade and Health Care and

³³ City Plan, 2013, Bondi Junction Urban Design Review.

Social Assistance industries which highlight the continuing strategic role of Bondi Junction as an employment and social service destination.

The study included a high level capacity assessment. The results of the capacity assessment had limitations and a new, more detailed capacity assessment has been completed as a part of this report in Section 6.2.

Bondi Junction Strategic Plan Economic Overview

The *Bondi Junction Strategic Plan Economic Overview* was completed by Leyshon Consulting in 2004 to inform the strategic planning framework for Bondi Junction. The report provided the following recommendations for Bondi Junction:

- Council should consider identifying the remaining prime commercial sites in the Bondi Junction centre and re-evaluate the planning controls which relate to those sites so as to give preference to commercial rather than residential development.
- It is recommended that Council give consideration to adopting a strategy specifically designed to protect future opportunities for commercial development in Bondi Junction as well as providing some incentives to encourage commercial development and redevelopment in the centre.
- In relation to the former objective, it is recommended that Council should identify those sites within the Bondi Junction centre with high potential value for office development and take action to ensure they are not 'lost' to residential projects.
- It is recommended that Council consider implementing a review of the floor space ratios which apply to commercial and residential development in the centre generally to ensure a sufficient disparity exists in favour of the former.³⁴

4.1.2 Waverley Local Environmental Plan – context and history of changes

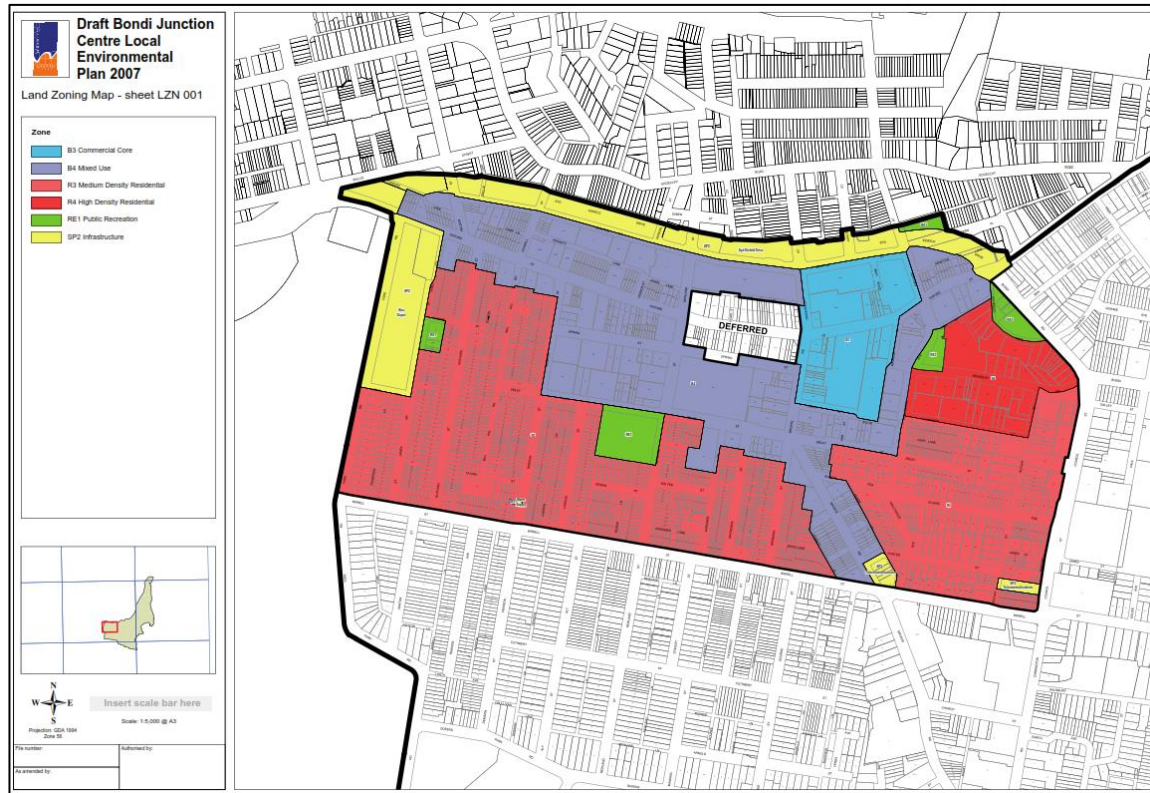
To successfully plan for commercial floor space in Bondi Junction it is important to understand the history and rationale of zoning within the Strategic Centre. The size and extent of the B3 Commercial Core land use zone in Bondi Junction has been reduced over time, which has resulted in a relatively small and constrained commercial core for Bondi Junction.

Waverley Local Environmental Plan (Bondi Junction Centre) 2010

The first draft of the Standard Instrument LEP for Bondi Junction was the Draft Bondi Junction Centre LEP 2007. This draft LEP planned to zone the centre largely B4 Mixed Use with Westfield and some other sites remaining B3 Commercial Core. The Oxford Street mall was 'deferred' for further investigation (Figure 4).

³⁴ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview.

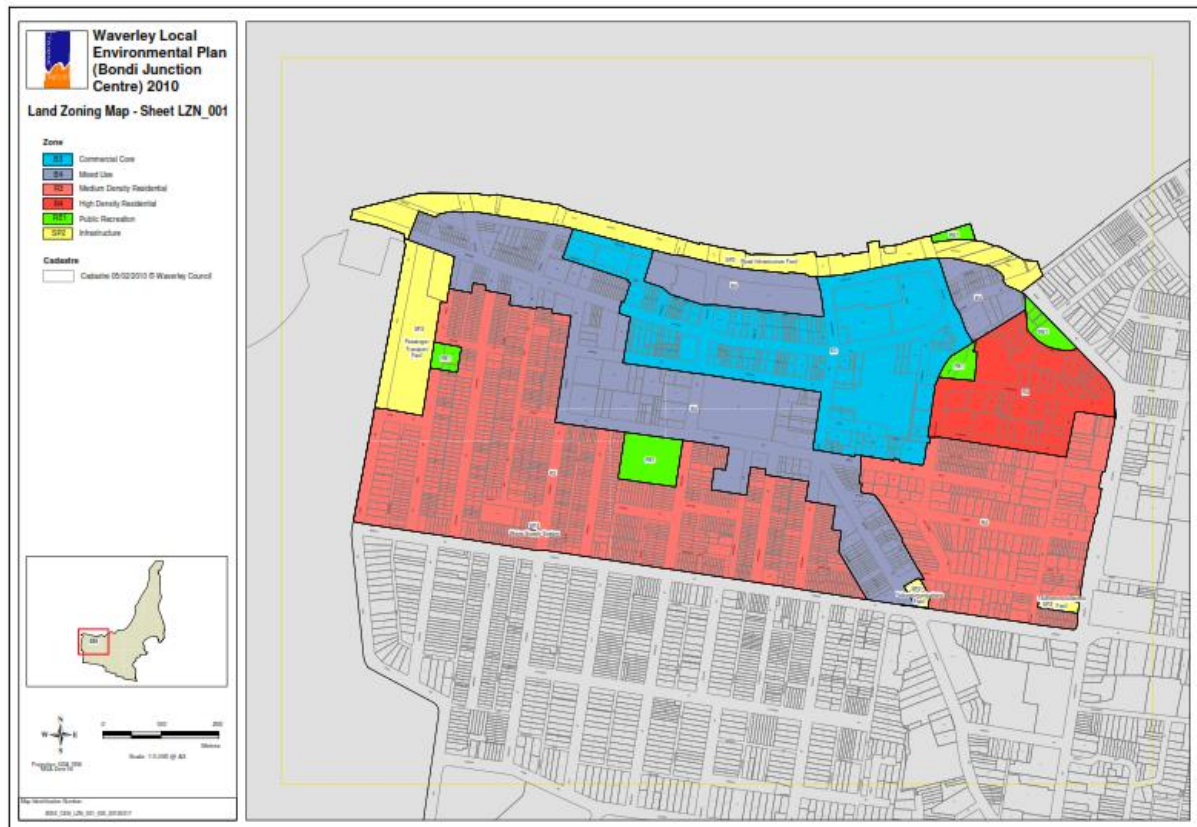
Figure 4 – Draft Bondi Junction Centre LEP 2007



Source: Waverley Council, 2016.

In December 2008, following exhibition of the Draft Bondi Junction Centre LEP, a new Section 65 Certificate was issued by DPE, directing council to amend and re-exhibit the LEP. The Certificate was issued conditional upon a number of amendments, one being the expansion of the B3 Commercial Core zone. The B3 zone was expanded to protect lands capable of generating employment opportunities from being developed with other uses and therefore ensure that Bondi Junction's role as a Strategic Centre servicing the district and a potential major employment hub was protected (Figure 5). The expansion of the B3 Commercial Core zone included Oxford Street Mall and to the west of Newland Street, the office towers along Grafton Street, and the eastern section of Ebley Street and Hollywood Avenue. Waverley LEP 2012 was exhibited over October and November 2011 and became effective in October 2012.

Figure 5 –Waverley LEP (Bondi Junction Centre) 2010



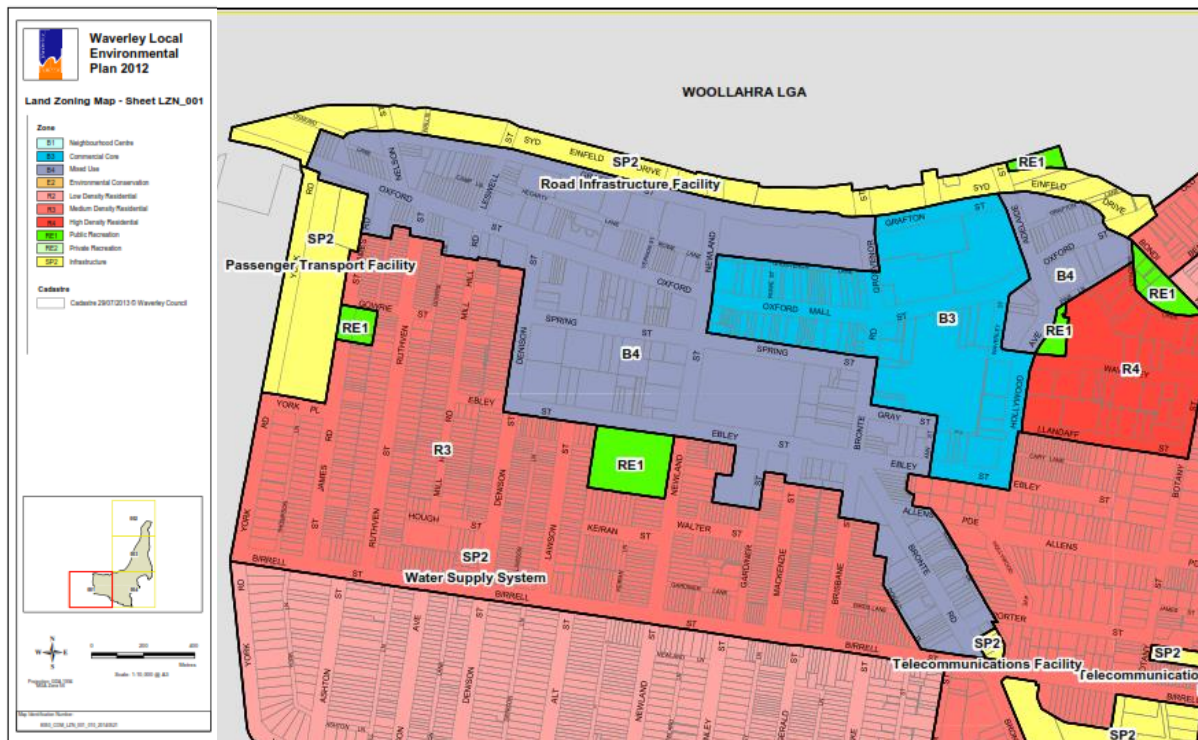
Source: Waverley Council, 2016.

Waverley Local Environmental Plan 2012 (Amendment No. 2)

Arising from the BJUDR and further consultation with landowners, the LEP was amended, aiming to facilitate development in the short-term to “stimulate the local economy and provide jobs and business opportunities sooner rather than later”. The report accompanying Amendment No.2 also highlighted the importance of providing greater diversity and mix of uses in the centre to encourage the growth of a night-time and weekend economy.

Amendment No. 2 to the LEP involved certain sites being changed from B3 Commercial Core to B4 Mixed Use, which substantially reduced the commercial core, as shown in Figure 6. The amendment also indicated that the employment targets set by the East Subregion Draft Subregional Strategy would still be met; although no detailed capacity analysis was completed.

Figure 6 – Waverley LEP 2012 as it currently applies to Bondi Junction



Source: Waverley Council, 2016.

The BJUDR indicated that the rezoning would result in the theoretical loss of approximately 64,000sqm of commercial office floor space, assuming future redevelopment in the B4 zone would include ground and first floor commercial uses. To partially offset this loss, the BJUDR recommended an increase in the FSR of the B3 Commercial Core zoned land between Oxford Street and Gray Street (encompassing the southern section of Westfield and sites fronting Bronte Road) from 8:1 to 10:1, increasing the theoretical capacity in this area by approximately 38,000sqm (but still resulting in a net loss of around 26,000sqm). The BJUDR identified the need to increase development capacity in this area to accommodate future office demand based on the then Metropolitan Strategy:

“Bondi Junction is identified as ‘Major Centre’ which is the main shopping and business centres for the subregions. It has an employment target for 2036 of 14,000 (+2,000 from 12,000 in 2006). The area requirement for a job within an office environment is an assumed approximately 25sqm per job (to be consistent with the Bondi Junction Planning Review – LEP Modelling, prepared by AJ+C in June 2009). This results in an additional requirement of approximately 38,000sqm commercial floor area within the Bondi Junction Centre”.³⁵

However, the BJUDR underestimated future demand by 12,000sqm or 25%. This error occurred because of incorrect calculations for floor space – i.e. 2,000 jobs multiplied by 25sqm per job equals a demand requirement for 50,000sqm, not 38,000sqm.³⁶

Beyond this substantial error, the BJUDR acknowledged the limitations to develop large scale office development:

³⁵ City Plan, 2013, Bondi Junction Urban Design Review, pg. 68.

³⁶ Furthermore, the SGS analysis demonstrates the Bondi Junction has employment density of 34 sqm per job.

“Apart from the Westfield Centre site there is no other large scale development site left in the Bondi Junction Centre that could be used for the development of large scale office buildings without difficult consolidation processes”.³⁷

Notwithstanding the acknowledgement that the reduction of the B3 Commercial Core zone would reduce the amount of existing commercial office floor space – by 64,000sqm – and limit future commercial office development, the reduction of the B3 zone was implemented in the 2012 LEP. At the same time, the recommended increase in capacity (by 38,000sqm) for commercial floor space was not introduced.

Compounding this reduction in existing and potential commercial office capacity, the expected loss of approximately 64,000sqm of commercial floor space is likely to be *higher* than originally envisaged. This figure from the BJUDR suggested that ground floor and first floor uses would be commercial office. However, recent DAs and pre-DAs for commercial sites and commercial to residential conversions do not incorporate commercial floor space above ground floor. In many cases the total ground floor commercial use has been reduced to allow for building circulation, access and services. For example, analysis of recent DAs and pre-DAs reveals a net loss of 7,000sqm of commercial floor space in the mixed use zone.

In summary, the B3 Commercial Core zone was reduced in the Waverley LEP 2012 (Amendment No. 2), resulting in a potential future loss of 64,000sqm of office floor space and around 2,500 jobs. The reduction of the B3 zone was originally sought for the Waverley LEP (Bondi Junction Centre) 2010, but was declined by the then NSW Department of Planning and Infrastructure (now Department of Planning and Environment) to protect employment generating capacity. The aim of the Waverley LEP 2012 (Amendment No. 2) was to create a greater mix of uses, facilitate development and foster the night-time economy. The creation of additional capacity for 38,000sqm of office floor space to offset future losses was planned for the B3 zone around Westfield however this additional capacity was not created.

Currently Bondi Junction does not have a minimum non-residential FSR applying to the B4 zone within the Strategic Centre. However, a recent planning proposal for the rezoning of sites in Ebley Street from B3 Commercial Core to B4 Mixed Use with a proposed non-residential FSR of 3.5:1 was endorsed by Council at its December 2016 meeting.

4.2 Role and function of Bondi Junction Strategic Centre

4.2.1 Commercial office development history in Bondi Junction

Bondi Junction has always been a relatively significant commercial centre within the Sydney Region. The centre’s pattern of commercial development over recent decades has been one of fairly rapid construction of new office stock in the 1980s followed by a long period of stagnation since the early 1990s.³⁸

Bondi Junction developed as a large commercial centre following the completion of the Eastern Suburbs Railway in 1979. Job growth for office floor space in the centre has been largely supply-led, with most of the large office towers development occurring during the late 1970s and 1980s³⁹ followed by a long period of stagnation since the early 1990s (Figure 7).⁴⁰

³⁷ City Plan, 2013, Bondi Junction Urban Design Review, pg. 45.

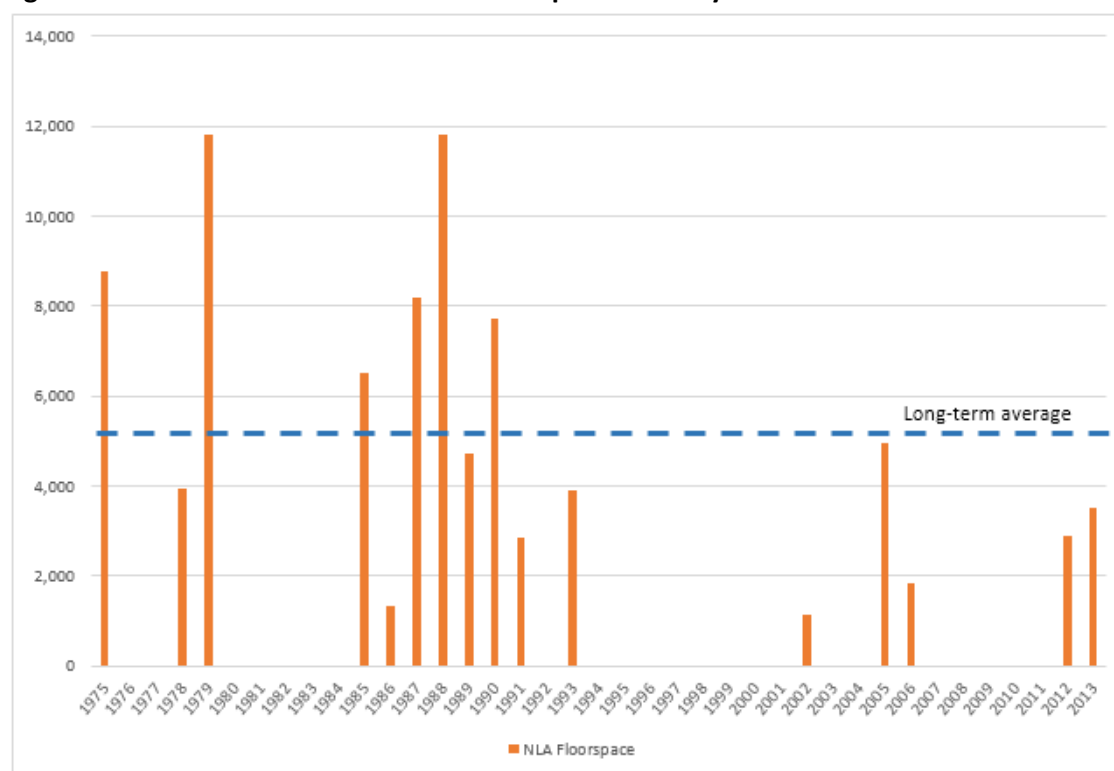
³⁸ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview.

³⁹ BIS Shrapnel, August 2014, Forecasting the Distribution of Stand-Alone Office Employment across Sydney to 2035.

⁴⁰ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview.

Similarly, much of the early office stock in the North Shore office market (including North Sydney, St Leonards and Chatswood) and other Strategic Centres such as Burwood and Hurstville occurred during the commercial office market upswing of the 1970s and 1980s. The Metropolitan Sydney office market is an overflow market and this construction boom in the North Shore and Bondi Junction was related to overflow of demand from the Sydney CBD.⁴¹ The drivers of demand for Bondi Junction include proximity to the Sydney CBD and access to a highly skilled and ‘executive’ workforce.⁴²

Figure 7 – Bondi Junction office tower development history



Source: CityScope, 2016; Waverley Council, 2016. Note: only includes significant office development.

Figure 7 demonstrates that the development of commercial office towers in Bondi Junction has been ‘lumpy’, reflecting upswings in the commercial office market, the nature of the supply-led market and the drying up of available sites and increasing competition from residential development. Figure 7 reveals that, despite an average annual growth rate of 5,500sqm, a long period occurred during the 1990s and up to the early 2000s where there was minimal office construction activity. As outlined in the *Bondi Junction Strategic Plan – Economic Overview*, this period in low growth occurred throughout Sydney and has several causes including significant overbuilding of new office space in the Sydney CBD and suburban office parks such as Macquarie Park and Norwest, the 1990-92 recession and subsequent aftermath.⁴³ Whilst there have been occasional office developments since the 1980s, residential uses have increasingly competed for sites.

The staggered growth in commercial office development in Bondi Junction underscores the importance of a long-term view when planning for employment floor space. Development cycles and development profitability do not necessarily align with a long-term planning vision; which focuses on shaping cities for the public interest. As demonstrated in Section 3.3.3, in Sydney particularly since the

⁴¹ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview

⁴² Ibid.

⁴³ Ibid.

GFC and more so in recent years, residential development can out-compete commercial office development in all locations across Sydney.

Role of Bondi Junction

Bondi Junction's role as a regional centre is underscored by its mix of retail, hospitality and entertainment services as well as commercial office market presence. The centre plays an important role for the Eastern Suburbs office market, with health being one of the larger sectors occupying office space.

The strength of the office market in Bondi Junction is largely determined by trends in the office sector in the nearby Sydney CBD and throughout the Sydney Region. Bondi Junction competes for office tenants (and therefore new office development projects) with other inner suburban centres but particularly with the Sydney CBD. While a certain component of the demand for office space in Bondi Junction is driven by the accommodation requirements of enterprises servicing local needs (for example, solicitors, accountants and medical services with Eastern Suburbs' clientele), a significant component of demand also has traditionally related to the accommodation needs of organisations with a wider geographic focus. With respect to these latter users, however, Bondi Junction competes directly with other major centres such as the Sydney CBD, North Sydney and Parramatta.⁴⁴

The key demand drivers impacting Bondi Junction are its proximity to the CBD and to an 'executive' workforce that would typically be employed in office buildings. However, whilst there is capacity within the Sydney CBD it is expected that this will constrain growth in Bondi Junction, with the exception of local services based growth (such as health uses).⁴⁵

Despite the large floorplate demand for suburban centres as outlined in Section 3.3.2, tenancies in Bondi Junction are typically smaller than in other locations, with a significantly higher proportion of tenancies between 100 and 500sqm, while in places like Sydney Olympic Park and Norwest tenancies are usually over 1000sqm with very few smaller tenancies.⁴⁶

The continued role of Bondi Junction servicing the surrounding area as a regional office centre has been diminished through the conversion of previous retail and office uses to mixed use residential buildings. Analysis of development data⁴⁷ demonstrates that there is a supply pipeline of approximately 92,000sqm of residential floor space, but a loss of approximately 7,000sqm of commercial floor space.

⁴⁴ Leyshon Consulting, 2003, Bondi Junction Strategic Plan – Economic Overview

⁴⁵ BIS Shrapnel, August 2014, Forecasting the Distribution of Stand-Alone Office Employment across Sydney to 2035.

⁴⁶ SGS Economics and Planning, 2015, Bondi Junction Floor space Study.

⁴⁷ Including under construction buildings, DA approved and pre-DA buildings

5. BONDI JUNCTION ECONOMIC PROFILE

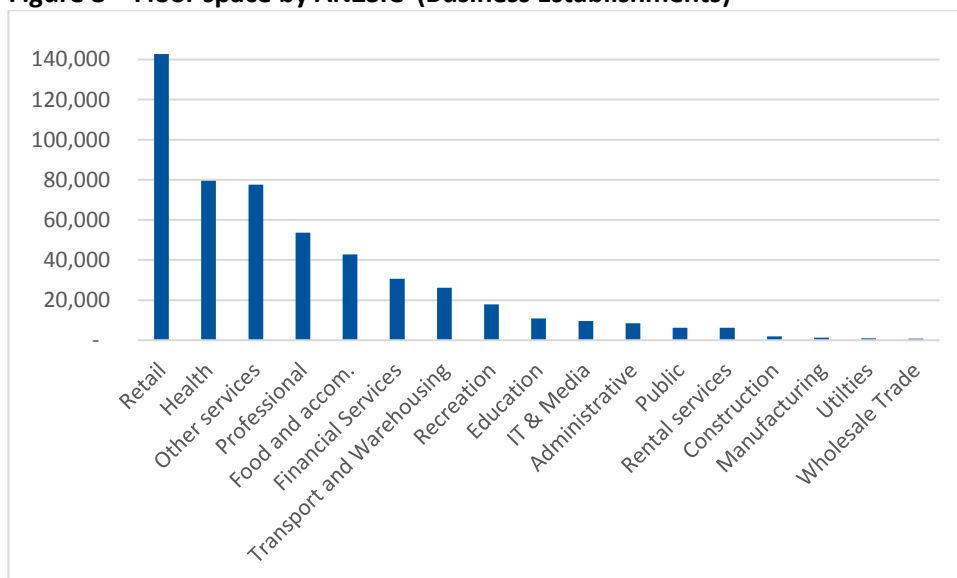
Overview

This section includes a review of the amount and type of employment and floor space in Bondi Junction, benchmarked against the district/Eastern Suburbs and Metropolitan Sydney. This benchmarking identifies any competitive advantages and disadvantages of the Bondi Junction centre. The analysis includes information on changing land values and assesses the viability of commercial office uses.

5.1 Employment profile

Using Australian New Zealand Standard Industry Classification (ANZSIC) Commercial floor space in Bondi Junction is dominated by retail and food services, followed by health and professional industries.

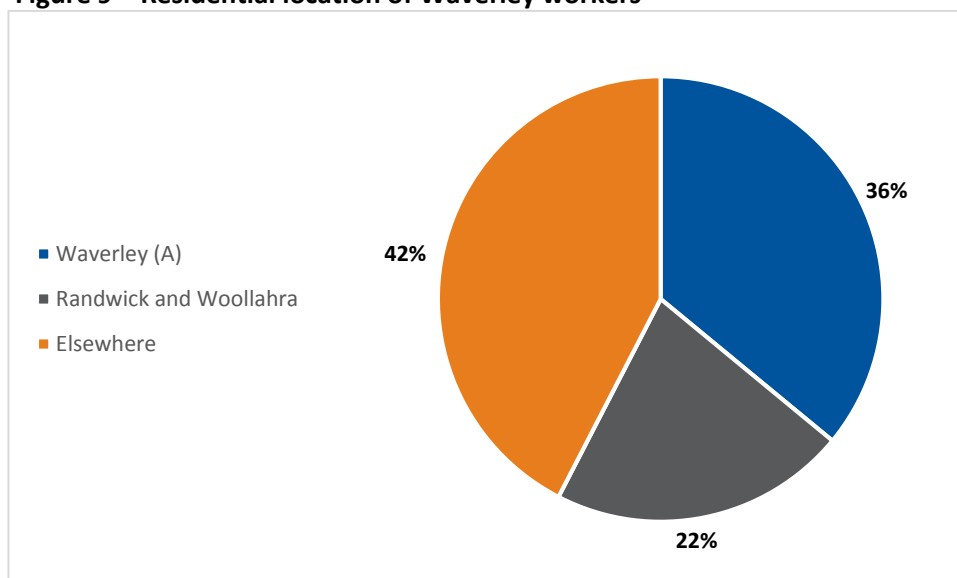
Figure 8 – Floor space by ANZSIC (Business Establishments)



Source: SGS Economics and Planning, 2015.

Almost two-thirds of workers within Waverley (data for Bondi Junction was not available) live outside of the LGA, with more than one-fifth of workers coming from neighbouring LGAs of Randwick and Woollahra (Figure 9). Assuming that the majority of these workers are located in Bondi Junction, this evidence suggests that the centre plays a significant role in providing jobs for a broader catchment than just the Waverley LGA. Encouraging additional jobs for local and neighbouring residents Bondi Junction reduces the need for local users to travel and thereby reduces commutes and associated emissions.

Figure 9 – Residential location of Waverley workers



Source: CityScope, 2016; Waverley Council, 2016.

5.2 Viability of commercial office uses

5.2.1 Market demand for Bondi Junction

Demand Drivers

Demand for commercial product is driven by trending tenant requirements. In the current market, tenants seeking the highest quality office stock require facilities which commonly include environmentally sustainable practices, gym facilities, concierge services and 'smart buildings' inclusions,⁴⁸ as well as the traditional requirement for proximity to parties with whom the tenant(s) wish to interact with (see Figure 10). Offices with these facilities are generally classified as 'premium'- or 'A-grade' rated offices, according to the Property Council of Australia's rating system.⁴⁹ Meanwhile, B-grade office spaces are generally placed in older buildings which lack many of the new conveniences offered by prime grade product therefore presenting a less desirable product.⁵⁰

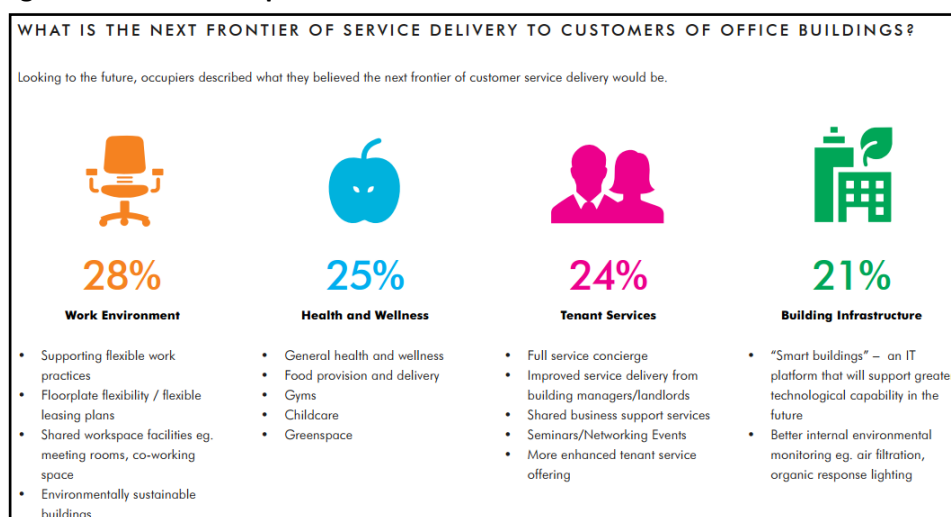
However while higher grade tenancies may be more desirable by tenants in Sydney CBD and the surrounding fringe due to the additional facilities, this demand is tempered by higher rental rates. The organisations therefore filling these prime grade tenancies are typically high-turnover, large companies and headquarters catering to state, domestic and/or international markets. Meanwhile B-grade tenancies are most commonly tenanted by medium sized companies servicing a smaller market while C- and D-grade buildings are largely occupied by local suburban accountants, real estate agents, computer repairs stores, etc. C- and D-grade commercial spaces are typically are lower quality finish, in established buildings with small to very small floorplates.

⁴⁸ CBRE. (2016). Australia Occupier Survey 2016: Stay or Go? Capturing Tenant Loyalty in the Changing World of Work.

⁴⁹ PCA. (2012). A Guide to Office Building Quality 2012.

⁵⁰ Cummins, C. (2016). B-grade offices are in short supply across city.

Figure 10 – Tenant requirements



Source: CBRE, 2012.

Current Sentiment

Throughout 2016 the Sydney commercial market was seen to experience a rise in demand for B-grade office space from smaller sized tenants requiring shorter term leases. This trend was catalysed by competition for space as a result of withdrawal of similar secondary grade properties in both Sydney CBD and metro markets, specifically North Sydney. This tightening in vacancy rates has subsequently triggered increased net rental rates.⁵¹

With reduced supply in the Sydney CBD and North Sydney markets in 2016 and into 2017, tenants have moved from the Sydney CBD to the surrounding fringe areas, allowing fringe markets to record the lowest vacancy rates in more than a decade, as well as deflating incentives (such as fitout contributions or rent free periods).⁵² This trend has continued through 2018 mostly due to continuously compressing vacancy rates, absorption of new stock and the corresponding rise in Sydney CBD rents of up to 90% due to lack of supply.⁵³

While this increased rental rate forecast of 90% appears highly optimistic at face value, industry experts attribute this increase to the reduced supply of B-grade premises in parts of the Sydney CBD, with tenancies shifting to favour landlords, particularly where stock withdrawals are occurring.⁵⁴ The current rise in rental rates also supports this trend, with Sydney CBD B-Grade office rents seen to reach up to \$1,000sqm per annum. Rise in demand has particularly effected smaller suites of up to 400sqm in the Sydney CBD core, "where scarcity of availability and quality is creating competitive tension of the like we have never seen before".⁵⁵

⁵¹ Jones Lang LaSalle, 2013, Sydney North Shore Office Investment Market Overview

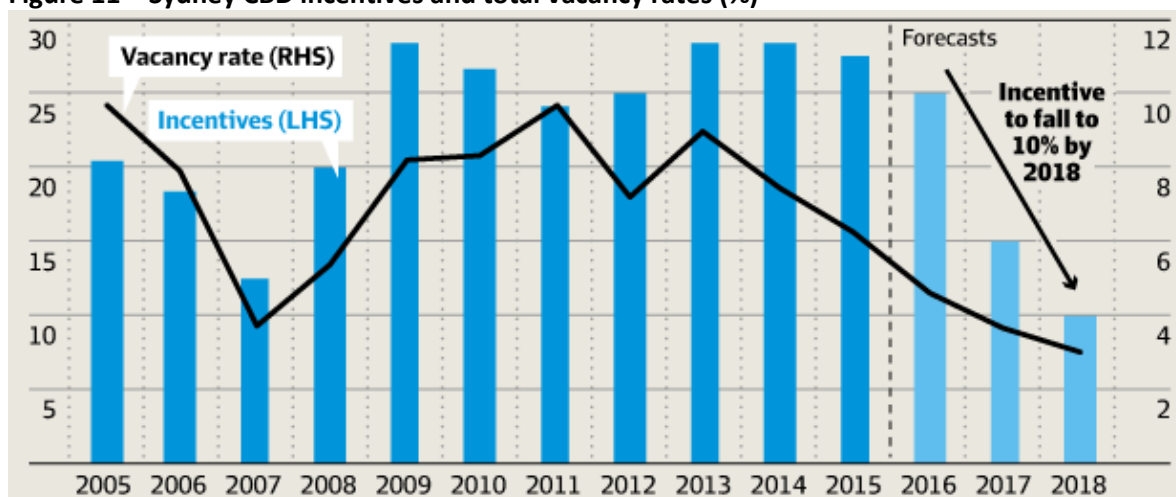
⁵² Cummins, C., 2016, Sydney fringe office markets in high demand

⁵³ Schlesinger, L., 2016, Sydney office rents to rise 90 per cent over next three years

⁵⁴ Ibid

⁵⁵ Rob Dickins, Savills National Head of Office Leasing, 2016

Figure 11 – Sydney CBD incentives and total vacancy rates (%)



Source: BIS Shrapnel, 2016; PCA, 2016.

Effect on Bondi Junction Sentiment

Consultation with local agents has indicated that the aforementioned effects of this heightened demand in the Sydney CBD and fringe has flown into the market sentiment of Bondi Junction over the last 18 to 24 months with vacancy reaching a ten year low of circa 4%.⁵⁶ Similar to Sydney CBD markets, this has eventuated into increased rental rates and decreasing incentive levels. Rental rates have increased to \$475-\$600sqm per annum in the Bondi Junction area, with the Grafton Street district recording rental rates between \$520-\$570sqm per annum.

5.2.2 Market Profile

Bondi Junction Market

Measuring circa 284,671sqm, commercial space in Bondi Junction contributes just 5.76% of total Greater Sydney commercial space and is not categorised as a metro market comparable to Chatswood or North Sydney (despite being of similar size to Chatswood).⁵⁷ However, while Bondi Junction is not a metro market, it is significantly larger than other suburban markets, therefore existing in an under-researched space between metro and suburban.

Table 1 – Market Floor Space Comparison

Market	Estimated Office Stock
Bondi Junction	284,671sqm
Parramatta	682,907sqm
Chatswood	278,919sqm
North Sydney	820,747sqm
Crows Nest/St Leonards	344,797sqm
Randwick Junction/ The Spot	14,686sqm
Maroubra Junction	11,209sqm

Source: Eastern Suburbs Economic Profile Final Report, 2013; Property Council Research 2016 Office Market Report; SGS Economics and Planning, Bondi Junction Floor space Study, 2015.

⁵⁶ Local Leasing Agents stated in personal conversation between February 6-17, 2017 & SGS Economics and Planning, Bondi Junction Floor Space Study, Bondi Junction Floor Space Study.

⁵⁷ SGS Economics and Planning, Bondi Junction Floor Space Study, Bondi Junction Floor Space Study.

Bondi Junction commercial space is characterised by both smaller scale commercial buildings with retail premises on the ground floor and the high-rise B-grade commercial office buildings. These office towers exist along the western end of Oxford Street, Spring Street, Ebley Street, the southern end of Bronte Road and Hollywood Avenue, while the only A-grade premises, Westfield Towers, reside on the eastern end of Oxford Street.

As seen in Section 4.1 the majority of tenants operate within the ANZSIC sectors of health care (27%), professional services (18%) and other services (27%). These tenants generally enter leases between three to five years for which landlords typically not offering a renewal option due to the rising market. Landlords are, however, offering incentives commonly in the form of three months' rent free. It should be noted that these incentives which once hovered at circa 20% 18 to 24 months ago are reducing towards 15%.

Comparison to Metro and Suburban Markets

To analyse the role of the Bondi Junction market in the context of Greater Sydney, the office market has been compared with metro markets; Chatswood and Parramatta, and smaller suburban markets, Maroubra and Randwick. Interestingly B-grade stock in all four markets is currently leasing for between \$350-\$450 per square metre with the point of difference being incentives and additional facilities, rather than discounted rental rates. While tenants in metro markets demand higher incentives, well presented stock, at least 4.5 NABERS ratings and end of trip facilities, agents for the two suburban markets noted that local tenants were content with existing stock. In comparison to Bondi Junction's expected vacancy level of 4%, the aforementioned metro markets of Crows Nest/St Leonards Chatswood, Parramatta and North Sydney recorded much higher vacancy rates of 9.1%, 10.1%, 8.4% and 8.1% respectively. These have been attributed to the presence of more stock and the lack of proximity to the CBD in cases other than North Sydney.

Unsurprisingly, suburban markets with less stock cater to the local market i.e. local professionals and medical tenants. While metro markets service local to state, domestic and international markets with tenants such as multinational groups and government departments. Popular floorplates also distinguish metro and suburban markets, with the highest absorption for suburban markets at sub-100 square metre tenancies, and demand for metro markets including both sub-400 square metre spaces and tenancies between 1,000-1,200sqm.

The Bondi Junction market B-grade market, with a rental rate range of \$450-\$550 per square metre, offers slightly more expensive product than other analysed markets – potentially due to the lack of prime grade stock, well presented nature of the B-grade stock and proximity to other business and transport. Evidence of higher rental rates has also been recorded, for example at 209 Oxford Street where stock is leased at an average of \$674 per square metre and 466-472 Oxford Street which is leasing at an average of \$715 per square metre per annum – it is believed that these tenancies, however, would be privy to harbour views therefore increasing their worth.

While the market does not cater to a domestic or international level, it does house tenants such as the state government who reach a state-wide capacity. Bondi Junction's focus is Eastern Suburbs oriented with tenants including local professionals, health providers and institutional bodies. So while Bondi Junction is a large suburban commercial office market, similarly sized to Chatswood, it is not considered a metro market that attracts major companies and headquarters like Chatswood, North Sydney or Parramatta. At the same time, Bondi Junction has solid market fundamentals with a vacancy rate lower than the Sydney average and other suburban and metro markets, as well as comparable – and in some instances higher – rents for similar grade office floor space. All of the evidence suggests that there is strong underlying demand for commercial office floor space Bondi Junction.

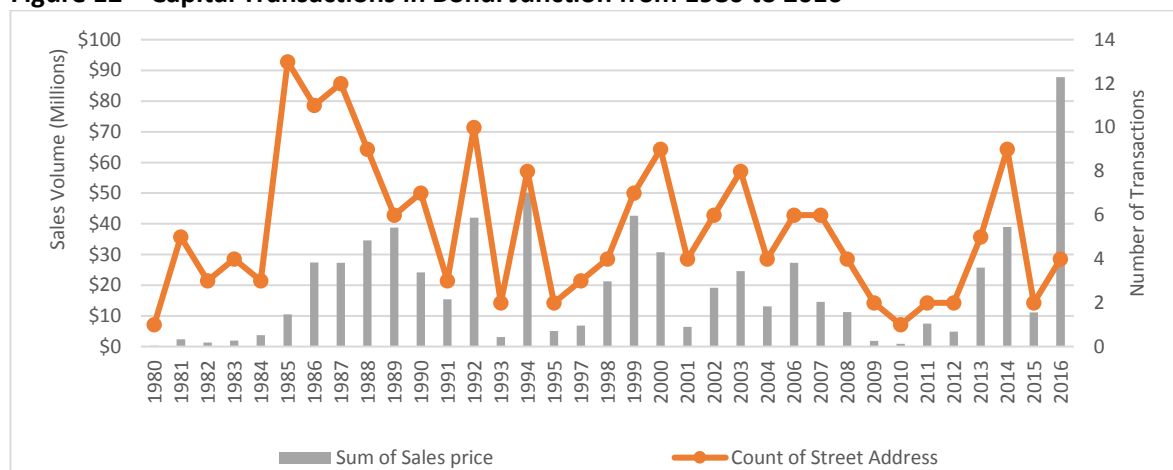
5.2.3 Feasibility of Commercial Development in Bondi Junction

Commercial sales

If Sydney continues to produce strong office market fundamentals, then there is likely to be long-term future demand for commercial space in Bondi Junction. It should be noted however, that commercial office development will only occur in Bondi Junction if such redevelopment is financially feasible. Permissibility of such development in planning terms alone will not be sufficient to ensure that it occurs. It is important to acknowledge that the success of commercial precincts is fundamentally underpinned by 'critical mass', supported by adequate infrastructure and a vibrant mix of uses to facilitate a work life balance for workers. Currently, however, analysis indicates that commercial development will continue to be financially viable in the foreseeable future.

Since 1980, Bondi Junction has experienced a highly volatile commercial capital market (see figure 12 below) due to limited transactions, however the average total sale price volume has risen from circa \$12 million to circa \$28 million over the thirty-five year period indicating strong demand for sites in Bondi Junction. However, much of this demand and recent rise in prices for commercial sites could be attributed to the rezoning of commercial sites to mixed development. For example, a two storey building at 99 Spring Street, Bondi Junction sold for \$2 million in 1993, \$2.1 million again in 2012 (representing a depreciation in real terms), but then sold for \$6 million in 2016. It is likely that the three-fold increase in value in a short period of time, following a long period of real price depreciation reflects the change of zoning to Mixed Use after 2012.

Figure 12 – Capital Transactions in Bondi Junction from 1980 to 2016



Source: CityScope, 2017

Case studies

To examine the feasibility of commercial development a number of case studies were examined as follows:

- 6-8 Bronte Road: the subject of a current commercial office development
- 92-122 Ebley Street: the subject of a current Planning Proposal.
- Exchange Building: this building was recently redeveloped for commercial office.

Table 2 – Feasibility for case studies

Case	Net realisation	Total outlay	Profit	Profit (%)
6-8 Bronte Rd - high	\$12,895,313	\$7,719,856	\$5,175,457	67%
6-8 Bronte Rd - low	\$11,053,126	\$7,443,528	\$3,609,598	48%
96-122 Ebley St - high	\$107,413,396	\$79,088,849	\$28,324,547	36%
96-122 Ebley St - low	\$92,068,625	\$76,723,855	\$15,344,771	20%
466-472 Oxford St - high	\$41,605,455	\$29,808,029	\$11,797,426	40%
466-472 Oxford St - low	\$35,661,818	\$28,916,484	\$6,745,335	23%

Source: MMDCC Quantity Surveyor Report: 6-8 Bronte Road, Bondi Junction; X.Pace Design Group, 2016, Ebley Street, Bondi Junction: Economic Impact Assessment & Feasibility Analysis; RPData.

These estimates indicate that commercial developments are currently feasible, particularly for higher quality stock which can sell for circa \$14,000 per square metre. The case study of 96-122 Ebley Street indicates that development feasibility is marginal (20%) under the \$12,000 per square metre scenario.

Issues with pre-commitments

With vacancy levels the lowest they have been in a decade, it is likely that new developments would be absorbed by the market. However, developers may face difficulty in securing financing if unable to secure 50-60% pre-commitments within their development.

The post-GFC financing climate for new office buildings requires a tenant pre-commitment of approximately 50% of the total building floor space before a lender will commit to funding. This issue is the single biggest issue most adversely impacting the development of new commercial office floor space across Sydney, despite low vacancy rates.⁵⁸ There are and have been a number of DA approved developments across major office markets in Sydney that have been sitting in a 'holding pattern' for years waiting for pre-commitments. This issue is directly related to scale, with larger developments requiring greater pre-commitments and hence being more difficult to 'get out of the ground'. A centre such as Bondi Junction, which lacks the metropolitan 'sense of address' – and hence the depth of demand – that other office markets have, may find it more difficult to attract pre-commitments.

Summary

Feasibility testing indicates that further development of employment floor space is viable. As outlined in Figure 7, the supply of office floor space waxes and wanes with timing in the development cycle. Notwithstanding the theoretical financial feasibility of commercial office development in Bondi Junction, there are external forces that play an important role in the further development of commercial office floor space within Bondi Junction including the difficulty in attracting pre-commitments, particularly for larger developments, as well as the strength of the Sydney CBD market and the overflow from this market.

⁵⁸ Urbis, 2015, North Sydney Commercial Centre Study, Prepared for North Sydney Council and Property Council of Australia (NSW).

6. EMPLOYMENT FLOOR SPACE DEMAND AND CAPACITY

Overview

This section includes a review of the employment floor space demand forecast for Bondi Junction. An assessment of the capacity of Bondi Junction to accommodate future employment growth has been completed using the *Bondi Junction Floor Space Study* as a starting point. This analysis identifies opportunities and constraints to Bondi Junction's capacity to accommodate future employment growth.

6.1 Forecast employment growth

The *Bondi Junction Floor Space Study* was completed in 2015⁵⁹ and included a floor space forecast for the Bondi Junction centre. Using NSW Government employment projections, the study forecast demand for an additional 83,000sqm of employment floor space by 2036. It is expected that future demand will relate to the growing and changing population in the Eastern Suburbs as well as overflow demand from the Sydney CBD, the availability of finance and the stage of the office market cycle.⁶⁰ A metropolitan wide office market demand forecast completed by BIS Shrapnel recognises the competition with residential in Bondi Junction and suggests that "there will likely be sites within or surrounding the centre that could be rezoned to permit office development".⁶¹

6.2 Commercial floor space capacity

6.2.1 Loss of existing supply

Using data from current and approved Development Applications (DA) in the last 5 years (see Appendix 1), Table 1 documents the loss of existing employment floor space supply in Bondi Junction as a result of new residential towers replacing existing floor space. In some instances, these DAs have replaced a traditional ground floor retail and first floor office configuration, which typically have a high floor space efficiency / coverage, with a residential tower that contains a tokenistic retail use at ground floor. More concerning however is the loss of larger commercial office towers in Bondi Junction to residential conversion. Research in Randwick demonstrated that only around 27% of the ground floor is used for commercial floor space. Woollahra and Randwick are also experiencing this issue in their centres and are both Councils are seeking to implement a minimum non-residential FSR.

There has been a loss of approximately 9,000sqm of existing commercial floor space in Bondi Junction as a result of recent residential developments since 2014. There is forecast to be a further loss of 19,000sqm of existing commercial floor space with current and recently approved DAs in the pipeline at the time of writing. This cumulative floor space loss represents between 580 and 1,300 jobs. Importantly, recent and potential developments have not only resulted in the loss of existing commercial floor space but have also diminished commercial floor space capacity in the B4 Mixed Use zone. This loss of real and potential commercial floor space seriously hinders the availability of floor

⁵⁹ SGS Economics and Planning, Bondi Junction Floor space Study.

⁶⁰ BIS Shrapnel, August 2014, Forecasting the Distribution of Stand-Alone Office Employment across Sydney to 2035.

⁶¹ BIS Shrapnel, August 2014, Forecasting the Distribution of Stand-Alone Office Employment across Sydney to 2035.

space for jobs, meaning that Waverley Council is at risk of not meeting the District Plan job targets and the role and function of Bondi Junction and its status as a Strategic Centre are under threat. Unless Council intervenes, the continued loss of employment to residential accommodation is expected to continue due to the higher returns for residential development and Development Applications for new residential apartment towers at existing large scale commercial sites.

Table 1 – Bondi Junction supply pipeline

	Pre-development floorspace	Redevelopment floorspace	Floorspace loss	Job equivalent loss
Recent approvals	15,272	6,601	8,671	578
Development application	22,438	3,123	19,315	1,288
Total	37,710	9,724	27,986	1,866

Of this development pipeline, the average non-residential FSR that has been provided is 53% (Table 2). This is low and as a result reflects the large cumulative loss of commercial floor space. For the two smaller sites that have been subject to redevelopment, the non-residential FSR delivered on these sites has been 200%, suggesting that these sites have been redeveloped for commercial purposes.

Table 2 – Actual non-residential FSRs in Bondi Junction: recent development

Site	Actual non-residential FSR
253-255 Oxford	11%
109-119 Oxford Street	59%
87-99 Oxford Street	53%
110-116 Bronte Road	16%
243 Oxford Street	36%
28-34 Bronte Road	134%
292-302 Oxford Street	34%
304-308 Oxford Street	10%
344-354 Oxford Street	99%
362-374 Oxford Street	32%
55 Grafton Street	15%
552-568 Oxford Street	82%
570-588 Oxford Street	50%
58 Bronte Road	198%
59-69 Oxford Street	41%
59-75 Grafton Street	41%
78 Bronte Road	206%
Average	53%
Average - large sites	50%
Average - small sites	202%

Similarly, a number of recently completed and under construction residential mixed use towers have serviced apartments on the lower floors, directly above ground level as these levels could not achieve SEPP 65 requirements. It is anticipated that these will simply function as 'build to rent' residential

apartments and a missed opportunity has occurred where these sites could have provided commercial office floorspace.

Importantly, the Bondi Junction Commercial Centre Review predicted a loss of around 64,000sqm of commercial floor space resulting from the changes to the Waverley LEP 2012, which rezoned much of the B3 Commercial Core into a B4 Mixed Use zone. So far recent approvals and Development Applications have revealed a loss of close to 30,000sqm of floor space. There is potential that another 34,000sqm of commercial floor space could be lost through the further loss of existing floor space.

6.2.2 Existing capacity

Using *Bondi Junction Floor Space Study* data, an analysis of Bondi Junction's ability to absorb future floor space growth was completed. Two different capacity scenarios were analysed to provide a detailed understanding of Bondi Junction's potential to accommodate future employment growth within the B3 Commercial Core zone.

Table 4 shows the largest remaining sites within Bondi Junction's B3 zone. It is important to highlight that the majority of employment floor space capacity within Bondi Junction is within the Westfield site; which has theoretical capacity for an additional 54,000sqm. Therefore, much of the future type of employment floor space development in Bondi Junction depends on the intentions and willingness of Westfield to further expand their centre. This is a risk for future office development in Bondi Junction, given that around 50 percent of the capacity for future commercial floor space in Bondi Junction depends on a sole operator, which specialises in retail development, rather than office development. The two office towers on the Westfield site were developed in 1979 and 1988; each associated with major expansions of the shopping centre. Westfield has indicated to Council that the part of Westfield where the 54,000sqm of capacity remains (south of Oxford Street) cannot be retrofitted for an office tower. They indicated that they have no intentions to develop an additional office tower and potential disruption to their high performing shopping centre.

Beyond the Westfield site the second largest development opportunity is the cluster of four sites between the Waverley Mall and Westfield – 235-239 Oxford Street. There have been numerous inquiries to develop these sites as student accommodation, which may be possible as non-complying 'serviced apartments' or a 'hotel' land use in the B3 zone. After this site, a cluster of Ebley Street sites present the second largest commercial office development opportunity. The Ebley Street sites are currently subject to a Planning Proposal which may reduce their development capacity. The site of 5-11 Hollywood Avenue is being redeveloped by an established student accommodation provider as a 'hotel'. 6-8 Bronte Road is currently being redeveloped into a five storey commercial office building with approximately 1,400sqm of floorspace; demonstrating that the capacity numbers represent an upper limit on future floorspace delivery. The B3 Commercial Core zone for the western section of Oxford Street (surrounding the mall) is highly fragmented and hence there is limited capacity in this area.

6.2.3 Key sites in B3 zone

Table 4 shows large sites within Bondi Junction's B3 zone. It is important to highlight that the majority of employment floor space capacity within Bondi Junction is within the Westfield site; which has capacity for approximately an additional 54,000sqm. Therefore, much of the future type of employment floor space development in Bondi Junction depends on the intentions and willingness of Westfield to further expand their centre. This is a risk for future office development in Bondi Junction, given that around 50 percent of the capacity for future commercial floor space in Bondi Junction depends on a sole operator, which specialises in retail development, rather than office development. The two office towers on the Westfield site were developed in 1979 and 1988, each associated with major expansions of the shopping centre. Westfield has indicated to Council that the part of Westfield

where the 54,000sqm of capacity remains (south of Oxford Street) cannot be retrofitted for an office tower. They indicated that they have no intentions to develop an additional office tower and potential disruption to their best performing shopping centre.⁶²

Beyond the Westfield site the second largest development opportunity is the cluster of sites between the Waverley Mall and Westfield.⁶³ After this site, Ebley Street sites present the second largest commercial office development opportunity. However, the Waverley Mall site has recently been flagged for redevelopment as a hotel site⁶⁴. 6-8 Bronte Road is currently being redeveloped into a five storey commercial office building. The B3 Commercial Core zone for the western section of Oxford Street (surrounding the mall) is highly fragmented.

Table 4 – Large sites in B3 Commercial Core zone

Address	Floor space capacity (sqm)	Comments
480-510 Oxford Street	53,916	Unlikely to develop - discounted .
235-239 Oxford Street	11,099	Interest as student accommodation
96-100, 110-122 Ebley Street	7,281	Subject to PP
213 Oxford Street	5,128	Apple Store
4a Bronte Road	4,635	Heritage pub – discounted .
183 Oxford Street	4,297	
5-11 Hollywood Avenue	4,235	DA for student accommodation – discounted .
22-26 Bronte Road	3,640	Strata - discounted
231 Oxford Street	3,259	
6-8 Bronte Road	2,095	Redeveloped

Under an optimistic ‘theoretical capacity’ scenario of the B3 Commercial Core (see Table 5) there is approximately 111,000sqm of floor space capacity. Discounting key sites that aren’t likely to be redeveloped – include Westfield – reduces capacity by a further 66,000sqm to resulting in a likely employment floorspace capacity of around 45,000sqm.

As outlined above (Table 1), the loss of employment floor space from recent development and the development pipeline is 28,000sqm, with a potential loss of up to 64,000sqm as outlined in the BJCCR. If this loss and potential loss of floor space is factored into account then the ‘real’ capacity could be described as 17,000sqm (45,000sqm – 28,000sqm) or even -19,000 (45,000sqm – 64,000sqm). This floor space loss trend is supported by the evidence of similar losses of employment floor space within the North Shore office market and across Strategic Centres in Metropolitan Sydney.

Table 5 – Bondi Junction capacity analysis

Floor space scenarios	Floor space capacity (sqm)
Theoretical capacity	111,405
Likely capacity	44,979

⁶² Bondi Junction has the highest turnover per square metre of all Scentre Groups retail assets.

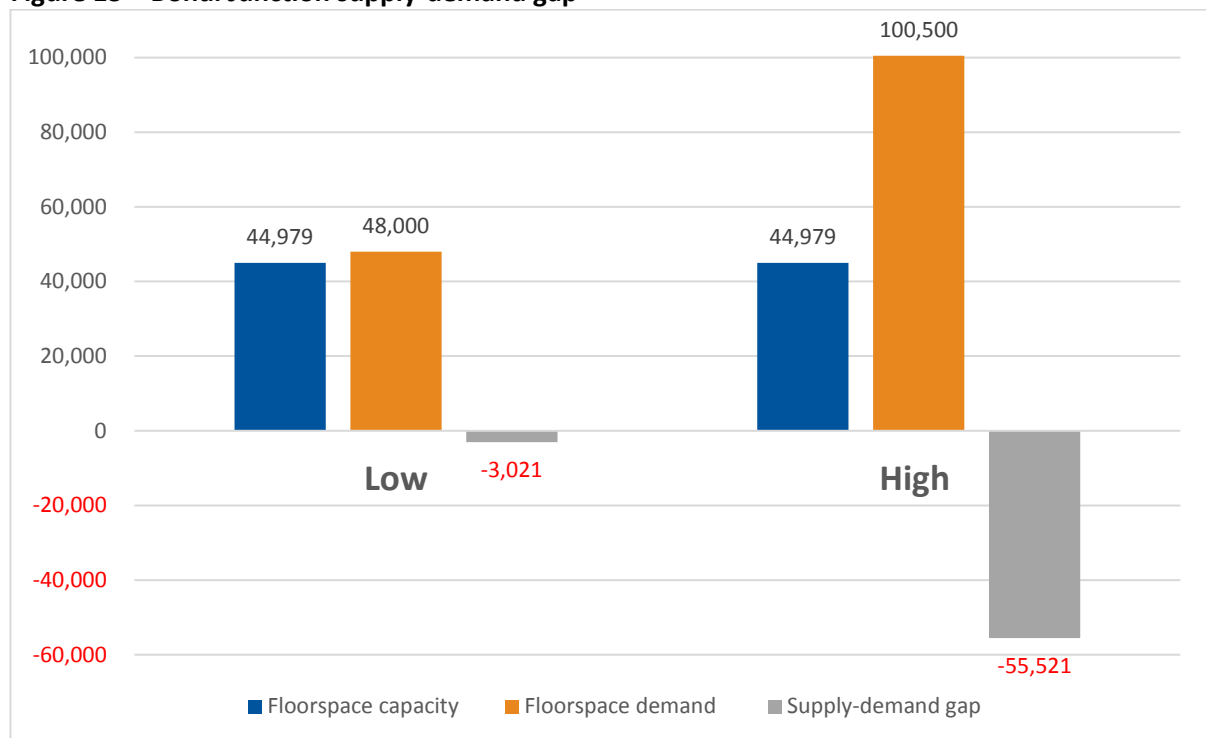
⁶³ There is a cluster of adjacent sites between Westfield and Waverley Mall – 235-239 Oxford Street – that could form greater development potential if consolidated.

⁶⁴ Wentworth Courier, ‘Subway to make way for hotel: Another high rise for Bondi Junction with last development site for sale’, 11/10/2017.

6.3 Employment floor space supply-demand gap analysis

Using the 'likely capacity' figure of 45,000sqm, by 2036 there will be a shortage of commercial floor space of 3,000sqm under the 'low' floor space (job) target required by the District Plan. Under the 'high' scenario there would be a shortage of approximately 55,000sqm of floor space. These scenarios do not account for the loss of a predicted 28,000sqm of floor space in the immediate pipeline. If this loss is accounted for then there is potentially a shortage of up to 83,000sqm of office floor space in Bondi Junction by 2036.

Figure 13 – Bondi Junction supply-demand gap



7. CONCLUSION AND RECOMMENDATIONS

7.1 Conclusion

Commercial offices generally accommodate the growing knowledge based, professional and technical services that underpin high value contemporary economies. However, such development is increasingly tied to location – typically to amenity, activity rich, well connected and skilled labour accessible areas. Only a few key centres qualify within greater Sydney. Those Strategic Centres within the Global Economic Corridor are well placed to accommodate future office growth and support their economic catchments as well as a broader market.

The B3 Commercial Core zone was specifically designed to protect areas within strategic centres for employment uses with a long-term perspective. The widespread application of the B4 Mixed Use zone in key centres was, at the time, initiated with good intention – to create a balance of residential and commercial development. Given the much higher returns now achieved for residential development, this original purpose has not come to fruition. The empirical evidence demonstrates that in most cases such an approach ‘prices out’ employment uses and thereby sterilises the potential for a greater employment role in future.

In simple terms, planning to either entrench or encourage existing commercial and office clusters, or to develop new clusters, is a long-term task. However, there remains intense short-term pressure for residential development in most of Sydney’s existing strategic centres. Bondi Junction is a centre where residential development is pricing out commercial potential significantly. Chatswood, North Sydney, Parramatta and the Sydney CBD itself are under similar pressure given a medium to long-term view. While a B4 Mixed Use zone does allow for pure commercial office towers, in centres with scarce opportunities allowing a simple market contest between residential and office is likely to be ‘won’ by residential, which may undermine long-term employment potential and economic competitiveness. The cannibalisation of commercial office for residential is contradictory with State Government objectives to allow capacity for future employment growth. Local governments across Sydney – including Willoughby, North Sydney, Parramatta and City of Sydney – Melbourne and internationally in London and Vancouver (where very high house prices prevail) have recognised this emerging problem and are seeking to address it before it becomes a crisis.

7.2 Recommendations

In light of the evidence contained within this assessment, Council should be cautious about supporting any further reduction of the B3 Commercial Core zone. The B3 Commercial Core zone in Bondi Junction is too limited and valuable (for either employment or alternative uses) to be subject to a relatively arbitrary case by case rezoning approach. The current zoning arrangement in Bondi Junction provides a clear and visible land use framework for where residential mixed use is and is not acceptable.

Protecting the B3 zone provides clarity and consistency which subsequently gives certainty to the community, businesses and the development industry. Commercial office and residential developers need certainty. The withering away of the B3 Commercial Core in Strategic Centres sends an ambiguous signal to the market at best. At worst, it undermines the integrity of the zoning system, signalling that immediate development is more important than creating and reinforcing a polycentric city structure that promotes long-term environmental sustainability, social equity and economic success. The economic success of Metropolitan Sydney depends on successful Strategic Centres that can service their economic catchment.

Therefore, it is important that Council ‘hold the line’ in relation to the remaining B3 Commercial Core area. Commercial centres and business parks in Sydney and Melbourne, and elsewhere around the world have long lead times from conception to delivery, spanning decades in some instances (for example Macquarie Park was established in the mid-1960s and is still growing as an employment centre – although new residential development is placing pressure on this precinct). In the next 20 to 30 years current capacity (‘low-hanging fruit’ sites) in the City of Sydney will be filling. If Commercial Core areas in Bondi Junction and across Sydney are continually reduced for residential development, an opportunity will have been lost.

Securing the B3 zone and promoting office uses in the B4 zone reflects a long-term view that grasps the cumulative effect of individual development decisions. A long-term view necessitates a ‘structural’ lens not a ‘cyclical’ one. Cyclical factors or short-term residential development imperatives should not be allowed to cloud ‘bigger picture’ planning visions. A structural view promotes long-term public economic benefits against damage from short-term private financial gains. If Council protects the B3 zone and promotes office uses in the B4 zone, we will secure much needed commercial floor space to sustain the longer-term growth of the Bondi Junction Strategic Centre.

Based on the balance of evidence in this report, the following recommendations should be considered:

- **Protect the B3 Commercial Core zone from any future rezoning** - The B3 Commercial Core zoning is used within the Bondi Junction Strategic Centre to focus on providing the provisions for employment and services of the wider regions and the local community.
- **Implement a minimum non-residential FSR in the B4 zone** – To ensure that an employment future in Bondi Junction is secured, Council should implement a centre-wide application of a minimum non-residential FSR to Bondi Junction in the existing zoned B4 Mixed Use zone. This requirement should seek to ensure no net loss of non-residential floor space at a minimum and where possible an increase on existing provision of non-residential floor space.
- **Prohibit serviced apartments and hotels in the B3 and as part of any minimum non-residential FSR**– To ensure an office outcome in the B3 zone, serviced apartments and hotels should be prohibited in this zone. To support the minimum non-residential FSR control in the B4 zone Council should prohibiting serviced apartments and hotels applying to the non-residential component of floor space.
- **Consider allowing differential controls for office development in the B4 zone** – Similar to the City of Sydney, consider changing the FSR and height controls to favour office development in the B4 zone. This could include merit assessment of these developments.
- **Consider applying incentives for office development in the B4 zone** – To encourage further office development above and beyond the non-residential FSR, additional FSR and height could be allowed as an incentive / trade-off; subject to merit assessment.
- **Identify future areas for residential growth to reduce conflict with commercial** – In the short-term, there are sufficient sites within existing residential zones and the B4 zone to supply residential development. Beyond this, Council could investigate whether low density areas adjacent to Bondi Junction could accommodate greater residential supply.