

UNLOCKING MELBOURNE'S CBD

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URBIS

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EXECUTIVE SUMMARY

The Importance of Melbourne's CBD

Central Melbourne and its CBD (comprising the Hoddle Grid, Docklands and Southbank - see map at page 1) is highly regarded for its successful combination of economic activity, cultural landmarks, easy access to world class sporting arenas, well established and improving public transport and its garden and river setting. Over the past 25 years the central city has undergone a renaissance with the significant increase in residential apartments across the CBD and beyond with nearly 82,000 people calling Melbourne's CBD home. Today Melbourne exemplifies the 24/7 city.

The success of Melbourne's CBD is multifaceted. It provides a convergence of critical land use functions, supported by physical components and infrastructure. Overlaid with this are more intangible elements such as public safety, cultural diversity and interest, environmental and landmark qualities.

The CBD's attractiveness is also apparent in the continuing growth in employment and the number of businesses seeking to locate in the CBD. Between 2001 and 2016, employment within Melbourne's CBD grew from just over 173,000 jobs to more than 317,000 jobs, representing total growth of 83% over the 15-year period.

The CBD's share of metropolitan-wide employment has increased from 13% in 2001 to 16% in 2016 and is expected to continue to increase over the next 30 years.

Together with Victoria's ongoing structural shift towards a services-oriented economy, the concentration of people and employment has redefined the role of the CBD and helped to fundamentally reshape Victoria's economy. That role is powered by a cluster of economic activity and dominated by high-value knowledge-based employment.

In 2016, the CBD produced \$67 billion towards the national economy, just behind the Sydney CBD which produced \$81 billion over the same period.

In short, Melbourne's CBD is the engine room of the metropolis and is a vital component to the State's ongoing economic success.

The high accessibility of the CBD

The attractiveness of the CBD for employment is easy to understand given that businesses seek to have access to the greatest number of potential employees - an essential part of the knowledge economy. Equally so, high-level state functions are also accessible to the greatest number of people due to the central location.

The CBD's accessibility is second to none and is at the centre of Melbourne's public transport network. A network that has developed over a period of more than 150 years and represents many tens of billions of dollars of embedded infrastructure. In 2016, 65% of all workers accessed the CBD via public transport - a proportion that continues to increase.

The supreme connectivity with the broader Metropolitan area remains a key factor in the CBD's overarching success. The opening of the Melbourne Metro in 2025/6 will further enhance this accessibility by expanding the heavy rail network capacity by over 39,000 passengers each peak period (morning and afternoon). A key argument in support of the Melbourne Metro project is how transport promotes growth in high-value jobs (agglomeration) and productivity for central Melbourne.

Given the significant investment in transport infrastructure, it is essential that this investment is optimally utilised.

Future Growth of the CBD

For the purposes of this report, the City of Melbourne forecasts for the growth of the CBD through to 2036 have been referenced.

The population in the CBD overall is forecast to almost double from 82,000 in 2017 to 159,000 by 2036. Of this, the Hoddle Grid is expected to accommodate the greatest share of forecast growth at 47%, with Southbank at 36% and Docklands at 17% from 2017-2036.

The Melbourne CBD is forecast to grow from 317,500 to 480,400 workers from 2016-2036.

The Hoddle Grid is forecast to take the lion's share of employment demand to 2036, with growth of 122,900 additional employees (75% of the total growth in the CBD). Docklands is forecast to increase by approximately 25,000 workers by 2036, with Southbank increasing worker numbers by around 15,000 over the same period.

These forecasts are in line with the forecast growth of metropolitan Melbourne and are possibly an understatement of the future demand given the fundamental attractiveness of the CBD.

Competition for space in the CBD is a rising problem

The current success of the city belies an emerging problem - land within the CBD available for future development is becoming increasingly scarce. This rising scarcity has been driven by the ongoing clustering of jobs in the CBD together with the significant increase in city residents over the past 20 years - notwithstanding the expansion of the CBD beyond the Hoddle Grid.

The CBD footprint expanded with the release of developable land in Southbank and then Docklands. Southbank initially emerged as a location for a spill over of office development from the Hoddle Grid. However, in recent years, there has been limited office development activity in Southbank. While there is some capacity for further development, the demand for office space diminishes with in line with the distance from train stations such as Southern Cross and Flinders Street. This has largely restricted office development to the north of City Road.

In Docklands, the growth of commercial development along the Collins and Bourke Street corridor has been supported by proximity to Southern Cross Railway Station and direct road connections into the Hoddle Grid. This eastern side of the Docklands is now a clear extension of the Hoddle Grid.

Residential development has increased rapidly, not just in the urban regeneration areas, but increasingly extending into areas once considered purely core commercial locations - for example the eastern end of the Hoddle Grid. Despite a prevailing view that Docklands and Southbank have provided for the residential growth of the broader CBD, 55% of all new dwelling approvals in the CBD since 2006/07 have occurred in the Hoddle Grid.

The past 15 years has seen significant growth in the amount of residential floorspace in the CBD increasing by over 2.6 million sq.m. Most of this development has occurred on sites previously used for office and other employment services supporting the city. This includes the conversion or demolition of office buildings in highly accessible locations (e.g. 35 and 85 Spring Street).

The CBD is forecast to require additional floorspace of 9 million sq.m to support population and employment growth out to 2036 – including **4.4 million sq.m of commercial floorspace**. Urbis have calculated that under current controls, and considering the extent of constrained land, the CBD is theoretically capable of accommodating the required floorspace growth - but only just. This analysis implies very little growth potential for the CBD beyond 2036, while it should also be recognised it assumes all available sites are developed to their maximum potential; a highly unlikely outcome.

Sites available for sizeable office developments are particularly scarce, given the need for larger sites in strategic, accessible locations. While a significant proportion of the identified capacity is in the Hoddle Grid, 67% of the site area 'available' for development, it is comprised of sites less than 500 sq.m in area.

The reality facing the CBD is a lack of larger sites capable of accommodating new office development. Today there are no readily available sites except at the northern periphery of Docklands at locations relatively remote from major public transport.

Simply put, the CBD is facing an imminent shortage of sites to accommodate the forecast growth.

Impact of Current Planning Controls

The combination of the long-standing land use controls and the more recently introduced development controls as part of Amendment C270 has served to provide an 'in-built' advantage to residential development as compared to commercial development.

Today's development regulations, led by the recent changes under Amendment C270, have no understanding or recognition of the fundamental economic requirements of the CBD and have effectively closed down the development pipeline for further office development. Since the introduction of the new planning controls in November 2016 there have been only two approvals for office development in the CBD.

The single biggest constraint imposed by Amendment C270 is the lack of flexibility in the decision making process. If this regime is continued in combination with the current land use controls for the CBD it is likely that:

- The number of new commercial projects will be significantly constrained over future years due to a lack of available development sites capable of accommodating an 'A Grade' office building - particularly for floorplates greater than 1,500 sq.m.
- The supply of land in the CBD for redevelopment will decline as residential development continues to consume smaller sites and effectively 'lock' the sites from further development due to their strata ownership.
- The number of high value jobs capable of being accommodated will be reduced.
- Rents for office accommodation in the CBD will significantly increase.
- The expected benefits to be gained from expanding the transport network to support the CBD and its workers may not be fully realised.
- The annual economic output of the State could be reduced by as much as \$7 billion per annum.

An analysis of a range of commercial buildings built over recent years or currently under construction reveals they would not be able to be approved under the C270 controls. These well-designed buildings, that add to the fabric of Melbourne's CBD, have a combined value of approximately \$5.8 billion and provide accommodation for approximately 34,500 Victorian jobs.

In summary, the current policy, land use and development control settings collectively, will prevent the CBD from fulfilling its economic future role to the long-term detriment of the metropolis and the State.

Learning from other Major Cities

Four cities have been chosen given their particular attributes and the potential lessons they hold for the future of Melbourne, being Toronto, Sydney, London and New York.

A review of the planning strategies and associated background reports for each of these cities has revealed many common themes and issues facing the future development of their central business districts. The key learnings for Melbourne emerging from this review are:

1. There is strong recognition and support for the economic role of the central cities and the positive impact they have on the broader metropolis and region as an economic engine and creator of good quality jobs.
2. This recognition extends to an understanding that a vital role of the planning authorities is to protect existing employment accommodation and facilitate new development providing 'fit for purpose' office accommodation for the future.
3. Each of the cities has a comprehensive understanding of the likely growth of the CBD and future demand for floorspace. This is in the form of either an economic strategy for the city (Toronto) or detailed policies supported by regular market reviews (London and New York). The planning policies and development controls start from the understanding of the economic role of the CBDs and are aligned to facilitate the anticipated demand (Sydney).
4. There is a strong recognition that to ensure office development remains the principal use in the CBDs and future accommodation is fit for purpose, new office development must be facilitated.
5. With the increasing scarcity of land in CBDs, it is necessary to restrict the increasing competition from residential development. This can range from effective prohibition of residential uses to the provision of floorspace bonuses or similar in favour of office development.
6. The development of a site or precinct-specific approach to understanding development potential and the preferred location for more intense development including the creation of clusters resulting in development controls that:
 - a. Define where more intensive development should and can be located having regard to accessibility, locational and site attributes - that is the permitted intensification is focused where the CBD can accommodate additional density (all cities).

- b. Linking the location of more intensive development with accessibility to the public transport system (all cities).
- c. Creating a whole of precinct approach to the improvements to the public realm rather than a site by site approach as currently found in Melbourne (all cities).

In summary, for Melbourne's CBD to remain competitive it needs to prepare planning controls that support and facilitate commercial development ahead of non-employing uses.

Recommendations

Recommendation 1 - Immediately introduce interim CBD planning controls to increase flexibility and support employment growth

The development of the CBD over the short term cannot be allowed to stall whilst long-term solutions are considered. It is recommended that the current planning controls be modified to:

- Introduce flexibility but still ensure a high quality built environment. This could take the form of providing discretion for the setback/height controls subject to agreed criteria including:
 - being only available for office development
 - demonstrating achievement of reasonable daylight access to the surrounding location
 - other improvements to the public realm
- Introduce restrictions on the replacement (including conversion) of office buildings for residential uses.

These modifications to the current controls should be introduced as soon as possible.

Recommendation 2 - Prepare an Economic Strategy for the CBD to ensure that it remains a key economic hub

Melbourne's approach to guiding the future of the CBD is behind the global trends and must be improved if the city is to optimise its economic future.

This is not a binary choice of economic growth over a high quality urban environment within the CBD. Rather it is one where there is a comprehensive and detailed understanding of the future needs of the city that in turn informs a 'fine-grain' approach to guiding future development to facilitate development in the right locations at the right times.

Melbourne has a broad strategy for the metropolis that forecasts significant growth in jobs and population. However, there is no direct plan as to how that growth will be accommodated in the CBD – the heart of the metropolis.

The Economic Strategy for Melbourne's CBD should:

- Identify the likely growth in employment over a 30-year period and the associated demand for floorspace across the CBD.
- Identify the precincts that are principally used and developed for office and associated employment and the preferred locations for new development based on accessibility and other criteria.
- Be regularly reviewed against on ground development and economic and other trends.

In addition to reviewing planning policies and controls to support employment growth and particularly new commercial development it will be necessary to increase the amount of development land within the CBD given that many sites will not be able to be redeveloped (due to their size or location). Melbourne has already expanded the CBD - first to Southbank and then to Docklands.

The days of ready access to under-developed land are long gone, however there are a few locations where the CBD could be broadened or intensified including:

- Development over the Spencer Street rail yards to fully link the Hoddle Grid with Docklands (Melbourne's version of Hudson Yards).
- Development of the Spring Street South precinct and possibly the Flinders Street rail yards.
- Extension of CBD scale development intensity north along Spencer Street corridor to join with the Arden Renewal precinct.

- Encouraging the redevelopment of the commercial part of Docklands with a view to introducing an intensity similar to that found in the Hoddle Grid.

Recommendation 3 - Conduct a comprehensive review of current CBD planning controls to support the Economic Strategy

It is necessary to undertake a comprehensive review of the planning policies and development controls that will implement the future development of the CBD. It is anticipated that the review will require a fundamental re-assessment of the current suite of controls. Some components of the current controls may remain or be adapted into the new controls.

However, the final controls will need to be capable of delivering the agreed floorspace targets for the CBD whilst ensuring maintenance of Melbourne's character and amenity. Such measures could include:

- The creation of a transferable development rights system to enable the utilisation of Floor Area Ratio entitlements for sites that cannot be further developed (e.g. heritage buildings).
- The identification of critical commercial precincts within the CBD/Docklands area that prioritise office and other employment development.
- A fine-grained assessment of the opportunities in the CBD/Docklands area to accommodate increased commercial intensity having regard matters such as accessibility to train stations and other public transport, potential overshadowing impacts, size of sites, frontage to major streets etc.
- The creation of incentives to encourage site amalgamation to support additional fit for purpose commercial and other employment accommodation. This could include FAR bonuses.
- A review of the development controls, in particular the mandatory nature of setback controls that do not have proper regard to contextual circumstances.
- Creation of a public realm improvement plan (e.g. footpath widenings, additional through block links, new open space etc.) in conjunction with the anticipated intensification of the CBD.

Recommendation 4 - Improve the efficiency and certainty of the current CBD planning approval processes

The current approval process for major central city developments involving both the Minister for Planning (via DELWP) and the City of Melbourne has become excessively slow and uncertain (notwithstanding the mandatory nature of many controls). The current joint approval process requires a thorough review to:

- Establish fixed timeframes for key assessment tasks including referrals and responses from other authorities.
- Modify the agreement between the Minister for Planning and the City of Melbourne to require the City to respond on applications within a 28-day timeframe consistent with any other statutory referral authority.
- Provide enhanced resourcing within both DELWP and MCC planning departments. It is apparent that current resources are stretched and further support is required.

Recommendation 5 - Promote and enhance transport infrastructure in line with anticipated CBD employment growth

The CBD will also need to continue to be provided with improved levels of accessibility as it continues to grow. The proposed link to Melbourne Airport will further consolidate the economic role of the CBD and provide enhanced access to the CBD for western Melbourne in turn growing the pool of potential employees for CBD based employers.

The Metro 2 Rail link will also improve accessibility to the CBD, its jobs and other facilities for the growing south-west part of the metropolis. As cities from New York, London, Sydney and Toronto have found the demand for public transport is accelerating as the economy continues to change and knowledge jobs seek central locations. Melbourne too must continue to invest.

The CBD accessibility improvements will not only focus on public transport but should include improved active transport links such as new off-street bike paths and additional capacity for existing pathways. Employers recognise that a growing proportion of their employees are preferring to access their workplace via bicycle or on foot and are providing ever larger 'end-of-trip' facilities. New offices are including comprehensive bike parking and associated facilities that are only likely to grow in popularity as the newer offices are completed.

Conclusion

Melbourne's CBD is vitally important to the State and its future. Without an economically strong CBD the metropolis and the State will find it far more difficult to compete with other cities and states for investment and jobs. A CBD specific Economic Strategy supported by responsive planning policies and development controls (including an immediate review of the current C270 controls) will ensure that Melbourne maintains its place in an increasingly competitive region and supports the ongoing growth of the metropolis.

INTRODUCTION

Urbis has been engaged by the Property Council of Australia to expand beyond the findings of our February 2018 report: *Future Requirements of the Melbourne CBD Office Market*.

For Victoria to continue its success of the past 25 plus years, it needs to ensure Melbourne's CBD maintains its role as the principal economic centre for the State.

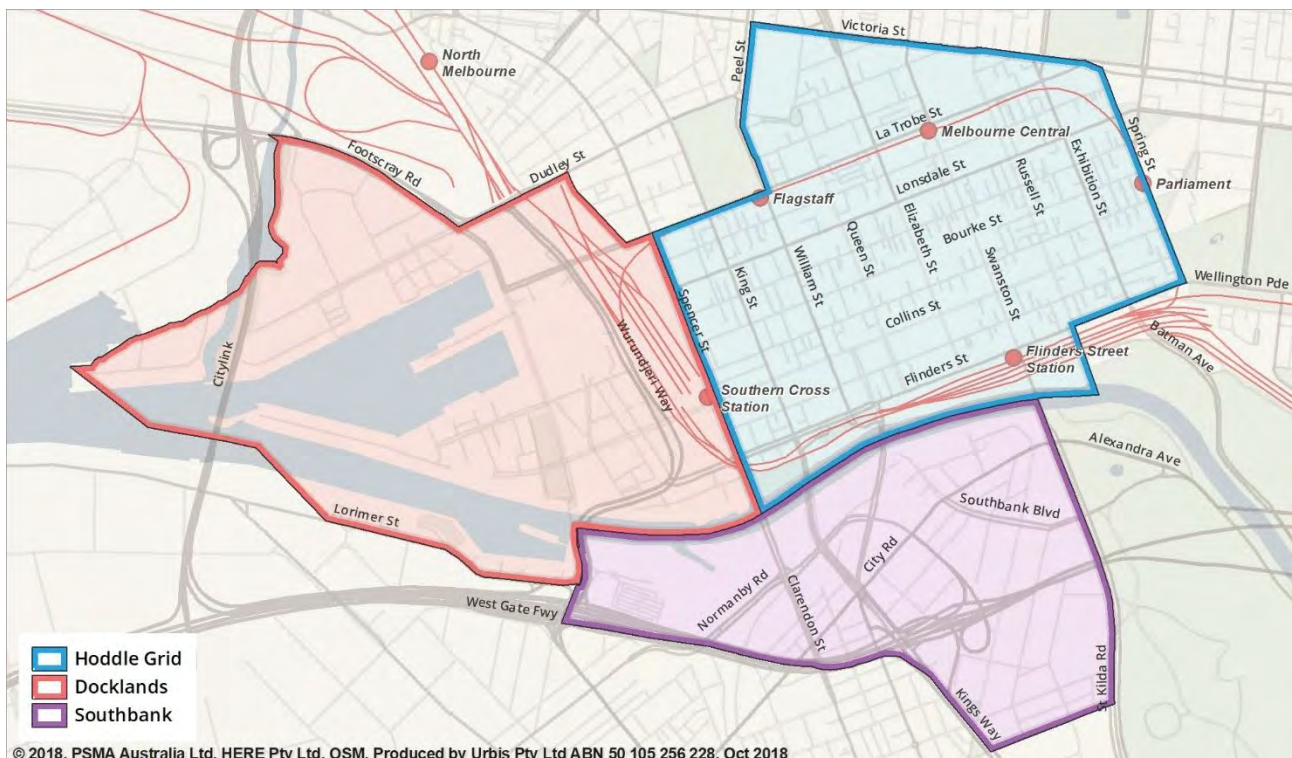
The report will address several key questions.

1. What is the overarching role for Melbourne's CBD through to the middle of the 21st century?
2. How has Melbourne and its CBD changed over the past 15 years and what does this tell us about the future challenges and opportunities? This question would have a few subsidiary matters including:
 - a. What has driven this change and what is driving it now?
 - b. Where is it heading and what are the challenges and opportunities?
3. What have other cities done to manage similar challenges and opportunities for their principal centre?
4. What does Government need to do to maintain the CBD's role and place in the broader Metropolitan Melbourne context?
 - a. Where are some of the major opportunities and priorities for Melbourne's CBD?
 - b. What are the policy options to realise these opportunities and priorities?

STUDY AREA

For this study, the Melbourne CBD (CBD), as shown in Map 1, includes the Australian Bureau of Statistics (ABS) Statistical Areas Level 2 (SA2) geographies of: Melbourne, Docklands and Southbank. Note the "Melbourne" SA2 is referred to as Hoddle Grid throughout this report.

Map 1 – Study Area



KEY DATA SOURCES

Census of Population and Housing 2006, 2011 and 2016, Australian Bureau of Statistics (ABS)

Office Market Report (OMR), Property Council of Australia

The OMR tracks all commercial buildings within defined market boundaries. CBD markets exclude any property with a Net Lettable Area (NLA) of less than 1,000 sq.m, while metro regions exclude any property with an NLA of less than 500 sq.m.

Census of Land Use and Employment (CLUE), City of Melbourne

CLUE provides comprehensive information about land use, employment and economic activity across the City of Melbourne. The City of Melbourne has been collecting land use and employment data since 1962. Since 2000 it has been collected every two years by direct survey.

Population Forecasts, City of Melbourne

Forecasts of the City of Melbourne's residential population and dwellings to 2037 have been modelled by Geografia.

Employment and Floorspace Forecasts by Small Area, City of Melbourne

The City of Melbourne has commissioned employment and floor space forecasts for the municipality, and sub-areas of the municipality. Employment (number of jobs) and floor space (sq.m of employment-related of floor space only) are forecast in five yearly intervals to 2036.

Daily Population Estimates and Forecasts, City of Melbourne

The City of Melbourne's Daily Population Estimates and Forecasts provide the information and data about people travelling to, or being present in, the Melbourne municipality on an average weekday and weekend day. It was first developed and published in 2005 and has been updated biennially since.

REMPLAN Economic and Planning System

REMPLAN generates industrial economic data for defined geographic regions using ABS datasets and an input/output methodology.

1. THE RISE OF CBDS

This section identifies research into a series of domestic and global economic forces that are influencing the way cities in advanced economies around the world are developing. These forces have influenced the demand for land use change within Melbourne's CBD and are likely to continue to be a driver of CBD development in the future.

Key Themes:

- The Metropolitan Age – cities are larger and more important than ever as economies become more focussed on central, highly accessible locations.
- Competition between cities is increasingly emphasising the importance of leveraging existing economic momentum and infrastructure investments.
- Physical proximity and connectedness of the skilled workforce drives modern, service oriented, knowledge economies.
- City amenity is a key contributor to external investment decisions.

1.1. METROPOLITAN AGE

The importance of cities cannot be understated. The share of the global population living in cities has accelerated rapidly. When Melbourne was founded in 1835 just 2% of the global population lived in cities, today it is approaching 55% and will reach 68% by 2050¹.

Population growth and urban concentration is a key characteristic of this Metropolitan Age, one that is being driven by technological evolution and the globalisation of trade and services. Notwithstanding the global connectivity that technology enables, it is the physical proximity, interactions and sharing of knowledge between people within the urban environment that is fundamental.

Enrico Moretti's 2012 book, *The New Geography of Jobs* explores the link between connected, skilled populations and the success of cities. In the technological age (1980's onwards) it is cited that there is a close relationship between the population of a metropolitan area and the productivity of workers in that area. The agglomeration of multiple and diverse businesses contributes to knowledge sharing and the cycle of success.

This new knowledge economy is radically altering the way cities and regions can establish and maintain competitive advantage. In this new era, talent has become the key factor of production and it is also a principal driver of growth for cities across the globe.

While this new growth paradigm brings enormous opportunities, it is not without its challenges.

The pace, scale and concentration of growth means the way in which cities develop and manage urbanisation is of huge importance. Cities are the main source of global economic output and productivity, but they also account for most resource consumption and greenhouse gas emissions. Well-built cities enhance lives, support livelihoods and, in turn, create strong nations. Poorly built cities result in fragmented communities and economies. How urban development is executed therefore matters not only locally, but to the entire global population.

The dividends can be great for cities that do this successfully. Well-developed cities are attracting an expanding share of business, immigration, visitors, talent and capital flow. Capturing a greater share of these increasingly mobile economic inputs creates the underpinning for economic growth, which is required to raise living standards for all Australians. This global city competition is the context our major cities operate in and it is one that is rapidly changing.

As Pr. Greg Clark highlights in the Creating Great Australian Cities report prepared for the Property Council of Australia, *"40 years ago there were fewer than 200 cities with a population over one million, today there*

¹United Nations, *World Urbanization Prospects*, 16 May 2018, <https://www.un.org/development/desa/publications/2018-revision-of-world-urbanization-prospects.html>

are 530 and rising. While Sydney and Melbourne are passing the five-million-person threshold, within a decade there will be over 150 cities at that size or larger.”

While these are issues of concern for all cities, the performance of Australian cities within a global context is vital to national and indeed local interests. With approximately 67%² of Australia’s population living in urban areas, cities are where most Australians live and work, and where there the broadest range of services are located.

The search for economic and lifestyle opportunities is a leading factor to Australia being one of the fastest urbanising OECD countries, soon to have nearly two thirds of Australians living in the four largest cities: Sydney, Melbourne, Brisbane or Perth.

These locations are also where most of our economic output is produced. Australia’s five largest cities – Sydney, Melbourne, Brisbane, Perth and Adelaide – accounted for 66% of Australia’s economic activity in 2011-12³. As Australia, and indeed many other developed nations undertake structural transition towards service-oriented economies, the importance of having a large pool of well-connected highly skilled labour has magnified. There is no better place for this to manifest than dense urban environments, particularly city centres.

Successful cities understand, and are leveraging this important feedback loop, whereby economic opportunities and growth are linked to the functionality and quality of a city. Melbourne is a leading example of this trend, absorbing more population than any other city across Australia, as people seek to access globally recognised amenity, high quality employment, services and living standards.

London Experience- The Co-location Debate

In 1997, economist and journalist Frances Cairncross published a book called *The Death of Distance*. The basic premise was that emerging communication technologies would fundamentally change the economy, and in so doing would alter spatial relationships: technology would liberate businesses from their traditional locational ties. The question here is: will contemporary developments in technology reverse Central London’s traditional centripetal pull and reduce the desire of businesses to co-locate there?

Twenty years on from Cairncross’ book, there seems to be precious little evidence of her central thesis becoming reality – at least not in the office sector. The sheer weight of business in the capital, and the complexity of the business ecosystem, suggest that the potential of technology has so far failed to disrupt the established order. Moreover, there is anecdotal evidence that the pull to the centre is strengthening, and that it is equally applicable to small and large businesses.

² Australian Bureau of Statistics, *Regional Population Growth 2016-2017*, cat. no. 3218.0

³ Grattan Institute, *Mapping Australian’s Economy: Cities as Engines of Prosperity*, July 2014, p. 9

Melbourne's Ranking Among Global Cities

		RANK	CHANGE IN RANK	
	Brand	7		+2
	Liveability	2		-1
	Education	3		+2
	Economy	12		-1
	Innovation	16		+9
	Outlook	10		-4

Source: Anholt-GfK City Brands Index; Global Liveability Index; QS Best Student Cities; Global Financial Centres Index; Innovation Cities™ Index; AT Kearney Global Cities; Urbis

Melbourne is consistently recognised across a range of city benchmarks, alongside other Australian cities.

What makes Melbourne a 'world class city' is linked to a broad range of factors, not only population size, growth rate or the height of buildings – but include also its economy, human capital, liveability, cultural offerings, accessibility and environment.

Melbourne is recognised as one of the top sporting cities in the world and is well-known for its thriving arts and culture scene.

In 2018, Melbourne was ranked the world's second most liveable city by the Economist Intelligence Unit's (EIU) Global Liveability Index – having been awarded the most liveable city title the previous seven years running. This world recognised index rates 140 global cities across a range of liveability factors. Melbourne has consistently been ranked as one of the world's top three most liveable cities since the index began in 2002.

Contributing to its ongoing top ranking is Melbourne's consistent performance across five broad categories. In 2018, Melbourne achieved perfect scores in healthcare, education and infrastructure, while we outranked Sydney in the area of culture & environment and tied in stability.

Achievements like these make Melbourne's lifestyle an easy sell when recruiting and retaining talented professionals. Australia is ranked by expats in the top 10 places to live, ranking particularly highly for general quality of life, ease of settling in and as a destination for working abroad.

1.2. EMERGING ISSUES AND CHALLENGES FOR CBDS

Population growth and urban concentration is creating a series of tensions and challenges in developed cities around the world. Each faces a complex set of choices about how to accommodate growth and manage the physical and often competing demands of urban development. Should cities grow out or up? Does the location of employment align with the needs of a changing economy? Do the existing infrastructure networks need to change to accommodate more demand? How do cities ensure liveability is maintained and enhanced?

These are difficult decisions, with each requiring trade-offs and compromise. But inaction is not an option, nor is business as usual. Failure to effectively anticipate and respond to growth results in declining economic productivity, increasing environmental pressures and a marked reduction in each city's quality of life.

The importance of cities to regional and national economies makes their performance and longevity critical.

Amongst the strengths of cities (and their centres) as the focus for population growth, employment and recreational uses, there are emerging issues in growing CBD's.

Research for this report into international cities and their growing central areas have identified the following key themes:

- The land within is a finite and increasingly scarce resource
- Tensions between preserving heritage, delivering high quality public realm and facilitating development opportunities
- Conversion of employment space to residential space
- Conflict and competition between land uses seeking to leverage services and amenity
- Strata subdivision of land which severely constrains redevelopment opportunities
- Optimising land use which leverages legacy investment in infrastructure
- Delivering transport accessibility which supports growth and optimises productivity.

How these issues relate to the Melbourne context are explored in detail later in the report, with specific emphasis provided on the experiences of London, Sydney, Toronto and New York.

Of the issues above, most pressing is the need to balance the competing demands of different land uses in a way which optimises the economic performance of a city.

CBDs are extremely attractive locations to both businesses and residents, but have limited space to accommodate them. As a result, commercial and residential properties compete for space, especially in city centres where amenity, services and existing employment concentrations are highest.

This competition threatens the economic success of cities. Increasingly, the most high-skilled, productive firms are looking for a city centre location. Not being able to offer sufficient supply of appropriate commercial space for these firms has implications not only for the productivity of the cities themselves, but for the broader economy too.

The co-location of these firms enables the transfer of skills and innovation among different organisations and drives higher firm performance, jobs and wages growth for the cluster and the wider city region. New industries are also more likely to emerge near strong clusters and in industries with links to existing strengths⁴.

To feed this rich ecosystem requires access to deep labour pools, a skilled workforce and a surrounding network from which to learn and do business. CBDs in leading cities possess these characteristics by their very nature, they are the place where significant legacy investment has been focused to improve accessibility and they have a significant concentration of high value employment. That is why encouraging high-skilled firms to locate outside a major agglomeration hub is likely to fail⁵ and it is essential that legacy investment is leveraged by providing affordable employment land in the CBDs of our largest cities.

⁴ Delgado, M., Porter, M. E. and Stern, S., *Clusters, Convergence, and Economic Performance*, NBER Working Paper No. 18250, The National Bureau of Economic Research, <http://www.nber.org/papers/w18250>

⁵ Grattan Institute, *Productive Cities: Opportunity in a Changing Economy*, May 2013, p. 11

2. EVOLUTION OF MELBOURNE'S CBD

This section outlines key factors that have driven growth of, and shifts in, Melbourne's CBD over recent decades, including market forces, policy factors and infrastructure development. Specifically, we consider how these factors have impacted property development trends.

Key Themes:

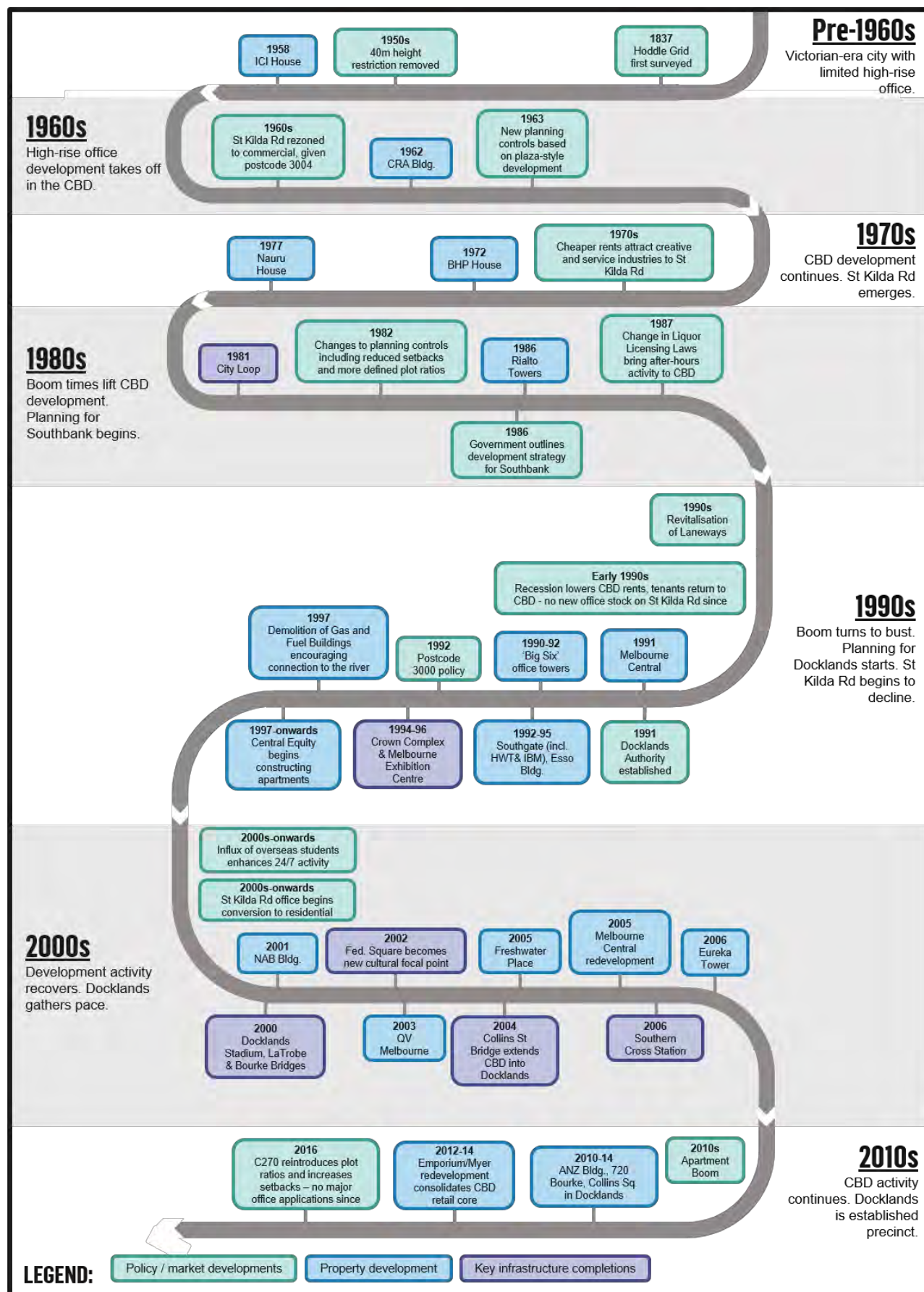
- Melbourne's CBD has experienced significant growth over the past 150 years and today is a prime example of the economics of agglomeration at work.
- Melbourne is again experiencing rapid growth with the CBD increasing its share of total metropolitan employment.
- The CBD in recent decades has also emerged as a key residential location on the back of policy changes such as the Postcode 3000 initiative and supportive planning controls.

2.1. TIMELINE OF DEVELOPMENT

Figure 1 presents a summary of the key events and developments that have shaped the physical and cultural form of Melbourne's CBD over the last 50-60 years. Key market, policy and infrastructure factors have influenced the development of the CBD:

- **A Victorian-era City** – Prior to the 1950's, development in the CBD focussed on the Hoddle Grid: the system of regular city blocks established in 1837 forms Melbourne's commercial core. Buildings reflected this architecture of the Victorian-era.
- **The Beginnings of a High-Rise CBD** - The 40m (132 foot) height limit for buildings is relaxed in the 1950s, allowing the introduction of Melbourne's first high-rise office buildings. This is followed by new planning controls encouraging plaza-style development in 1964, promoting further high-rise development.
- **St Kilda Road: The First CBD Fringe Office Market** - To create more office space for a growing financial services industry, St Kilda Road is rezoned in the 1960's to encourage commercial over residential uses. Residential mansions along the boulevard are converted to office use, resulting in the emergence of a new office sub-market on the CBD fringe. During the 1970's, cheaper rents relative to the Hoddle Grid enable St Kilda Road to grow.
- **New High-Capacity Transport Infrastructure Delivered** - Construction of the City Loop was completed in 1981, helping to catalyse a new wave of office development around the new stations (Parliament, Museum, Flagstaff) in the late '80s and into the early '90s.
- **An After-Dark Economy** – In 1987, changes to the liquor licensing laws in Victoria encouraged the opening of licensed restaurants and bars in the CBD. This resulted in enhanced levels of night-time activity and a shift away from a 9-to-5 central area focussed on work and shopping only. This is supported in following decades with the growth of residential development.
- **Southbank: The First Urban Renewal Expansion** – Planning for the urban regeneration of Southbank formally began in 1986. Southgate is completed in 1992, delivering a new dining and leisure precinct serving city visitors, along with the first major commercial building in Southbank. Development of Southbank gathered pace principally as a residential precinct due to policy incentivising residential uses. As the precinct matured, commercial, retail and entertainment land uses increased (primarily north of City Road) and by the mid '90s, the Crown complex and the Esso Building are completed along the river promenade.

Figure 1 – Timeline of the Evolution of the CBD



- **The Recession We Had to Have** - Following the stock market crash of '87, a large amount of capital is diverted to property development, and planning begins for development of the Hoddle Grid's 'Big Six' office towers: 101 Collins, 120 Collins, 600 Bourke, Melbourne Central Tower (360 Elizabeth), 242 Exhibition and 530 Collins. Unfortunately, completions from the speculative boom coincided with the onset of the '91 recession, causing office vacancy to skyrocket as new supply hit the market at a time of growing unemployment. It was not until 2001 that vacancy rates reached a level low enough to make the Melbourne CBD market attractive enough for new offices to be developed.
- **Postcode 3000: A Shift in Focus** – The Postcode 3000 policy, started in 1992, aimed to encourage residential development within the Hoddle Grid to reverse the flight of population from the city centre. In response, developers converted lower grade office buildings with high vacancy rates to residential apartments. The policy achieved the dual purpose of responding to increasing enthusiasm for central city living and renewing older building stock and reducing office vacancy.
- **St Kilda Road Comes Full Circle** – Due to the influx of speculative development and the recession in the early 1990's, office rents in the CBD remained comparatively cheap, motivating tenants to move back to the more accessible CBD from St Kilda Road. This initiated the gradual decline of St Kilda Road as an office precinct, with no new office buildings being delivered since this time⁶. In subsequent decades, the St Kilda Road Precinct has returned to be a popular residential destination, with many redundant office buildings converted to apartments.
- **Docklands a Release Valve for the Hoddle Grid** – The Victorian Government started planning for the renewal of Docklands with the establishment of the Docklands Authority in 1991. By the early 2000s, coinciding with the recovery from the 1990's slump, the redevelopment of redundant port land in Docklands allowed the broader CBD to grow rapidly. New high-density residential buildings were developed and large medium-rise campus-style commercial buildings attracted major tenants to consolidate and transform their workplaces with large efficient floorplates and high-tech facilities. This was the release valve the CBD office market required, responding to the pent-up demand for new office space and limiting rent increases. Growth in Docklands accelerated on the back of key infrastructure projects including La Trobe & Collins St bridges and tram line extensions, and the completion of a redeveloped Southern Cross Station.
- **Rapid Growth in Visitors to the City** – The development of Docklands also brought with it new attractions for visitors to central Melbourne, as did continued growth of arts, entertainment and cultural activities in Southbank. The delivery of Federation Square in 2002 reopened the Hoddle Grid to the Yarra River, becoming a focal point for cultural activity and visitors to Melbourne. All visitor groups to Melbourne (intra-state, interstate, international) grew significantly. For example, international visitation to Melbourne virtually doubled from 1990 to 2000, and then again to 2010.
- **CBD Reaffirmed as Prime Retail Destination** – While the CBD had traditionally been Melbourne's primary retail destination, the development of expansive suburban shopping centres from the 1960's onwards saw the CBD lose market share and relevance as a retail destination. However, the growth of all city user groups through the 1990's and early 2000's (as detailed later in this section) encouraged redevelopment of the Hoddle Grid's retail offer. This was led by a relaunch of Melbourne Central; the opening of QV with major convenience retailing targeting city dwellers; the sale and redevelopment of the flagship Myer Department Store (Myer downsized into a new store, Emporium developed north of Little Bourke Street); and the first outlets and flagship stores for new international retailers such as Zara, H&M and Uniqlo. Food and beverage outlets proliferated across the city.
- **The Apartment Boom** - Population growth pressures, international migration, changing housing accommodation preferences and foreign investment ignite a residential development boom in the CBD. Land values are pushed higher which causes intense competition for development sites, particularly for commercial uses in the Hoddle Grid. High-rise residential towers are delivered in clusters, particularly around the north-east edge of the Hoddle Grid and Southbank, with growth in Docklands steadier in line with the master plan for the area.
- **Amendment C270 Appears to Constrain Development** – Seemingly in response to over-development and approval of some poorly designed residential buildings, Amendment C270 to the City of Melbourne Planning Scheme is introduced in November 2016. The amendment introduced plot ratios and setbacks designed to produce superior urban design outcomes and in part, encourage commercial and other

⁶ Since 1992, St Kilda Road office floorspace has decreased by 23% (>200,000 sq.m) as land use converts to premium residential apartment product.

community outcomes over residential development. However, as discussed further in this report, C270 is not only curtailing residential development, it has made the delivery of viable office buildings very difficult, threatening growth of Melbourne's primary employment and economic driver. Since the implementation of C270 around two years ago, only five new buildings have been approved in the CBD, with only two of them being commercial buildings.

The history and evolution detailed above highlights the profound impact key market, policy and infrastructure developments can have on the development of Melbourne's CBD. Similar impacts will continue to shape the city in future. As discussed through this report, it is critical to understand these effects in ensuring the CBD continues to be able to support the growth of Victoria's economy.

The remainder of this section highlights the growth of metropolitan Melbourne, the role the CBD plays as the key economic driver of the region, and the strengths of the CBD that make it a success and therefore need to be protected.

2.2. MELBOURNE'S RAPID GROWTH

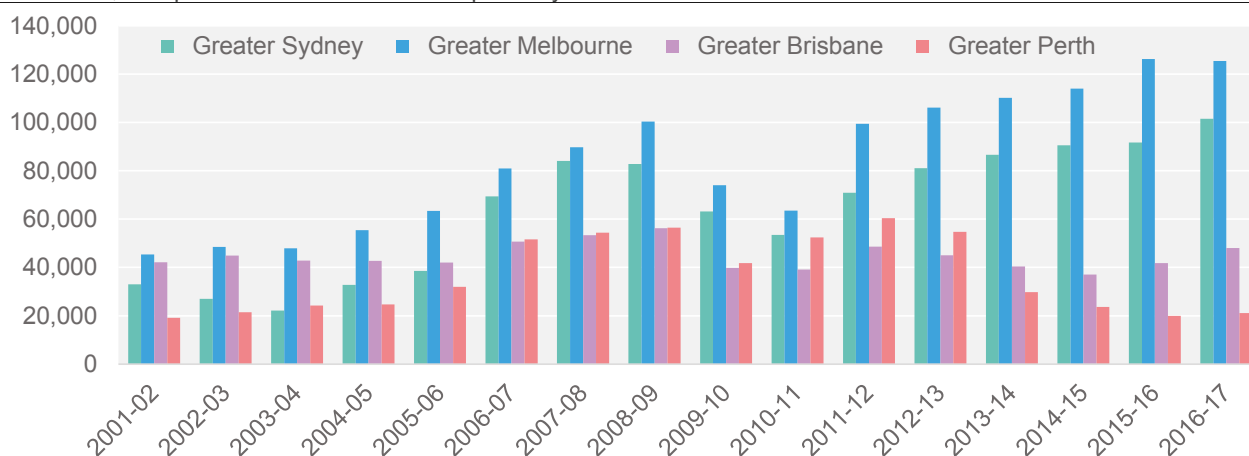
Victoria is Australia's most urbanised state and Melbourne is the second most populated city just shy of 5 million residents. Like many of the world's major cities it has grown and evolved, influenced by: macroeconomic trends, property market changes, government actions and infrastructure investment cycles. While this evolution has happened gradually over a long period of time, recently, the pace of growth has accelerated rapidly. The scale of urban transformation during this period has been significant and is a major departure from the economic downturn during the 1980s and 1990s.

For over a decade, Melbourne has been the fastest growing capital city in Australia, adding 1,009,000 people in the 10 years to 2017. This equates to an annualised figure of 100,900 or 2.4% per annum. This high rate of growth continues through the latest Census period with little sign of abating, and Melbourne is set to overtake Sydney as Australia's largest capacity city by 2021, based on government projections (Chart 2.2).

Annual Change in Population

2001-2017, Sample of Australian Greater Capital City Areas

Chart 2.1

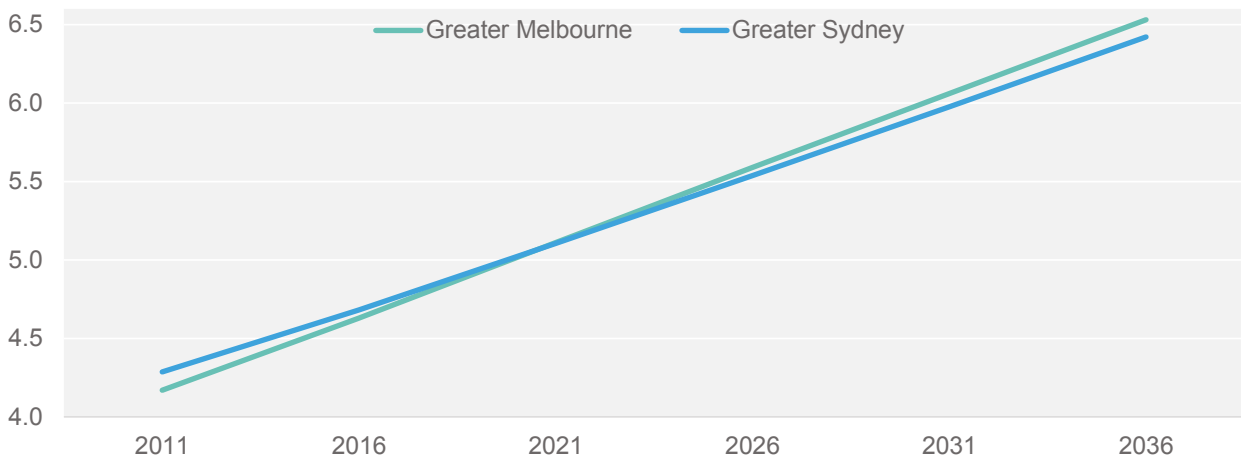


Source: ABS; Urbis

Greater Melbourne vs. Greater Sydney Population

2011-2036

Chart 2.2



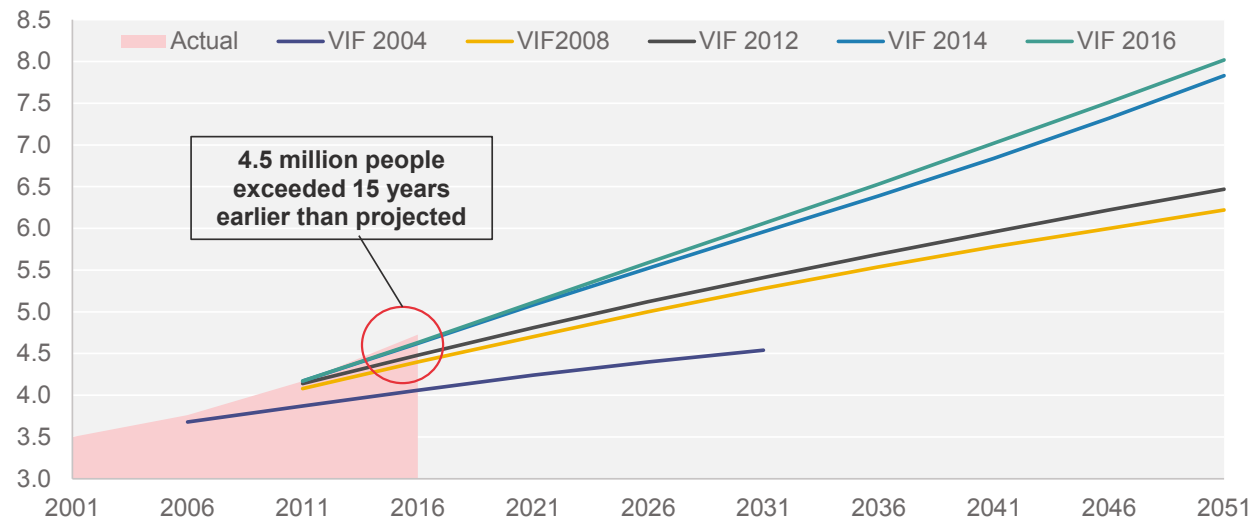
Source: Victoria in Future 2016; NSW Population Projections 2016; Urbis

The pace and quantum of growth has made long-term planning difficult. Historic growth rates have not been a reliable indication of future growth and government forecasts have repeatedly underestimated Melbourne's rate of growth (Chart 2.3). While strong population growth has underpinned a surge in economic activity, it has placed strains on overall demand for city services, infrastructure and land, which is now constantly outpacing supply.

Greater Melbourne Population

2004-2016 Victoria in Future projections vs. 2016 Census

Chart 2.3



Source: Victoria in Future; ABS; Urbis

Many global cities are battling to meet the demands of rapidly increasing population. The challenge for Melbourne is that its growth rates are high by world standards when comparing with other developed cities. While London's population is much larger, home to 8.8 million people, it is growing at a slower 1.4% per annum. It is the same story for New York city, which has been increasing by 0.8% per annum in recent years.

Melbourne has experienced the highest growth of all cities in the top 10 of the Economist Intelligence Unit's Global Liveability Ranking for 2018.

10 Year Population Growth

Top 10 Liveable Cities - Economist Intelligence Unit

Table 2.1

EIU Ranking	City	2017 Population	Annual Growth (#)	Annual Growth (%)
1	Vienna	1,867,600	20,600	1.2%
2	Melbourne	4,850,700	125,400	2.7%
3	Osaka	2,709,700	5,900	0.2%
4	Calgary	1,597,700	35,600	2.5%
5	Sydney	5,131,300	101,500	2.0%
6	Greater Vancouver	2,592,200	36,000	1.5%
7	Greater Toronto	6,900,000	Est. 100,000	1.4%
8	Metro Tokyo	13,491,000	72,400	0.5%
9	Copenhagen	613,300	10,300	1.9%
10	Adelaide	1,333,900	9,600	0.7%

Source: Various government sources; ABS; Urbis

2.3. THE HEART AND ENGINE OF MELBOURNE

City centres play a fundamental role in the economies of major modern cities and Melbourne is no different. Just as Melbourne is the driver of the Victorian economy, it is the CBD that is the heart and engine of Melbourne.

While the CBD has always played an important role as a principal activity centre, historical growth trends were characterised by a greater percentage of population and employment locating outside the centre. However, recently Melbourne's huge influx in population has combined with changes in the locational preferences of residents and businesses and is now driving a larger share of people and jobs into its centre.

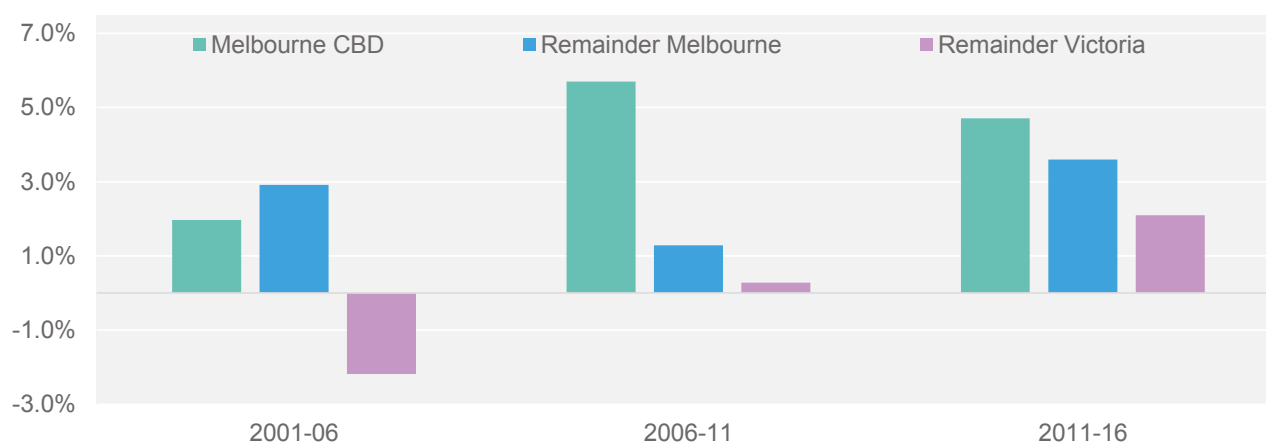
Between 2001 and 2016, employment within Melbourne's CBD grew from just over 173,000 jobs to more than 317,000 jobs, representing total growth of 83% over the 15-year period. With Greater Melbourne's employment level growing at a slower 52%, the CBD's share of metropolitan-wide employment has grown from 13% in 2001 to 16% in 2016 (Chart 2.4).

Since 2001 the CBD has consistently experienced stronger population growth compared to the rest of Melbourne and Victoria, recognising the low starting point (Chart 2.5).

Rate of Employment Growth

Melbourne CBD vs. Remainder Melbourne vs. Remainder Victoria, 2006-2016

Chart 2.4



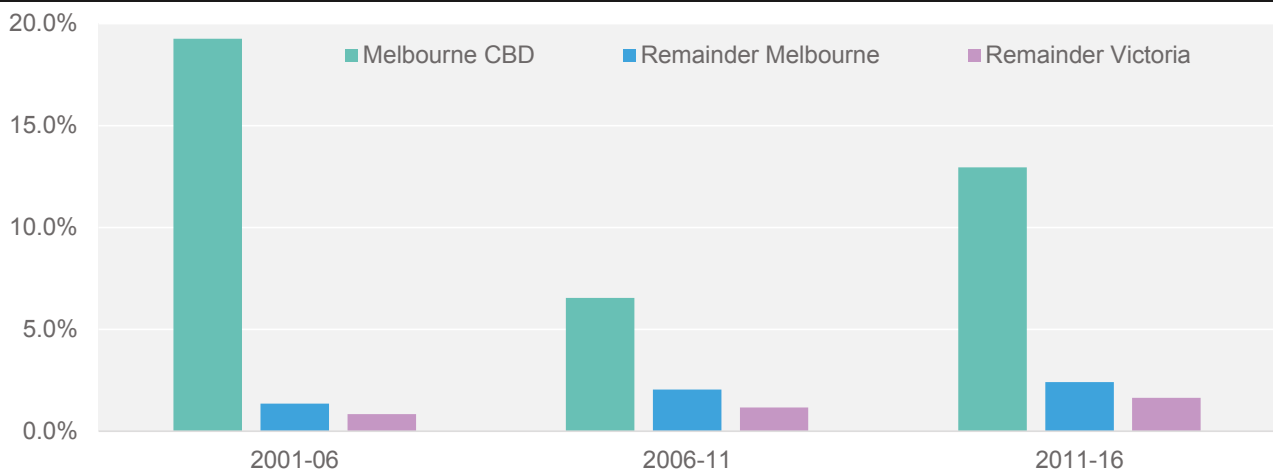
*Excludes No Fixed Address, Migratory - Offshore - Shipping, Undefined

Source: ABS; Urbis

Rate of Population Growth

Melbourne CBD vs. Remainder Melbourne vs. Remainder Victoria, 2006-2016

Chart 2.5



*Excludes No Fixed Address, Migratory - Offshore – Shipping, Undefined

Source: ABS; Urbis

Together with Victoria's ongoing structural shift towards a services-oriented economy, the concentration of people and employment has redefined the role of the CBD and helped to fundamentally reshape Victoria's economy. That role is powered by a cluster of economic activity and dominated by high-value knowledge-based employment.

The Melbourne CBD now also offers the principal concentrations of retail, tourism infrastructure, and entertainment opportunities in the State, with easy access to sporting, educational and cultural facilities and high-quality parks and gardens. The combination of the commercial centre with these factors makes the CBD the prime destination for visitors and locals alike to stay, play, study, work and increasingly, live.

There is good reason for this concentration of growth and activity, which complements the broader macroeconomic context highlighted earlier. The CBD has certain enabling factors, such as the greatest concentration and focus of transport infrastructure (both legacy and planned investment), a planning framework that prioritises density, development sites of scale, demand for high rise development and a diverse mix of higher order uses and amenity.

An abundance of developable land has also facilitated growth within the CBD. Its boundary has not been static and there is strong evidence to suggest that the growth and expansion of Melbourne's CBD core, indeed Melbourne's overall growth, has been underpinned by the development of several highly successful, specialised CBD-type precincts:

Investment by successive Victorian Governments, including at Southbank and Docklands, has unlocked strategically located and relatively affordable waterfront land. This has provided private-sector investment opportunities, strengthened the productivity benefits that come from greater knowledge-sector density, and enabled Melbourne to compete for global capital. This investment has supported Melbourne and Victoria to significantly increase their share of Australia's professional and financial services business.

Plan Melbourne, 2014, p. 28

Bearing in mind the spatial efficiencies that result from the type of strategic land use planning that has aided central Melbourne's growth, there are economy-wide benefits from clustering dense economic activity in CBDs.

A great deal of literature supports the assertion that competitive global cities exist and thrive because of the interplay between businesses and households. The most relevant in this respect is Edward L. Glaeser's *agglomeration* theory. A GLA Economics report on London's CBD described this concept well:

The Economics of Agglomeration

The underlying principle behind the existence of CBDs, and why advanced services wish to locate in them is agglomeration. Cities are dense concentrations of skills, services, markets, knowledge and infrastructure. The geographic co-location or 'agglomeration' of these components in driving economic development has gained renewed focus as the economic base has shifted away from manufacturing to predominantly service activities.

Service sector businesses engaged in multifarious activities prefer to locate close together because they can access many of the same inputs such as specialised labour and other support services. Also by co-locating similar businesses can attract customers who are seeking a range of potential suppliers to choose from. This reduces the cost of doing business, offsetting the higher office / business accommodation and labour costs they are likely to pay for locating in a concentrated area. As the famous economist Robert Lucas observed: "what can people be paying Manhattan or Downtown Chicago rents for, if not for being near other people?". Indeed, as advanced service activities have increased their share of output the need to cluster together has become more imperative for business.

Source: GLA Economics - London's Central Business District: Its Global Importance, 2008, p. 32

Melbourne's CBD is a shining example of the economics of agglomeration. It provides high amenity and is an attractive place to live, work and visit. It has one of the strongest concentrations of high-value employment in the country. Many businesses provide knowledge-intensive and specialised services such as funds management, insurance, design, engineering and international education. These businesses depend on the most skilled workers, and by locating in the heart of Melbourne it enables employers to access the largest possible supply of labour. Proximity to suppliers, customers and partners also helps businesses to work efficiently, to generate opportunities and to come up with new ideas and ways of working.

These economic forces have helped shape broad industry clusters; such as the concentration of professional services firms along the Collins and William Street corridor in the Hoddle Grid, financial services in Docklands, or education and research organisations in Parkville.

The clustering of these high-value businesses boosts the economic contribution of these areas partly because of the sheer concentration of employment, but also because these businesses tend to be much more productive (i.e. dollar value of goods/services produced is higher) on average than those in other areas.

The confluence of these factors makes Melbourne's CBD the second most important economic location in the country. In 2016, it produced \$67 billion towards the national economy, just behind the Sydney CBD which produced \$81 billion over the same period. By way of context, Melbourne's second largest concentration of employment, the Monash Employment Cluster, contributed just \$10 billion – see Chart 2.6.

Economic activity is most intense in CBDs

Gross Regional Product 2016-17, \$ billion

Chart 2.6



¹ Sydney - Haymarket - The Rocks

Source: REMPLAN; ABS; Urbis

The sizeable economic contribution of the CBD is not merely driven by the sheer number of workers. Rather, the CBD attracts higher-value jobs, even within an industry. For example, the economic value generated by a job in finance and insurance in the CBD is estimated at almost \$393,700, compared with \$380,200 for a job in the same industry located outside of the CBD.

2.4. THE STRENGTHS OF MELBOURNE'S CBD

The success of Melbourne's CBD is multifaceted. It provides a convergence of critical land use functions, supported by physical components and infrastructure. Overlaid with this are more intangible elements such as public safety, cultural diversity and interest, environmental and landmark qualities.

It has evolved significantly since Federation, and like all high-quality CBDs, it is now a vibrant and attractive place to live, work, study and recreate. These elements are supported by world-class lifestyle, services and employment opportunities available across the Metropolitan area, in the suburbs and centres outside the CBD. While this study focuses on the qualities of a successful CBD, the connection with the broader Metropolitan area remains a key factor in its overarching success.

The combination of these 'liveability factors' is vital to attracting and retaining talent in a globally competitive landscape. It is also a principal driver of business investment decisions. Many studies have identified this, including a global review of selected business districts⁷ in 2017 by the Urban Land Institute (ULI) and EY, *'The attractiveness of world-class business districts'*:

Of all the potential qualities of international business districts, access to skills is by far the most important driver of attractiveness: 70% of respondents consider it "very important" for their location choice.

People are the lifeblood of the city and the knowledge economy. Continuing to attract and retain the best and brightest should be a central priority for Melbourne. The success of Melbourne's CBD has, in part, been facilitated by its attractiveness to an ever-global population. This attractiveness is enhanced by a series of defining strengths and characteristics, which have enabled the CBD to evolve in line with the changing demands of the 'metropolitan age' described earlier.

The combination of these strengths and characteristics are highly unique to the Melbourne CBD and almost impossible to replicate in other locations, they include:

- **Central location with expansion potential** – The central location of the Melbourne CBD within the metropolitan area enhances its accessibility to the broader population. Melbourne's flat geographic contours and lack of physical barriers have further enabled this accessibility and allowed the CBD boundary to expand over time into adjacent areas such as Southbank and Docklands. The expansion of the CBD has enabled a continued supply of affordable land for development of CBD-uses which has enabled growth of high value uses; principally, office-based employment.
- **Transport accessibility and convergence** – The CBD is at the heart of Melbourne's legacy transport network, which has enjoyed 180 years of continual development and investment. It is the core focus of a metropolitan road-based system that supports one of the world's largest tram networks, and complementary bus networks. However, it is the rail network that provides the biggest enhancement to the CBD. As the destination of 16 metropolitan lines and all regional lines, the CBD has the largest concentration of train stations in the country with five existing stations and two additional stations under construction as part of the Metro Tunnel project. The rail network itself facilitates mass movement of people to jobs and other opportunities across Melbourne, with approximately 800,000 trips made per day. No other location can boast this supreme connectivity or concentration of legacy investment. Today, 65% of the CBD's nearly 285,000 workers arrive by public transport, up from 58% in 2006.
- **Quality streets and public realm** – Melbourne's CBD based on the Hoddle Grid provides generous principal street widths, large east–west blocks, laneways running through the large blocks providing an intricate pedestrian network. Moreover, the city is blessed with a substantial number of buildings from its earlier times creating a unique character unlike any other Australian city. The public realm of the CBD has been significantly enhanced over the past 30 years building on the structure of the original Hoddle grid to embrace the Yarra River and leap the rail corridors encircling the city to the south and west.

⁷ The survey measures the comparative attractiveness of 17 leading business districts around the world. It is based upon almost 40 objective and quantifiable indicators, a global online survey of 226 members of the ULI network, and 35 in-depth interviews with experts in the 17 selected business districts.

- **Concentration of high-value uses** – The CBD plays a significant role in the life of the city, state and nation. It has some of Australia's largest and most globally connected businesses, including a major concentration of financial and professional services firms. It has a highly diverse economic base, with strengths in health, education, retail, creative industries, tourism and Government. The clustering of these of uses help generate over \$67 billion of economic activity annually – 3.9% of the total national economy. The strength of the CBD creates spill over effects for other adjacent areas.
- **Hive of entertainment, culture and retail activity** – The CBD is home, or adjacent, to the state's major sporting and entertainment precincts, and offers the single greatest concentration of retail facilities in Victoria. Much investment over recent decades in events and festivals has seen the city become a major destination beyond the 9–5 office work area. The city is vibrant and regularly full of activity during weekends and weeknights, supported by an extensive arts precinct, evolving and diverse retail areas, a renowned food and beverage scene, civic spaces, an abundance of theatres, regular events at the exhibition centre and one of the world's most significant sporting precincts, all in or on the doorstep of the CBD. The growth in the number of permanent residents in the CBD has also increased the level of activity and vibrancy across the course of the week.

2.5. CBD'S FUTURE ROLE – PROTECTING THE STRENGTHS OF THE CBD

The future role for the CBD needs to reinforce its function as the heart and engine of Melbourne. It is the foundation for Melbourne's reputation as a world-class city to do business, visit, be educated, exchange ideas, shop, be entertained or experience culture.

Melbourne's CBD is one of the most connected locations in the country. It is also the focus for significant planned and expected infrastructure investment. The delivery of the Metro Tunnel, level crossing removals, the Airport Rail Link, major road upgrades and other infrastructure will create demand for further development and employment growth within the CBD, which if delivered, will improve opportunities for the wider population including those beyond the metropolitan area.

The CBD's success as a location for a multitude of uses necessitates careful planning as growth pressures threaten to undermine its principal strength as the strategic economic centre for the State. The balance between the CBDs strategic functions – including business, culture, entertainment, shopping and tourism – and the rapid growth of the CBD as a residential location needs to be reviewed in light of trends observed in other major cities that have seen an increasing competition for land.

The days of a 'laissez-faire' approach where the focus was on improving transport access and approving new development (for all uses) are coming to an end. Whilst Melbourne's CBD has successfully expanded to house office space in the northern part of Southbank (adjacent to the Yarra River) and parts of Docklands, the amount of land available for future development is finite.

Forecasts for Melbourne's future growth anticipate a near doubling of jobs and a 200% increase in residents by 2050. It is becoming increasingly apparent that this level of growth is unlikely to be accommodated within the CBD - notwithstanding workplace trends and increasing office densities (i.e. more people per given amount of floorspace).

The following section of the report examines the forecast growth and the capacity of the CBD to significantly increase its intensity over future years.

3. CBD GROWTH AND LAND USE IMPACTS

This section considers the factors that have driven growth of, and shifts in, Melbourne's CBD over recent decades, including market forces, policy factors and infrastructure development. Specifically, we consider how these factors have impacted property development trends.

Key Themes:

- Usage of the Melbourne's central city has been growing rapidly across all user groups.
- CBD resident numbers have increased dramatically, including the traditional commercial core of the Hoddle Grid.
- Growth in CBD users presents infrastructure challenges – getting them into the city and accommodating them once they are there.
- With well-connected urban renewal areas such as Southbank and Docklands, the CBD has been able to expand its footprint and dramatically increase total floorspace in response to the increase in city users.
- The predominant use has been new residential development. This has occurred not only in Southbank and Docklands, with most of the new space in fact within the Hoddle Grid.
- Residential development is displacing commercial office space, including in traditionally core commercial areas of the Hoddle Grid.
- Residential developers can pay more for sites, reach pre-commitment targets quicker, develop on smaller sites and have inadvertently been favoured by Amendment C270.
- If the CBD is to support office floorspace growth and the high-value jobs that are so critical to our economy, commercial development must be supported.

3.1. CITY USERS INCREASING

The City of Melbourne's Daily Population Estimates and Forecasts quantifies the number of people travelling to or being present in the municipality over time. The combination of residents, workers, students and other visitors to the City, gives rise to the 'daily population'.

There were approximately 911,000 people in the City of Melbourne⁸ on an average weekday in 2016. This represents an increase of 230,000, or 34%, from the daily population of 681,000 in 2004. This growth is driven by an increase in all daily population categories, as shown in Chart 3.1:

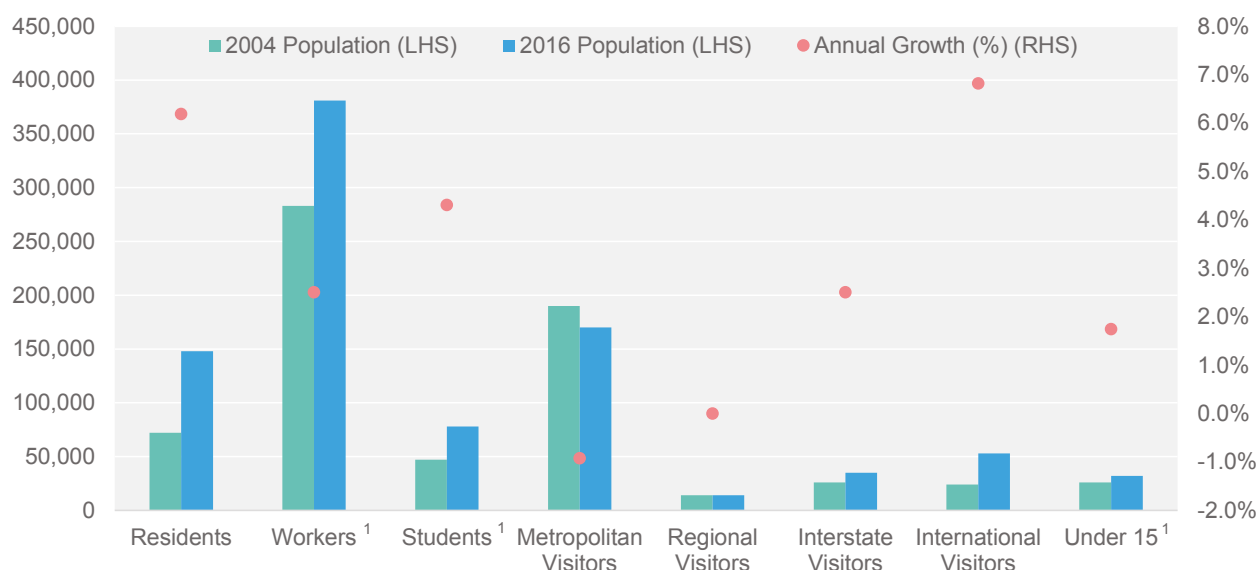
- The number of residents, including children aged under 15 years, reached 148,000 in 2016. This represents 106% growth from 2004 which is an equivalent of 76,000 additional residents in the City.
- 381,000 people travelled to the City of Melbourne for work, a 35% increase from 12 years ago. Workers are the largest population group, accounting for 40% of the daily weekday population.
- 66% more students (on top of students who are also residents) travel to the City each weekday, reaching 78,000 in 2016.
- Melbourne has seen a significant boom in international tourism, with a 121% increase in international visitors over the 12 years to 2016.

⁸ Note that these figures are presented for the entire City of Melbourne, an area that is larger than the CBD definition used elsewhere in this report which only includes the Hoddle Grid, Docklands and Southbank.

Change in Daily Population by User Group

City of Melbourne, 2004-2016

Chart 3.1



¹ Does not include those who live in the city because they are categorised as residents.

Source: City of Melbourne; Urbis

The City of Melbourne, with the CBD at its heart, is no longer just the domain of white-collar workers and Christmas shoppers. The large and growing daily population of residents, workers, students and visitors from locally or overseas highlights the broad and critical role of the CBD as the ultimate mixed-use environment supporting residential, business, recreation, tourism and education uses.

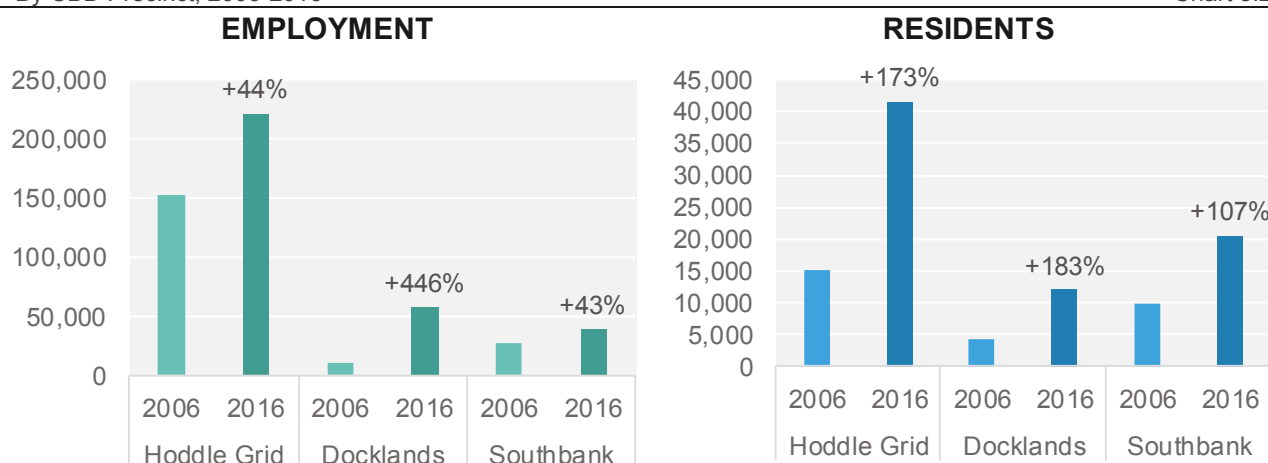
The shift in use of the central city is clear in the CBD. As shown in Chart 3.2, as Melbourne's primary employment destination, employment in the CBD has continued to grow. Over the 10 years to 2016, CBD employment grew by 126,400 jobs (66%). The largest share of this growth was still in the Hoddle Grid, although Docklands was not far behind.

However, the growth of residents in the CBD was substantially faster over the same time. By 2016, there were 44,600 more residents in the CBD compared to just 10 years earlier, an increase of 152%. The regeneration precincts of Docklands and Southbank have seen solid growth in resident numbers, but most new residents in the CBD have in fact settled in the traditional commercial core of the CBD. The population in the Hoddle Grid has skyrocketed from just 15,200 in 2006, to 41,500 just 10 years later. Since 2016, the Hoddle Grid's population has grown even further, increasing by 4,600 residents between 2016-2017. In comparison, Docklands and Southbank each only gained 1,700 new residents over the same period. A more detailed analysis of the growth and profile of key CBD users is presented in Appendix A.

Growth in CBD Workers and Residents

By CBD Precinct, 2006-2016

Chart 3.2



Source: ABS; Urbis

The fact that various user groups are frequenting the CBD more often can be seen as a success of policies such as liquor licensing liberalisation and Postcode 3000 and testament to the flexibility and broad appeal of Melbourne's central area. However, the continued influx of workers, residents, students, tourists and other visitors to the CBD creates infrastructure challenges.

Firstly, there is the challenge of getting more and more people into the city. Residents at least do not have to travel into the city, but all other users place demands on our road and public transport system. Hence the need for projects such as Melbourne Metro.

The second challenge is physically accommodating the extra city users once they are there. Workers need more office space and other workplaces; residents need more homes; students need more educational facilities; and visitors seek more retail and entertainment opportunities.

The remainder of this section considers how the growth of city users has impacted land use patterns.

3.2. LAND USE EFFECTS

The analysis below shows the growth in floorspace for key land uses and how that is being accommodated in the CBD precincts in response to the policy, market and infrastructure events detailed previously.

3.2.1. Total Floorspace Growth

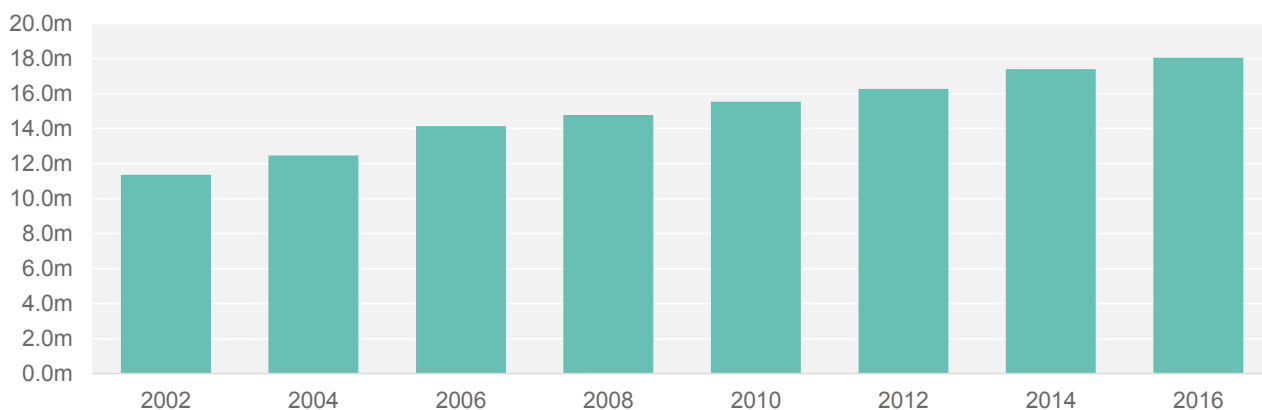
Melbourne's CBD has experienced a property development boom over recent decades. Greater Melbourne's strong population and economic growth has been magnified in the CBD. Various policy influences and the release of urban regeneration precincts adjacent to the traditional core have driven growth in all city user groups (as discussed above). The need to accommodate the influx of residents, workers, tourists, shoppers, students and other city user groups has created demand for substantial floorspace increases across all property types.

Chart 3.3 outlines the growth of floorspace in the Melbourne CBD between 2002 and 2016 (as recorded in the City of Melbourne's *Census of Land Use and Employment*, CLUE), while Chart 3.4 shows the shift in the mix of space between commercial, residential and other uses.

Total Floorspace Growth

Melbourne CBD, 2002-2016 (Million sq.m)

Chart 3.3

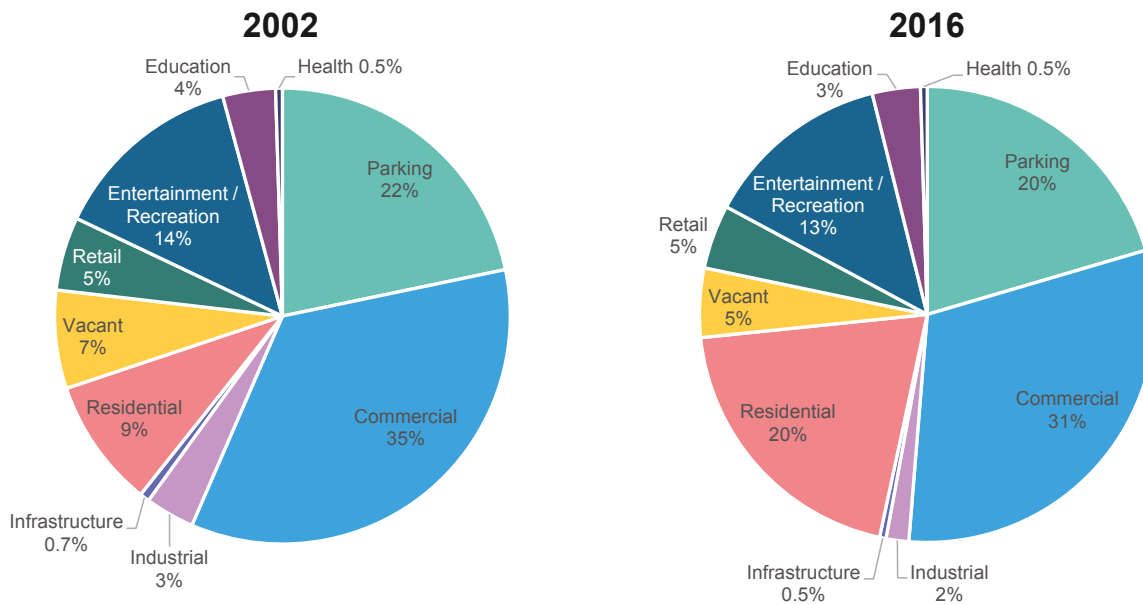


Source: City of Melbourne, *Census of Land Use and Employment*; Urbis

Floorspace Distribution

Melbourne CBD, 2002 vs 2016

Chart 3.4



Source: City of Melbourne, Census of Land Use and Employment; Urbis

The key points to note from this analysis are as follows:

- Total floorspace across the CBD was recorded at around 11.4 million sq.m in 2002. By 2016, this increased by 59% to 18 million sq.m (or by a compound annual growth rate of 3.4%).
- Of the 6.6 million sq.m increase in floorspace over this time, 38% of the increase was in residential development (growing from 1 million sq.m in 2002 to 3.6 million sq.m by 2016). Other floorspace grew by around 2.5 million sq.m (driven by car parking space, entertainment/recreation and retail), with the increase in commercial space being more modest (+1.6 million sq.m).
- Commercial space still consumes the largest share of CBD floorspace at 31% as at 2016. However, this share has declined from 35% in 2002. In the key commercial precinct, the Hoddle Grid, that share has dropped from 41% to 36%.
- Residential floorspace across the CBD as increased its share of the total from just 9% in 2002, to 20% in 2016.

3.2.2. Commercial Office Use

Commercial development in Melbourne's CBD has broadly followed the boom-to-bust economic cycles experienced in Victoria. It has been driven by growth in services-based employment, supported by the availability of land for development in the urban regeneration areas such as Southbank and Docklands.

As at July 2018, there was just under 5 million sq.m net lettable area (NLA) of office floorspace in the Melbourne CBD. The Melbourne CBD is soon set to surpass Sydney as Australia's largest office market owing to stronger population growth, combined with greater availability of adjacent developable land to extend the boundaries of the traditional CBD core.

The Hoddle Grid remains the city's dominant commercial precinct containing three-quarters of all CBD office space. As shown in Map 3.1, while office space is spread across most areas of the Hoddle Grid in some form, the key concentrations are along the Collins Street spine and the Western Core from Elizabeth to King Streets.

Expansion of the CBD office footprint expanded with the release of developable land in Southbank and then Docklands. In recent years though, there has been limited office development activity in Southbank. While there is more capacity for development, the demand for office space diminishes in line with the distance from train stations such as Southern Cross and Flinders Street. This has largely restricted office development to north of City Road.

In Docklands, which has been supported by proximity to Southern Cross Railway Station and direct road connections into the Hoddle Grid, the CBD office market has spread along the Collins and Bourke Street corridor. This is a clear extension of the CBD now. Nonetheless, with access to a train station a key driver of tenant location decisions, office development in Docklands has remained in a relatively tight radius around Southern Cross Station.

CBD Commercial Land Use – Employment Distribution

Map 3.1

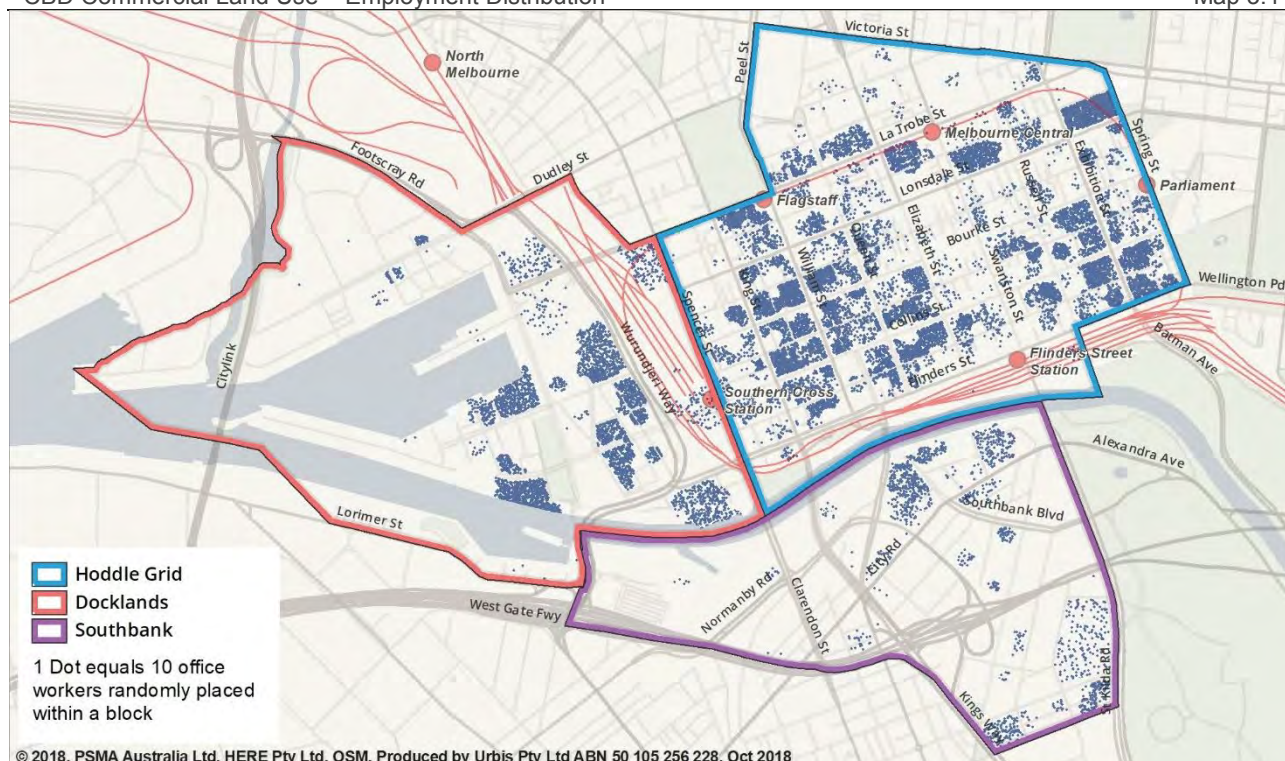


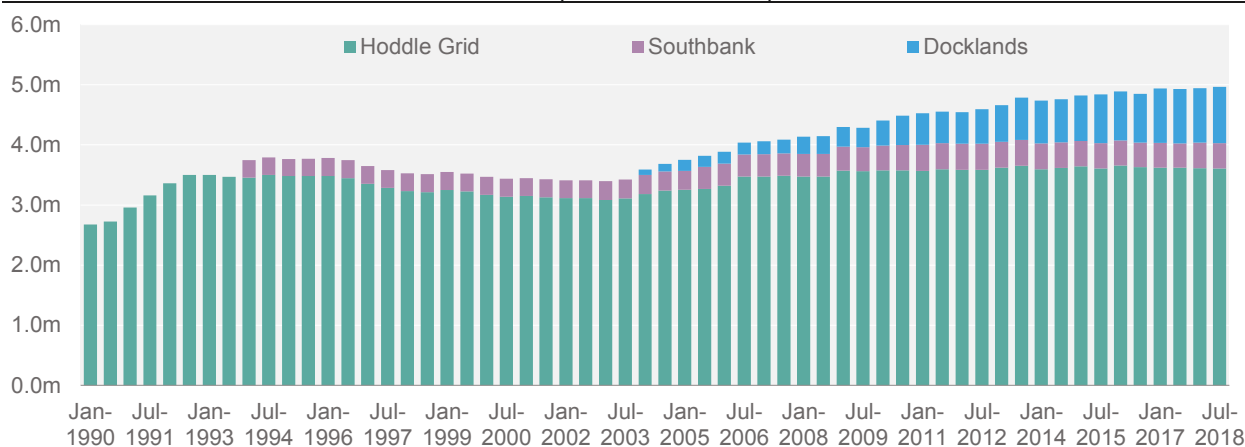
Chart 3.5 demonstrates how the growth of Melbourne's CBD office market has come predominantly from the expansion of commercial development into Docklands. In a short development timeframe of less than 20 years, Docklands has added 933,600 sq.m to the Melbourne CBD office market.

In contrast, following the early 1990's development boom, the Hoddle Grid has virtually not added to its net stock of office space. Any new office development in the Hoddle Grid has simply replaced older office stock on the same site or offset the conversion of office stock to residential and other uses.

The Rise of Docklands

Melbourne CBD Office Markets, Total Office Floorspace 1990-2018, sq.m NLA

Chart 3.5



Office development is driven by the needs and desires of tenants. More precisely, development responds to the demands of larger tenants who will pre-commit to large office areas. Major tenants who choose to locate in the Melbourne CBD increasingly demand high quality accommodation. As such, over the past 15 years in net terms, only the volume of A-Grade space has increased materially.

The key elements tenants are seeking which are influencing where and how office space is delivered are:

- Accessibility to public transport, in particular train stations;
- Large floorplates to accommodate modern office fitouts (e.g. open plan) and stronger worker connections in an efficient manner;
- High levels of amenity, both within the tenancy, the building and nearby;
- The ability to respond to a desire for greater workplace efficiency (less floorspace per worker) and flexibility.

These elements are considered in more detail in Section 4.

However, the growth of Docklands over the Hoddle Grid should by no means be considered reflective of a change in preference for office locations from tenants. All things being equal, the Hoddle Grid would still be the preferred commercial location for most larger tenants, with greater levels of connectivity, access and amenity. However, a lack of available development sites and competition from residential development is limiting net CBD office floorspace growth. Large floorplates are now difficult to deliver in the Hoddle Grid, while scarcity created a rental premium.

Docklands has emerged as a successful office location by being able to offer the market large sites with good public transport access able to accommodate the modern office formats demanded by tenants.

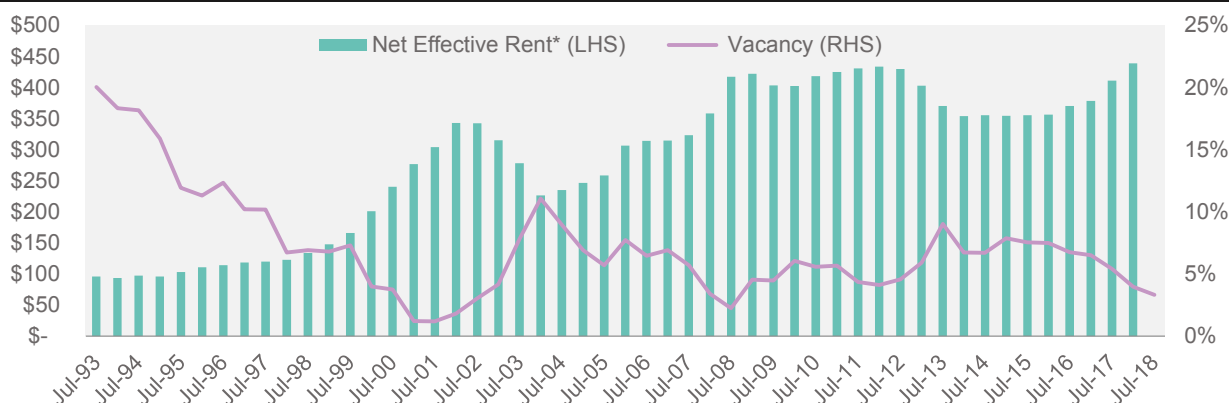
For prime grade stock, annual net absorption of office space (additions less deletions) across the CBD has ranged between 39,600 sq.m and 122,800 sq.m over the last five years with the average being 84,800 sq.m. 53% of this floorspace has been in Docklands.

Despite the solid net additions of office space over the last few years, it appears that office supply is not keeping pace with the underlying demand. Vacancy levels have again returned to almost record lows, corresponding with increasing rental rates. This highlights the impact on affordability and competitiveness of the Melbourne CBD when there are constraints on the ability to deliver new floorspace, whether they be policy or market-driven constraints.

Melbourne CBD¹ Prime Grade Office Vacancy and Rent

Net Effective Rent (\$) and Vacancy (% of stock), 1993-2018

Chart 3.6



¹ Excluding Southbank

*Assumes whole floor, medium rise. Rents unavailable for 2018.

Source: Property Council of Australia Office Market Report, July 2018; Urbis

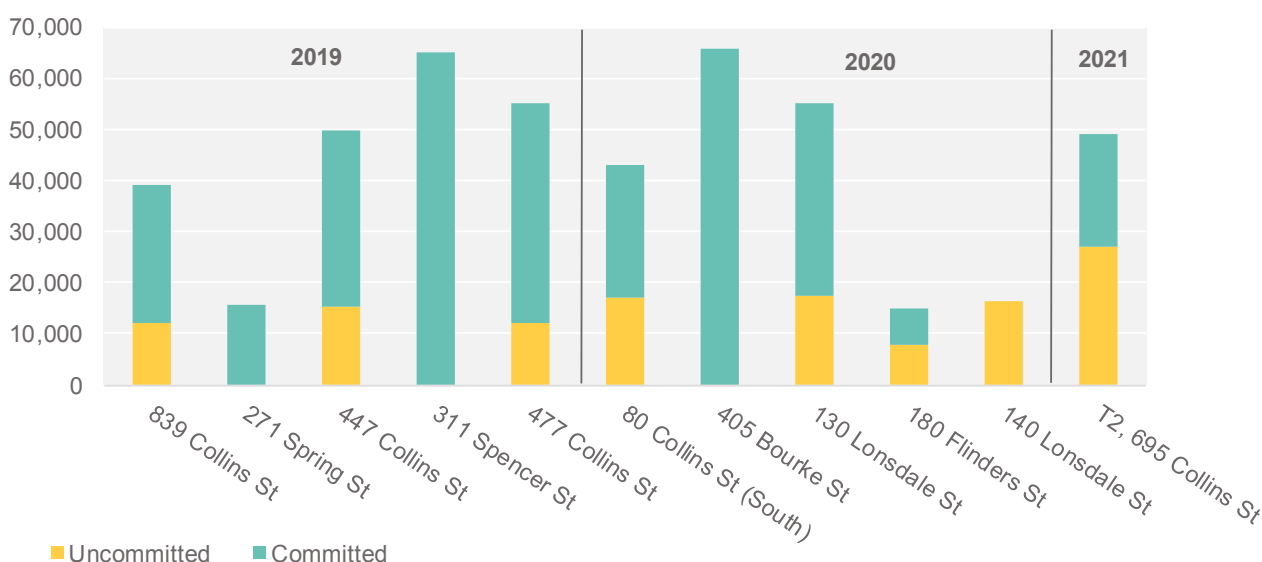
Reflecting rising rents and low vacancy levels 4 or 5 years ago, the office market entered a new phase of development. Given the length of time from conception to delivery of office development, it is only now and over the next few years that these new office buildings are being completed. Consequently, the current pipeline is strong with around 470,000 sq.m of office space expected to be delivered over the next 3-4 years. All but two of these developments were approved prior to the introduction of Amendment C270.

Given the market has been absorbing close to 100,000 sq.m annually in recent years, it is likely that rental growth will slow over this period as the market readjusts and the new supply is absorbed. Approximately 75% of the current pipeline is committed.

Melbourne CBD Office Pipeline

Floorspace by Development and Completion Year (sq.m)

Chart 3.7



Source: Urbis

However, beyond around 2021, where the future office supply is going to come from is less clear. There are few, if any, major office projects in the planning system for delivery in 5+ years. There are a variety of reasons for office development proposals falling off a figurative cliff recently, although not least of which is the impact the introduction of Amendment C270. This and other constraints on the future of the commercial office market are discussed in following sections.

Melbourne's office market is discussed in more detail in Appendix B.

3.2.3. Residential Use

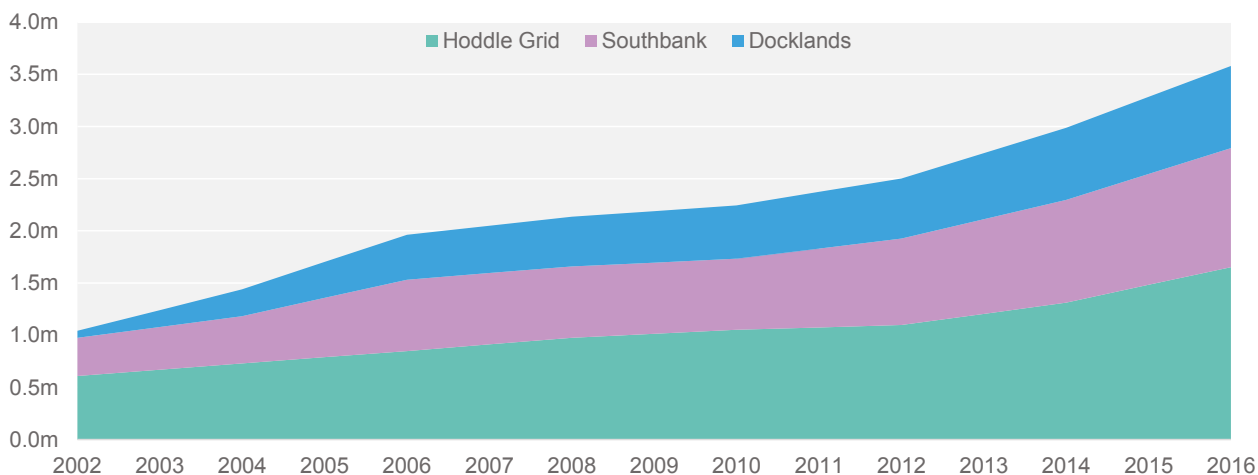
The residential development boom in the CBD and surrounding area has been substantial in recent years on the back of considerable population growth, changing housing accommodation preferences, the solid returns available to developers of higher-density residential projects and the attractiveness of the residential market to overseas investors.

The combination of these factors has seen residential floorspace increase from around 1 million sq.m in 2002 to 3.6 million sq.m between 2002 and 2016 (Chart 3.8). The number of residential dwellings increased from 10,900 to 35,900 over this period. Most of the new dwellings were delivered in the Hoddle Grid, the traditional commercial core of Melbourne.

Residential Floorspace

Melbourne CBD, 2002-2016 (Million sq.m)

Chart 3.8



Source: City of Melbourne Census of Land Use and Employment; Urbis

Many of the residential dwellings delivered in the Hoddle Grid over the last decade have been smaller apartments targeting the growing student population. Purpose-built student accommodation is largely confined to the north of the Hoddle Grid, close to the universities.

Residential development is extending into areas once considered purely core commercial locations. In recent years, there has been an increase in larger, high-quality developments, mostly to the edge of the Hoddle Grid where residents can often benefit from an aspect over nearby gardens. These developments have been targeted at owner occupiers and wealthy downsizers. However, these locations are also the same areas traditionally sought by major office tenants.

Maps 3.2 and 3.3 illustrate that residential land use (using population density as a proxy) has spread across most areas of the CBD and intensified even between 2006 and 2016.

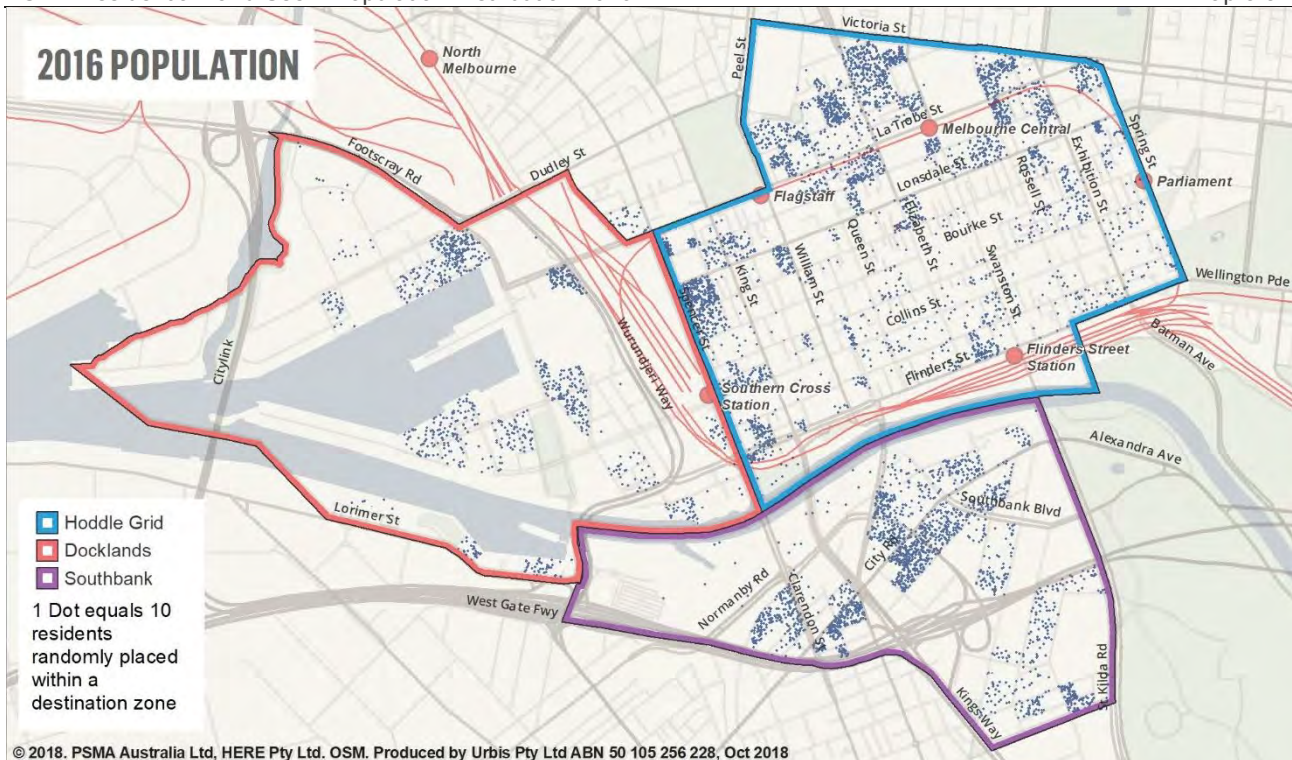
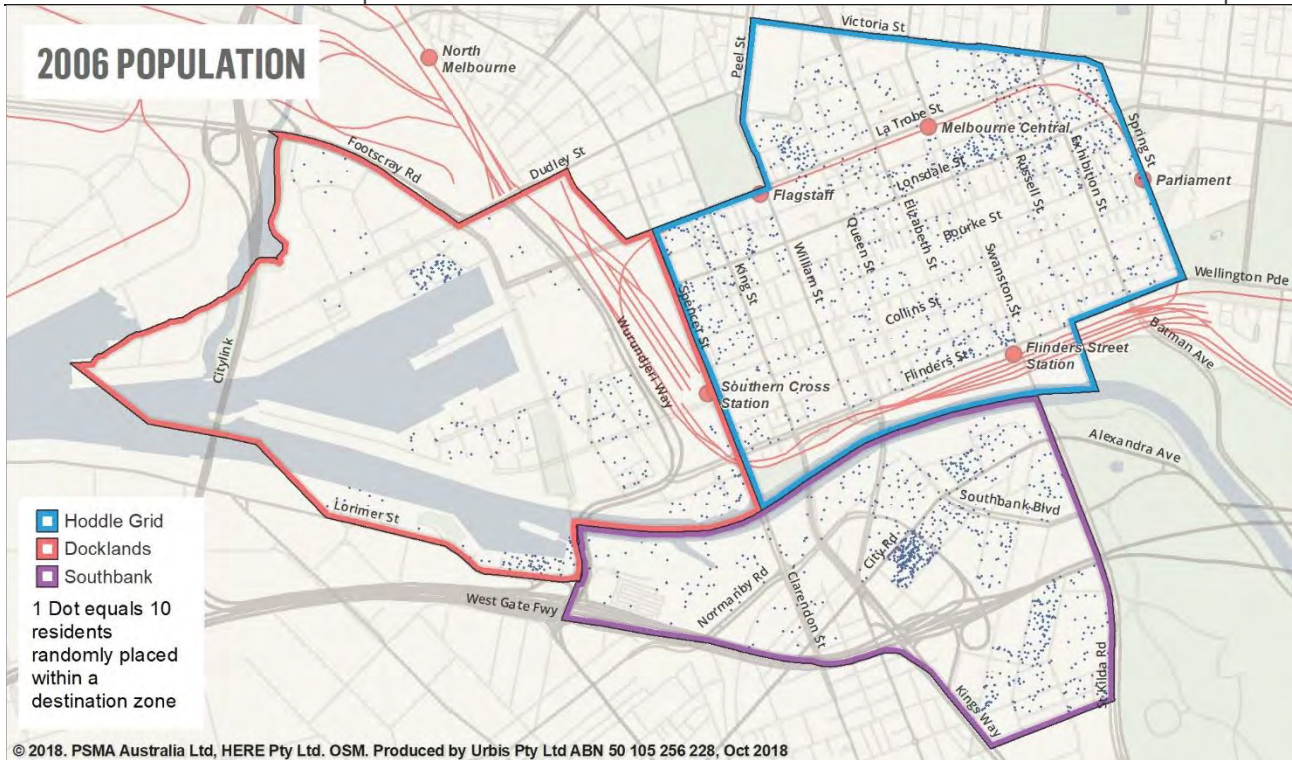
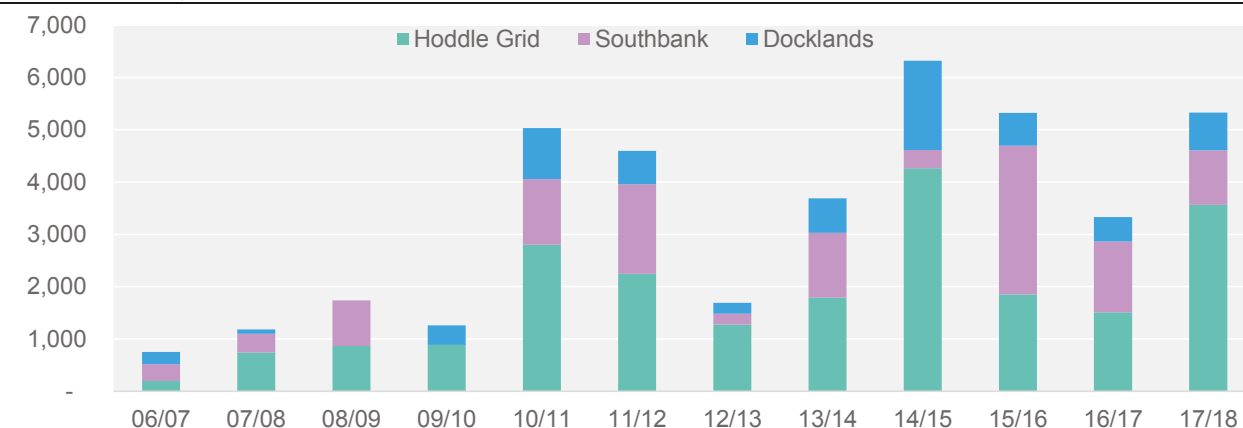


Chart 3.9 illustrates the rapid increase in new dwelling approvals (NDAs) across the Central City over the last 12 years, particularly since 2010. New dwelling approvals totalled around 5,300 in 2017/18, the second highest annual approval figure in the CBD. Despite a prevailing view that Docklands and Southbank have provided for the residential growth of the broader CBD, 55% of all NDAs in the CBD since 2006/07 have been recorded in the Hoddle Grid.

Total New Dwelling Approvals

Melbourne CBD, 2006/07–2017/18

Chart 3.9



Source: ABS; Urbis

3.2.4. Retail Use

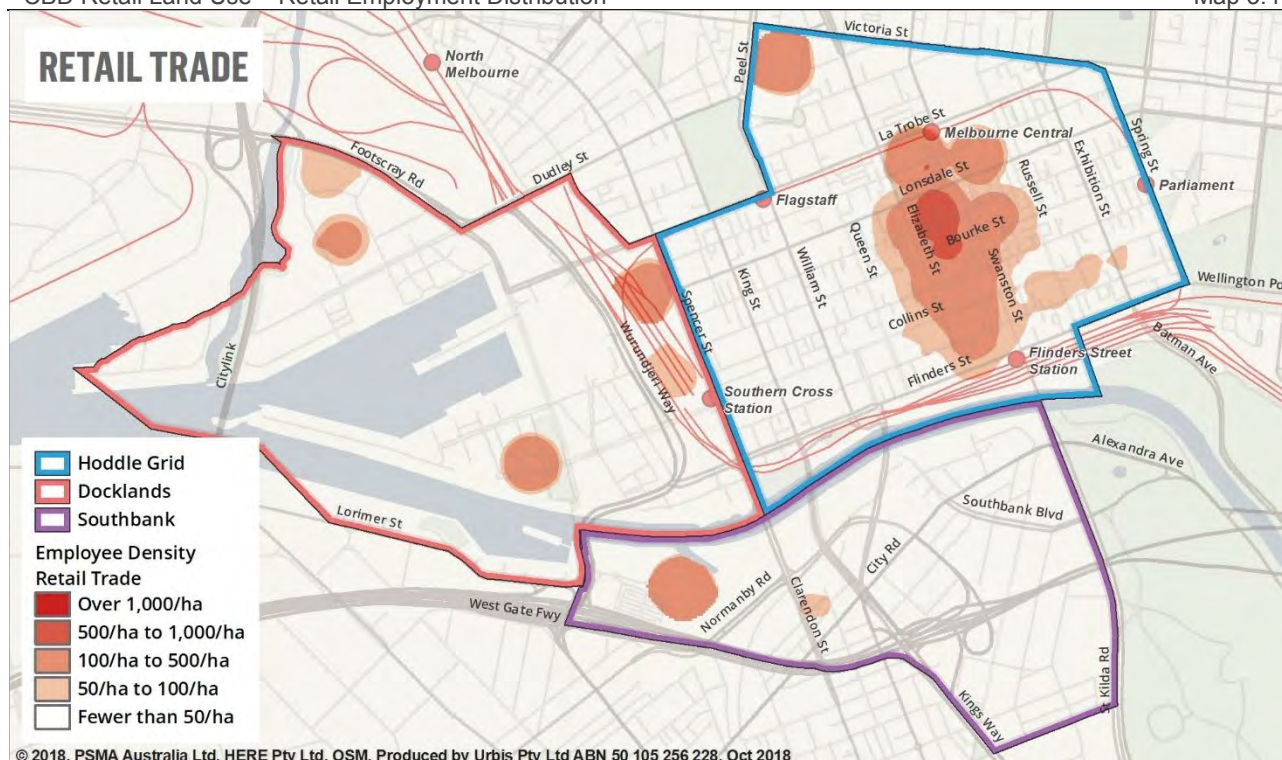
Most of the higher-order retail floorspace in the City of Melbourne is based in the Hoddle Grid, a result of its importance in the broader hierarchy, but also reflective of the importance of the area to tourists and its role as a hub for Greater Melbourne. The key concentration of retail space is through the Swanston Street/Elizabeth Street core with laneway connections all the way from Flinders Street through to La Trobe Street linking major retail destinations including Bourke Street Mall, Emporium and Melbourne Central.

With the emergence of more residential development in the Hoddle Grid, convenience retailing has also appeared to service demand, including more supermarkets, along with key dining precincts.

Some larger centres have been developed outside the Hoddle Grid as specialised centres, including outlet centres or large format retail in Docklands (e.g. Spencer Outlet Centre, Costco precinct) and Southbank (e.g. South Wharf).

CBD Retail Land Use – Retail Employment Distribution

Map 3.4



Source: City of Melbourne, Census of Land Use and Employment; Urbis

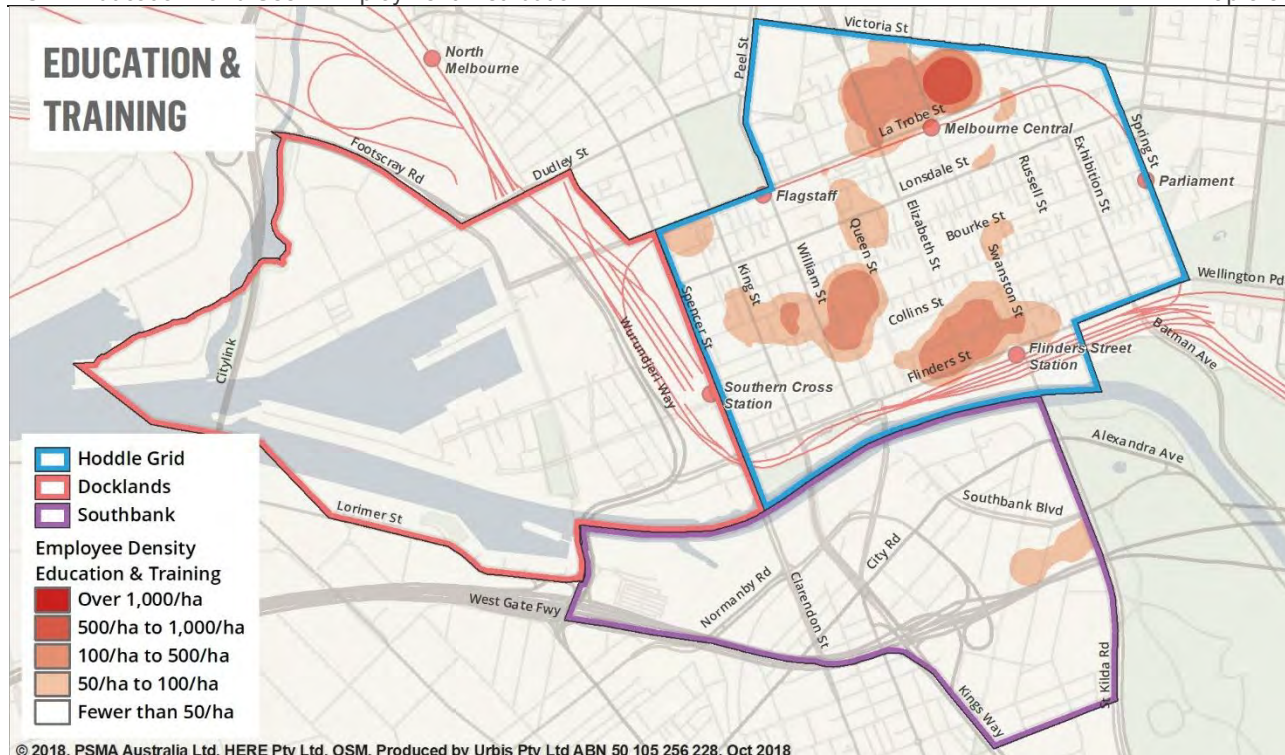
3.2.5. Education

The boom in the number of students living and visiting the CBD, particularly international students, has been driven by the two major centrally located universities in Melbourne University and RMIT University, along with other educational institutions emerging. Between them, the two universities control large areas of land north of La Trobe Street, extending north beyond the CBD boundary are Victoria Street.

Other smaller educational operations have spread throughout the CBD. This includes the likes of the Kangan Institute in Docklands, and the Victorian College of the Arts and University of Melbourne Southbank Campus (Faculty of Fine Arts and Music) in Southbank. Universities such as Victoria, La Trobe, CQ, Torrens, Monash and Australian Catholic University now also have a presence in or near the CBD. Often educational institutions are now occupying traditional office space.

CBD Education Land Use – Employment Distribution

Map 3.5



Source: City of Melbourne, Census of Land Use and Employment; Urbis

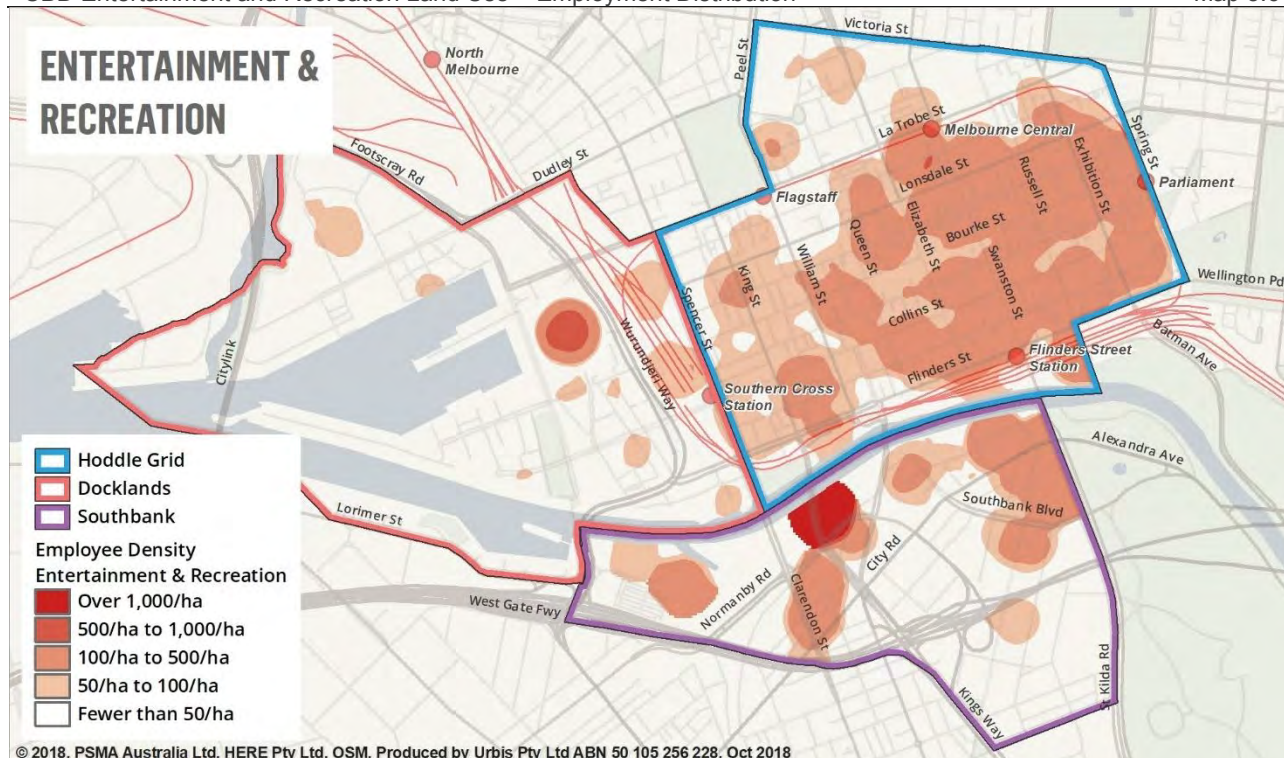
3.2.6. Entertainment & Recreation

Entertainment and recreational uses in the Central City area are spread across the Hoddle Grid, with key concentrations in Southbank; including the Arts and Culture Precinct at the St Kilda Road end anchored by the Arts Centre, NGV and Hamer Hall; and Crown Casino and the Exhibition Centre at the western end.

As Melbourne's cultural, commercial and entertainment epicentre, the CBD has the largest corresponding provision of this type of floorspace. Hotels and hospitality provide services and amenity to both tourists and business travellers, whilst restaurants, entertainment and leisure facilities often agglomerate in the CBD as they are at the 'terminus point' of every transport line and therefore accessible to the largest range of users.

CBD Entertainment and Recreation Land Use – Employment Distribution

Map 3.6



3.3. A SHIFT FROM COMMERCIAL TO RESIDENTIAL DEVELOPMENT

The CBD has, and always will be, the commercial driver of Melbourne and Victoria. Commercial use remains the predominant use. However, growth in commercial space has been modest over the last few years in comparison to the residential development that has occurred.

Despite the perception that residential development has in large part been delivered in the peripheral CBD precincts of Docklands and Southbank, the dominance in growth of residential development over commercial development is particularly evident in the Hoddle Grid.

As shown in Table 3.1 and Chart 3.10, in the decade to 2016, commercial office space only grew by 6% in the Hoddle Grid (+239,000 sq.m). However, residential space grew by 96% over the same period (+817,000 sq.m). Southbank was also similar to the Hoddle Grid in that residential development has been substantially greater than commercial development.

Maps 3.2 and 3.3 confirm that residential development is now emerging in areas that have traditionally been considered core commercial districts. This includes Spring Street, the Collins Street spine, the legal district along William Street.

Commercial and Residential Floorspace

CBD Precincts, 2006-2016

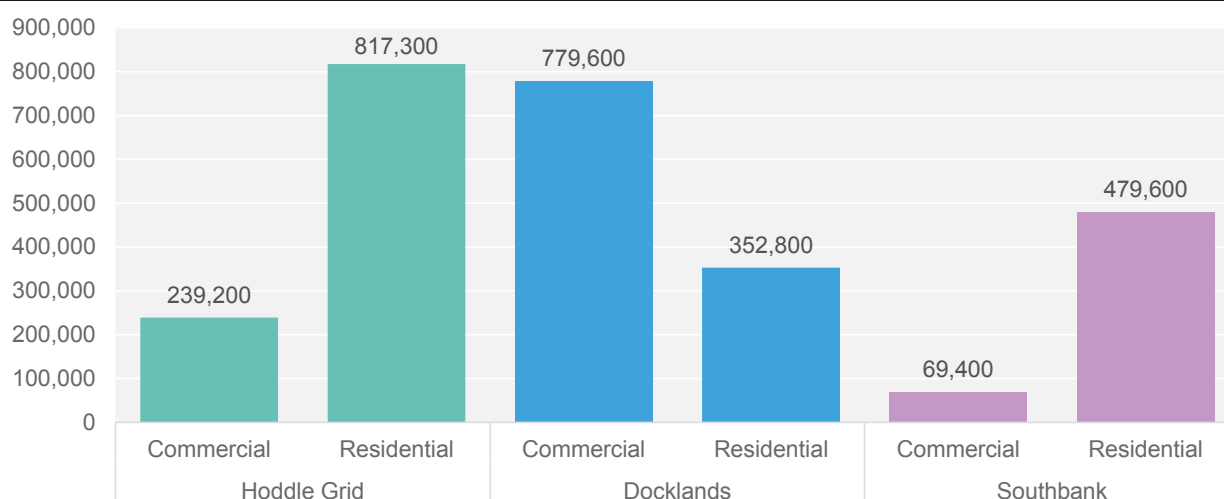
Table 3.1

	2006 (SQ.M)	2016 (SQ.M)	# CHANGE	% CHANGE
HODDLE GRID				
Commercial	3,774,800	4,013,900	239,200	6%
Residential	848,600	1,666,000	817,300	96%
DOCKLANDS				
Commercial	229,200	1,008,900	779,600	340%
Residential	429,400	782,200	352,800	82%
SOUTHBANK				
Commercial	474,200	543,600	69,400	15%
Residential	684,000	1,163,600	479,600	70%

Change in Commercial and Residential Floorspace

2006-2016 (sq.m)

Chart 3.10



Source: City of Melbourne, Census of Land Use and Employment; Urbis

The maps below not only show the increase in residential floorspace and a slower increase in commercial space, but also how extensive the areas are where residential floorspace has increased from 2006 to 2016 (Map 3.7) and conversely, where commercial office space has declined in volume terms (Map 3.8). Most areas where office space has declined are in the Hoddle Grid, including many blocks along Collins Street.

While this highlights the important role of Docklands in accommodating the necessary growth in workers within the CBD, it also paints a vivid picture about the dominance of residential development in what has traditionally been Melbourne's most important commercial precinct: the Hoddle Grid. Residential development, most of it strata titled, represents 20% of total CBD space (see Table 3.2, discussion to follow).

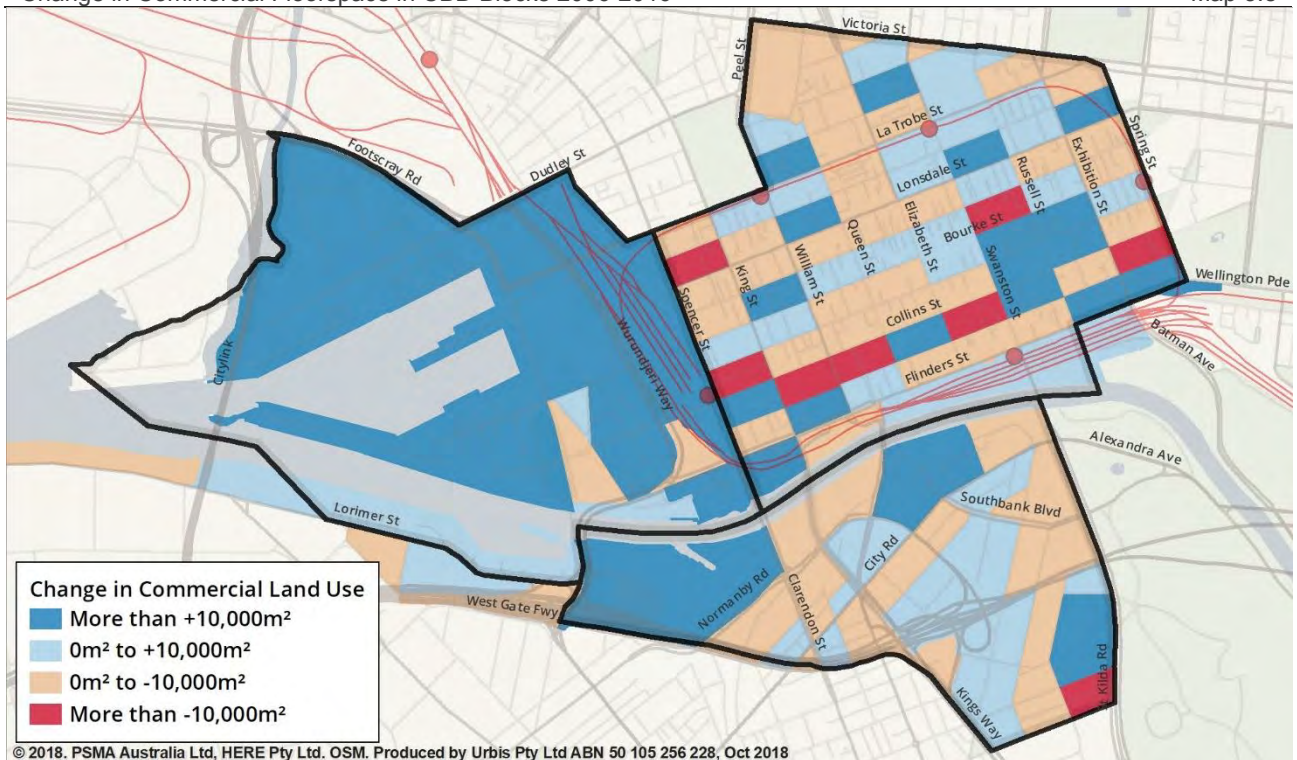
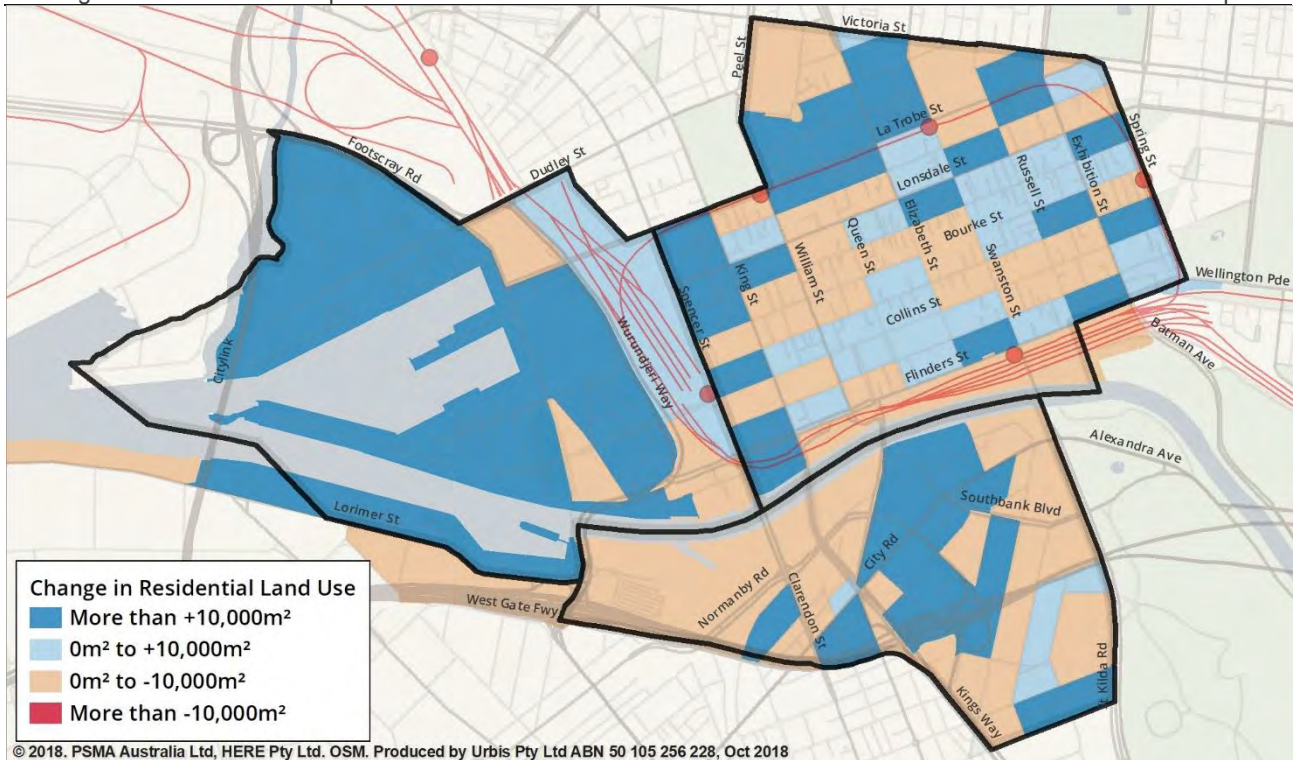
Share of CBD Land Occupied by Residential Use

CBD Precincts 2016

Table 3.2

	Total Land Area (sq.m)	Residential Land Area (sq.m)	
Hoddle Grid	1,609,600	262,500	16%
Docklands	1,269,900	187,900	15%
Southbank	1,004,600	337,400	34%

Source: City of Melbourne, Census of Land Use and Employment; Urbis



Prime Commercial Sites Moving to Residential – Example 1

Building Addresses

35 and 85 Spring Street, Melbourne

Separate developments at 35 and 85 Spring Street have, or are set to, see commercial buildings demolished to make way for high-end residential apartment towers. Both properties were formerly accommodated major office developments in the CBD's blue-chip commercial precinct at the eastern end of the Hoddle Grid. The buildings on each site have already been (35 Spring) or will soon be (85 Spring) demolished to make way to high quality residential projects.

35 Spring Street was formerly a 12-storey office building housing a range of government and private clients. That building was built out to the boundaries of the 1,300 sq.m site, a development that would not be possible now. It was demolished in 2014, to be replaced by a 43-storey apartment building which capitalised on the outlook over the Treasury Gardens.

85 Spring Street has until recently accommodated a 16-storey office building of around 10,700 sq.m, built in 1988. The building formerly accommodated financial services firm, Esanda. It was bought in 2016 by a residential developer, Golden Age, for almost \$86 million, 80% higher than the price paid just three years earlier. The L-shaped site was not suitable for modern office development however; a large residential tower and boutique hotel is now proposed. The site sits over an entrance to Parliament Station.

35 SPRING STREET



Source: Cityscope; Urbis

85 SPRING STREET



Despite being the key commercial office location for tenants, office space is being crowded out of the Hoddle Grid market due to intense competition from residential developers. Residential developers can typically pay more for development sites than office developers and can also deliver viable projects on more sites under city planning controls. There are many reasons for apartment development outpacing office development, the principal ones being:

- In the current market, reaching pre-sales targets for residential development is usually a lot quicker than reaching pre-leasing targets for office, reducing holding costs significantly for residential developers;
- Apartment developers do not have to absorb the costs of leasing incentives, which are a significant part of an office developer's capital budget; and
- There has been foreign-based/backed residential apartment developers active in the Melbourne market who have shown a willingness to pay significantly above market rates.
- The introduction of Amendment C270 to the Melbourne's Planning Scheme was in part designed to curtail the growth and associated poor design outcomes of largely unchecked residential development - particularly small or no setbacks and significant floor area on smaller sites. However, the introduction of mandatory setbacks at a certain height, is requiring smaller floorplates relative to land area. As discussed further in Section 6, with office tenants demanding floorplates of at least 1,500 sq.m NLA, there are now few (if any) available sites in the Hoddle Grid that can accommodate a new 'A-Grade' office development, while remaining commercially viable.

The final point around the flexibility of residential and other uses to be developed on large or small sites in contrast to the minimum site requirements of office development has been reviewed in relation to other cities. Commercial office developments in Melbourne require large sites that often need years of site amalgamation to create land parcels of sufficient size to deliver the necessary floorplates (e.g. 1,500-2,000 sq.m NLA). Residential development by contrast can proceed on much smaller sites with limited street frontage.

3.4. GROWTH AND LAND USE CONCLUSIONS

Over the last 50 years or so, the CBD has evolved from a predominantly commercial and cultural centre to true mixed-use precinct serving residents, workers, students, tourists and other visitors. This evolution has created a vibrant, 24/7 city which is recognised as the heart of the metropolitan area and as a key contributor to our high liveability rankings. This outcome has been facilitated by a range of policy and market influences and infrastructure developments.

There has been significant growth in the number of people accessing the city daily. All user groups have grown including residents, workers, students and visitors. In turn, this has created a greater demand for new development and a very large increase in overall floorspace. Total floorspace across the CBD grew by 6.6 million sq.m or 59% between 2002 and 2016.

The sustainable growth in CBD floorspace has been achieved in large part due to the availability of well-connected urban regeneration opportunities, including Southbank but primarily Docklands.

Due to the apartment boom in the CBD, commercial office floorspace as a proportion of total floorspace has declined with space allocated to residential development increasing substantially. This has not only been due to residential development in the regeneration areas of Southbank and Docklands, but also in the Hoddle Grid, the traditional commercial core.

The increase in commercial space in the Hoddle Grid over the 10 years to 2016 was just 239,000 or 6% growth. Residential floorspace increased by 817,000 or nearly 100%. For various reasons, residential development is displacing employment uses and office development.

The ability for this trend in residential development to continue will depend on the extent to which the CBD and the Hoddle Grid within that is protected as the commercial heart. If the CBD is to support office floorspace growth and the high-value jobs that are so critical to our economy, consideration will need to be given to how commercial development can be facilitated and given preference over residential development in some key areas. These issues are considered in more detail in following sections of the report.

4. FUTURE INFLUENCES ON THE CBD LANDSCAPE

Population and employment growth for Melbourne has been profound and sustained over a long period - so great that Melbourne has been the fastest growing capital city in Australia for over a decade. This high growth rate continues in 2018 and shows little sign of abating.

The CBD is now attracting a large and increasing share of resident population and employment and is projected to continue to grow well above the State-wide growth rate.

In this section, we consider the future influences on Melbourne's CBD over coming decades, including the changing needs of modern cities, projected growth in population and employment, and the requirements of the various city user groups.

Key Themes:

- Cities will continue to grow in size and importance notwithstanding technological change.
- Melbourne and its CBD are well positioned to take advantage of the ongoing growth of the economies of Asia.
- Both resident population and the number of workers in the CBD is expected to grow over the next 20 years and beyond.
- The demand for floorspace will also significantly increase with both residential and commercial floorspace competing for fewer and fewer sites.
- It is estimated that a further 9.1 million sq.m of new floorspace will be required by 2036 with most of the demand occurring in the Hoddle Grid.
- Office tenants expect 'fit for purpose' space to be provided as workplace demands evolve, this will require new office stock to be provided as well as retaining older stock.
- As the CBD becomes a more attractive place for families it is expected that new apartments will need to provide greater floor area than the current supply.

4.1. CHANGING NEEDS OF THE METROPOLITAN AGE

This study has already outlined the importance of cities within the Metropolitan Age. This section provides additional insight on the changing global economic context which is likely to define the kind of world that Melbourne will operate in by 2036. None of these assumptions are certain, as with any long-term projection. However, these are the sorts of observations that are relevant when planning for the future of the CBD. There is an expectation that the combination of these elements will continue to strengthen Melbourne's position as a globally-oriented city, with the CBD to respond to maximise the economic and social opportunities presented.

1. **Cities will continue to grow both in size and economic importance** – this is especially relevant to cities like Melbourne that possess a concentration of very highly-skilled people and are well-connected to the global flow of goods and services, people and capital. Looking at other global cities there is no evidence to suggest that diseconomies of scale occur for cities beyond a certain size, providing there is adequate provision and management of infrastructure and services.
2. **Remote working will not lead to a decline in city populations or CBD employment** – there is no doubt that communication will continue to improve in line with technological advancements; however, the benefits of face-to-face interaction for the kind of complex, highly-skilled activities that happen in Melbourne's CBD will continue to apply. While there is a growing acceptance of remote working, this has not led to a decline in the demand from firms for CBD locations given the CBD's superior accessibility. Every major advance in technology from the telegraph onwards has been identified as heralding the 'death of distance' that would lead to an even distribution of jobs across a geography. In reality CBDs have continued to grow as advanced service activities have become more dominant in the economy.
3. **Growth of the Asia-Pacific region will continue** – this will provide enormous opportunity for Melbourne, which has a strong inward temporary and permanent migration flow from Asia. Melbourne's ties are anticipated to strengthen with Asia over the coming generations, particularly via the exposure and connections created through its world-class higher education system. The Asia-Pacific region is

already home to 60% of the world's population, and 24 of the world's 50 largest urban areas by GDP⁹ this is anticipated to grow exponentially over the coming decades.

4. **There will be a continued rise in disruptive technologies** – cities like Melbourne will be the place where these innovations are produced, and the benefits of their implementation will be greatly felt. There is little doubt that the reach and power of mobile internet will continue to grow along with the cloud and internet of things. The combination of these factors is anticipated to give rise to more intelligent city systems which will improve the operational functionality and efficiency of metropolitan areas and their centres.
5. **Large-scale manufacturing will not return to high-cost locations like Melbourne** – this is a continuation of the long-term structural transition which has been underway in Melbourne for decades. Changing technology may drive some pockets of growth, for example in close-to-market creation of prototypes through 3D printing. However, these pockets are unlikely to generate significant employment; particularly since the economic reasons to locate outside high-cost locations will become more compelling if employment grows.
6. **Knowledge-based work will continue to increase** – and so will the attractiveness and returns to those places like Melbourne, which are able to provide the amenity and services that highly-skilled people value. At the same time, it is also expected that middle-skilled employment presents some risk of contraction. This is based on technological advancements, such as increases in computational ability and machine learning that have the potential to substitute certain job functions. It is not expected that these technologies will reduce the number of people seeking employment in CBD-type locations; however, it is likely that certain types of functions that people are performing today will change. Therefore, returns to the highest skilled workers (those who can create, manage and lead) will continue to increase.
7. **A greater share of the population will be driven towards higher density living** – this is based on both social and demographic shifts which are resulting in populations seeking to locate closer to amenity, services and employment. Melbourne's CBD is a location which possesses all these traits and it is anticipated that this area (and the immediate surrounds) will continue to be highly attractive to residential development.

It is important to note that this study does not expect these forces to fundamentally change the nature of Melbourne's economy by 2036. Although at the margin they could make some kinds of businesses or industries more, or less, competitive and will produce both growth and decline. Despite these changes, the diversity of Melbourne's economy and the diversity of CBD employment will continue to create strong demand within the CBD for workers, residents and other city users. Hence, the density of floorspace will need to increase.

⁹ The Brookings Institution, *Redefining Global Cities: The Seven Types of Global Metro Economies*, 2016

4.2. POPULATION AND EMPLOYMENT GROWTH

The underlying influence on the CBD landscape and its physical form will be the way in which a rapidly growing resident, worker and other visitor populations are accommodated.

It should be noted that the forecast population and employment estimates utilised in the demand modelling within this section have not been prepared by Urbis. They are sourced from the City of Melbourne and do not constitute official Government projections. They have been prepared based on a set of assumptions applicable at the time of production and are liable to change. Nonetheless, they provide an important base from which to estimate future floorspace requirements and are consistent with employment estimates contained in Plan Melbourne.

4.2.1. Future Resident Population

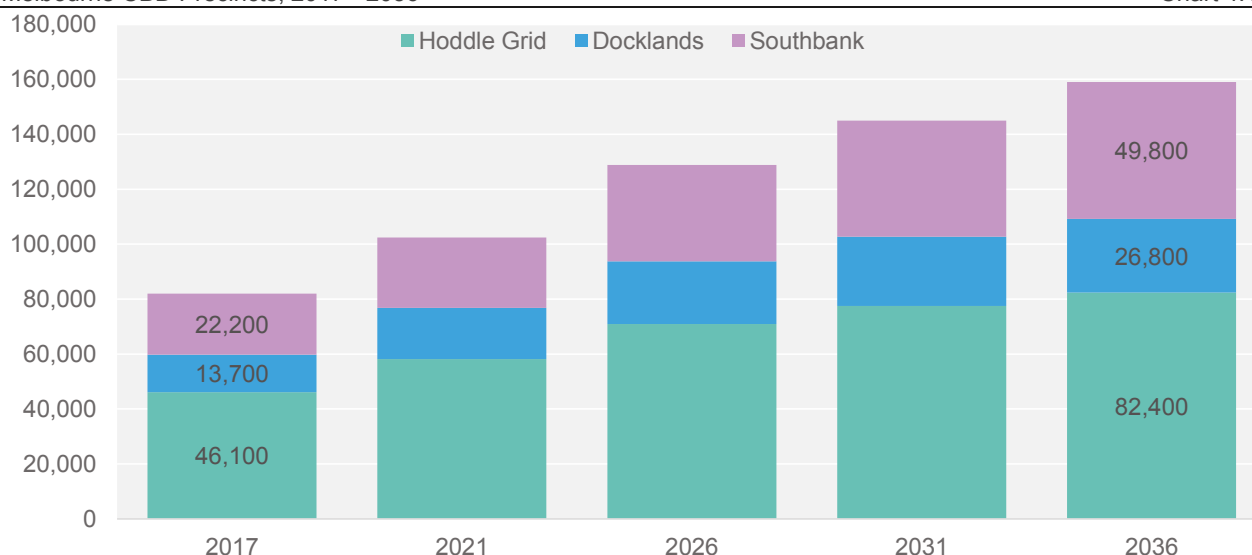
Chart 4.1 shows the projected resident population based on ABS population estimates at 2017 and City of Melbourne forecast projections to 2036.

The population in the CBD overall is forecast to almost double from 82,000 in 2017 to 159,000 by 2036. Of this, the Hoddle Grid is expected to accommodate the greatest share of forecast growth at 47%, with Southbank at 36% and Docklands at 17% from 2017-2036.

Projected Population Growth

Melbourne CBD Precincts, 2017 - 2036

Chart 4.1



Source: ABS; City of Melbourne; Urbis

4.2.2. Future Employment Growth

Going forward, the Melbourne CBD is expected to remain the commercial heart of Melbourne. Factors driving employment growth will be:

- A continued structural shift towards knowledge-intensive, service-based employment industries, driven by and underpinning Melbourne's growth strategy;
- Increasing efficiency of office floorspace and the ability to provide higher-density spaces (i.e. more workers per sq.m of space);
- Co-location and proximity to similar industries which will continue to make the CBD a focus for employment growth.

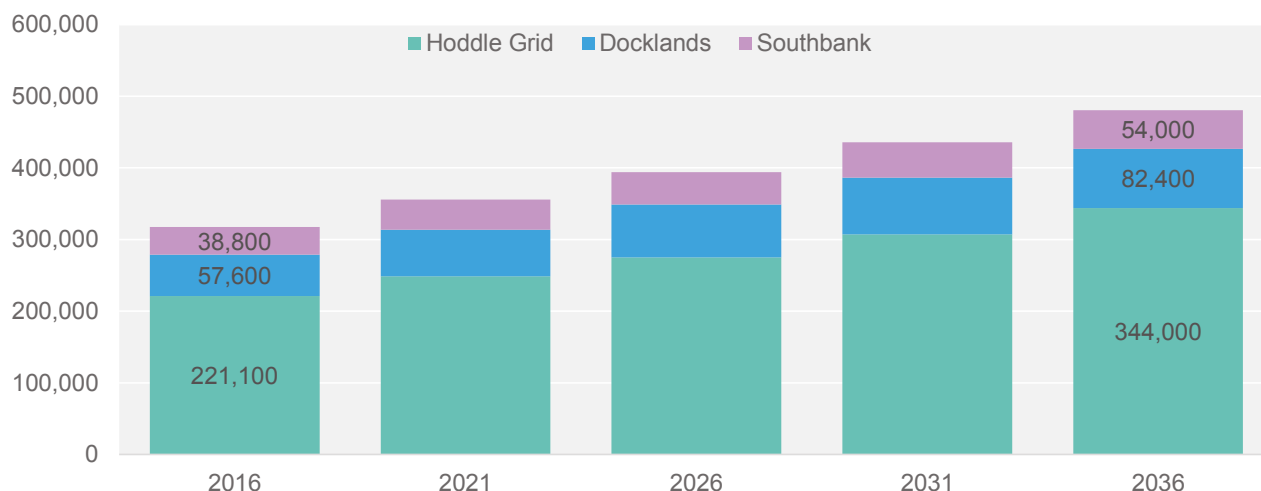
Chart 4.2 illustrates the City of Melbourne employment projections rebased according to 2016 Census results. The Melbourne CBD is forecast to grow from 317,500 to 480,400 workers from 2016-2036. This reflects an average annual growth rate of 2.1% per annum.

The Hoddle Grid is forecast to take the lion's share of employment demand to 2036, with growth of 122,900 employees (75% of the total growth in the CBD). Docklands is forecast to increase by approximately 25,000 workers by 2036, with Southbank increasing worker numbers by around 15,000 over the same period.

Projected Employment Growth

Melbourne CBD, 2016-2036

Chart 4.2



Source: ABS; City of Melbourne; Urbis

We note that the City of Melbourne employment projections are inconsistent with the Melbourne Metro Business Case. The Melbourne Metro Business Case specifies significantly stronger employment growth. This reinforces the importance of achieving the employment potential of the CBD, with the State Government investing heavily in ensuring workers can get in and out of the CBD more efficiently.

Accommodating this anticipated population and employment growth but retaining the commercial vibrancy and importance of the city as a place to live, work and play is integral to a coherent strategy for Melbourne going forward.

Ultimately the changing nature and movement of people and employment is placing various land challenges, and opportunities, on the City's strategic long-term planners.

The purpose of this section is not to suggest how the city can accommodate future growth, but rather to provide a concrete framework to identify the likely demands that will be placed upon the CBD.

4.3. THE NEEDS OF CBD DWELLERS

The CBD as key residential destination is a relatively new phenomenon in Melbourne. 20 years ago, the Hoddle Grid population was just 4,700. Within 20 years from now, it is projected to be around 18 times higher than that. The nature of CBD living has and will continue to change over coming decades.

To date, residential product in the CBD, certainly in the Hoddle Grid, has been targeted at those demographic groups that have traditionally been attracted to the location and 24-hour activity generated. Apartments have generally been small with mostly one or two bedrooms, targeting students, and young singles and couples. This has often been fuelled by investors seeking a certain standard product they feel renters are looking for without having to consider living there themselves.

However, with the scale of residential growth in the CBD and the environment being created, will CBD living always be associated with small apartments where young people are willing to trade off space for amenity?

More families are making a lifestyle choice to live in the CBD, and we suspect many more would should the product cater better to them. Downsizers are also choosing the CBD in greater numbers, benefitting from suburban house price growth to buy quality apartments in the CBD, although they are still seeking extra bedrooms to allow family and friends to stay.

Over time, the CBD residential product will need to diversify to appeal to a wider market and will most likely grow in average size. Therefore, for a given population forecast to call the CBD home, more residential floorspace will need to be delivered.

More residents in the CBD does not just create demand for residential floorspace. Residents create a need for more convenience retail facilities. Large supermarkets and other facilities sought by residents are not a significant part of the mix in the CBD currently. This will change in time though in response to the demand created.

Beyond retail, a growing local population creates a need for more community services. Health facilities, schools and other community services need to be accommodated in the CBD. All of these uses require floorspace and consume land that might otherwise have been available for other CBD development, such as office space.

4.4. THE NEEDS OF CBD OFFICE TENANTS

The development of office space in Melbourne's CBD, and for that matter, most major CBDs in the world, is driven by a response to the needs of tenants; specifically, large tenants.

While the demand from smaller tenants can be strong and there are many small businesses seeking a CBD location, a distinction needs to be made between activity at the smaller end of the market and demand from tenants that will grow the net office space provided across the CBD. Tenants with smaller footprint requirements are an important part of the market, but they do not drive new office development.

Developers will only proceed with an office development once they receive sufficient pre-commitment from tenants, generally needing most of the space to be accounted for before the green light will be given for development. To achieve this, generally one or more major tenants need to commit to taking large office areas. It is very difficult to fill a major office building with lots of smaller tenants in the first instance.

Therefore, a new office development must meet the requirements of large office users. These requirements are detailed below.

4.4.1. Accessibility to Public Transport

Accessibility is a key defining characteristic and strength of the Melbourne CBD, particularly the Hoddle Grid. This is due to decades of legacy investment (billions of dollars) to connect it with the rest of Melbourne via its radial transport network. This investment continues now.

Consequently, the CBD enjoys access to the largest proportion of Melbourne's labour force within a 60-minute public transport travel time - more than any other employment concentration across Melbourne. This means that businesses located in the CBD have access to the deepest talent pool from which to attract and retain staff – a major requirement and competitive advantage for businesses in the modern-day economy.

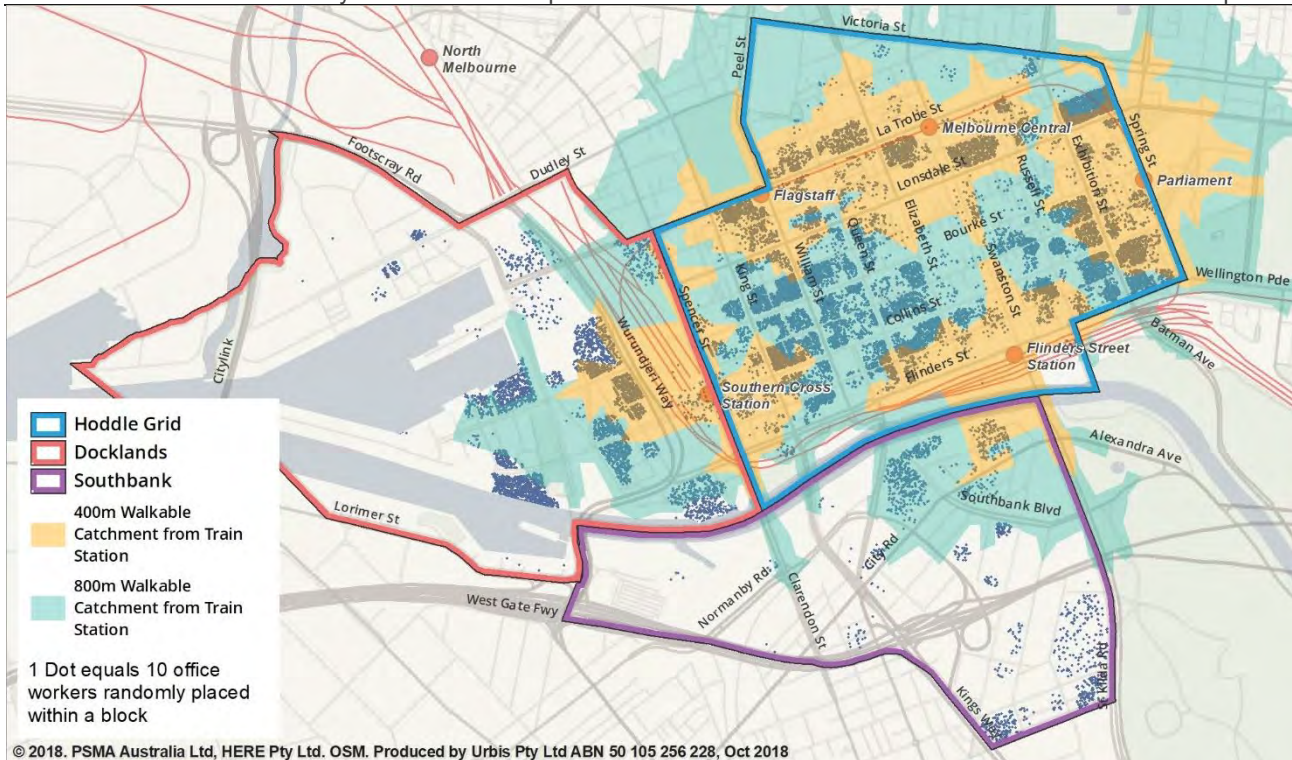
Analysis highlights that labour force accessibility by public transport is not uniform across the CBD. The Hoddle Grid's superior train, tram and bus routes enables access to a greater share of Melbourne's working age population even compared to Docklands and Southbank.

Road congestion and continued investment in public transport is driving greater public and active transport use. Tenants recognise this and are demanding public transport access (particularly access to train stations) and high-quality end-of-trip facilities high on their list of accommodation requirements.

Further analysis of the CBD highlights the role that public transport accessibility has on encouraging the location and concentration of office buildings.

Map 4.1 overlays walkable catchments from the existing CBD train stations with office concentrations. It identifies that a dominant share of CBD office floorspace is closer to the major train stations. While most of the Hoddle Grid is within the 800m catchment, Docklands and Southbank have large parts of the precinct which fall beyond the walkable catchments, yet the principal office concentrations are within the walkable catchments.

In Docklands, the proximity to Southern Cross Station has concentrated office development around the extensions of Bourke and Collins Street. In Southbank, there has been limited demand for office space south of City Road.



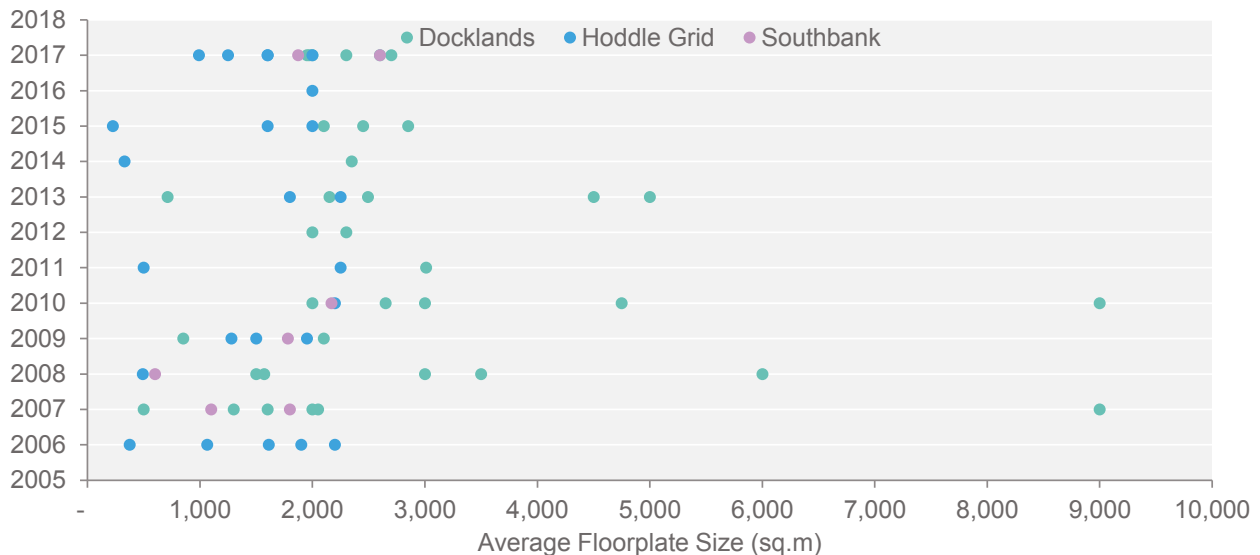
4.4.2. Demand for large floorplates

Urbis have analysed the characteristics of all office buildings approved and constructed in the Melbourne CBD since 2005, in terms of their average floorplate size. This data is presented in Chart 4.3 below.

Melbourne CBD Office Developments

Average Floorplate Size, 2005-2018

Chart 4.3



Source: Property Council of Australia Office Market Reports; Urbis

Since 2005, more than 80% of all offices constructed or now under construction have a floorplate of greater than 1,000 sq.m, with most between the 2,000 – 2,500 sq.m mark. This excludes projects with a planning approval that haven't started construction.

The most commonly desired floor plate size listed in tenant requirements is greater than 1,500 sq.m. Larger tenants are likely to demand even larger floorplates. Smaller tenants seeking under 5,000 sq.m of space in

total will generally require slightly smaller plates, but all will generally not consider plates less than 1,500 sq.m.

The flexibility offered by the larger sites within Docklands is evident with many floorplates of well over 3,000 sq.m, an option that is not readily available in the Hoddle Grid.

At the lower end of the scale, the small floorplate buildings that have been delivered have been boutique developments serving a niche market or the needs of owner-occupiers. None of these buildings have delivered any more than 6,000 sq.m of total office space, with an average of just 3,300 sq.m per building.

Plates towards the bottom of the range will not be discounted entirely, but maximising floor plate size ensures appeal to the greatest potential pool of tenants, thus reducing risk. Therefore, major office developers focus on sites capable of delivering the large floor plates demanded by tenants.

4.4.3. Tenants demand quality

A-Grade office space is a minimum requirement for many CBD tenants who are increasingly demanding the facilities and services associated with this better-quality stock. This can either be in new or refurbished stock.

Subsequently, the only grade of office stock to show a material increase in supply is A-Grade (see Appendix B).

It is the demand from larger tenants who are driving this trend, with most of the new space being the result of significant space users relocating to Docklands or other new purpose-built facilities to access modern space in the format they desire.

This 'flight to quality' relocation trend has created opportunities for vacated office tenancies to be upgraded and repurposed. Some owners have responded by subdividing the floorplates of vacated tenancies into multiple office tenancies (e.g. from 1 into 4). This allows smaller tenants (e.g. those seeking less than 1,000 sq.m) to backfill the vacated and repurposed older office stock. This refurbished stock often remains A-Grade stock, and when combined with new A-Grade buildings being developed increases the total volume of A-Grade space in the market.

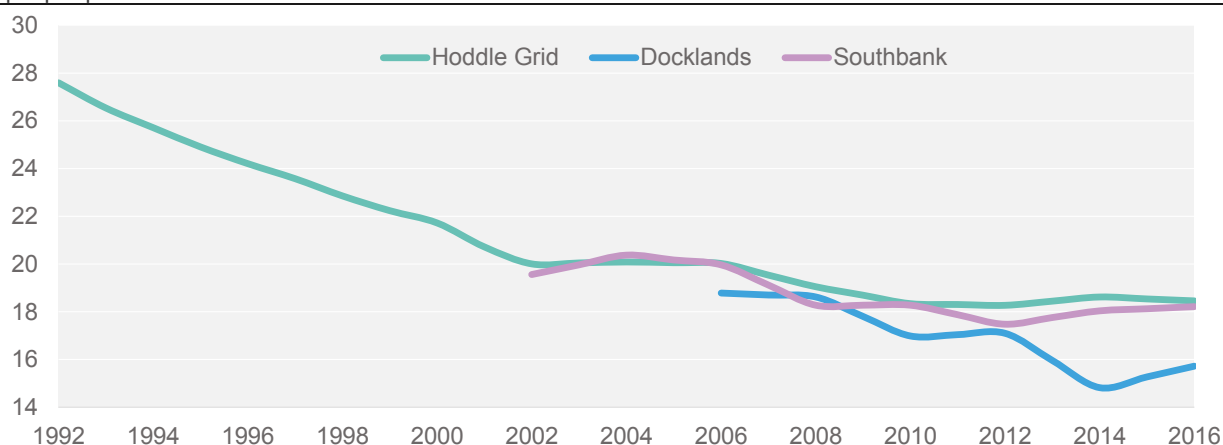
4.4.4. Increased workplace efficiency

Chart 4.4 shows how average workspace ratios in Melbourne have declined in recent decades. However, it is worth noting the decline in workspace ratios have tapered off in the Hoddle Grid since 2010. In part, this can be attributed to the establishment of Docklands - with more efficient 'campus style' developments – and the slowing of new (efficient) office development in the Hoddle Grid.

Melbourne CBD Office Workspace Ratios

sq.m per person

Chart 4.4



Source: City of Melbourne, Census of Land Use and Employment; Urbis

Several physical and design trends in the office market are physically resulting in a need for less office floorspace per worker, such as:

- A desire for greater workplace collaboration;
- The drive for greater space efficiency to save cost;
- Shared meeting spaces or other facilities;
- Flexible working arrangements reducing the number of workers in an office at one time;
- Use of “on-demand” space to respond to increased employment needs rather than “just-in-case” space;
- The impact of technology reducing on-site storage.

There are some counteracting forces though, such as increased space for health, well-being and other amenity initiatives, or allowing space for project-based teams.

Looking forward, the weight of factors still favours a continued reduction in the ratio of workers to floorspace. New buildings will be more efficient than the old buildings they replace (as seen by the even lower average ratio in Docklands – a newer precinct), while older buildings will be refurbished to better achieve modern working requirements. However, given the magnitude of change seen during the 1990’s and with some counteracting trends, the rate of decline in floorspace per worker ratios can be expected to slow.

4.4.5. Tenant Demand Summary

Future office development will come from developers responding to the needs of major tenants. Therefore, most new development in the commercial market will reflect these requirements:

- Walking distance to public transport, primarily train stations
- Floorplates of at least 1,500 sq.m
- Minimum A-Grade office space with high levels of amenity
- Increasingly efficient floorspace (although noting there is a limit to this).

As such, the range of sites and locations capable of accommodating these needs are limited in the CBD, as discussed further below.

4.5. PROJECTED FLOORSPEC REQUIREMENTS AND CHANGE

These increasing worker and resident populations will increase demand for floorspace and in turn place demands on ancillary supporting floorspace uses including retail, services and to a degree infrastructure.

As well as forecasting population and employment growth, the City of Melbourne has also prepared forecasts of employment floorspace, based on employment projections. To supplement this, Urbis has derived future residential floorspace demand using population projections and changing household sizes across each precinct. Urbis has also made allowance for parking and vacant floorspace.

The results of this analysis are summarised on a precinct basis as follows – see Chart 4.5:

- The Hoddle Grid is forecast to require an increase in floorspace of 5 million sq.m, reaching over 16 million sq.m by 2036.
- The floorspace requirement for Docklands will grow by approximately 1.9 million sq.m to reach 5.2 million sq.m by 2036.
- The floorspace requirement in Southbank is expected to increase to 5.7 million sq.m in 2036.

IT IS ESTIMATED THAT BY 2036, THE TOTAL INCREASE IN FLOORSPEC REQUIRED ACROSS THE CBD WILL BE 9.1 MILLION SQ.M, A 50% INCREASE FROM NOW

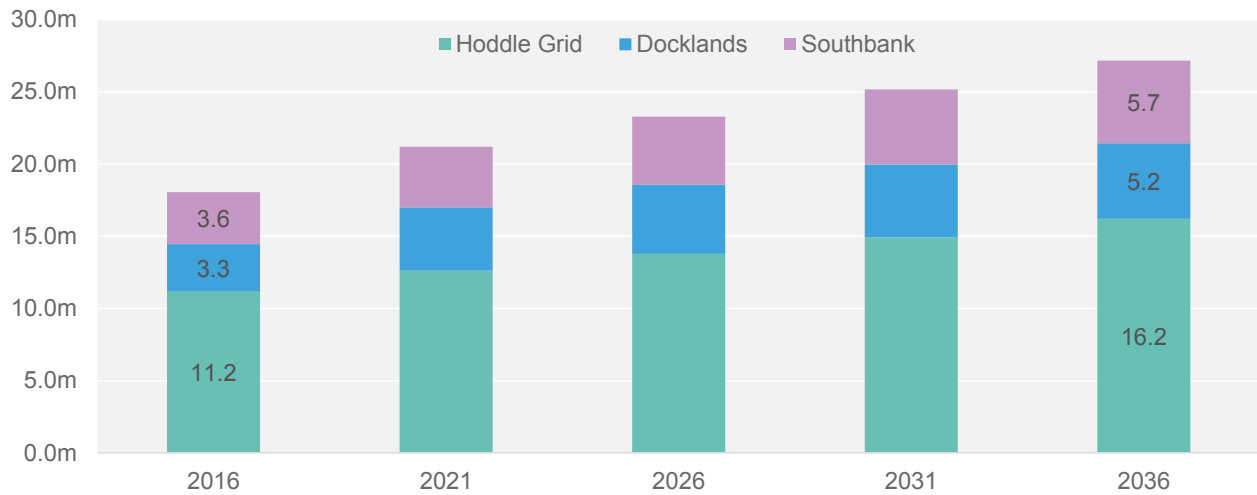
Docklands is beginning to reach its master-planned capacity, with all sites to be fully built-out within 10-15 years. This appears to be reflected in the forecast employment numbers for the area. Consequently, growth in floorspace to meet the projected employment increase and the large population growth will be focused in the Hoddle Grid.

Around 55% of the additional floorspace demand is expected to be required within the Hoddle Grid (+5.0 million sq.m), with 21% in Docklands (+1.9 million sq.m) and 24% in Southbank (+2.1 million sq.m).

Total Future Floorspace Requirement to 2036

Melbourne CBD, 2016-2036 (Million sq.m)

Chart 4.5



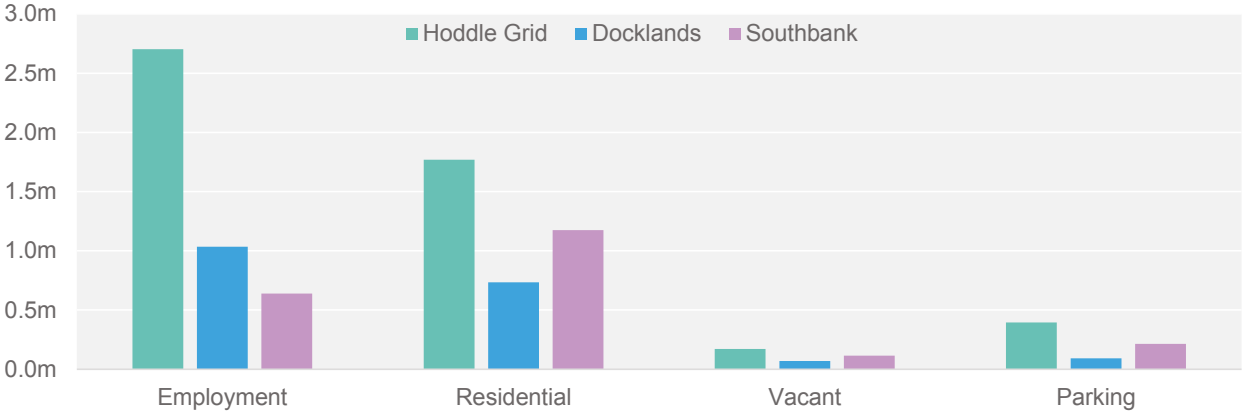
Source: City of Melbourne, Census of Land Use and Employment; Urbis

Chart 4.6 shows the total increase in floorspace across different land uses for each precinct.

Change in Floorspace 2016-2036

Melbourne CBD (Million sq.m)

Chart 4.6



Source: City of Melbourne, Census of Land Use and Employment; Urbis

The Hoddle Grid will remain the core provider of traditional employment floorspace. Supporting continued employment growth and given a limited supply of suitable sites in the CBD, spill-over of commercial development will continue to occur in Docklands and Southbank.

The vast majority of the employment space will be in commercial office environments. Whilst traditional CBD industries such as professional, scientific and technical services, financial services and public administration create the highest demand for office space, there is also a requirement for office space beyond this for more non-traditional CBD industries such as health and education.

Despite reducing floorspace per worker levels, the growth in employment is expected to far outstrip any increase in workspace efficiency. There is a limit to how much you can reduce floorspace per person, particularly considering some of the counteracting forces outlined earlier in this section.

Residential floorspace will continue to be the largest floorspace use in Southbank accounting for 41% of total floorspace by 2036, compared to 21% in the Hoddle Grid and 29% in Docklands.

4.6. FUTURE CBD INFLUENCES: CONCLUSIONS

The analysis in this section acknowledges that the future evolution of the CBD will be influenced by a range of global and local factors.

In a global sense, Melbourne's CBD will be shaped by trends such as the growth of the Asia-Pacific region; technological change and structural employment shifts towards the knowledge economy; the extent to which remote working reduces the reliance on central employment locations; and the adoption of higher density living across a broader range of demographic groups.

Locally, the needs of and growth in users of the CBD will potentially change the nature of the central Melbourne landscape. A huge increase in the forecast resident population not only brings the need for a leap in the scale and nature of residential development, but also the range of retail, education, health and other community services to support it.

Office development will respond to the need to support the largest concentration of employment across Melbourne. However, reflecting the needs of major office tenants that drive where and how offices are delivered, office development is likely to require sites within close proximity of train stations, with large land areas to support the need for large floorplates and A-Grade space.

Using City of Melbourne projections of employment floorspace growth, supplemented by Urbis' estimates of the development floorspace to accommodate the influx of residents and other users, we estimate that by 2036, Melbourne will need an additional 9.1 million sq.m of floorspace – a 50% increase from the current 18 million sq.m provided, including 4.4 million sq.m of commercial and 3.7 million sq.m of residential floorspace.

The ability of the CBD to accommodate floorspace growth of this scale is considered in the next section.

5. ACCOMMODATING GROWTH

Melbourne's greatest challenge is to ensure that growth within the CBD can occur in the most economically productive and sustainable manner. This study has already highlighted the outsized contribution that the CBD makes to the State economy. To maintain this contribution, it is essential that the CBD's role as a strategic centre for longer-term economic and employment growth is enhanced.

The CBD economy requires space to evolve and grow. New workers and businesses need space to collaborate, innovate and produce products and services that will drive the future economy. At the same time, ancillary services, facilities and infrastructure that support this vibrant location also require space. However, space is a finite resource.

This section reviews the capacity of the CBD to accommodate the required increase in floorspace as identified in the previous section.

Key Themes:

- Melbourne's CBD has capacity to accommodate further growth, however the additional capacity is finite.
- The theoretical capacity suggests that there may be sufficient capacity to accommodate all forecast growth, but the CBD possesses a number of constraints that will limit development to a level well below the theoretical capacity.
- There is insufficient land and sites available to accommodate office developments that require larger sites.
- Within the Hoddle Grid, 67% of developable sites are less than 500 sq.m in area.
- Current planning controls permit residential and commercial uses to establish across the CBD without constraint.
- The suite of planning controls introduced as part of Amendment C270 has created a need for even larger sites (in excess of 3,000 sq.m) to accommodate viable office floorplates in new development.
- The new controls have also introduced a series of development controls that severely limit flexibility in the assessment of each project.
- Many of the office developments approved and built over recent years in the Hoddle Grid could not be approved today under the current planning controls.

5.1. DEVELOPMENT POTENTIAL METHODOLOGY

The CBD does not have unlimited development potential, especially if it wants to protect many of the celebrated characteristics that make the CBD a success such as a quality streetscape, heritage architecture and access to natural light. The CBD has a finite capacity to accommodate growth. Like many city centres, it is constrained by its natural and man-made barriers (e.g. the harbour, existing parklands etc.) and the need to maintain an attractive urban environment. While it may not be as constrained by its natural setting as Sydney's CBD, many of Melbourne's characteristics serve to provide a constraint on 'unlimited' development.

Urbis has developed a detailed methodology for determining the capacity of a site to be developed and has combined this methodology across the CBD precincts to determine the overall capacity of Melbourne's CBD. Factors that influence the nature and scale of future development on a particular site include:

- Site size
- Current land use
- Current level of floorspace
- Age of the building
- Number of owners

- The existence of any planning controls that may restrict development such as heritage controls or other development-limiting measures
- The presence of any planning permit or development application for the site
- Any other factor that may render that property otherwise undevelopable (e.g. it sits under a freeway overpass)

Against each of these factors, we have made an assumption or set of assumptions that will determine if a site is developable or not, applying this methodology to every property in the CBD. For example:

- Only sites over 500 sq.m are considered developable, except in the Hoddle Grid where smaller sites can be intensified.
- Significant buildings of less than 15-20 years old are unlikely to be developed over the next 30 years or so. New developments undergoing construction or have since commenced construction and are expected to be completed soon were also excluded as recent development.
- Properties that are already developed at or above their maximum floorspace potential as determined by the current planning context are unlikely to be redeveloped. Even if they were, it would not add to the overall floorspace capacity of the CBD as the replacement buildings would have less floorspace.
- If a building is strata-titled, the chances of gaining agreement of all owners to redevelop is significantly reduced. So, we have assumed if a building has more than 15 owners, it is undevelopable.
- If a site has a heritage control over it, it is less likely to be developable. However, we have considered this on a case-by-case basis as some heritage designations only apply to part of a site (e.g. one building or part of a building).
- If land is used currently as open space, it is assumed this will remain in order to maintain at least the current level of open space.

Having determined which sites will be available for development, we then estimated the floorspace yield that can be generated on each site. Again, a range of factors have been applied to determine this yield, including existing planning controls such as height limits, set-backs, plot ratios and the like. In Docklands for example, the Docklands Master Plan was reviewed for each site.

The result of this process combined with the existing floorspace gives an estimate of the total floorspace capacity.

The capacity of each of the CBD precincts is summarised overleaf.

5.2. CALCULATED FLOORSPACE CAPACITY

Urbis has applied the assumptions and development rules to every site in the CBD, reviewing each carefully to ensure they are appropriately defined as “developable” or “undevelopable”. The controls applicable to each site have then been considered to arrive at a capacity floorspace which is summed across sites and then compared here existing floorspace levels.

IT IS ESTIMATED THAT THE CBD HAS CAPACITY UNDER CURRENT CONTROLS FOR 28.4 MILLION SQ.M OF FLOORSPACE, AROUND 10.3 MILLION SQ.M HIGHER THAN EXISTS NOW

Urbis has identified that the CBD has an overall capacity under current controls of around 28.4 million sq.m – including 17 million sq.m in the Hoddle Grid, 5.1 million sq.m in Docklands and 6.2 million sq.m in Southbank. This capacity needs to accommodate *all* future development, including commercial office space, residential, retail, community uses etc.

When this capacity is compared against the current floorspace provision for each precinct (for all uses), we can calculate a floorspace uplift potential for each precinct (Table 5.1). This uplift in each precinct is the additional floorspace that could be physically accommodated in that precinct given the developable sites, over and above the current level.

Melbourne CBD Floorspace

Million sq.m

Table 5.1

	Existing	Capacity	Uplift Potential
Hoddle Grid	11.2	17.0	5.9
Docklands	3.3	5.1	1.8
Southbank	3.6	6.2	2.6
Total CBD	18.0 million sq.m	28.4 million sq.m	10.3 million sq.m

Source: City of Melbourne; Docklands Masterplan; Urbis

This study has already identified that the total increase in floorspace required across the CBD will be 9.1 million sq.m to accommodate the projected population and employment out to just 2036. This represents a 50% increase on the existing 18 million sq.m in the CBD today.

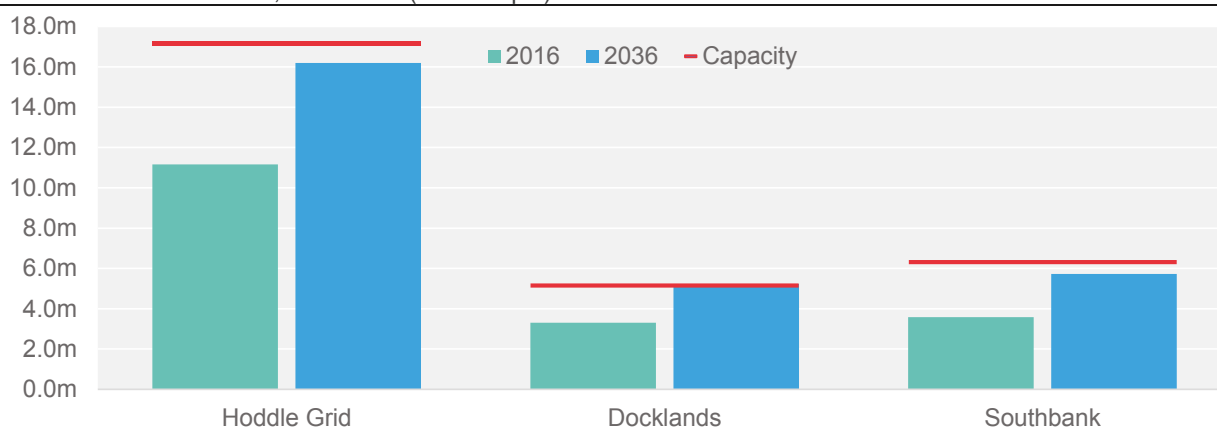
As such, on the face of it, there is not a capacity issue across the CBD prior to 2036. The calculated capacity of 28.4 million sq.m will accommodate the demand for floorspace out to 2036 of 27.2 million sq.m.

At a precinct level though, a capacity issue does exist. As shown in Chart 5.1 below, while the Hoddle Grid and Southbank have just enough capacity to support the floorspace to accommodate the forecast level of population and workers out to 2036, Docklands will reach a capacity point just prior to that. Its capacity is just 5.1 million sq.m, against a calculated floorspace requirement of 5.2 million sq.m.

Melbourne CBD Floorspace Requirement vs. Capacity

Melbourne CBD Precincts, 2016-2036 (Million sq.m)

Chart 5.1



Source: City of Melbourne, Census of Land Use and Employment; Urbis

Chart 5.2 shows the number of developable sites in each precinct, the land area those developable sites occupy and the floorspace they are theoretically capable of accommodating.

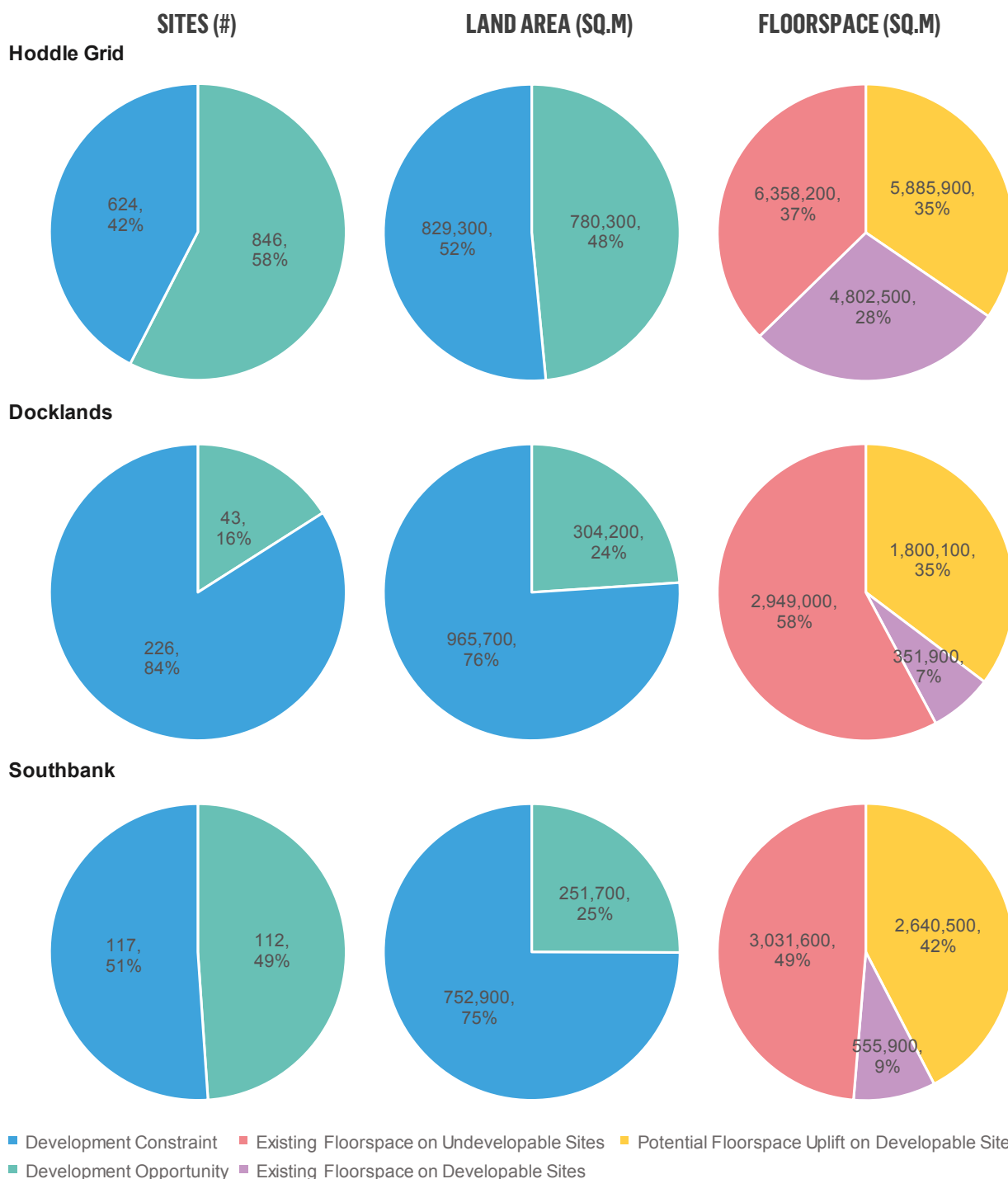
In the Hoddle Grid, while a slight majority of sites are considered developable, the average size of those sites is small, resulting in a minority of land area being developable. Critically though, while the developable sites are assessed as having capacity to accommodate 10.7 million sq.m of space, there is already 4.8 million sq.m of existing space across those sites. The potential uplift is therefore less than 6 million sq.m, noting this is a theoretical uplift that can only be achieved should all sites be developed to the full extent possible under planning controls. This is highly unlikely given the large number of small, dispersed sites.

Docklands and Southbank are approaching capacity, with only around a quarter of all land developable.

Opportunities and Constraints

Melbourne CBD Precincts, 2016

Chart 5.2



Source: City of Melbourne, Census of Land Use and Employment; Urbis

5.3. DEVELOPMENT CONSTRAINTS IMPACT PRIOR TO CAPACITY POINT

While the analysis presented here indicates that broadly the projected growth of the CBD over the next 20 years can be accommodated with some reshuffling of growth between precincts, this situation still has the potential to limit development responding to the needs of city users.

Firstly, this analysis only considers whether the forecast population and employment can be accommodated out to 2036. What happens after that point when the projected floorspace is so close to capacity? We would expect that we should be planning for the CBD as the State's key economic and community precinct to grow beyond the next 18 years.

Secondly, experience in Australia and overseas points to the fact that constraints on a city's ability to grow and change start to appear before full build-out is reached.

As cities approach their floorspace capacity, the market responds to the level of scarcity. Sites available for development become few and far between. This forces up land prices, discouraging development, while rents on existing stock increase causing tenants to look elsewhere for accommodation. The ability to accommodate an increasing population and worker base becomes constrained.

Urbis has estimated through our research that these sort of capacity issues actually start to impact in a city or precinct when around only 20% of developable capacity remains. This was felt in Sydney in recent years when it was acknowledged the CBD there only had around 1 million sq.m of capacity remaining. It is also the point that parts of the Melbourne CBD are approaching now, not least of which is the Hoddle Grid. The ability to develop will be severely restricted prior to 2036.

Thirdly, a further constraint on development is the fact that while some sites have a theoretical capacity to accommodate more floorspace, not all sites are likely to be fully developed.

Chart 5.3 shows the size of those sites with development potential identified in Chart 5.2.

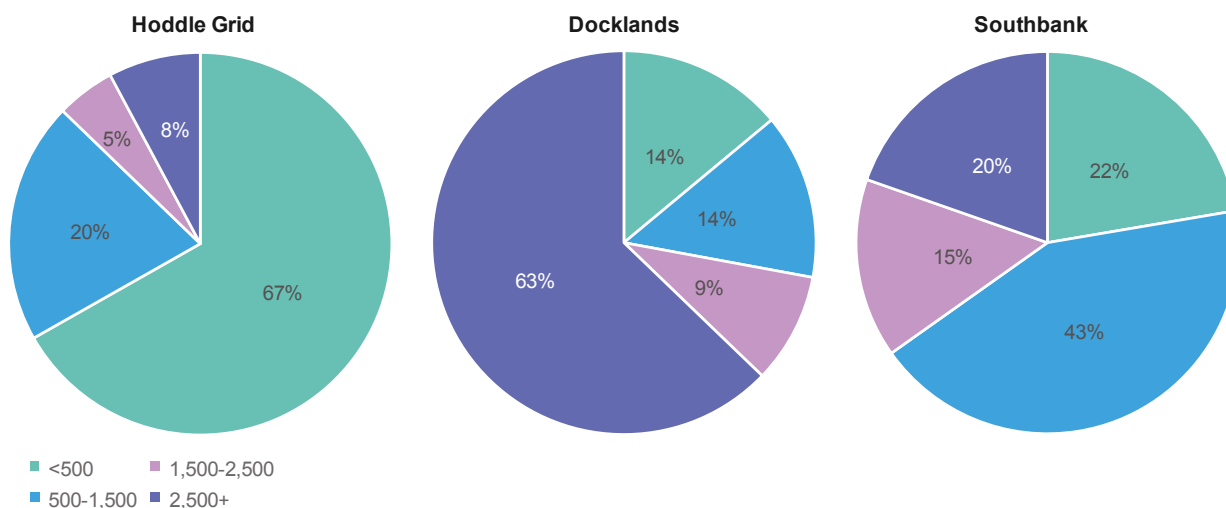
WITHIN THE HODDLE GRID, 67% OF DEVELOPABLE SITES ARE LESS THAN 500 SQ.M

ACROSS THE WHOLE CBD, 89% OF DEVELOPABLE SITES ARE LESS THAN 2,500 SQ.M

Land Area of Developable Sites

Melbourne CBD Precincts, 2016 (sq.m)

Chart 5.3



Source: City of Melbourne, Census of Land Use and Employment; Urbis

The reality is that development of every site to its full potential is highly unlikely. With a vast number of small sites supporting the theoretical floorspace capacity of the CBD, it is difficult to see all the individual owners developing their sites to maximise floorspace on each.

Finally, not all sites are suitable for all uses. Each use in a CBD has its own requirements to be delivered successfully. This might relate to the compatibility with surrounding uses or the nature of the immediate vicinity, access to essential services (e.g. public transport) or the physical form and size of the site to

accommodate the development of that use. This is particularly evident when it comes to commercial office development, where the needs of modern office environments dictate high amenity locations with site sufficient to support a large built-form. The issues facing office development in the CBD are discussed further here.

5.4. FURTHER CONSTRAINTS ON OFFICE DEVELOPMENT

5.4.1. Physical Site Constraints

While a site might be classed as developable, it is not necessarily suitable for development for any use. Commercial office projects in particular require a range of conditions to be in place before a site is capable of delivering a sizeable development:

- **Site size over 2,500 sq.m** - In our experience, an office development site needs to be at least 2,500 sq.m in size in the CBD to accommodate a floorplate of at least 1,000 sq.m that most office tenants require. This site size allows for necessary set-backs and floor area ratio provisions, as well as providing a sufficient road frontage needed by commercial developers. Smaller sites might support office space, but only in boutique developments that make up a very small proportion of the office space delivered each year. Given most office developments require floorplates of over 1,500 sq.m, a 2,500 sq.m site size is an absolute minimum.
- **Scale of existing site use** – In some circumstances, a site may be classified as developable, but it is unlikely to be redeveloped for a commercial office use due to the financial feasibility of doing so. This could be due to the scale of development already on site. If an existing development is of such scale that redevelopment will not result in much, if any, uplift in floorspace, it is unlikely that a financial return from redevelopment would be sufficient to proceed. For example, 101 Collins Street is technically a “developable” site, but it is not feasible to demolish that building in the foreseeable future. In any event, it is unlikely a new building could generate any more floorspace.
- **Nature of existing site or surrounding uses** – Again, a site could be classified as developable through the process Urbis has undertaken, but due to the site environment and the nature of surrounding uses, a commercial office development would not proceed. For example, RMIT meets the requirements of a developable site, but a major commercial office development is unlikely to form part of any redevelopment in the university context.

Other factors also go into determining if a site is suitable for commercial development such as access to transport infrastructure and the amenity of the surrounding area.

5.4.2. Planning Controls

The existing suite of planning controls in Melbourne's CBD are placing significant constraints on commercial office development.

The ongoing development of the CBD is governed by a series of planning policies and controls:

- The Capital City Zone establishes the requirements for approvals and permits a wide range of uses to be established within the zone without further planning consent.
- Since late 2016 through the C270 Amendment, the Capital City Zone has also contained controls governing the overall intensity of development with the implementation of a Floor Area Ratio (FAR) control of 18:1.
- Mandatory setbacks have also been introduced through C270. Buildings above 40 metres must be setback 5 metres from the boundary, while once above 80 metres the setback increases in line with the building height – the higher a building is the thinner it must be.
- Urban design guidance for development in areas covered by the Capital City Zone
- A series of Design and Development Overlay (DDO) controls that address matters ranging from weather protection; overshadowing to building design. The most significant of these controls is DDO 10 that establishes mandatory setback/height relationships.

It is noteworthy that the local policy settings in the Melbourne Planning Scheme as they apply to the CBD make only one mention¹⁰ of the role of the CBD (along with St Kilda Road) as the metropolis' centre for commerce. The local planning policy for the Hoddle Grid¹¹ references the need to support residential development:

Support permanent and short term residential development in the Hoddle Grid that accommodates a diverse population.

Yet the policy makes no reference to support for ongoing commercial accommodation, preferring instead to focus on retail, cultural, education and entertainment activities. This is not to suggest that there is a lack of broad support for ongoing commercial development. However, it reflects a potential complacency that commercial development will always occur and does not require specific support.

As has been demonstrated in this section, the reality today is that it is increasingly difficult to obtain or create development sites capable of accommodating fit for purpose commercial development. Unfortunately, the current suite of planning controls imposes further constraints on commercial development as compared to other uses such as residential and hotel.

The overarching aim of these controls is to ensure that as the CBD continues to retain and develop the character and qualities that make Melbourne a great city. This includes protection of key public spaces from excessive shadowing, recognition and protection of the scale of heritage precincts and the maintenance and enhancement of the pedestrian environment at street level. These are important elements that contribute to the city's competitiveness and must form part of its future.

The current suite of controls seeks to achieve these outcomes through a combination of flexibility in terms of land uses and fixed development controls that serve to limit the opportunities for new commercial development. The C270 setback controls result in a reduced effective floorplate for buildings, which on most sites is below the level required for modern office development. Under these controls need land area of at least 3,000 sq.m to achieve a floorplate of the site demanded by large office tenants. Sites of this size are few and far between as outlined in sub-section 5.3.

To assist in understanding the impact of the controls on future development, a range of commercial buildings, most built in recent years or currently under construction in the Hoddle Grid were assessed against the current development controls. These buildings are listed below with images shown overleaf. More detailed building profiles with reasons why the developments would no longer be deemed acceptable following the C270 amendments are shown in Appendix C.

Completed Buildings	Buildings Under Construction
120 Collins Street	80 Collins Street
CBW – 181 William and 550 Bourke Streets	Wesley Place – 130 Lonsdale Street
Mercer Building – 11 Exhibition Street	Olderfleet Building – 477 Collins Street
Ernst & Young – 8 Exhibition Street	Collins Arch – 447 Collins Street
SX 1 Building – 121 Exhibition Street	
SX 2 Building – 111-129 Bourke Street	

Today the planning authorities would be prevented from approving any of these buildings due to 'non-compliance' with the setback/height ratios now specified in DDO 10.

These buildings have a combined value of approximately \$5.8 billion and accommodate approximately 34,500 Victorian jobs.

In many cases the floorplates of the buildings would need to be significantly redesigned (and reduced in size) to achieve compliance with the current controls. It is possible that in some of these circumstances the usability (and hence viability) of the building would be significantly compromised to the point the project may

¹⁰ Melbourne Planning Scheme, Clause 21.08 Economic Development - Business, p. 1

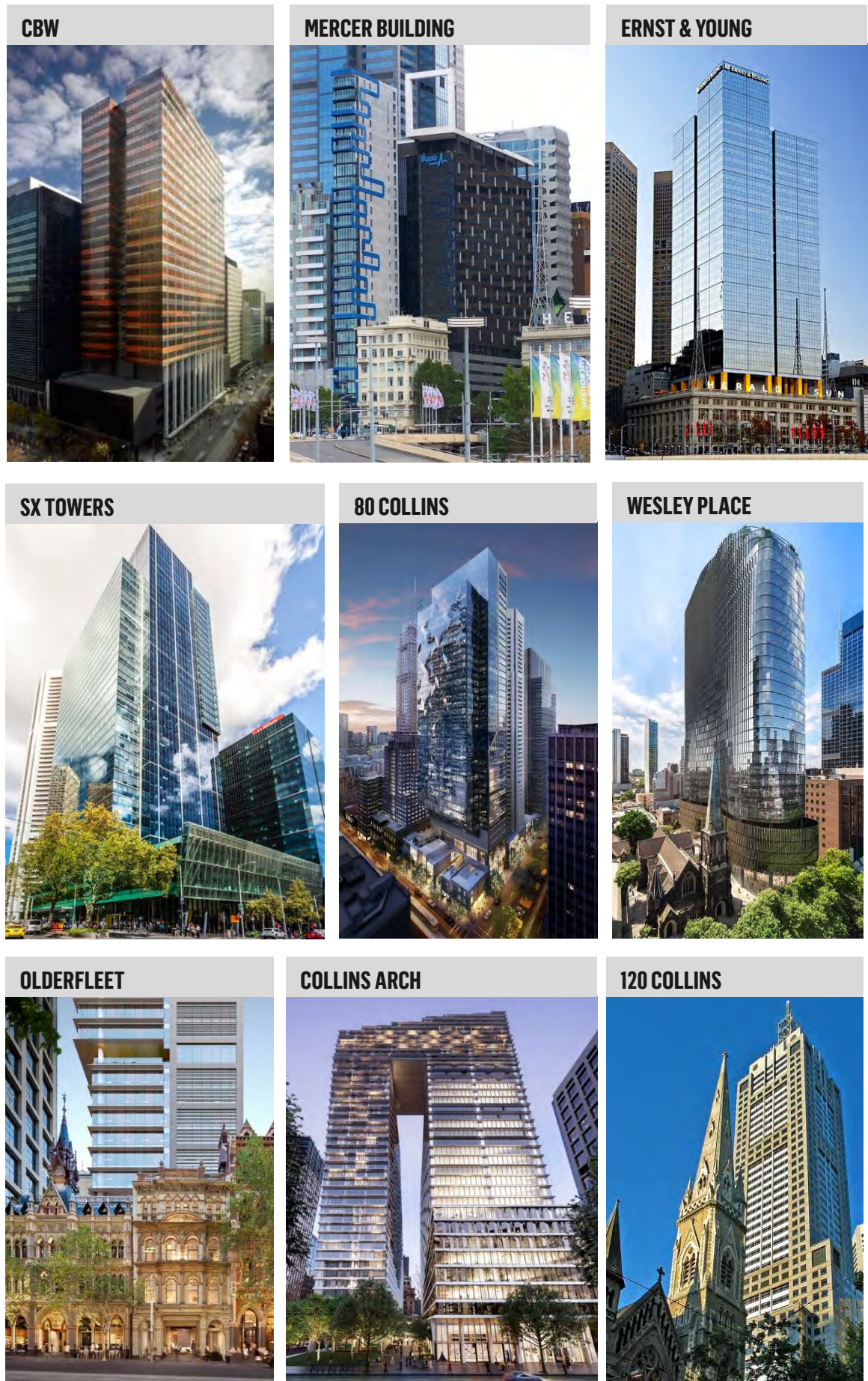
¹¹ *ibid.*, Clause 22.12 Hoddle Grid – Housing, p. 1

not proceed. At a minimum the modified buildings would not accommodate as many jobs as they currently do.

The lack of discretion now embedded in the controls is serving to prevent both the development community and the planning authorities creating site responsive buildings that both retain and enhance the character of the CBD and provide fit for purpose commercial accommodation.

In summary, the current suite of planning controls has collectively created a number of constraints on future commercial development with the CBD. It is highly likely that if these controls are maintained they will prevent the CBD from accommodating the forecast significant growth in employment over the next 20+ years.

Recent Office Buildings Uncompliant With Current Controls



5.4.3. Loss of Commercial Sites

A further, long-term constraint on the future development of new commercial is the continuing reduction of land available for employment purposes. This issue was considered in detail in Section 3 of this report.

Since the early 1990s, the City of Melbourne has pursued a policy to create a 24/7 city through the introduction of residential accommodation within the CBD. The last 25 years has seen the population of the CBD (Hoddle Grid, Docklands and part of Southbank) increase to 82,000. It is noteworthy that the Hoddle Grid has increased from approximately 4,000 in 1991 to 46,000 in 2017.

The increase in residents has created the vibrancy and culture that central Melbourne is renowned and is supported by zone controls that permit all residential uses. An outcome of this is the reduction in land available for employment purposes – particularly offices. In the early 1990s, several vacant buildings previously used for offices were converted to residential (given the relatively depressed economic circumstances). More recently the ‘mixed-use’ parts of the CBD (particularly in the north) have seen supporting employment services being displaced by residential development and the conversion of prime commercial sites to residential uses.

Land in the CBD, particularly the Hoddle Grid, is finite and the competition between residential and commercial uses is certain to continue as demand for both new dwellings and offices seeks to accommodate the forecast demand. As has been outlined in Section 3 and analysed by Urbis previously¹², residential development has several advantages over commercial development including:

- Apartment developments can be designed with smaller floorplates and do not have the same restrictions on minimum floorplate sizes as office development;
- An ability to utilise smaller sites thus obviating the need to amalgamate several sites to create a development parcel;
- Apartment developers do not have to absorb the costs of leasing incentives, which are a significant part of an office developer’s capital budget;
- An ability to command higher land values – particularly for high end developments.

In 2006, there was 4.48 million sq.m of commercial floorspace and 1.96 million sq.m of residential floorspace within the CBD (Hoddle Grid, Docklands and Southbank). By 2016, there was 5.52 million sq.m of commercial floorspace and 3.58 million sq.m of residential floorspace.

The relative ease of achieving a residential development coupled with high demand has seen the amount of residential floor space to nearly double in the Hoddle Grid nearly double to 1.67 million sq.m whilst commercial floorspace only increased by 240,000 sq.m. Ongoing demand for commercial floorspace was met in the Docklands area, but even there, most of the land set aside for commercial purposes has now been developed.

5.4.4. The Need for a Different Approach

A continuation of the current ‘as-of-right’ opportunities for residential developments to locate anywhere in the CBD and convert existing commercial sites will see the perpetuation of the current competitive advantage for residential uses when land is even more scarce. It is appropriate to review the general zoning system for the CBD and consider a more granular approach where a range of factors are incorporated into the allocation of land uses across the CBD. This could include:

- Locations close to the current and new rail stations are prime candidates for commercial and employment uses.
- Reinforcing and protecting current concentrations of commercial activities (e.g. Law Precinct, Collins Street corridor etc.).
- Identifying areas where built form factors take precedence (e.g. heritage precincts, areas near public open space).
- Identifying areas where greater intensity can be accommodated.

It is noteworthy that many other major cities adopt a ‘matrix’ approach to guiding and facilitating development in central city areas. This is discussed in Section 6.

¹² Urbis, *Requirements of the Melbourne Office Market*, March 2018, p. 55-62

It is noted that other planning controls also have an impact on the development of commercial buildings and availability of land. This includes the range of heritage controls applying to the CBD. It is noteworthy that the Hoddle Grid has been the subject of three separate reviews over the past 35 years. Following each review, the number of buildings identified as having heritage qualities worthy of protection has increased. It is acknowledged that the Victorian character of central Melbourne is one of its unique features that significantly contributes to its character and competitiveness.

The identification of heritage buildings combined with stricter controls regarding development on heritage sites reduces the overall development capacity of the CBD. This is not to suggest a wholesale review of the heritage assets in the CBD. Rather consideration should be given to developing a transfer of development rights from heritage sites to other appropriate locations within the CBD.

5.5. IMPACT OF CONSTRAINING CBD GROWTH

It could be argued that a constrained CBD simply creates opportunities for growth in population and particularly employment in other areas. Perhaps as the CBD approaches full build out, opportunities for development to shift to new urban regeneration areas such as Arden and Fishermans Bend may be created? Maybe the CBD's capacity constraints might be the impetus for expansion of suburban employment hubs?

These outcomes may occur and potentially be beneficial to the city and State. However, ultimately any constriction of the CBD's ability to grow and respond to demand will have an economic impact on Victoria.

A CBD job generates a greater level of economic value than jobs located outside the CBD. The agglomeration benefits of the CBD mean that, even within the same industry, the economic value of a job is greater in a CBD than elsewhere. Therefore, even if the total number of jobs at the metropolitan level is maintained, with unrealised CBD jobs shifting to other areas, the economic value to the metropolitan region and State is reduced.

To quantify the potential economic loss, we have presented here a high-level assessment of the CBD's economic value under two scenarios:

- i. the City of Melbourne's forecast level of employment for 2036 be achieved;
- ii. the employment level is constrained due to capacity constraints taking effect prior to 2036.

The analysis can broadly be described as follows:

Lost Economic Value = Potential Economic Value – Constrained Economic Value – Value of Unrealised jobs located outside the CBD

Where....

Potential Economic Value = the economic value of a CBD job x Council forecast jobs

Constrained Economic Value = the economic value of a CBD job x Constrained job potential

Value of Unrealised jobs located outside the CBD = (Council CBD forecast jobs – Constrained CBD job potential) x the economic value of an average job across metropolitan Melbourne.

For the purposes of this analysis, we have assumed that the CBD job level is constrained to match Melbourne City Council's 2036 forecast employment, reflecting our analysis suggesting capacity is virtually reached by that time. If job growth is to continue at the rate projected by the City of Melbourne between 2016-2036 (i.e. approximately 2%), by 2051 an unconstrained CBD could accommodate 644,400 jobs. However, the CBD is *already* facing capacity constraints and it is unlikely that any more jobs above those predicted in 2036 will fit.

A summary of the calculations undertaken is presented below in Table 5.2.

Indicative Economic Value Lost Due to Constrained CBD at 2051

Annual Economic Loss if Forecast Employment Not Achieved

Table 5.2

Measure	Row/Calculation	Value
Unconstrained CBD Jobs (2051)	1	644,400
Constrained CBD Jobs (2036)	2	480,400
Economic Value of a CBD Job ¹ (\$2017)	3	\$251,800
Economic Value of a Job ¹ in Victoria (\$2017)	4	\$207,400
Potential CBD Economic Value	$5 = 1 \times 3$	\$162 billion
Constrained CBD Economic Value	$6 = 2 \times 3$	\$121 billion
Value of Unrealised jobs located outside CBD	$7 = 4 \times (2 - 1)$	\$34 billion
Lost Economic Value	$8 = 5 - 6 - 7$	\$7 billion

¹ In finance and insurance services; professional, scientific and technical services industries

Source: REMPLAN; ABS; Urbis

The economic value of a job used here is based on a weighted average of the value of jobs in the finance and insurance services and professional, scientific and technical services industries. These are the two largest employing industries in the CBD – accounting for 40% of all CBD employment. If the expansion of office space in the CBD is constrained, then these knowledge jobs will be the most likely jobs where the level is unable to be increased. They are also the industries where the benefits of agglomeration are most evident. While not all CBD jobs will be in finance, insurance and professional services, as the major employing industries, they represent a good proxy for the value of employment lost should the CBD be constrained. The economic value generated by a finance/professional services jobs in the CBD is estimated at almost \$252,000, compared with \$207,000 for the jobs in the same industries located outside of the CBD.

Based on these calculations, a constrained CBD will cost the State in the order of \$7 billion of economic value for 2051. This is the equivalent to around 2% of the current Gross State Product. The value of the loss will increase for every subsequent year job numbers cannot increase.

This is considered a conservative analysis of the impact of a constrained CBD. It assumes that jobs which cannot fit into the CBD remain in Victoria. Given the nature of the relevant industries choosing to locate in the CBD, if opportunities do not exist to establish in the Melbourne CBD, some businesses will choose to locate elsewhere in Australia or even overseas.

On top of this lost economic value is the extent to which the past and future investment in infrastructure to support the CBD will not be maximised. There have been billions invested in getting people into and out of the city. This includes decades of legacy investment in road, rail and community infrastructure, as well as the investment that continues today. Projects such as the Melbourne Metro rail project, level crossing removals or freeway upgrades are largely designed to increase the capacity of our hub and spoke infrastructure system where *'all roads (and rail) lead to the CBD'*.

We note that the Melbourne Metro business case is prefaced on supporting even more jobs and residents in the CBD than the City of Melbourne forecasts referenced in this report. The economic loss could be even greater in this regard.

6. THE APPROACH OF OTHER CITIES

Key Themes:

- Many major cities across the world are experiencing an intensification of competition for scarce land resources in their CBDs.
- The principle reason for the increased competition is the significant increase in city living over the past 30 years and the demand for housing.
- Each of the cities reviewed recognise the vital role that the CBDs play in the economy of the overall city and the broader region and the importance of facilitating ongoing economic growth in the CBDs.
- This recognition extends to an understanding that a key responsibility of the planning authorities is to protect existing employment accommodation and facilitate new development providing 'fit for purpose' office accommodation for the future.
- With the increasing scarcity of land in CBDs it is necessary to restrict the increasing competition from residential development.
- A suite of policy settings and development controls is required to ensure CBDs remain competitive.

6.1. INTRODUCTION

Melbourne's CBD is the centre of economic activity for the State and forms part of the global network of major cities. As Melbourne continues to rapidly grow it is helpful to have regard to the CBDs of other cities to understand what pressures they face as the world continues to urbanise.

Four cities have been chosen given their particular attributes and the potential lessons they hold for the future of Melbourne, being:

- **Toronto** – the city has many similarities to Melbourne with a traditional CBD (the Financial District/Bay Street Corridor) in a larger central area (Downtown Toronto - 17sq.km). The Toronto metropolis has a population of approx. 6.7 million and 460,000 people working and 200,000 living Downtown (compared to 460,000 and 134,000 respectively for the City of Melbourne - 31sq.km). The Toronto CBD is the principal focus for office and institutional employment focused on the Union Station.
- **Sydney** – the city is very comparable to Melbourne with each city concentrating its higher order jobs in CBDs. The City of Sydney accommodates approx. 500,000 jobs¹³ with nearly 240,000 being found in the traditional core (CBD) of the central city. Financial and professional business services are the two key employers.
- **New York** – the island of Manhattan is the centre of New York City (NYC) and has two foci for major employment and commercial activities being the Financial District in Lower Manhattan and the Midtown District centred on 42nd Street and areas north to 59th Street. NYC has a population of 8.53 million people in 2018. Manhattan has over 2.3 million jobs with 1.12 million of those jobs being office based.
- **London** – the metropolis has a population of 8.8 million people as at 2017 with the majority of commercial activities located in the Central Activities Zone (CAZ). The CAZ is home to approx. 1.7 million jobs and 230,000 residents. Key foci within the zone include the financial district of the City of London and Canary Wharf. Financial and business services account for approximately 750,000 of the jobs located in the CAZ.

New York and London are truly global cities and provide an insight into the issues that will possibly arise in the future for Melbourne as it grows to be a city of 8 million people by 2050. Toronto and Sydney share many similarities to Melbourne with a central commercial core surrounded by a large dispersed suburban area and provide a guide to some of the issues Melbourne will need to manage in the short-term future.

¹³ Australian Bureau of Statistics, *Census of Population and Housing 2011 and 2016*

A review of the planning strategies and associated background reports for each of these cities has revealed many common themes and issues facing the future development of their central business districts. These include:

- An increasing demand by businesses and people to locate and live in the existing central business areas of each city.
- A formal recognition by authorities in each of the cities of the importance of the central business district as a key contributor to the economic wellbeing of the metropolis, State and the nation.
- An increasing scarcity of land to accommodate new commercial and associated employment floorspace.
- Competition for development sites between the key land use of commercial and residential with residential often out-competing commercial activities. The form of this competition appears in several guises and not simply as a competition for scarce development sites.
- The impact of existing planning controls on the viability to redevelop or improve existing commercial buildings to ensure that modern 'fit for purpose' accommodation is provided for businesses today and into the future.
- The opportunity to create new flexible planning controls that encourage and facilitate commercial development (and redevelopment) whilst achieving improved access and city amenity.

6.2. NEW YORK

The borough of Manhattan is the centre of economic activity in New York City (NYC). Within Manhattan are two super concentrations of employment and productivity being the Financial District in Lower Manhattan and the Midtown District.

Figure 2 – Map of Manhattan with key business districts shown in dark shading



NYC experienced a significant decline in employment following the Great Recession (as the GFC is known in the USA) in 2008-2010. However, the city has experienced significant growth since then with employment now greater than 2007 (pre-GFC) levels. The growth in private jobs was concentrated in the office-based,

institutional and retail, leisure and hospitality sectors¹⁴. Manhattan alone gained 110,560 office-based jobs in the period of 2008-2017¹⁵.

The East Midtown District is one of the largest employment nodes in NYC and is a key location for Fortune 500 company headquarters, financial institutions together with legal and other professional business services. It is estimated that the district contained approx. 7 million sq.m of office space accommodating nearly 200,000 workers¹⁶ in 2013. By contrast the Melbourne Hoddle Grid had 3.6 million sq.m of office floor space in July 2017.

Notwithstanding the success of the East Midtown District it has become increasingly apparent that the district faces a number of long-term challenges including:

- Aging office building stock
- Impacts of current zoning regulations on the opportunity to develop new office stock
- Growing competition from residential development
- Improving the public realm and transit to support the district.

Two detailed reviews, undertaken in 2013 and 2015, examined the opportunity to enable further office development in the district and upgrade transit and the pedestrian network.

The quality of building stock is a focus for both reviews with the 2013 review¹⁷ stating:

The East Midtown rezoning area contains approximately 400 buildings, of which more than 300 were constructed prior to the 1961 zoning, with the average age being 73 years old. As a result, much of the East Midtown's office building stock has low floor-to-ceiling heights and numerous interior columns that increasingly fail to meet the needs of corporate tenants. Without new office buildings that meet modern standards, the area's competitiveness as a premier business district will be compromised.

Because these buildings are increasingly less competitive with the office building inventory in other global business centers, the less marketable office buildings may convert to other uses, especially to residential or hotel uses. ... The continued trend of office space conversion combined with the aging office building stock will erode the commercial core, and the city would fail to capitalize on the considerable concentration of regional rail infrastructure in East Midtown and ongoing expansion of the transit network.

Emphasis added

The 2015 review¹⁸ explains that the key competitive strengths of the East Midtown District is its *superb accessibility to the region and a distinguished history as one of the world's premier office districts*. The report further notes that notwithstanding these strengths *its competitive position is at risk: the district's prominence is beginning to suffer from age, as well as too few public amenities, pedestrian overcrowding, and overburdened transit facilities*.

The 2015 review¹⁹ also explains the competitive threats in more detail including the competition with residential conversions and development stating:

New construction has lagged in East Midtown. While 35 office buildings were built in the 1980s, only seven were built in the past ten years. There are compounding factors involved. Financing is generally only available once anchor tenants are identified. These tenants are risk-averse and operate on timetables that cannot be readily adapted to the uncertainties inherent in the Uniform Land Use Review Procedure (ULURP). Another factor is that prime tenants prefer large, unencumbered floorplates of at least 15,000 square feet and preferably 25,000 square feet. Sites that can accommodate these footprints are both expensive and hard to come by given the district's built-out character: East Midtown has an overall built Floor Area Ratio (FAR) of 14.3 with a prevailing base zoning density of 15 on the avenues and 12 FAR on mid-block side streets. Finally, it is more

¹⁴ NYC Department of City Planning, *The Geography of Jobs: NYC Metro Region Economic Snapshot*, July 2018, p. 9

¹⁵ *ibid.*

¹⁶ The figures vary depending on the boundary used to define the Midtown District a more recent figure estimates a supply of 9 million sq.m.

¹⁷ NYC Department of City Planning, *East Midtown Rezoning*, 2013, https://www1.nyc.gov/assets/planning/download/pdf/plans/east-midtown/east_midtown.pdf

¹⁸ *East Midtown Steering Committee Final Report*, October 2015, p. 22

¹⁹ *ibid.*, p. 22-23

difficult to build the high-prestige towers that corporate headquarters and other large anchor tenants prefer compared to opportunities in West Midtown and Hudson Yards, where the as-of-right FARs are significantly higher and/or available sites are larger.

Unless office development is further enabled and incentivized, it is highly likely that residential development will overtake office redevelopment in the district. Housing is easier to finance, feasible on much smaller building sites (10,000 square feet is perfectly adequate, compared to 15,000 square feet for offices), and commands higher land values as a result of the market boom in super-luxury towers. Twelve (12) residential buildings have been developed in the Study Area during the past fifteen years compared to 13 office buildings. While there are only two significant office buildings currently under development in East Midtown (One Vanderbilt Avenue and 425 Park Avenue), a number of residential projects have recently been announced, including an apartment tower on East 47th Street between Lexington and Third Avenues and a Norman Foster-designed residential building at 100 East 53rd Street.

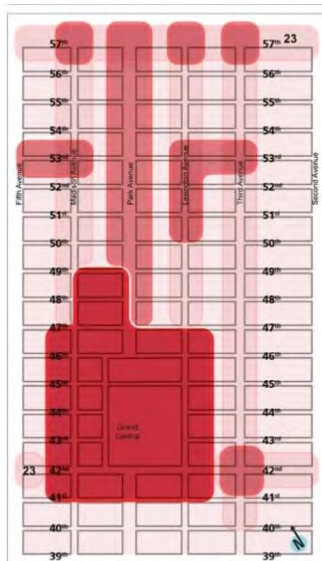
These are in addition to the super-tall luxury condominiums sprouting along both East and West 57th Street at the periphery of the district. Further, six million square feet of older, obsolescent office space and another eight million square feet of hotel space are readily convertible to housing. Even office building icons like the former Sony (former AT&T) Building on Madison Avenue are being entirely or partially converted to residential use where their floor layouts are appropriate and major leases are up.

The 2015 review resulted in the approval of new zoning and development controls for the East Midtown District. The controls have directly linked the improvement of the transit system; the public realm and the retention of Landmark (heritage) buildings with opportunities to increase the Potential Floor Area Ratio (FAR) of certain sites depending on their location. The controls have adopted a 'granular' approach to the future development of the district having recognised that the 'one size fits all' approach is no longer working.

The net result of these changes was an increase in allowable base FAR from 15:1 for offices up to a Potential maximum FAR of 30:1 subject to a number of criteria²⁰ (with specific FAR bonuses) including:

- Immediate proximity to a Subway Station
- Immediate proximity to Commuter Rail at Grand Central Terminal
- Frontage to one Avenue or Wide Street
- Frontage to Park Avenue (a double width street) or at the intersection of a Wide Street and an Avenue
- Adjacency to significant light and air created by a low rise Landmark
- A large site of 25,000+ ft² (approx. 2,500 sq.m) with full block frontage

Figure 3 – Locations potentially suitable for higher density in Midtown



²⁰ East Midtown Steering Committee Final Report, October 2015 – Density, p. 34-41

Having identified each site's Potential FAR based on the site and locational criteria the additional FAR above the base entitlement must then be 'earned'. The additional 'earned' FAR can include development rights transferred from Landmark buildings, but in most cases will include a significant payment to a special District Fund for improvements to transit and the public realm.

The importance of maintaining and growing the supply of office floorspace was reinforced by a series of constraints on new residential development²¹, including:

- New residential construction should continue to be limited to 12 FAR.
- The cap on residential use should also apply to conversions of existing buildings, except by Special Approval with findings that show why the residential space in excess of this limit cannot be developed for commercial use.
- No development rights transferred from designated Landmarks should be used for residential or to create predominantly residential developments.

In summary, the new controls have clearly preferred office development over residential development through the use of floor area controls and associated development bonuses. This has been done in recognition of the primary importance of the District to the NYC economy and its existing transit infrastructure that provides ready access to the region.

6.3. TORONTO

The City of Toronto is the cultural, entertainment and financial capital of Canada and a key economic and commercial hub in Northern America. Toronto's economic activity is primarily focused in the "Downtown" area, which whilst comprising 3% of Toronto's land area, generates 51% of city's GDP and accounts for 33% of Toronto's jobs.

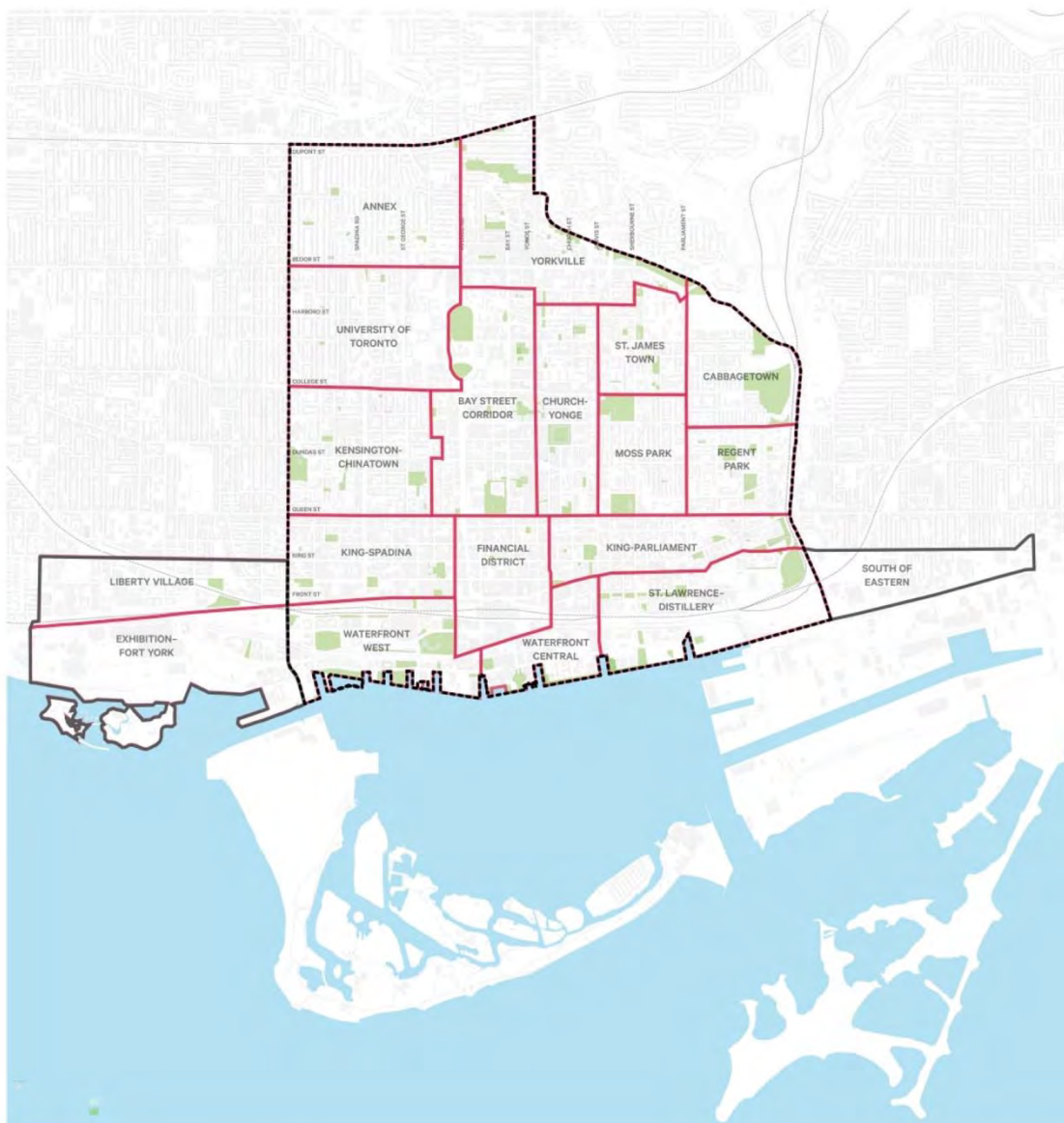
The Toronto Downtown area covers approximately 17 square kilometres and comprises a number of neighbourhoods. In effect the Downtown area is similar in many respects to the core parts of the City of Melbourne with a combination of Universities, major hospitals of world repute, former industrial areas that have become vibrant mixed-use precincts and historic residential neighbourhoods.

Figure 4 – View of Toronto Financial District (RH side of photo) from Lake Ontario



²¹ *East Midtown Steering Committee Final Report*, October 2015 - Land Use, p. 26-27

Figure 5 – Downtown Toronto



- Downtown Boundary
- Adjacent Areas Boundary
- Sub-Area Boundary

Source: Hemson Consulting Ltd.

The Downtown area as at 2014 was home to approximately 200,000 residents and 460,000 workers. By 2017 it is estimated that there were approx. 250,000 residents and 545,000 jobs²². In the 2016-2017 year employment in Downtown increased by 33,280 jobs with over 20,000 being in office employment²³

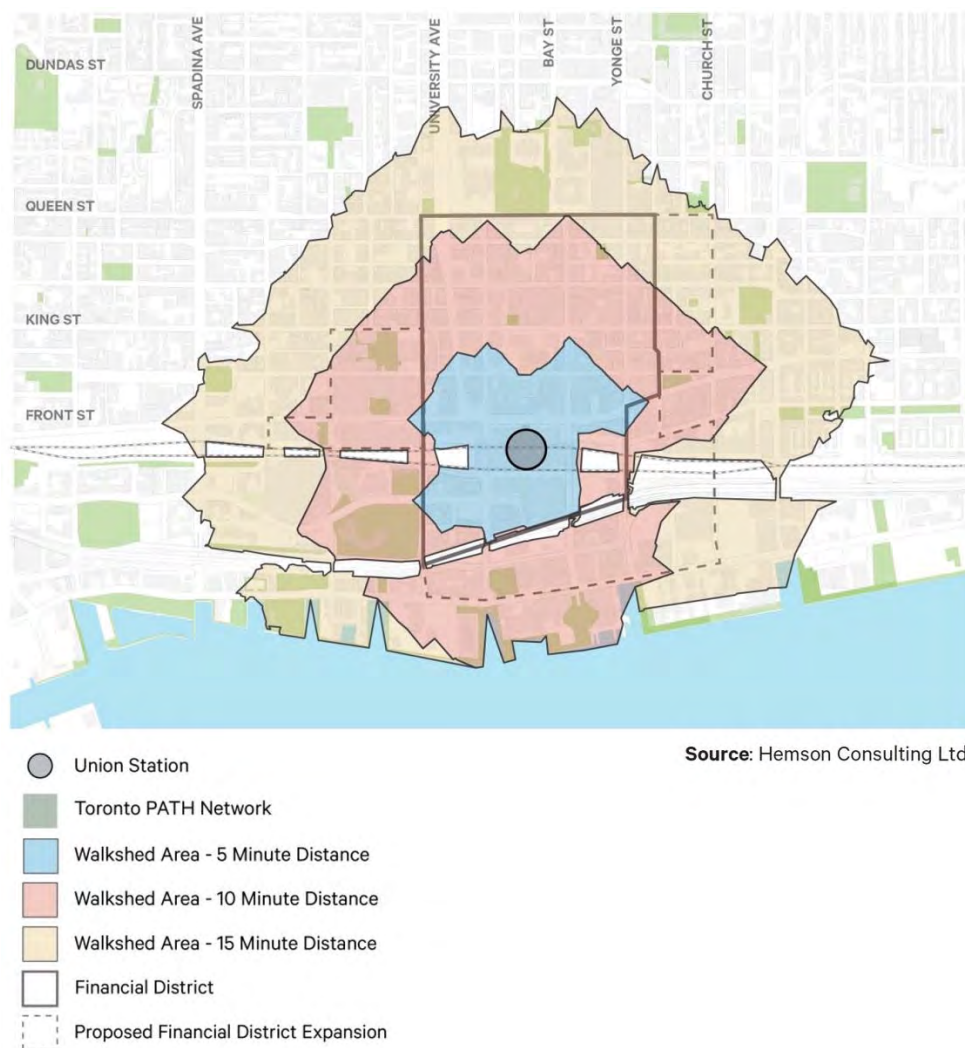
At the centre of Downtown is the Financial District and the Bay Street Corridor being the two largest employment areas within Downtown with approximately 215,000 jobs²⁴ in office and institutional employment (i.e. excluding retail etc.) at 2015. The Financial District is well served by Union Station, that is the principal transport hub in Toronto, and the associated rail, subway and bus services. This provides extraordinary accessibility to much of metropolitan Toronto in a similar manner to the train and tram network of metropolitan Melbourne serving the CBD.

²² Toronto City Planning, *Toronto Employment Survey 2017*, February 2018, p. 17

²³ *ibid.*, p. 16

²⁴ Hemson Consulting, *Planning Downtown: The Outlook for Office and Institutional Employment to 2041*, 2017, p. 20

Figure 6 – Toronto Financial District and accessibility to Union Station



Over the period of 2014-2018 the City of Toronto undertook an extensive review of the future strategy for the ongoing development of the Downtown area given the extensive growth that occurred in the period of 40 years through to 2014. One of the key studies was a review of the long-term growth prospects for employment growth in Toronto's Downtown titled *Planning Downtown: The Outlook for Office and Institutional Employment to 2041*. The report made a number of important findings being:

- Downtown Toronto is the economic hub of Canada's global urban growth with the Financial District and nearby areas representing the third-largest concentration of downtown commercial office space in North America, after New York and Chicago.
- Total employment in the Downtown area was significant between 1996 to 2016 with job growth marked increasing in the 2011-2016 period with the growth rate outstripping the remainder of Toronto.
- While in the period up to 2017 a number of large office buildings have been completed within Downtown, opportunities to expand the supply of office space are increasingly constrained as residential development competes for prime sites.
- The growth of Toronto generally and the Downtown area specifically by 2016 was occurring far faster than originally forecast with employment growth already exceeding the 2031 employment target and, on the way, to achieving the 2041 employment forecast figure in the next few years.
- Employment growth for the Downtown Area is forecast to grow by approximately 254,000 jobs between 2016 and 2041 requiring 2.9 million sq.m of office floorspace.

The report was particularly concerned at the impact of competition between residential demand and office development. In a series of comments in the Executive Summary²⁵ the authors highlight the issue and potential impacts, together with the benefits of growing the Downtown, as follows:

While the resurgence in business interests in key Downtown locations is a positive trend, it now risks being curtailed by a significant increase in residential development throughout Downtown. Residential development has taken up some signature sites in the vicinity of the Financial District, notably in The Kings, raising concerns that continued residential development will limit growth prospects for commercial office uses. Office and institutional development outside of the Financial District are increasingly competing with residential development interests. The economic health of the city could be compromised if residential development interests continue to outbid commercial development in the core of the city. It is critically important, therefore, to support the growth in commercial office space over the long term. This involves protecting land uses to accommodate job growth in the financial services and business services sectors, as well as preserving non-residential development space for the healthcare, post-secondary campuses and government sectors.

... Additionally, provincial and municipal transit plans are focused on bringing more workers into the core of the city in a more efficient manner.

The sheer size of the employment base in Downtown provides a benefit to the wider region as the high degree of transit accessibility broadens employment choices for the regional labour force. Furthermore, the clustering of specific employment sectors such as finance, business services, computer services, healthcare and creative sectors within Downtown can lead to agglomeration economies, where a high density of workers within these sectors in close proximity facilitates the exchange of new ideas, which then fosters innovation and economic growth. This creative synergy results in the development and enhancement of goods and services, providing benefits across the national economy.

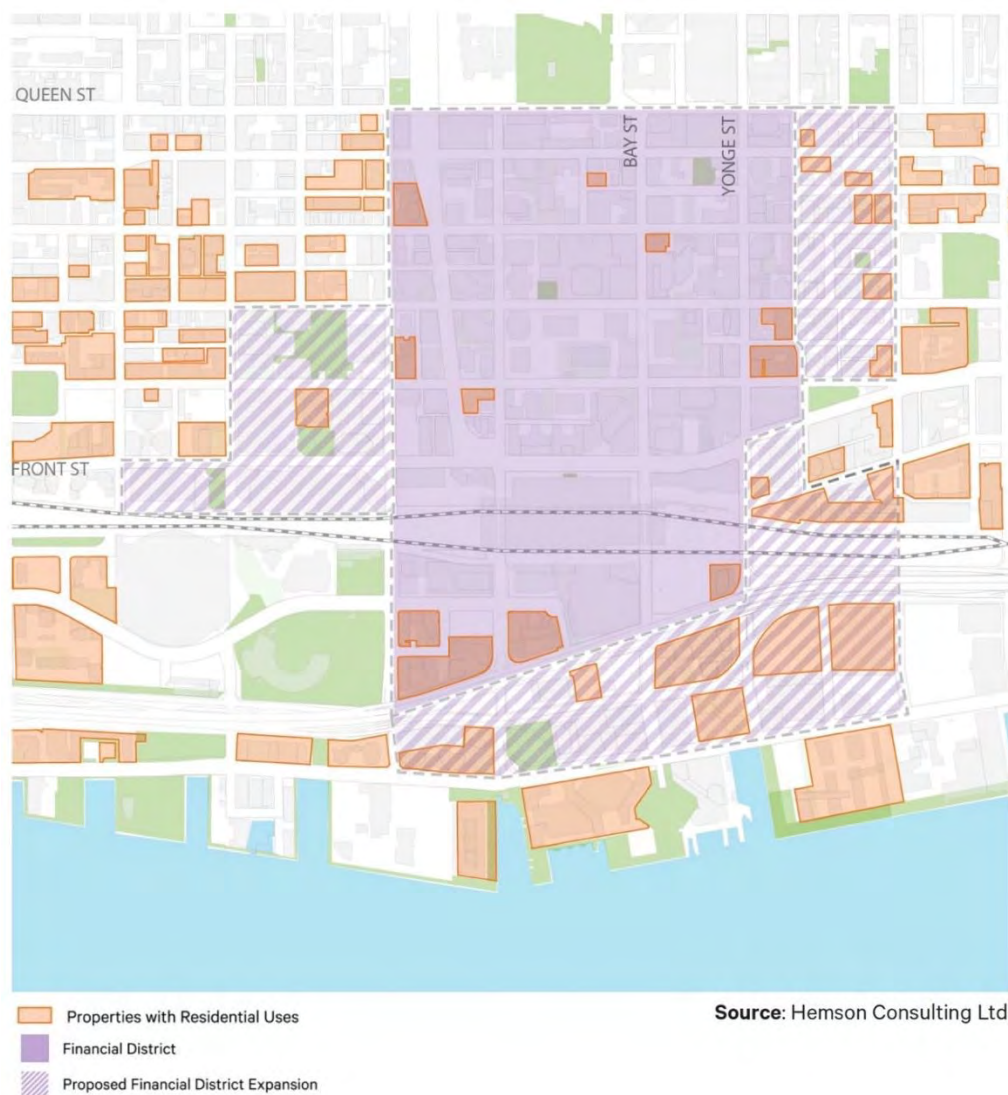
Thus it makes sense to encourage job growth in the Downtown core, now and for the foreseeable future.

Emphasis added

The map below shows the extent of residential development in and around the Financial District as at 2015.

²⁵ Hemson Consulting, *Planning Downtown: The Outlook for Office and Institutional Employment to 2041*, 2017, p. 2

Figure 7 – Expansion area for Financial District, Toronto showing existing residential sites



The report recommended a number of key changes to the future strategy and detailed planning controls to address these issues as follows:

- Expand the Financial District to provide greater development opportunities and restrict future development to non-residential activity supporting economic growth.
- Priority be given to the development of prestige commercial office buildings.
- Residential permissions be limited to those already approved or permitted as-of-right.
- All additional density approved above the existing as-of-right should be non-residential uses, which includes commercial office and hotels.

In July 2018 the City of Toronto adopted a new Downtown Plan that adopted these recommendations for an expanded Financial District in recognition of the high accessibility created by the existing public transport system. The new controls prioritise non-residential development within walking distance of Union Station, requires development to provide for a net gain of floor area for office uses and ensure that there is no net loss of other non-residential floor area.

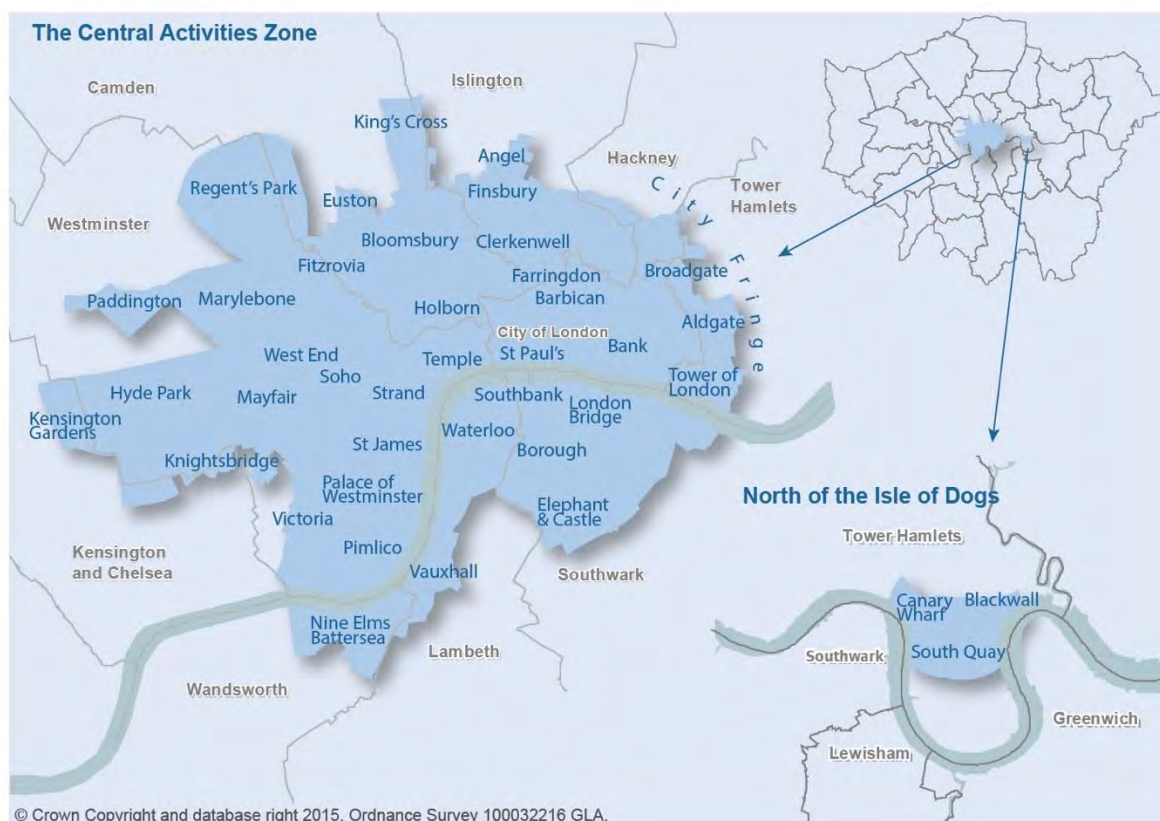
In summary, the City of Toronto has made a firm choice to support commercial, particularly office use, over residential development in the key employment precincts of the central city. Toronto, like other cities, has also found it necessary to expand the principal employment precinct (the Financial District) to accommodate the forecast demand over the next 25 years and beyond.

6.4. LONDON

London is one of the two Alpha ++ cities in the world²⁶ (along with New York City) and has a significant concentration of business and other uses within the centre of the metropolis. The metropolis has a population of 8.8 million people as at 2017 with the majority of commercial activities located in the Central Activities Zone (CAZ).

The CAZ is home²⁷ to approx. 1.7 million jobs and 240,000 residents. It accommodates (as at 2015) one third of London's jobs and accounts for nearly 55% of London's output and almost 10% of the UK's output. Key foci within the zone include the financial district of the City of London and Canary Wharf. Financial and business services account for approximately 750,000 of the jobs located in the CAZ. The CAZ covers an area of approx. 25 sq. km and hosts the full range of activities found in any major city ranging from business to government, cultural, retail, institutional, residential and other activities.

Figure 8 – London's Central Activities Zone



The Central Activities Zone Supplementary Planning Guidance (CAZSPG) report²⁸ of 2016 summarises the importance of the CAZ as follows:

The CAZ is an internationally and nationally significant office location, complemented by the north of the Isle of Dogs and Tech City. The density, scale and mix of business functions and activities in the CAZ is unique. This agglomeration results in exceptional levels of productivity which cannot be replicated elsewhere in the UK and provides national level benefits. It requires different or tailored approaches to the application of national policy to address its distinct circumstances and is reflected in the current exemption to offices to residential permitted development rights ...

The CAZSPG report²⁹ forecasts that demand for employment floorspace will significantly increase over the period 2011 - 2031 with at least 177,000 additional office jobs requiring 2.3 million sq.m (net) office

²⁶ Global and World City Research Network (GaWC), *Classification of Cities 2016*, last updated 24 April 2017, <http://www.lboro.ac.uk/gawc/world2016t.html>

²⁷ Mayor of London, *Central Activities Zone Supplementary Planning Guidance*, March 2016, p. iii

²⁸ *ibid.*, p. 8

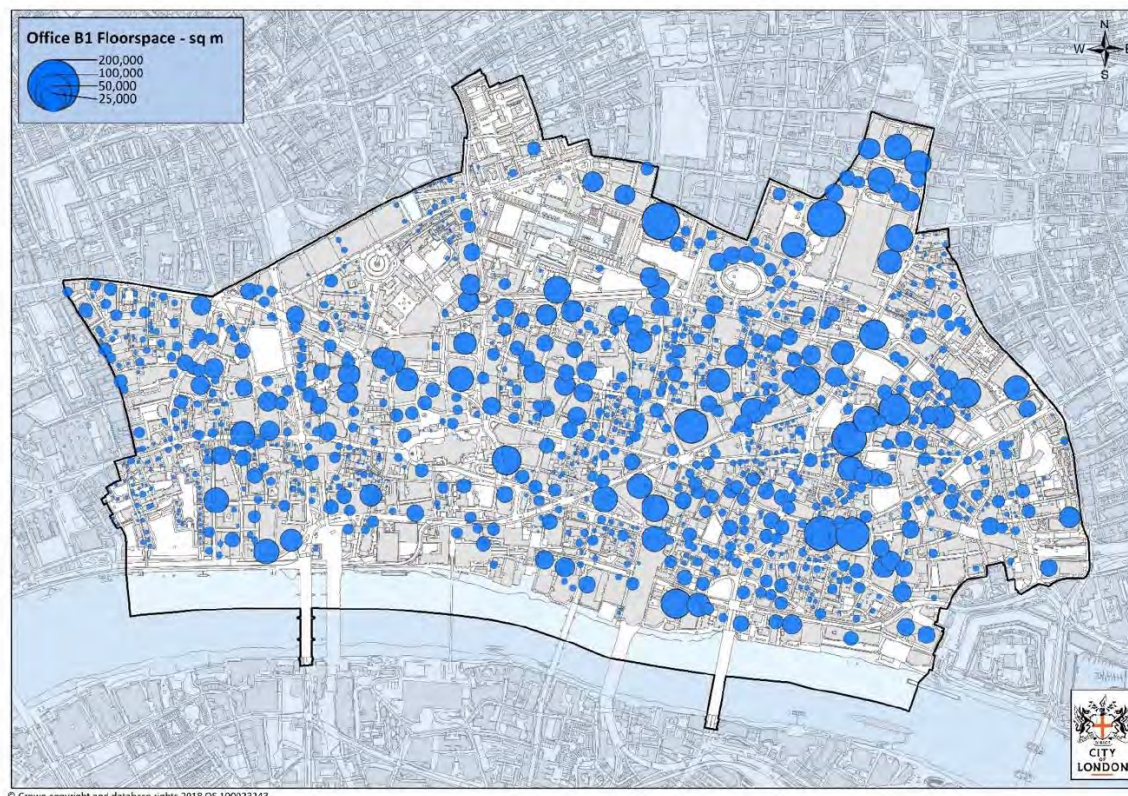
²⁹ *ibid.* p. 9

floorspace. More recent forecasts expect even higher demand (albeit tempered by uncertainty associated with Brexit).

The Commercial Heart of London

The City of London is the heart of the CAZ and is home to the highest concentrations of office accommodation in the entire London metropolis.

Figure 9 – Offices in the City of London



Map 1: B1 Office Floorspace Distribution in the City of London, as at 31st March 2018

The current City of London Local Plan³⁰ summarises the role and importance of the city as follows:

The City of London is unique. Although little more than one square mile in size, it is densely developed and is the world's leading international financial, business and maritime centre. It is a leading driver of the London and national economies, contributing 14% of London's GDP and an estimated 3.1% of the UK's GDP. It provides employment for over 370,000 people who mostly use public transport to commute to work from across London and the surrounding regions. Offices make up over 70% of all buildings and many of them are occupied by financial and business services.

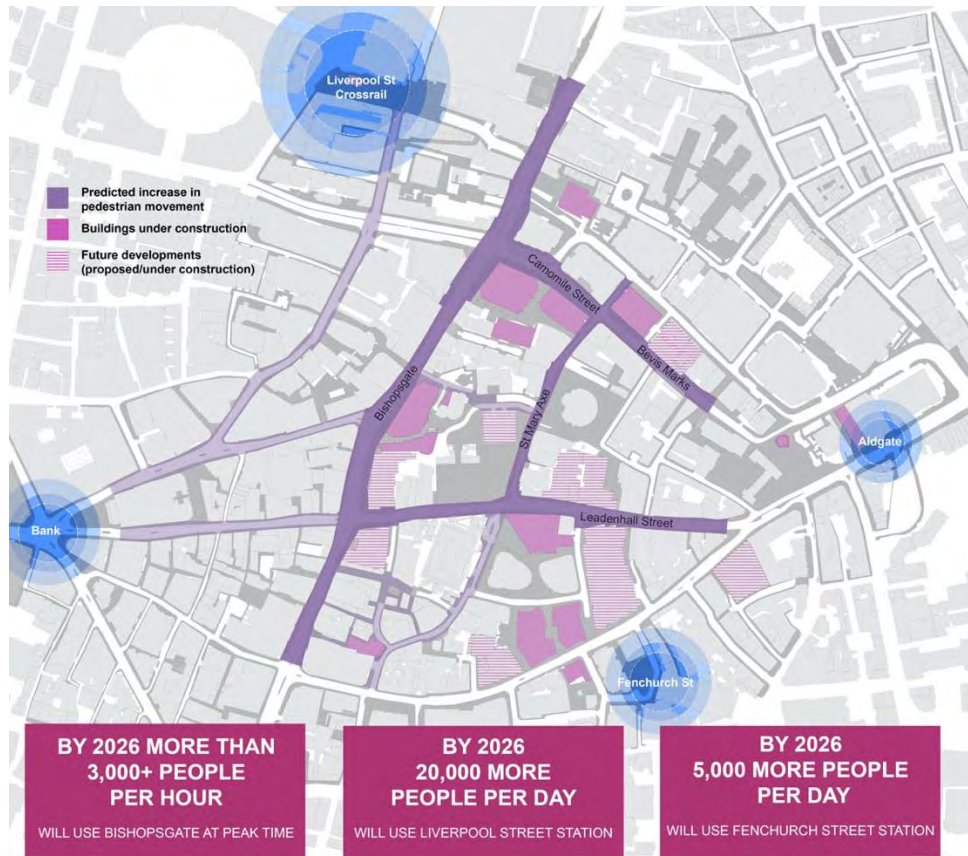
The City of London is expected to experience continuing high growth with a forecast that employment will grow to 428,000 by 2026. The City recognises this challenge of growth and the need to provide a *good supply of high quality, modern and sustainable office accommodation ... to meet the needs of the City's commercial occupiers*³¹. This is not a new challenge as the city has grown significantly since the 1980s. The growth in an area with a finite land supply required a change of development policy.

In the early 2000s the planning controls for parts of the City of London were modified to allow a significant number of taller buildings based on a review of where development could occur whilst respecting the key views and vistas into and across the city. One of the first new tall buildings was 30 St Mary Axe (commonly known as The Gherkin). Since that time the 'Eastern Cluster' has become home to a significant number of tall buildings of varying architectural styles. This growth is expected to continue through to the mid-2020s in response to improved accessibility afforded by the recently completed Crossrail project. Currently there are a further 13 projects under construction with more to follow as shown in the plan below.

³⁰ Department of the Built Environment, City of London Corporation, *City of London Local Plan*, January 2015, p. 15

³¹ *ibid.*, p. 19

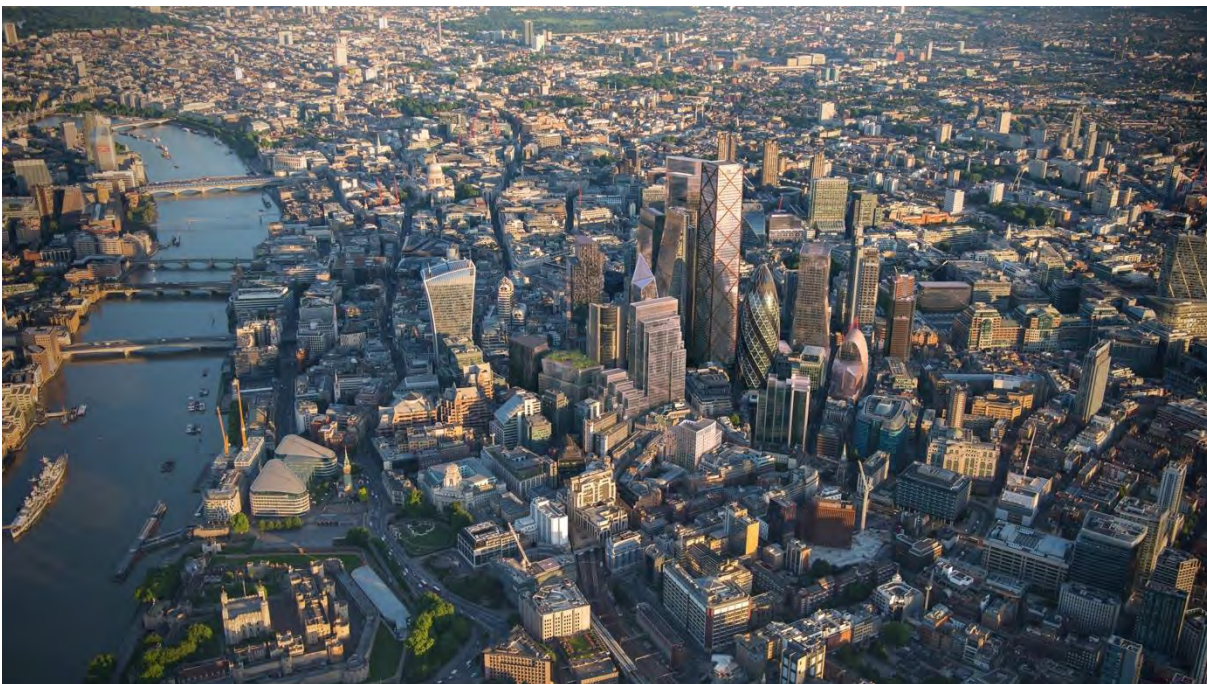
Figure 10 – Plan of the Eastern Cluster in the City of London showing new projects and forecast increase in pedestrian movements



Source: City of London

The resultant intensity of offices will represent a dramatic change from London at the end of the 20th century, demonstrating that central cities can change to accommodate economic growth. Renderings commissioned by the City of London show the level of intensification expected to occur by the early 2020s.

Figure 11 – Views of the Eastern Cluster City of London



Source: City of London

The Local Plan for the City of London provides a proactive approach to the facilitating the expansion of offices and other employment uses within the key office precincts of the City. This is achieved through:

- The adoption of floorspace development targets to facilitate the ongoing growth of employment. This includes the maintenance of a pipeline³² of at least 750,000m² gross office floorspace with planning permission but not yet commenced will be maintained to provide office occupier choice.
- Encouraging the assembly and development of large sites and protecting potential large office sites from piecemeal development.

³² Department of the Built Environment, City of London Corporation, *City of London Local Plan*, January 2015, Core Strategic Policy CS1: Offices, p. 33

- Protecting existing office accommodation where there are strong economic reasons why the loss of offices would be inappropriate.
- Managing short-term over supply in the office market through a flexible approach to alternative temporary uses for vacant offices and sites, where such uses would not prejudice the eventual return of the site to office use.

These policies are in turn supported by detailed plans that analyse and determine the best locations for intensification having regard to heritage matters, access to transport (including leveraging places of high accessibility) and specific detailed policies protecting current office floorspace.

Competition between office and residential uses

In May 2013 the central government introduced office to residential permitted development rights (PDR) as part of an effort to increase housing supply. Exemptions were granted for certain key office precincts within central London. In 2015 the PDR was made a permanent ruling with the various exemptions slated to expire in May 2019. Concern has been expressed that the PDR could reduce the supply of offices.

It is noted that in areas that did not obtain protection there was a significant number of conversions given the differential in returns between office and residential (as seen in Australia's major cities). For example, the City of Westminster (which is partly within the CAZ) lost approx. 325,000 sq.m of office accommodation to residential conversions or redevelopments over a 6 year period equating to a loss of 22,500 jobs.

The CAZSPG³³ also notes the influence of competition with new residential development commenting:

The supply of sufficient office floorspace, in terms of type, size and cost within the CAZ (and in functionally related parts of the north of the Isle of Dogs and Tech City) to meet growing demand are central to London's economic success. It is essential that the office and business space offer in these areas is not eroded. However, within these areas, differentials in office and residential values have led to concern over the loss of office space to housing even though they are currently exempt from PDR.

Emphasis added

In light of these trends the CAZSPG made a series of recommendations to ensure that the agglomerations of offices and other CAZ strategic functions are not compromised by new residential development. These measures include:

- Providing greater weight to the promotion and enhancement of the strategic functions of the CAZ in Local Plans and in the determination of planning applications.
- Setting out detailed office policies for the CAZ and the appropriate balance between CAZ strategic functions (including offices) and residential in mixed use areas and in identifying locations or sites where residential development is appropriate.
- Ensuring particular regard is given to the individual and cumulative impact of new residential development and whether it could compromise the use and assembly of larger sites for business use owing to the long term tenure generally associated with residential ownership.
- Having regard to residential uses that can also impact on neighbouring development sites and uses through the acquisition of residents' amenity rights, such as daylight, sunlight, overshadowing, overlooking and rights to peaceful enjoyment.

In summary, the increasing competition for space between residential and office has led to the creation of new policy settings that favour the establishment of employment floorspace over residential in the CAZ. The City of London's local policies go even further to provide office accommodation development targets, actively promote office development and protect future development sites from alternative uses or development.

³³ Mayor of London, *Central Activities Zone Supplementary Planning Guidance*, March 2016, p. 10

6.5. SYDNEY

The Sydney CBD (referred to as Central Sydney Traditional Core in many planning strategies) is the largest concentration of employment in metropolitan Sydney with 320,800 jobs in 2016. A further 40,000 jobs are located in the immediately surrounding area that together with the CBD make the Greater Central Sydney area.

Figure 12 – View of the Sydney CBD



The economic contribution of central Sydney is significant with the draft *Central Sydney Planning Strategy*³⁴ 2016-2036 (**draft Strategy**) highlighting:

Central Sydney is home to Australia's workers of highest value. This means that, at \$104 per hour per worker, Central Sydney has a higher worker productivity than any other Australian centre of employment. This productivity is reflected in the large contribution of Central Sydney and its jobs to the national and state economies: employment in the City of Sydney contributes to over 7 per cent of Australia's GDP and 25 per cent of NSW's GDP.

This means that jobs matter – and contribute to the maintenance and growth, as well as the global competitiveness, of metropolitan Sydney. Continuing to attract workers to Central Sydney has benefits that flow onto the nation and state. With a total workforce population of 300,000 people, Central Sydney houses 20 per cent of metropolitan Sydney's workforce. And at over 80,000 jobs per square kilometre, Central Sydney represents one of the highest density CBDs in the world.

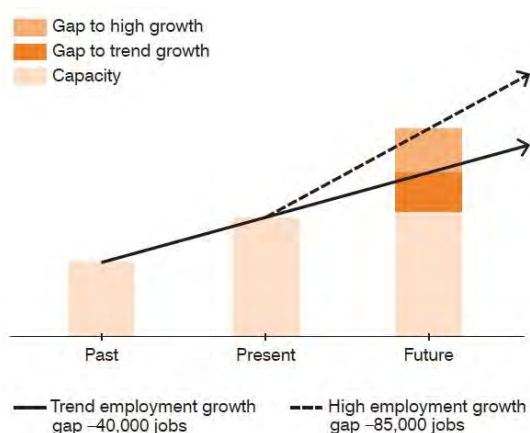
The recent review of its central city planning strategy for Sydney has arisen due to Sydney's continuing success that has now clearly identified a growing number of challenges. The draft new strategy identifies several challenges, including:

- The city's development potential is constrained by natural features, the harbour, existing parks, airport flight path restrictions. That is, land in Central Sydney available for development is finite and becoming increasingly scarce.
- Given Central Sydney's role as a critical economic focal point it is necessary to plan for the provision of space to accommodate longer term economic and employment growth.
- The scale of future development is also constrained by existing infrastructure capacity, particularly transport.
- Since the early 1990s central Sydney has seen a significant increase in the number of residents living within the central Sydney area from only 6,500 residents in 1996 to over 27,000 by 2016. The demand for new residential accommodation is consuming an increasing proportion of available land in Central Sydney.

³⁴ City of Sydney, *Central Sydney Planning Strategy 2016-2036*, draft released for comment on July 2016, p. 85

The physical constraints of the city together with development controls serve to create a maximum development potential. Whereas it is forecast that demand for employment in Central Sydney could increase between 89,000 to 133,000 jobs by 2036. This demand will require between 1.8 - 2.7 million sq.m of additional floorspace.

Figure 13 – Potential Future Job Gap Sydney CBD



Source: Central Sydney Planning Strategy 2016-2036

The draft Strategy estimates³⁵ that in 2012 Central Sydney had only 745,000 sq.m of total available floor space capacity under the existing controls. It also calculated that the 'business as usual' development trend (where residential consumed 52% of available floor space) would result in between 40,000 to 85,000 of the forecast jobs not being provided. It has become very apparent that Central Sydney faces two challenges being:

- A lack of additional developable floor space; and
- Increased competition for development land between residential and employment uses.

Sydney, like Melbourne, has preferred to allow for the widest range of uses within the central area and has not sought to limit residential uses. However, a significant impact of this approach has been the consumption of scarce land and its effective removal from the long-term land supply due to the restrictions created by strata ownership (many individual owners of a single building). The

The draft Strategy notes the benefits and impacts of residential expansion in Central Sydney and observes³⁶ that:

The best cities are mixed-use cities. With the introduction of policies to encourage more residential development, the last 20 years has seen a substantial increase in the number of people living in the centre. This has resulted in a vibrant, lively and productive centre, one that is increasingly attractive for residents, business and visitors alike.

However, this strong demand for residential development has resulted in the displacement of existing employment space and future opportunities for new employment space. This situation represents a direct risk to the Australian economy and must be rebalanced to retain metropolitan Sydney's international competitiveness.

Emphasis added

³⁵ City of Sydney, Central Sydney Planning Strategy 2016-2036, draft released for comment on July 2016, p. 188

³⁶ ibid., p. 35

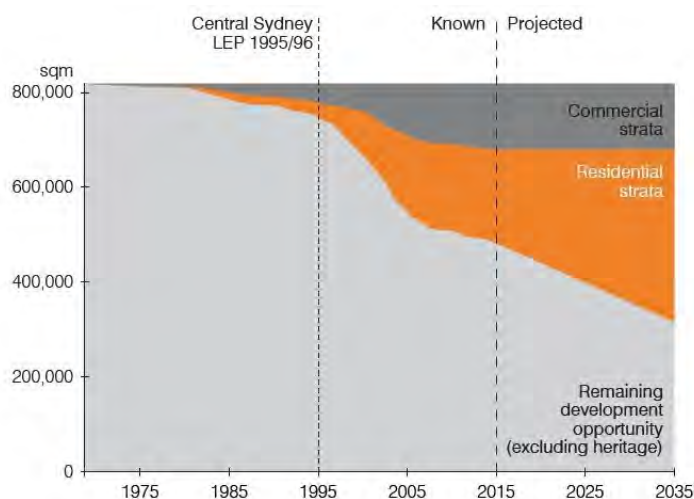
The draft Strategy details the potential impact as follows:

Over the last four years, 52 per cent of new floor space developed in Central Sydney was residential. Without intervention to stabilise employment losses and increase the amount of employment floor space, jobs growth will be constrained. Based on a business-as-usual scenario to 2036, between 45 and 64 per cent of the projected jobs growth of up to 85,000 jobs will not be able to find the space to be located in Central Sydney.

For metropolitan Sydney to retain its global city status, and Central Sydney its primacy as Australia's commercial core, space must be secured for jobs growth.

Emphasis added

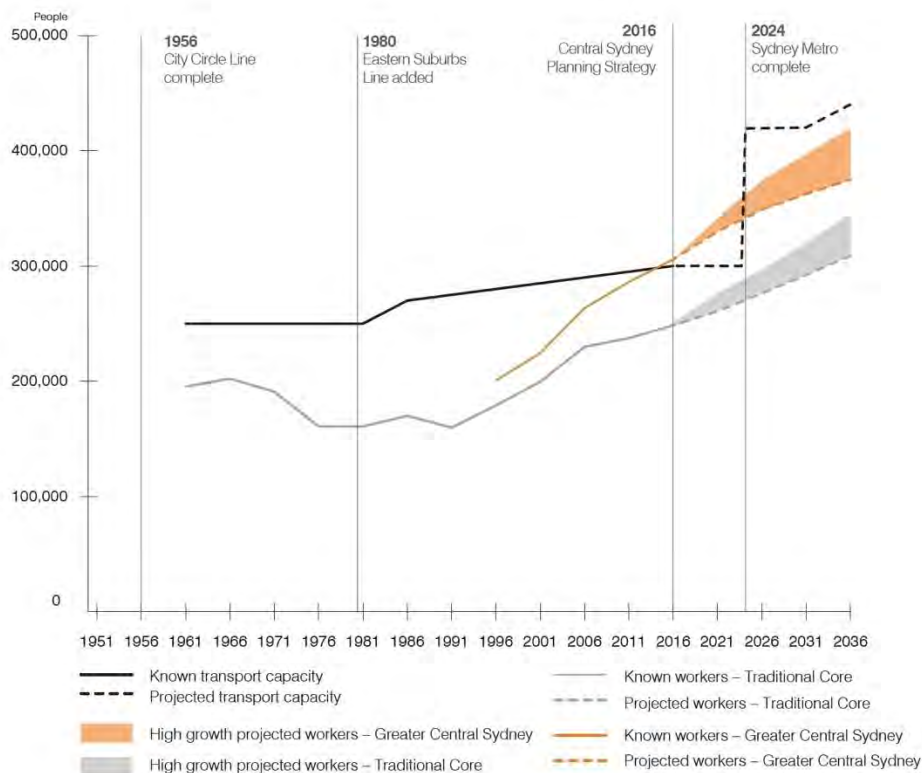
Figure 14 – Forecast Impact of Residential Strata development on Available Development Potential



Source: Central Sydney Planning Strategy 2016-2036

Another major driver influencing the future of Central Sydney and the expected growth in employment is the significant investment in new and upgraded transport infrastructure serving the city. Key transport initiatives including the Sydney Metro (Norwest, City and Southwest) will add significant capacity to the city - see Figure 15.

Figure 15 – Forecast Workforce Population and Transport Capacity



Source: Central Sydney Planning Strategy 2016-2036

It is very apparent that without changes to the development capacity of Central Sydney the passenger capacity generated by the new infrastructure would be significantly underutilised.

In summary the draft Strategy clearly shows the extent and immediacy of the problems confronting Sydney. It also highlights³⁷ the potential impacts of not accommodating the forecast growth stating:

For metropolitan Sydney to retain its global city status, and Central Sydney its primacy as Australia's commercial core, it is critical that economic and employment growth opportunities are protected. It is clear from the gap analysis above that a business-as-usual approach cannot achieve this objective. Without intervention, there will be a shortage in the supply of employment floor space.

Going forward, the planning strategy for Central Sydney must be rebalanced with a long-term focus on economic and employment growth.

Emphasis added

Given the already small amount of available floorspace to accommodate future growth the draft Strategy calls for several initiatives to both increase the available supply and provide a clear preference for employment uses including:

- Prioritise employment growth and increase employment capacity by implementing genuine mixed-use controls and lifting height limits along the Western Edge of the city.
- Limit residential and serviced apartment floor space in large developments to a maximum of 50%.
- Provide for site-specific development consideration that enables development to better respond to their context.
- Provide for employment growth in new tower clusters enabling increases in both heights and densities above current maximum limits.

³⁷ City of Sydney, Central Sydney Planning Strategy 2016-2036, draft released for comment on July 2016, p. 189

The sum total of these recommended changes provides an estimated³⁸ 2.1 million sq.m of floorspace for employment purposes over a 15 year period but cannot undo the established development trends of the last 20 plus years.

It is interesting to compare the approach that Sydney proposes to adopt regarding land-uses. A mixed use approach is preferred where most uses, including residential, can be incorporated into a development, with limitations on the proportion of floor space (50%) that can be used for that purpose. Whereas other cities prefer to strongly control residential use in the key employment areas.

It is understood that the idea of mixed use buildings is not popular with some sectors of the development industry and that there may be changes to the proposed new controls.

6.6. SUMMARY

The central area of each of the cities continues to attract new jobs and businesses at rates higher than the surrounding region. These businesses are seeking to take advantage of the high accessibility provided by the well-established public transport systems supporting the central location and the benefits of co-location that leads to agglomeration benefits.

The above analysis reveals that all four of the cities within this review have arrived at a 'tipping point' where competition for increasingly scarce land is placing ongoing economic growth in the central business districts at risk.

The issue of competition from residential conversions and new development is a theme that is repeated in all of the comparable cities and highlights the policy tension between creating a vibrant 24/7 city with a sustainable residential population and managing the increasingly scarce land resource in highly accessible locations. Whilst the circumstances in each city are different the principal issues are nearly identical.

Increasing demand for residential accommodation in the CBDs is successfully out-competing office development for sites and gradually reducing the amount of land available for future redevelopment (given the multiple tenure arrangements of residential towers).

All four cities recognise the significant risks associated with this trend and have recently changed their planning controls to definitively favour office development and its associated employment over other land uses.

However, the key to charting a successful future is much more than simply changing controls in favour of employment uses. The experiences and practices of other cities also demonstrate the need for 'joined up thinking' that considers the economic positioning of the city, improvements to the public realm and transport as well as the detailed development controls. Successful cities actively plan for the future rather than simply regulating the day to day development activity.

The key learnings for Melbourne emerging from this review are:

1. There is strong recognition and support for the economic role of the central cities and the positive impact they have on the broader metropolis and region as an economic engine and creator of good quality jobs.
2. This recognition extends to an understanding that a vital role of the planning authorities is to protect existing employment accommodation and facilitate new development providing 'fit for purpose' office accommodation for the future.
3. Each of the cities has a comprehensive understanding of the likely growth of the CBD and future demand for floorspace. This is in the form of either an economic strategy for the city (Toronto) or detailed policies supported by regular market reviews (London and New York). The planning policies and development controls start from the understanding of the economic role of the CBDs and are aligned to facilitate the anticipated demand (Sydney).
4. There is a strong recognition that to ensure office development remains the principal use in the CBDs and future accommodation is fit for purpose new office development must be facilitated.

³⁸ City of Sydney, *Central Sydney Planning Strategy 2016-2036*, draft released for comment on July 2016, p. 218

5. With the increasing scarcity of land in CBDs it is necessary to restrict the increasing competition from residential development. This can range from effectively prohibition of residential uses to the provision of floorspace bonuses etc. in favour of office development.
6. The development of a site or precinct specific approach to understanding development potential and the preferred location for more intense development including the creation of clusters resulting in development controls that:
 - a. Define where more intensive development should and can be located having regard to accessibility, locational and site attributes - that is the permitted intensification is focused where the CBD can accommodate additional density (all cities).
 - b. Linking the location of more intensive development with accessibility to the public transport system (all cities).
 - c. Creating a whole of precinct approach to the improvements to the public realm rather than a site by site approach as currently found in Melbourne (all cities).

7. SUMMARY AND RECOMMENDATIONS

7.1. SUMMARY

The CBD of Melbourne has grown over a period of nearly 180 years and has successfully adapted and expanded as required to meet the ongoing growth of the metropolis and accommodate major economic booms, new trends in employment and city living. There have been times when the future of the CBD was uncertain with the flight of retailing to the suburbs, limitations on public transport accessibility and the preference for suburban living.

Over the past 30 years Melbourne's CBD has experienced a major renaissance with the influx of residents creating a 24/7 city supported by a wide range of service facilities, new shopping, great bars and restaurants and a 'laneway culture' that is the envy of many cities.

The CBD has also benefitting from a changing economy where service jobs now predominate. High productivity knowledge jobs generally prefer to locate in highly accessible locations and Melbourne's CBD is capturing an increasing share of these jobs due to its central location and established agglomeration economic advantages. It is expected that Melbourne's CBD, like other major cities, will continue to grow its employment base over the next 20 years and beyond.

The ongoing role of the CBD as the economic centre of the State has been well supported by government through major improvements in transport over the years with the City Loop project in the 1970s and more recently the commencement of the Melbourne Metro project.

However, the days of 'easy' growth in the CBD are coming to an end as competition for the finite land supply in the CBD between residential and commercial uses intensifies. For the many reasons set out in this report government needs to ensure that there is sufficient land and development opportunities to accommodate the anticipated growth in jobs, particularly office jobs, over the next 20 plus years.

Unfortunately, the current approach to the management of development in the city is one that is focussed on only one half of the story. Today's development regulations, led by the recent changes under Amendment C270, have no understanding or recognition of the fundamental economic requirements of the CBD and have effectively closed down the development pipeline for further office development. Since the introduction of the new planning controls in November 2016 there have been only two approvals for office development. Many previously constructed or approved buildings that add to the fabric of Melbourne could not be built under current controls.

The single biggest constraint imposed by Amendment C270 is the lack of flexibility in the decision-making process. If this regime is continued in combination with the current land use controls for the CBD it is likely that:

- The number of new commercial projects will be significantly constrained over future years due to a lack of available development sites capable of accommodating an 'A Grade' office building - particularly for floorplates greater than 1,500sq.m.
- The supply of land in the CBD for redevelopment will decline as residential development continues to consume smaller sites and effectively 'lock' the sites from further development due to their strata ownership.
- The number of high value jobs capable of being accommodated will be reduced.
- Rents for office accommodation in the CBD will significantly increase.
- The expected benefits to be gained from expanding the transport network to support the CBD and its workers may not be fully realised.
- The annual economic output of the State could be reduced by as much as \$7 billion in 2051, a level that would grow annually beyond that time should job numbers be constrained.

In summary, the current policy, land use and development control settings collectively, will prevent the CBD from fulfilling its economic future role to the long-term detriment of the metropolis and the State and have the unintended consequence of preventing well-designed buildings from adding to Melbourne's landscape.

7.2. KEY RECOMMENDATIONS

7.2.1. Recommendation 1 - Immediately introduce interim CBD planning controls to increase flexibility and support employment growth

The development of the CBD over the short term cannot be allowed to stall whilst the comprehensive review is underway. It is recommended that the current controls be modified to:

- Introduce flexibility into the current development controls but still ensure a high quality built environment. This could take the form of providing discretion for the setback/height controls subject to agreed criteria including:
 - being only available for office development
 - demonstrating achievement of reasonable daylight access to the surrounding location
 - other improvements to the public realm
- Introduce restrictions on the replacement (including conversion) of office buildings for residential uses.

These modifications to the current controls should be introduced as soon as possible.

7.2.2. Recommendation 2 - Prepare an Economic Strategy for the CBD to ensure that it remains a key economic hub

Melbourne is not alone in confronting the issue of scarcity of land within established CBDs. Other major cities around the world have already encountered the intensifying competition between residential and commercial land uses. In each of the cities we reviewed it was recognised that the economic function of the city was paramount over other competing land uses and a suite of governance and development policies and controls was required to effectively manage the ongoing growth of the CBD.

Melbourne's approach to guiding the future of the CBD is behind the global trends and must be improved if the city is to optimise its economic future.

This is not a binary choice of economic growth over a high quality urban environment within the CBD. Rather it is one where there is a comprehensive and detailed understanding of the future needs of the city that in turn informs a 'fine-grain' approach to guiding future development to facilitate development in the right locations at the right times. Each of the cities reviewed in this report have adopted this approach - albeit with different forms of controls.

Melbourne by contrast has a broad strategy for the metropolis that forecasts significant growth in jobs and population. However, there is no direct plan as to how that growth will be accommodated in the CBD – the heart of the metropolis.

Rather, most of the CBD is provided with exactly the same controls (regardless of accessibility to rail stations or having frontage to a major or little street or use etc.). Each application for development is assessed for compliance with a planning control (DDO 10 of Amendment C270) drafted in the absence of an economic strategy or any understanding of how Melbourne will accommodate its forecast growth.

By comparison the City of London has a detailed understanding of how much new office space is likely to be required over a period of 15 years. Most importantly the City does not try to 'second-guess' the market and limit approvals to match anticipated demand. It maintains a 'buffer' of development approvals (750,000 sq.m) to ensure that the market can quickly respond to change.

The Economic Strategy for Melbourne's CBD should:

- Identify the likely growth in employment over a 30-year period and the associated demand for floorspace across the CBD.
- Identify the precincts that are principally used and developed for office and associated employment and the preferred locations for new development based on accessibility and other criteria.
- Be regularly reviewed against on ground development and economic and other trends.

In addition to reviewing planning policies and controls to support employment growth and particularly new commercial development it will be necessary to increase the amount of development land within the CBD given that many sites will not be able to be redeveloped (due to their size or location). Melbourne has already expanded the CBD - first to Southbank and then to Docklands.

The days of ready access to under-developed land are long gone, however there are a few locations where the CBD could be broadened or intensified including:

- Development over the Spencer Street rail yards to fully link the Hoddle Grid with Docklands (Melbourne's version of Hudson Yards).
- Development of the Spring Street South precinct and possibly the Flinders Street rail yards.
- Extension of CBD scale development intensity north along Spencer Street corridor to join with the Arden Renewal precinct.
- Encouraging the redevelopment of the commercial part of Docklands with a view to introducing an intensity similar to that found in the Hoddle Grid.

7.2.3. Recommendation 3 - Conduct a comprehensive review of current CBD planning controls to support the Economic Strategy

It is necessary to undertake a comprehensive review of the planning policies and development controls that will implement the future development of the CBD. It is anticipated that the review will require a fundamental re-assessment of the current suite of controls. Some components of the current controls may remain or be adapted into the new controls.

However, the final controls will need to be capable of delivering the agreed floorspace targets for the CBD whilst ensuring maintenance of Melbourne's character and amenity. Such measures could include:

- The creation of a transferable development rights system to enable the utilisation of Floor Area Ratio entitlements for sites that cannot be further developed (e.g. heritage buildings).
- The identification of critical commercial precincts within the CBD/Docklands area that prioritise office and other employment development.
- A fine-grained assessment of the opportunities in the CBD/Docklands area to accommodate increased commercial intensity having regard matters such as accessibility to train stations and other public transport, potential overshadowing impacts, size of sites, frontage to major streets etc.
- The creation of incentives to encourage site amalgamation to support additional fit for purpose commercial and other employment accommodation. This could include FAR bonuses.
- A review of the development controls, in particular the mandatory nature of setback controls that do not have proper regard to contextual circumstances.
- Creation of a public realm improvement plan (e.g. footpath widenings, additional through block links, new open space etc.) in conjunction with the anticipated intensification of the CBD.

7.2.4. Recommendation 4 - Improve the efficiency and certainty of the current CBD planning approval processes

The current approval process for major central city developments involving both the Minister for Planning (via DELWP) and the City of Melbourne has become excessively slow and uncertain (notwithstanding the mandatory nature of many controls). The current joint approval process requires a thorough review to:

- Establish fixed timeframes for key assessment tasks including referrals and responses from other authorities.
- Modify the State Government/ agreement between the Minister for Planning and the City of Melbourne to require the City to respond on applications within a 28-day timeframe consistent with any other statutory referral authority.
- Provide enhanced resourcing within both DELWP and MCC planning departments. It is apparent that current resources are stretched and further support is required.

7.2.5. Recommendation 5 - Promote and enhance transport infrastructure in line with anticipated CBD employment growth

The CBD will also need to continue to be provided with improved levels of accessibility as it continues to grow. The proposed link to Melbourne Airport will further consolidate the economic role of the CBD and provide enhanced access to the CBD for western Melbourne in turn growing the pool of potential employees for CBD based employers.

The Metro 2 Rail link will also improve accessibility to the CBD, its jobs and other facilities for the growing south-west part of the metropolis. As cities from New York, London, Sydney and Toronto have found the demand for public transport is accelerating as the economy continues to change and knowledge jobs seek central locations. Melbourne too must continue to invest.

The CBD accessibility improvements will not only focus on public transport but should include improved active transport links such as new off-street bike paths and additional capacity for existing pathways. Employers recognise that a growing proportion of their employees are preferring to access their workplace via bicycle or on foot and are providing ever larger 'end-of-trip' facilities. New offices are including comprehensive bike parking and associated facilities that are only likely to grow in popularity as the newer offices are completed.

7.2.6. Conclusion

Melbourne's CBD is vitally important to the State and its future. Without an economically strong CBD the metropolis and the State will find it far more difficult to compete with other cities and States for investment and jobs. A CBD specific Economic Strategy supported by responsive planning policies and development controls (including an immediate review of the current C270 controls) will ensure that Melbourne maintains its place in an increasingly competitive region and supports the ongoing growth of the metropolis.

DISCLAIMER

This report is dated 1 November 2018 and incorporates information and events up to that date only and excludes any information arising, or event occurring, after that date which may affect the validity of Urbis Pty Ltd's (**Urbis**) opinion in this report. Urbis prepared this report on the instructions, and for the benefit only, of Property Council of Australia (**Instructing Party**) for the purpose of reviewing future growth potential of the CBD (**Purpose**) and not for any other purpose or use. To the extent permitted by applicable law, Urbis expressly disclaims all liability, whether direct or indirect, to the Instructing Party which relies or purports to rely on this report for any purpose other than the Purpose, and to any other person which relies or purports to rely on this report for any purpose whatsoever (including the Purpose).

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All surveys, forecasts, projections and recommendations contained in or associated with this report are made in good faith and on the basis of information supplied to Urbis at the date of this report, and upon which Urbis relied. Achievement of the projections and budgets set out in this report will depend, among other things, on the actions of others over which Urbis has no control.

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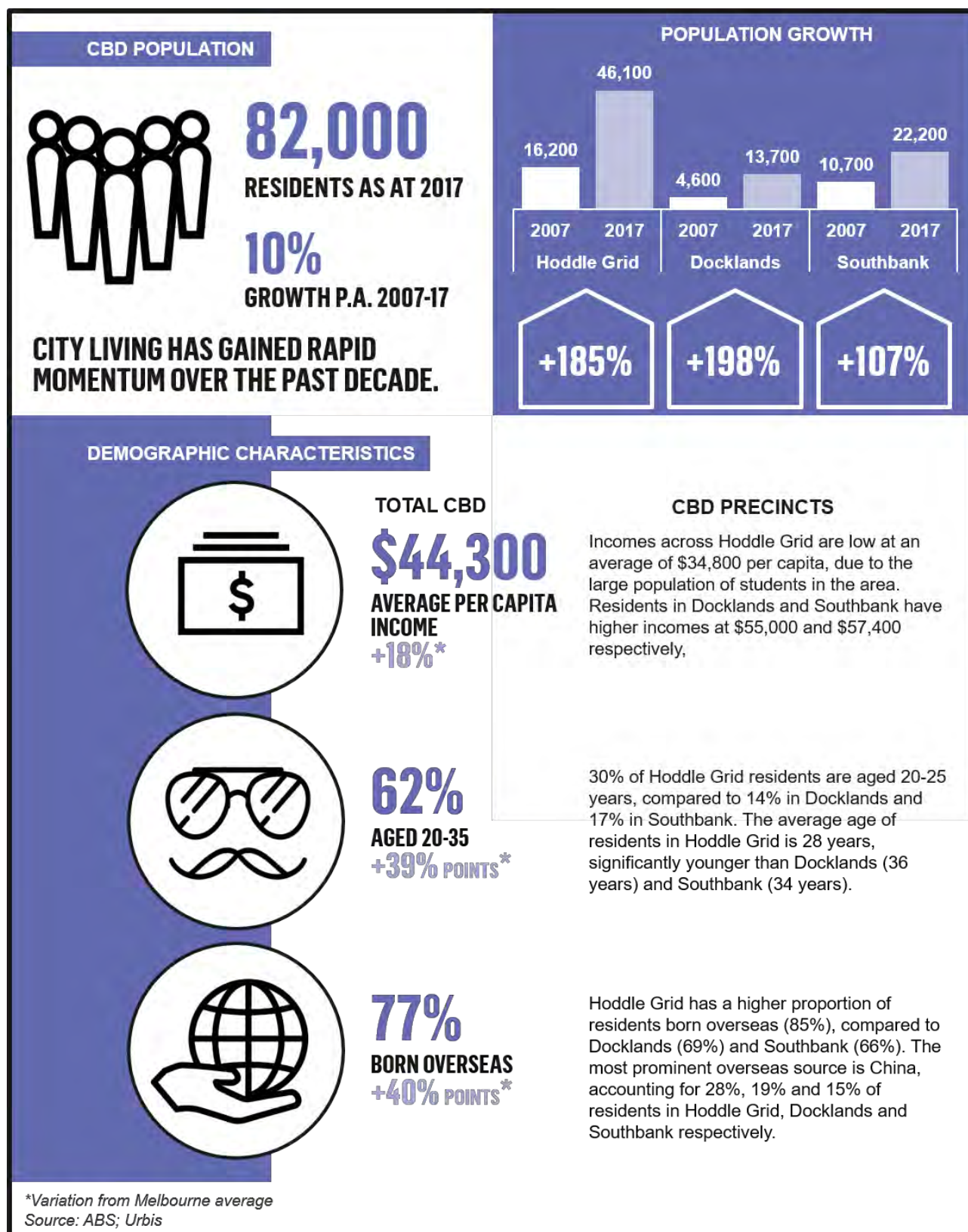
This report has been prepared with due care and diligence by Urbis and the statements and opinions given by Urbis in this report are given in good faith and in the reasonable belief that they are correct and not misleading, subject to the limitations above.

APPENDIX A

CBD USER PROFILES

RESIDENTS

The CBD has experienced rapid population growth over the past decade driven by an emerging desire for city-living, in part because of changing demographics. However, demographic characteristics vary across the three sub-precincts - Hoddle Grid is home to a large international student cohort, while Docklands and Southbank attract young professionals.

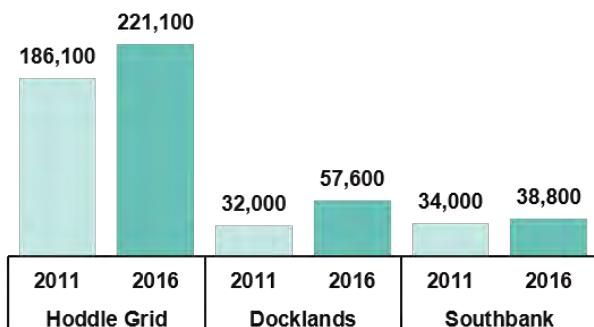


WORKERS

Like other major cities in developed countries worldwide, Melbourne continues to undergo a structural shift in its workforce towards a knowledge-based, high-value economy and away from its traditional industrial roots.

EMPLOYMENT

317,500 TOTAL NUMBER OF JOBS IN THE CBD 2016



Employment in the CBD grew from 191,100 jobs in 2006 to 252,200 jobs in 2011, increasing to more than 317,000 jobs by 2016. This represents total growth of 5.2% per annum over the ten-year period.

Docklands added 25,600 jobs between 2011 and 2016, representing a significant 80% increase. The Hoddle Grid added 35,000 jobs (+19%), while Southbank grew more slowly at 14% or 4,800 workers.

TOP 3 EMPLOYING INDUSTRIES (NUMBER OF WORKERS)

Employment has shifted to a range of industries within the services sector and particularly to key 'knowledge-based' (financial and insurance, professional, scientific and technical services) services.



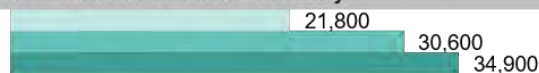
Professional, Scientific and Technical Services



Financial and Insurance Services



Public Administration and Safety



2006 2011 2016

WORKERS BY OCCUPATION

WHITE COLLAR WORKERS MAKE UP THE MAJORITY OF THE CBD WORKFORCE.

62%



WHITE COLLAR

+26%* POINTS

14%



RETAIL, SERVICES AND ENTERTAINMENT

-3%* POINTS

10%



BLACK COLLAR¹

+5%* POINTS

8%



BLUE COLLAR

-15%* POINTS

5%



HEALTH, EDUCATION AND EMERGENCY SERVICES

-13%* POINTS

*Variation from Melbourne average

¹Workers in the creative industries i.e. architecture, advertising and marketing, performing arts, design and visual arts.

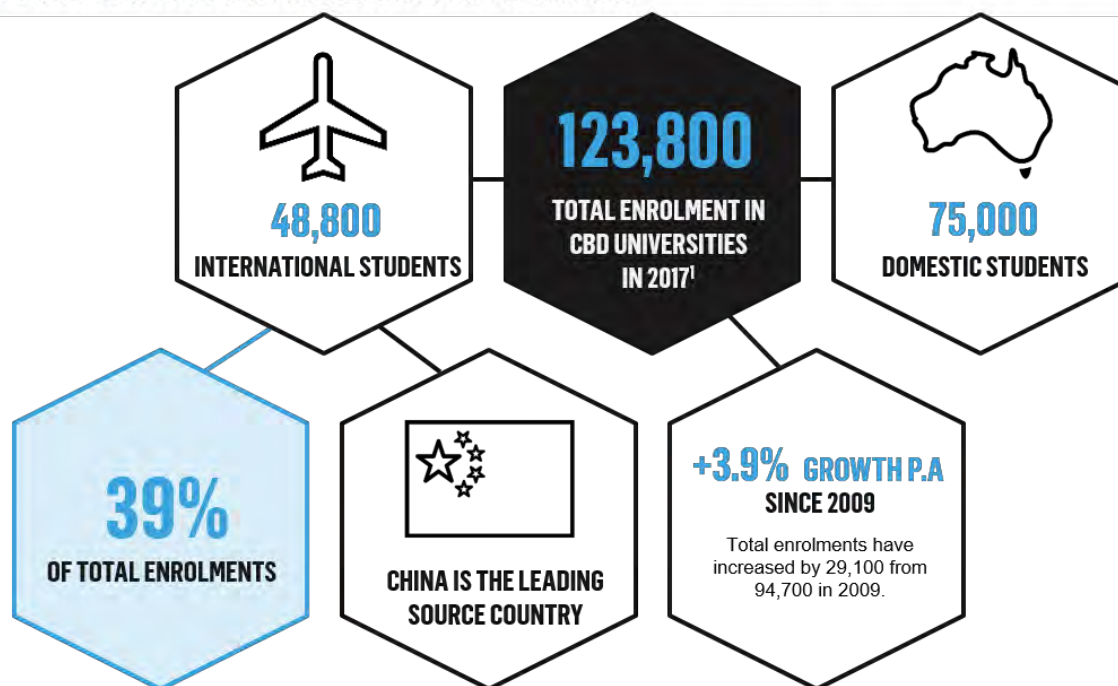
Source: ABS; Urbis

OTHER VISITORS

The City of Melbourne is home to the main campuses of the University of Melbourne and RMIT University and the city campuses of a further seven higher education institutions. These institutions have attracted an increasing number of students, both domestic and overseas. The Melbourne CBD also attracts large numbers of other visitors from overseas, interstate and other areas of Melbourne and Victoria.

STUDENT ENROLMENTS

THE INFLUX OF INTERNATIONAL STUDENTS IN RECENT YEARS IS A TESTAMENT TO MELBOURNE'S ATTRACTIVENESS AS A HIGHER EDUCATION DESTINATION.

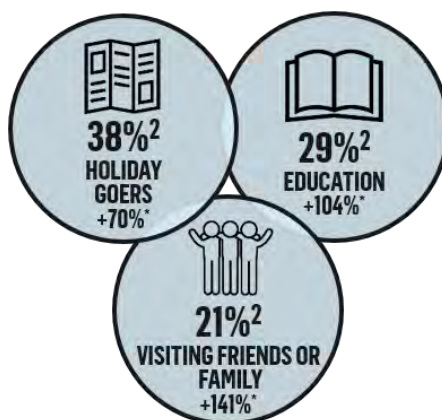


CBD TOURIST VISITATION

+104%

INCREASE IN
INTERNATIONAL
VISITOR NIGHTS
2008-2018

21.3 MILLION
INTERNATIONAL VISITOR NIGHTS
YEAR ENDING MARCH 2018



11.9 MILLION
DOMESTIC VISITOR NIGHTS
YEAR ENDING MARCH 2018



¹Includes The University of Melbourne and RMIT University

²Based on 2017 data as 2018 purpose of visit data is in question

*Variation from March 2007

Source: Department of Education and Training; Tourism Research Australia; Urbis

APPENDIX B

CBD OFFICE MARKET

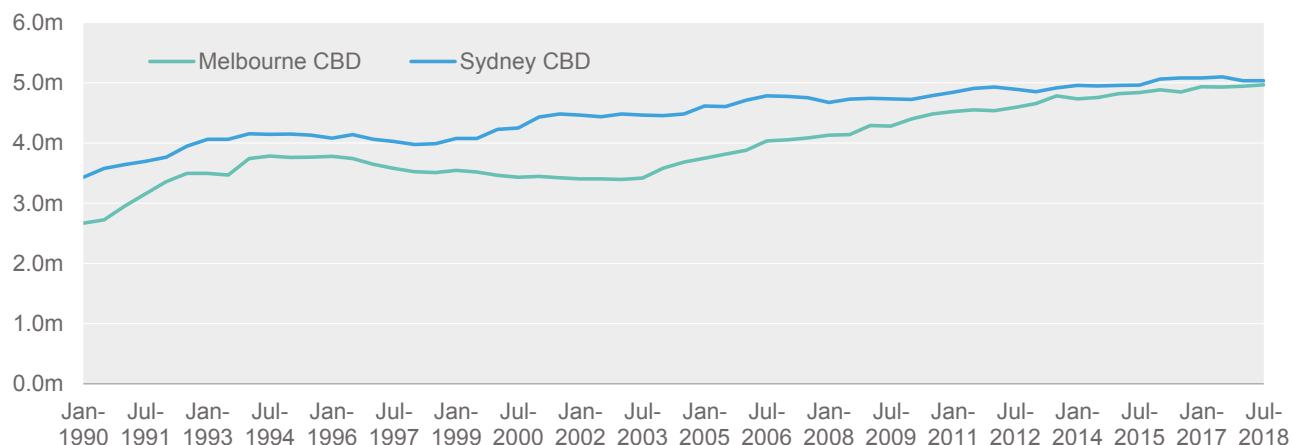
The Melbourne CBD has almost surpassed Sydney as Australia's largest office market.

The Melbourne CBD is the second largest office market in the country, now only 72,400 sq.m smaller than the Sydney CBD and more than double Canberra, Australia's third largest market.

Melbourne vs. Sydney Total Office Floorspace Supply

sq.m NLA

Chart 0.1



Note: The Sydney CBD excludes Pyrmont - Ultimo and the Melbourne CBD includes both Docklands and Southbank.

Source: Property Council of Australia Office Market Report, July 2018

The Hoddle Grid still the dominant commercial precinct, but Docklands has accommodated most of the growth.

Three-quarters (3.6 million sq.m) of all CBD office space is within the Hoddle Grid. The next largest share is contained in Docklands (19%, or 933,600 sq.m) followed by Southbank (9% or 421,900 sq.m). These numbers highlight the significant and ongoing role of the Hoddle Grid as the city's principal 'commercial core'.

The growth of Melbourne's CBD office market though - in net addition terms - has come from the expansion of commercial development into Docklands, particularly along the Collins Street corridor and within proximity to Southern Cross Railway Station. During the 10-year period to July 2018, Docklands added an additional 639,900 sq.m (+218%) NLA. This is in direct contrast to the Hoddle Grid with just 133,600 sq.m (+4%) and Southbank with 46,800 sq.m (+12%).

The Hoddle Grid is still the preferred commercial location for most larger tenants, but the lack of available development sites is meaning most new buildings are replacements for older office buildings.

Strong employment growth drives solid office absorption, but pressure increasing on rents with very low vacancies.

The delivery of the 'Big 6' office buildings in the early 1990's, coinciding with the economic recession led to a long period of limited activity in Melbourne's commercial office market. Rents remained low throughout the 1990's as vacancy levels gradually declined from the peak of around 20%.

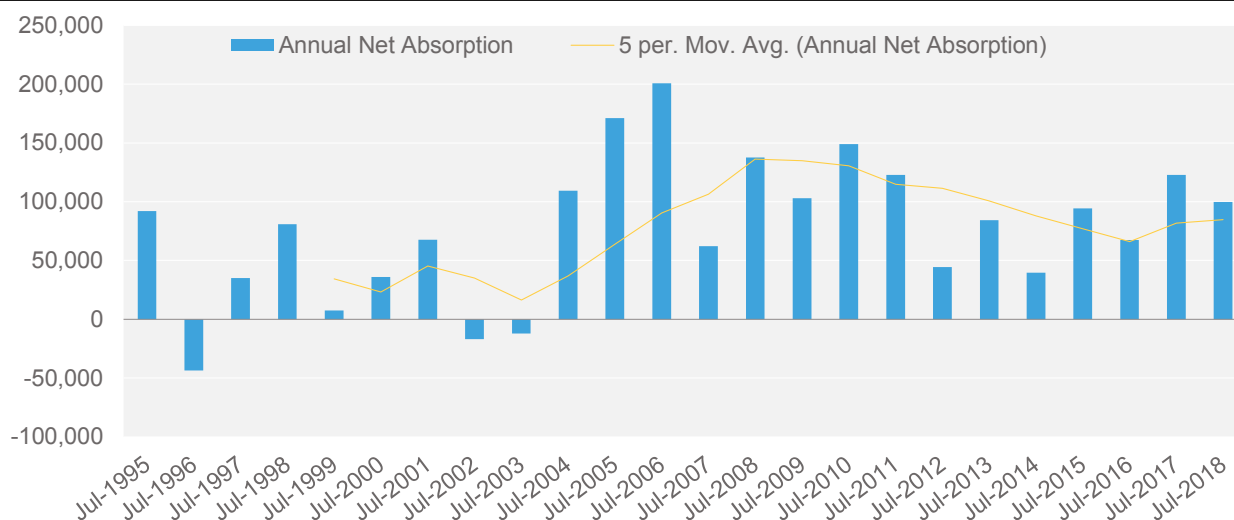
The lack of new office space eventually reached a critical point around 2000. While development in Docklands was commencing, demand from employment growth drove vacancy levels in the CBD to almost nothing, with rents growing rapidly in this period. This encouraged new development, with Docklands able to act as a release valve of sorts, providing the new office space that was now needed.

The market has normalised from mid 2000s and the peak delivery phase in Docklands. For prime grade stock, annual net absorption has ranged between 39,600 sq.m and 122,800 sq.m over the last five years with the average being 84,800 sq.m.

Melbourne CBD Prime Grade Office Absorption

Annual Net Absorption (sq.m), 1995-2018

Chart 0.2



Source: Property Council of Australia Office Market Report, July 2018

New development responds to the demand for prime grade stock.

Office space in the Melbourne CBD tends to be built to a high specification, especially newly constructed office buildings. Roughly two-thirds of total office floorspace in the study area is classified as being within Prime grade buildings (A-Grade or Premium).

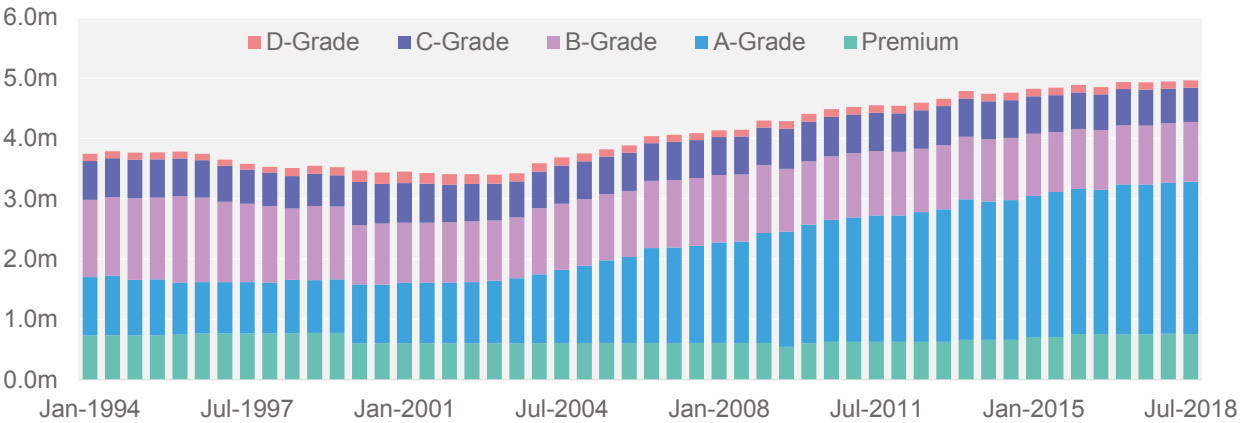
Tenants who choose to locate in the Melbourne CBD increasingly demand the facilities and services associated with this better-quality stock. As such, the only grade of office stock to show a material increase in supply is A-Grade space. The chart below illustrates this with a significant increase in the proportion and volume of A-Grade stock in the CBD over the past 15 years evident.

As new buildings are constructed in areas like Docklands and tenants vacate, it leaves older stock behind, often in the Hoddle Grid. This stock is then renewed, returning it to Premium or A-Grade space with a new economic life. This continued cycle of renewal is driven by tenant demand for high quality office accommodation and is the reason the only product that is ever released into the market is A-Grade or higher.

Melbourne CBD Office Floorspace by Grade

sq.m, 1994-2018

Chart 0.3



Source: Property Council of Australia Office Market Report, July 2018

APPENDIX C

BUILDING PROFILES

OLDERFLEET

Building Address	477 Collins Street
Site Area	3,900 sq.m
Year Built / Expected	2020
Building Grade	Premium Grade
Estimated Value	\$800 million
Number of Jobs	4,500
Floor Count	38
Office Floorspace	50,000 sq.m
Typical Floorplate	1,500 – 1,950 sq.m
Floor Area Ratio	25:1
Key Tenants	Deloitte

C270 Assessment **Does not comply**

- Inadequate side setbacks given height of the tower
- Exceeds base FAR of 18:1.



COLLINS ARCH

Building Address	447 Collins Street
Site Area	6,400 sq.m
Year Built / Expected	2019
Building Grade	Premium Grade
Estimated Value	\$750 million
Number of Jobs	4,500
Floor Count	42
Office Floorspace	49,000 sq.m
Typical Floorplate	1,800 – 2,300 sq.m
Floor Area Ratio	25:1
Key Tenants	King & Wood Mallesons

C270 Assessment **Does not comply**

- No podium to Market Street frontage
- No Setbacks to Market Street
- Residential tower not setback from podium adjacent to Collins Street
- No separate podium to Williams Street – Tower not setback from base.
- Flinders Lane setback not compliant
- FAR above 18:1 although office and a park are provided.



80 COLLINS

Building Address	80 Collins Street
Site Area	5,000 sq.m (incl existing)
Year Built / Expected	2020
Building Grade	Premium Grade
Estimated Value	\$650 million
Number of Jobs	4,000
Floor Count	35
Office Floorspace	43,000 sq.m
Typical Floorplate	1,250 – 1,350 sq.m
Floor Area Ratio	22:1 est. (114,000)
Key Tenants	Macquarie Group
C270 Assessment	Does not comply

- Street wall height non-compliant
- Setbacks non compliant
- Setbacks between towers within the site non-compliant
- Exceeds base FAR of 18:1.



WESLEY PLACE DEVELOPMENT

Building Address	130 Lonsdale Street
Site Area	6,400 sq.m
Year Built / Expected	2020
Building Grade	Premium Grade
Estimated Value	\$500 million
Number of Jobs	5,000
Floor Count	34
Office Floorspace	55,000 sq.m
Typical Floorplate	1,700 – 2,100 sq.m
Floor Area Ratio	25:1
Key Tenants	Cbus, Telstra, Vanguard
C270 Assessment	Does not comply

- 0m side setback to east boundary. Does not comply. Should be 6% from centre of Jones Lane.
- Construction to the east property boundary would not be possible under C270. Under C270, min east setback would be approx. 9m from the centre line of the laneway. This would make it extremely difficult to get any form of development on this site given Heritage Victoria required space from Manse and Wesley Church.



ERNST & YOUNG BUILDING

Building Address	8 Exhibition Street
Site Area	1,600 sq.m
Year Built / Expected	2005
Building Grade	A-Grade
Estimated Value	\$230 million
Number of Jobs	3,000
Floor Count	35
Office Floorspace	44,500 sq.m
Typical Floorplate	1,600 sq.m
Floor Area Ratio	33:1
Key Tenants	Ernst & Young, CBRE
C270 Assessment	Does not comply
<ul style="list-style-type: none"> Side (Sargood Lane) – no setback Rear (Sargood Lane) – no setback Exceeds base FAR of 18:1. 	



MERCER BUILDING

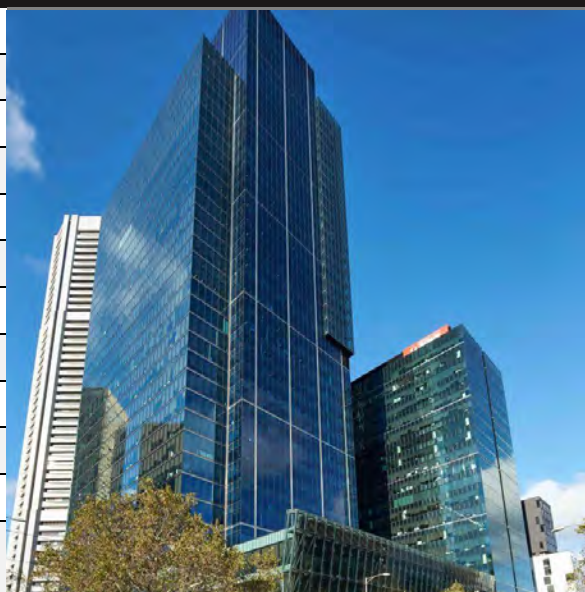
Building Address	11 Exhibition Street
Site Area	1,700 sq.m
Year Built / Expected	2005
Building Grade	A-Grade
Estimated Value	\$270 million
Number of Jobs	1,000
Floor Count	17
Office Floorspace	22,600 sq.m
Typical Floorplate	1,650 sq.m
Floor Area Ratio	17:1
Key Tenants	Bupa
C270 Assessment	Does not comply
<ul style="list-style-type: none"> Street wall height exceeds 40 metres Setbacks Front (Exhibition St) - no setback Side (Malthouse Lane) – no setback Rear (Malthouse Lane) – no setback 	



SX1 – EAST TOWER

Building Address	121 Exhibition Street
Site Area	2,200 sq.m
Year Built / Expected	2006
Building Grade	A-Grade
Estimated Value	\$1 billion
Number of Jobs	3,500
Floor Count	37
Office Floorspace	78,000 sq.m
Typical Floorplate	2,100 sq.m
Floor Area Ratio	36:1
Key Tenants	Victorian Government
C270 Assessment	Does not comply

- Does not comply with three of four setbacks
- Exceeds base FAR of 18:1.



CBW (CORNER OF BOURKE & WILLIAM)

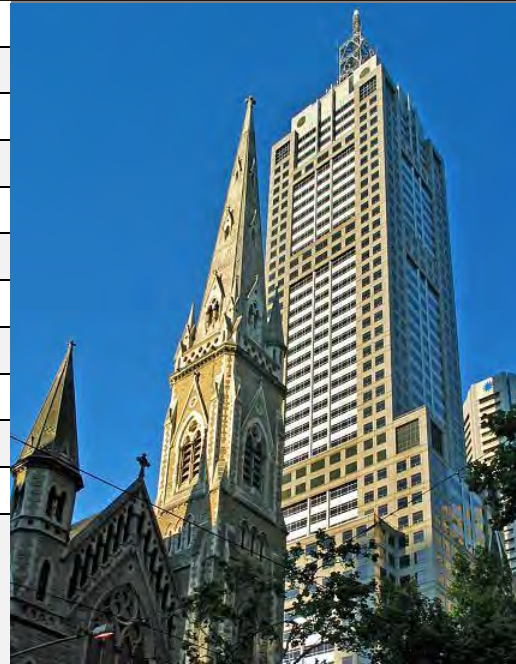
Building Address	181 William Street & 550 Bourke Street
Site Area	6,100 sq.m
Year Built / Expected	2008-2009
Building Grade	A-Grade
Estimated Value	\$750 million
Number of Jobs	5,000
Floor Count	27 & 19
Office Floorspace	74,100 sq.m
Typical Floorplate	1,500 sq.m – 1,900 sq.m
Floor Area Ratio	37:1
Key Tenants	Deloitte, IAG
C270 Assessment	Does not comply

- Exceeds allowable street wall height
- No setbacks to frontage (William St) and rear (Goldsbrough Lane)



120 COLLINS

Building Address	120 Collins Street
Site Area	5,900 sq.m
Year Built / Expected	1991
Building Grade	A-Grade
Estimated Value	\$800 million
Number of Jobs	4,000
Floor Count	53
Office Floorspace	64,000 sq.m
Typical Floorplate	1,100 sq.m – 1,900 sq.m
Floor Area Ratio	12:1
Key Tenants	Citigroup, Future Fund
C270 Assessment	Does not comply
<ul style="list-style-type: none"> Exceeds side boundary podium height East tower setback 	





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