URBIS

WESTERN GATEWAY SUB-PRECINCT BLOCK C ECONOMIC IMPACT ASSESSMENT

Prepared for
TOGA Group

24 November 2020

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ISO 20252 Market and Social Research Management

Urbis' Economic and Social Advisory team has received ISO 20252 Certification for the provision of Economic and Social Research and Evaluation

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INTRODUCTION

INTRODUCTION

Urbis has been appointed by the TOGA Group (TOGA) to conduct an economic impact assessment and rapid cost-benefit analysis for Block C of the Western Gateway sub-precinct (Block C), in support of the rezoning application to be submitted to the Department of Planning, Industry and Environment (DPIE). TOGA is planning to redevelop their land holdings on the Block C site for a mixed-use development including new commercial and retail floorspace, a world-class hotel, and public domain improvements to support the opening of the Sydney Metro in 2024. This development will add to the economic and social benefits of the developments of Block A and Block B of the Western Gateway sub-precinct which have been assessed by Urbis (2019) and Ernst & Young (2019) in previous reports.

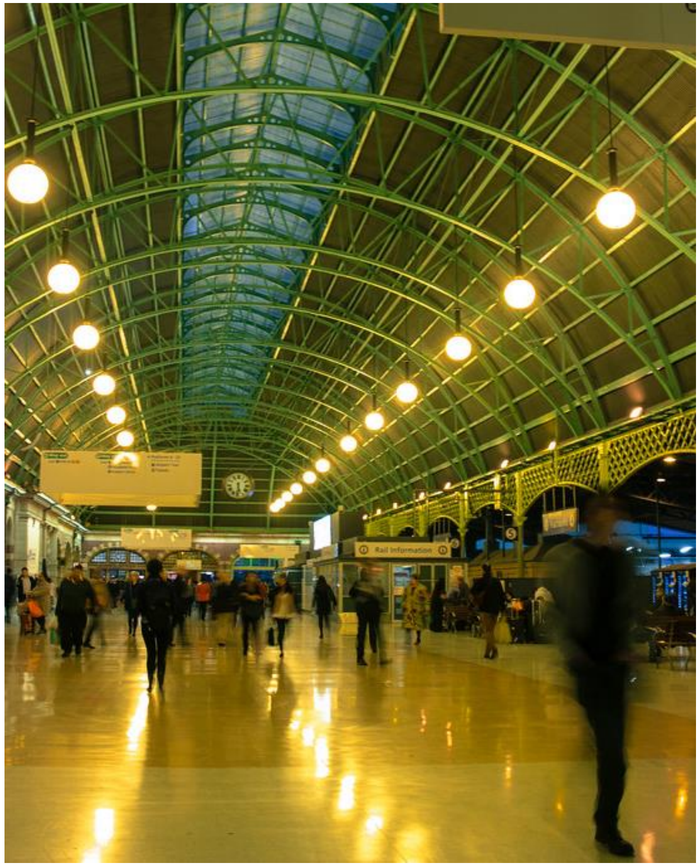
For planning purposes, the TOGA development of Block C is anticipated to comprise of 43,000 square meters (sqm) of gross floor area (GFA), including 41,000sqm of GFA within the new tower and former Parcel Post building plus 2,000sqm of GFA in Henry Deane Plaza. Final areas will be the subject of a future DA submission.

Local Context

- The Western Gateway sub-precinct is located immediately west of Central Station within Haymarket and is on the southern fringe of the Sydney CBD.
- The site has excellent access to public transport, including existing heavy rail and future metro rail services, existing and future light rail services, and interstate, regional, and metropolitan bus services.
- Central Station is Australia’s busiest transport hub. Currently more than 270,000 people use the station daily, and this is expected to increase to 450,000 over the next 20 years.

Project Outcomes

- Direct investment of $428 million into the renewal and revitalisation of the area.
- Development of 20,887sqm net lettable area (NLA) of new commercial floorspace with the vision to transform the area into a leading technology hub.
- Addition of 1,270 ‘smart’ jobs adjacent to Central Station to contribute to the ‘30 Minute City’ concept.
- Enable $348m of gross value-added (GVA) economic activity supported directly and indirectly to the New South Wales economy, increasing the overall contribution of the Western Gateway sub-precinct to $3.7b.
- Transformation of the public domain, including the addition of 1,539sqm of new open space and increased connectivity to Central Station to meet the future needs of the station.



KEY FINDINGS

SUMMARY OF KEY FINDINGS

THE ECONOMIC BENEFITS OF BLOCK C DEVELOPMENT OF THE WESTERN GATEWAY SUB-PRECINCT

- TOGA's proposed development of Block C of the Western Gateway sub-precinct will deliver substantial economic benefits, including:
  - Establishing an innovation hub, driving creation of new technology and cementing Sydney's reputation as the innovation capital of Australia.
  - Directly **supporting 1,270 jobs** in the TOGA buildings, which will attract additional investment and economic activity.
  - Hosting up to 200 events per year, including conferences, award ceremonies and product launches, attracting local and international guests and promoting economic activity.
  - Accommodating local and international guests with the inclusion of an additional 112 hotel rooms and serviced apartments in the upper scale hotel market, supporting economic activity and growth throughout Greater Sydney.

- A rapid cost-benefit analysis (CBA) using NSW Treasury Guidelines was also undertaken for the proposed development of Block C using the recommended benchmark social discount rate of 7 percent. This returned a net benefit of **$166.2 million** (all values are in 2019 dollars) and a Benefit-Cost Ratio (BCR) of **1.4 over a 30-year horizon**.

- Sensitivity analysis was also undertaken for the rapid CBA using the recommended lower and upper bound social discount rates of 3 and 10 percent, respectively. This returned net benefits of **$513.1m** and **$30.0m** and BCRs of **2.1** and **1.1,** respectively.

- Other non-quantifiable and longer-term benefits include:
  - Increased capacity for commuters using the Western entrance/exit of Central Station, supporting the forecasted growth in movement through the station, and resulting in a boost to productivity of CBD commuters and associated businesses.
  - Uplift associated with improved aesthetics through public art and thoughtful design of the proposed development, contributing to an increase in the total number of visitors to the Western Gateway sub-precinct.
  - Catalytic impacts to the wider Central Station area, transforming it into a place people value and want to visit, work and stay.
  - Supporting the development of a technology epicenter within the Central-Eveleigh corridor which will facilitate a start-up ecosystem and act as an enabler for further technological innovation and growth, as well as generating uplift from global firms and visitors
  - Uplift in the economy through visitations by international guests to events and functions held in the sub-precinct.

SUMMARY OF KEY FINDINGS

INCREASE IN JOBS TO BE SUPPORTED IN THE SITE

- The proposed development will support 286 jobs in the peak years of the construction phase 2022 and 2023.
- The TOGA building will support 1,546 onsite jobs once fully open for operations in late 2024.
- Premium commercial office floorspace developed in building will be occupied by 1,270 of these jobs.

Construction Phase Jobs	
Construction Activity (Per Annum)	286
Operations Phase Jobs	
Commercial Activity	1,270
Retail Activity	150
Increased Hotel Activity	109
Events and Conference Activity	8
Building Operations	8
Total	**1,546**

BACKGROUND

TECHNOLOGY AND INNOVATION HUB

A UNIQUE HUB OPPORTUNITY

- The Western Gateway sub-precinct development will create an innovation hub for Australia's burgeoning information technology sector. The proposed development will build the capacity of the area to attract investment in high productivity economic activity.
- The sub-precinct will become a key component of the Haymarket activity node of the Camperdown-Ultimo Collaboration Area proposed by the Greater Sydney Commission.
- The NSW Government also has a vision to support the development of a technology and innovation collaboration area in the Central to Eveleigh area. Creation of this innovation ecosystem will be a strong driver for investment and reinforce Sydney as a technology capital.
- The development of 20,887sqm NLA of office floorspace in the TOGA building will create the potential for agglomeration benefits between businesses in the area. Knowledge sharing is an essential catalyst for innovative industries in the 21st century. The development of the collaboration area also has the potential to unlock a wave of productivity enhancing technological advancements, driven by Australian businesses. Creating an innovation hub in the Sydney CBD will assist in enabling the growth of knowledge industries by reducing the distance between people working in similar knowledge intensive fields.
- The connectivity to Central Station offers strong links to many of Sydney's research, innovation and higher education precincts as it is:
  - A short walk from the University of Technology Sydney
  - A short bus ride to the University of Sydney
  - One train stop from Australian Technology Park in South Eveleigh
  - Connected by light rail to the University of New South Wales
  - Able to facilitate rail connections to Macquarie University, Macquarie Technology Park and several Western Sydney University campuses.

CAMPERDOWN-ULTIMO COLLABORATION AREA

COMMERCIAL OFFICE MARKET CONDITIONS

CURRENT LANDSCAPE

- Office vacancy rates in the Sydney CBD have been steadily falling in recent years, currently sitting at 3.8% in January 2019. However, this rate is substantially lower than the Australian CBD rate of 7.8%, indicating comparatively strong demand in the Sydney CBD.
- The stock of office floor space per square meter has plateaued since 2016, resulting in the steady decrease in vacancy rates,
- Premium Grade office space has a lower vacancy rate of 3.5% compared to lower grade space, indicating that the supply imbalance is skewed to higher quality office space.
- A-grade vacancies are currently at 3.6%, representing the lowest rate since January 2008. The key driver is stock withdrawals - 150,000sqm over the last 7 years.
- White collar job employment growth in Sydney CBD averaged 2.8% per year between 2014 and 2018 and is forecasted to grow at 1.3% per year for the next five years.

Figure 1 – Sydney CBD office vacancy rates (%)

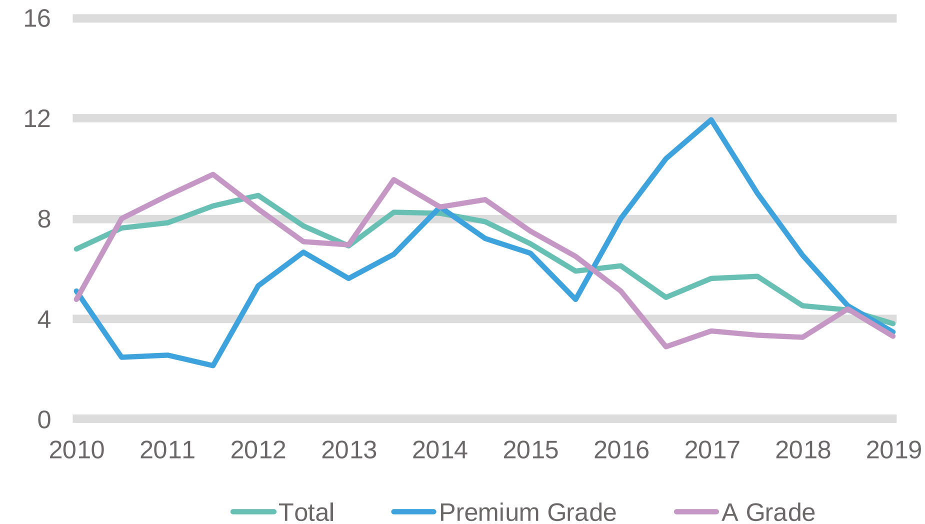
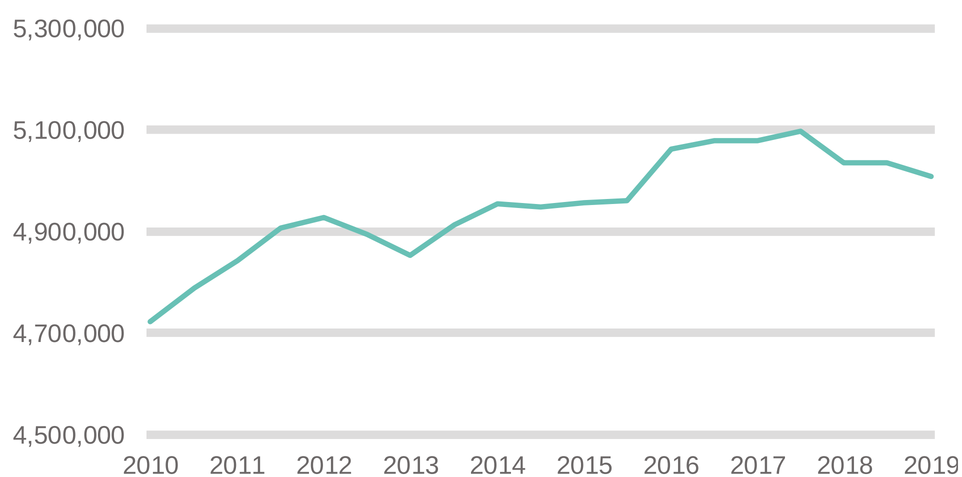


Figure 2 – Supply of Sydney CBD office space stock (square meters)



Source: Urbis, Property Council of Australia (2019)

COMMERCIAL OFFICE SUPPLY OUTLOOK

SUPPLY OUTLOOK

- The acceleration experienced across occupier markets has moderated as demand stabilised, and the supply withdrawals subside.
- In the absence of supply-side risk, vacancies are expected to trough at approximately 3.5% to 4.0% by 2019/20.
- The next phase of the development cycle is emerging with the recent completions of 151 Clarence Street (22,000sqm) and 100 Broadway (5,447sqm).
- Projects under construction include:
  - 60 Martin Place (38,600sqm due 2019)
  - 10 Carrington Street (56,000sqm due 2021)
  - Quay Quarter (88,000sqm due 2022)
- Schemes such as CQ Tower, Darling Park Tower 4, 55 Pitt Street, 56 Pitt Street and Martin Place Tower are likely to require significant pre-commitment to commence development.

Figure 3 – Sydney CBD office stock additions

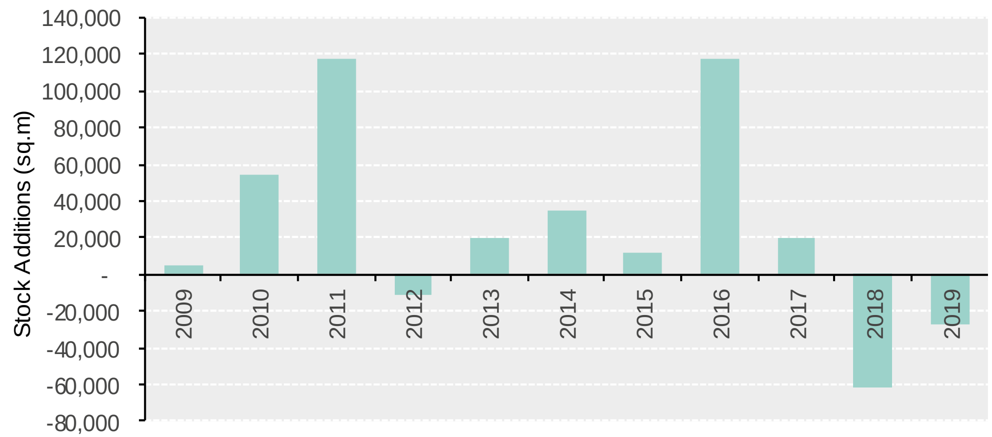
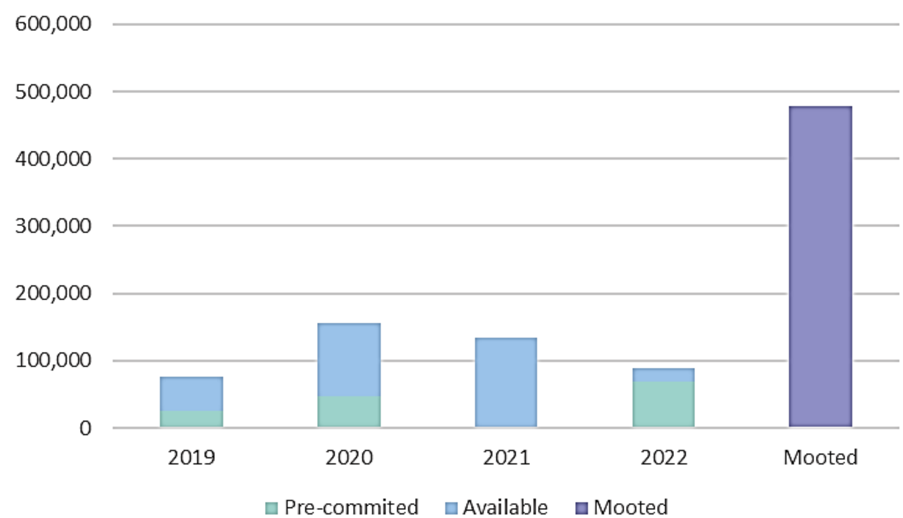


Figure 4 – Sydney CBD development supply



Source: Urbis, Property Council of Australia (2019)

HOTEL MARKET CONDITIONS

CURRENT LANDSCAPE

- The Sydney hotels market has seen a significant amount of new supply in recent years in response to the substantial growth in demand.
- Sydney recorded an 87.8% hotel occupancy rate (ratio of the number of bed-nights occupied to available) for the 2017-18 financial year, well above the 80.4% average for major cities in Australia.
- The Sydney CBD upper upscale class hotel market segment had an occupancy rate higher than these averages at 88% in the year to June 2019.
- In the past five years, both supply and demand in the upper upscale class have risen at similar rates, and without largely impacting on overall occupancy rates.
- In the medium term, supply will be constrained, and growth will fall below expectations.
- However, in the long-term, it is forecasted that demand and supply will continue to be strong.

Figure 5 – Sydney hotel occupancy rate – 12-month moving average (%)

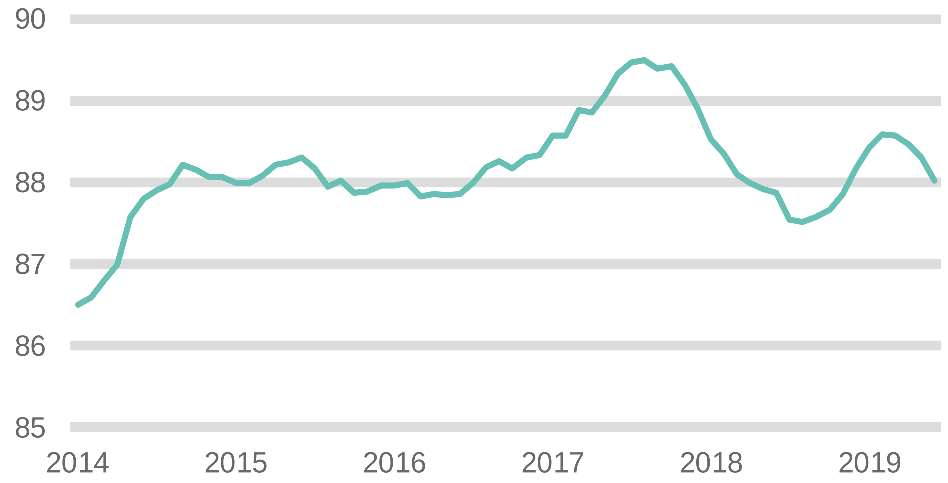
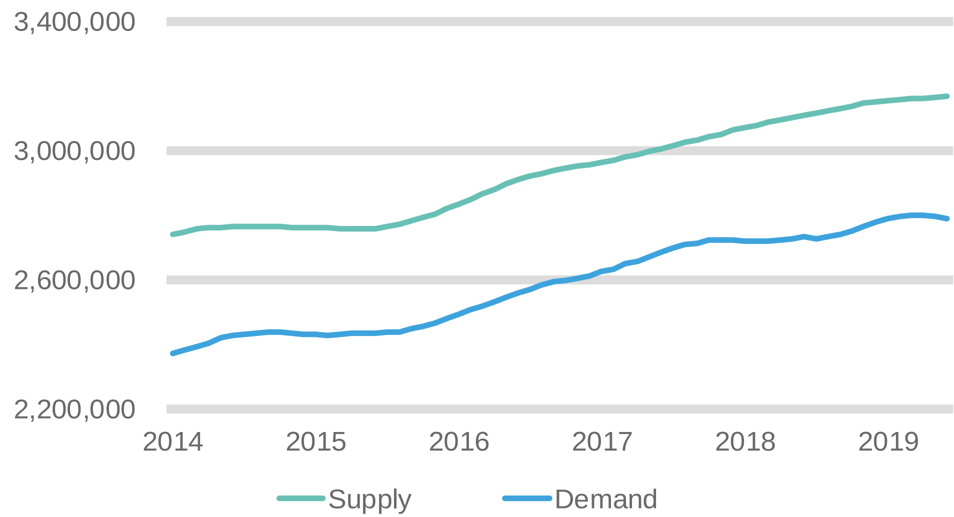


Figure 6 – Sydney hotel supply and demand by bed-nights – 12-month moving average



Source: Urbis, Dransfield (2019)

ECONOMIC IMPACTS

COMMERCIAL ACTIVITY

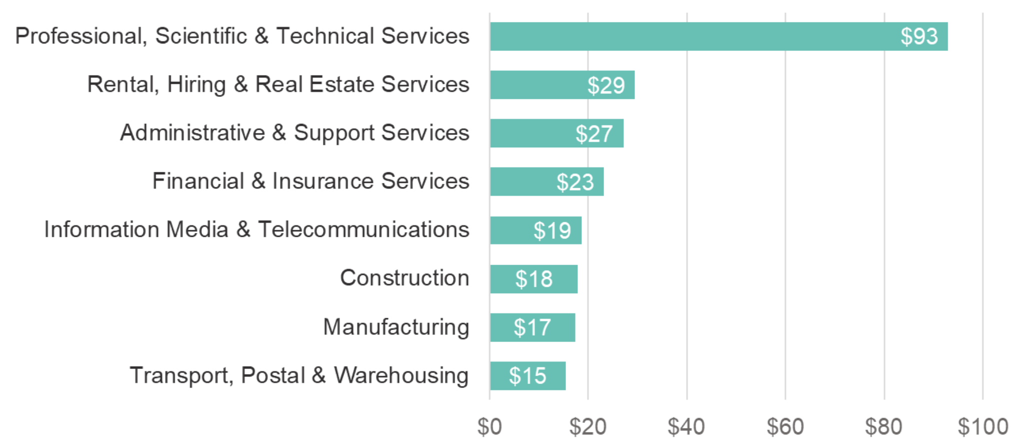
COMMERCIAL ACTIVITY CONTRIBUTION

- Economic benefits have been modelled based on **20,887sqm NLA of additional commercial office floorspace** being made available in the Sydney CBD.
- The commercial floorspace will accommodate the strong and growing demand for Sydney CBD Premium and A-grade office space.
- Based on the floorspace employment benchmark of 16.4 sqm per job, from the City of Sydney Floor Space and Employment Survey of offices in Chinatown and CBD South, the TOGA building will **directly support 1,270 jobs.**
- REMPLAN input-output analysis has been used to assess the contribution of on-site commercial activity through its support of jobs in professional, scientific and technical services.
- Overall, the contribution to the Greater Sydney economy will be **$322.7 million per year in direct and indirect gross value-added (GVA)**.
- There are significant indirect supply-chain impacts in NSW, with the largest occurring to industries linked to business services. These include professional, scientific and technical service businesses, followed by administrative and support services, and rental, hiring and real estate services.

CONTRIBUTION TO GREATER SYDNEY

Commercial Floorspace	20,887sqm
Annual Revenue	$27.2m
Gross Value-Added	
Direct GVA	$185.1m
Indirect GVA	$137.5m
Total GVA	**$322.7m**
Employment	
Direct jobs	1,270
Indirect jobs	797
Total jobs	**2,067**

Figure 7 – Supply-chain output by industry in New South Wales per annum ($ millions)



Source: TOGA Group, REMPLAN Economy, Urbis

HOTEL, EVENTS AND CONFERENCE ACTIVITIES

HOTEL FACILITIES

- The TOGA proposal will include the redevelopment of the existing Adina hotel into space for retail and food and beverage operations, with 210* hotel rooms and serviced apartments for the upper scale hotel market to be operated in the new development above the existing hotel.
- The hotel will support co-living stay options with multiple room options. The facilities will complement the growth of the new technology sub-precinct, and service visitors travelling for business, leisure and entertainment.
- There will be strong demand for upper scale hotels to cater for these guests, in addition to the high rates of demand in the longer-term.
- Operating costs are forecast to be $1.2m lower for the new hotel while revenue, GVA activity and employment on the site will increase by $3.9m GVA.
- Increased activity will support **71 more direct jobs in accommodation and food services**.

	Current	Forecast	Increase
Hotel Rooms and Serviced Apartments	98	210	112
Annual Revenue	$7.2m	$15.8m	$8.6m
Operating Costs	$3.9m	$2.7m	$-1.2m
Gross Value-Added			
Direct GVA	$3.3m	$7.2m	$3.9m
Indirect GVA	$1.8m	$4.0m	$2.2m
Total GVA	**$5.1m**	**$11.2m**	**$6.1m**
Employment			
Direct Jobs	49	109	59
Indirect Jobs	10	22	12
Total Jobs	**59**	**131**	**71**

Source: TOGA Group, REMPLAN Economy, Urbis

*Economic modelling for the current assessment has been conducted based on 210 rooms, however the rezoning proposal anticipates up to 230 rooms.

EVENT & CONFERENCE FACILITIES

- The facilities are estimated to host 200 events per year including launches, cocktail parties, industry conferences, dinners, and award ceremonies.
- Facilities include a 500sqm multi-purpose function room, smaller boardrooms and a breakout room.
- The facilities will complement the growth of the innovation hub and enable greater collaboration between businesses.
- The expected annual revenue of $2.5m will contribute $2.3m in direct and indirect GVA to the Greater Sydney economy.

Event and Conference Facility	600sqm
Maximum Capacity	685
Events Per Year	200
Annual Revenue	$2.5m
Gross Value-Added	
Direct GVA	$1.5m
Indirect GVA	$0.7m
Total GVA	**$2.3m**
Employment	
Direct Jobs	8
Indirect Jobs	4
Total Jobs	**12**

BUILDING OPERATIONS AND RETAIL ACTIVITY

ONGOING BUILDING OPERATIONS

- Operating expenditure for the let commercial and retail floorspace will contribute to activity in the non-residential property operations industry.
- The proposed TOGA development has the potential to deliver **8 direct jobs in non-residential property operations**.
- In addition, the on-site operational jobs could support up to an additional **10 indirect supply chain jobs** throughout the Greater Sydney region.

RETAIL ACTIVITY

- The TOGA proposal has been modelled as dedicating a total of **3,580sqm of floorspace to retail activity** in the Sydney CBD.
- Based on the floorspace employment benchmark of 23.3sqm per job from the City of Sydney Floor Space and Employment Survey of offices in Chinatown and CBD South, the retail component will generate **150 jobs directly, and 30 jobs indirectly**.
- This will result in a contribution of **$17.1m in GVA per year** to the Greater Sydney economy.

Retail Building Operations	$1.0m
Commercial Office Operations	$4.2m
Total Operating Costs	**$5.2m**
Gross Value-Added	
Direct GVA	$2.9m
Indirect GVA	$2.0m
Total GVA	**$4.8m**
Employment	
Direct Jobs	8
Indirect Jobs	10
Total Jobs	**18**

Retail Floorspace	3,580sqm
Annual Revenue	$4.5m
Gross Value-Added	
Direct GVA	$11.8m
Indirect GVA	$5.4m
Total GVA	**$17.1m**
Employment	
Direct jobs	150
Indirect jobs	30
Total Jobs	**180**

Source: TOGA Group, REMPLAN Economy, Urbis

CONSTRUCTION

CONSTRUCTION ACTIVITY

- The construction of the proposed development would required substantial capital investment, which would sustain significant employment in the local economy.
- Using the REMPLAN model, the accompanying table outlines the estimated number of potential jobs and GVA that will be contributed to the economy, as a result of the construction phase investment. This is based on indicative construction costs of $428.0m.
- Construction is expected to take place over 3 years beginning in December 2021.
- Construction activity will peak in 2022 and 2023 with the building being in construction for the entire 12 months of these years.
- The construction of the two buildings would generate **286 direct jobs, and 377 indirect jobs in supporting industries in the peak years of the construction phase 2022 and 2023**.
- Construction will contribute **$105.2m in GVA per annum** to the Greater Sydney economy in the peak years of construction.

ECONOMIC ACTIVITY IN GREATER SYDNEY

Construction Costs	$386.0m
Professional Fees	$42.0m
Total Construction Costs	$428.0m
Total Construction Cost Per Annum	**$142.7m**
Gross Value-Added[1]	
Direct GVA (Construction)	$37.6m
Indirect GVA (Construction)	$55.5m
Direct GVA (Professional Services)	$7.0m
Indirect GVA (Professional Services)	$5.2m
Total GVA	**$105.2m**
Employment[1]	
Direct Jobs (Construction)	238
Indirect Jobs (Construction)	347
Direct Jobs (Professional Services)	48
Indirect Jobs (Professional Service)	30
Total direct jobs	**286**
Total indirect jobs	**377**
Total Jobs	**663**

1. Reflects construction GVA and employment generated per annum in the peak years 2022 and 2023

Source: TOGA Group, REMPLAN Economy, Urbis

ADDITIONAL BENEFITS

REDUCED CONGESTION

- The proposed development of Block C will increase the ground area and walkway space through to Central Station by 77%. This increase in ground area will enable an increase in pedestrian activity, easing pressure on the existing walkway arising from the increasing usage.
- Assuming the space is currently fully utilised, pedestrian movements will be enabled to increase in proportion to the amount of walkway available. It is estimated that commuter pedestrian activity will enable an additional 8.6 million movements per year through to Central Station.
- The additional pedestrian movements enabled by the extra space are predicted to enable commuters to change from road to rail transport. A commuter switching from road to rail has a congestion and carbon emission reduction value of $9.93 per trip. The benefit of reduced congestion from the 1.8 million trips converted from road to rail is valued at **$16.4m per annum**.

INCREASED PLAZA PUBLIC SPACE

- The City of Sydney recognises that public spaces are important for people to exercise, socialise and enjoy.
- The proposed development will give the current and future local economy access to increased public space through the provision of an extra 1,539sqm in ground area to Henry Deane Plaza.
- The benefit of this additional open space has been valued using the average commercial land values for the Sydney LGA from the NSW Valuer General tool.
- In total, the **1,539sqm of additional open space** is valued at **$768,364 per annum**, which is used as a proxy to reflect the amenity to the public for accessing this area.

DESIGN FEATURES

The design features of the development listed below have positive impacts for employees, businesses and the public. However at this stage we are unable to quantify these benefits. These features include:

- The proposed TOGA commercial building will be a carbon neutral building and will hold a 5.5-star NABERS rating. Overall the build will have 6-star Green Star Design and As Built rating for the development. The benefits of this will mainly impact the **1,270 employees** working on the commercial floorspace within the TOGA building. Research has shown that environmentally sustainable workplaces increase job satisfaction, improve productivity and talent retention, as well as reduce operational expenditure.
- The City of Sydney values public art and its impact on citizens and visitors. A total of **$3.6 million or 1% of the construction cost** will be dedicated in the proposed development towards public art. The art will be distributed throughout the plaza, the ground floor and the rooftop of the Parcel Post building.
- The Block C development proposal will include the removal of the stairs currently at Lee Street which lead into Central Station. This will improve accessibility for pedestrians in and out of the station and support the growth in foot traffic.

Source: TOGA Group, Value General NSW (2018), Deloitte Access Economics (2017), Bureau of Transport Statistics (2014), City of Sydney 2016

COMBINED IMPACT WITH BLOCKS A AND B

BLOCK A - ATLASSIAN

The Atlassian Tower on Block A will provide the new headquarters for Atlassian on the site above the existing YHA. It will provide 57,900sqm GFA of commercial floorspace and 3,100sqm of retail GLA (Urbis, 2019). The redevelopment will also provide an uplift of 500 beds to the existing YHA.

The Block A site is expected to support 4,032 direct jobs, 2,220 of which would be utilising Atlassian office space, with an additional 2,804 jobs in the supply-chain. Block A is expected to support economic activity of $1,093m in GVA including the flow-on indirect effects on supply-chain activity across NSW.

BLOCK B – DEXUS FRASERS

The redevelopment of Block B by Dexus Funds Management Ltd and Frasers Property Australia (Dexus Frasers) will convert existing commercial office buildings into a revitalised and uplifted mixed-use site, providing the majority of the commercial floorspace for the Western Gateway Sub-Precinct. Block B will include two towers providing 45,000sqm and 40,000sqm GFA of commercial space, and a podium of 60,000sqm GFA of commercial floorspace intended to be used as a technology/start-up space.

Block B is expected to support 11,084 jobs onsite with an additional 5,006 jobs in the supply-chain (Ernst & Young, 2019). The site is calculated contribute $2.2b to GVA through direct and indirect economic activity.

COMBINED IMPACT

The three sites of the Western Gateway sub-precinct are expected to have a combined contribution of **$3.7m in GVA** to the New South Wales economy. The Western Gateway Sub-Precinct is expected to support **16,662 jobs** onsite in direct activity and another 8,661 jobs through indirect supply-chain activity.

The TOGA development of Block C will support 9% of the onsite jobs and 9% of the contribution to GVA. However, Block C will however provide the precinct with high quality accommodation, events and hospitality facilities. These facilities will enhance the potential for the Western Gateway sub-precinct to attract 200 business events a year within proximity to burgeoning innovation and technology industry workspaces. Improvements to the walkability of the plaza through the addition of 1,539sqm of open space will also significantly enhance the connectivity and place value of the sub-precinct.

	Block A Atlassian	**Block B Dexus Frasers**	**Block C TOGA**	**Overall**
Commercial Floorspace (GFA)***	57,900sqm	145,000sqm	28,000sqm	230,900sqm
Retail Floorspace (GLA)***	3,100sqm	5,000sqm	2,088sqm	10,188sqm
Event and Conference Facility***			600sqm	600sqm
Accommodation	500 YHA Beds		210 Rooms	
Gross Value-Added				
Direct GVA	-**	$1,458m	$203m	-
Indirect GVA	-**	$816m*	$146m	-
Total GVA	**$1,093m**	**$2,274m**	**$348m**	**$3,715m**
Employment				
Direct jobs	4,032	11,084	1,546	16,662
Indirect jobs	2,804	5,006*	851	8,661
Total jobs	**6,836**	**16,090**	**2,397**	**25,323**

Source: TOGA Group, Urbis (2019) and Ernst & Young (2019.
**Indirect impacts of operations of Block B are based on effects on Sydney CBD South area rather than NSW.*
***GVA was not reported on a direct and indirect basis in the Urbis (2019) report.*
****Areas subject to final DA approvals.*

IMPLICATIONS OF COVID-19

SHORT AND MEDIUM-TERM IMPACTS

The construction phase of Block C is currently planned for delivery from 2022-2025. The impacts of COVID-19 on ongoing market conditions may have consequences for the construction and operations phases of the development. So far, there has been a demonstrated ability for construction activity to continue at full capacity during the COVID-19 pandemic in NSW, in contrast to Victoria where construction projects were limited to 25% of regular workforce capacity in August 2020 (Victorian Government, 2020). As such, the impact of COVID-19 on the construction phase of Block C is expected to be negligible in the short-term. As these impacts appear uncertain and likely negligible, they are not included in the economic impact calculations.

Impacts of COVID-19 may continue to effect the site when it commences operations from 2026. Given the uncertainty of the medium-term impact of COVID-19 on economic conditions, there is currently no evidence with which to adjust the calculation of the economic impact of Block C. When assessing the medium-term impact of COVID-19, several factors should be considered, including:

- While demand for city retail has fallen in the short-term it remains uncertain whether this will continue to 2026 and beyond. The proximity of retail space to key transport nodes will give the Sub-Precinct an advantage over other retail locations which may buffer against trend declines in CBD retail activity.
- The medium-term forecast for demand in the market for commercial office space is uncertain, with increasing prominence of working from home due to the COVID-19 pandemic. The integrated place-based offering of the sub-precinct has the potential to mitigate any decline in demand by facilitating the integration of retail, hospitality and other offerings within proximity to a transport hub.
- While COVID-19 travel restrictions are having short-term impacts on skilled migration, tourism and international business travel, in the medium-term Sydney and Australia more broadly are expected to remain a desirable destination to live, holiday and do business.

THE COVID RESPONSE AND LONG-TERM IMPLICATIONS

Significant construction projects have the potential to play a vital role in Australia's recovery from the current economic downturn, and the proposed TOGA development expected to support 663 jobs across NSW during the peak construction years of 2022 and 2023. These jobs mean the development will be of increased importance to the NSW economy, especially if there is a broader downturn in other parts of the construction sector.

In the longer term, there is likely to be an increased demand for integrated precincts to attract workers who have become more accustomed to working from home during the COVID-19 pandemic back to commercial office spaces. The integrated offering of the TOGA site with retail, food and beverage, public plaza, events facilities and commercial office space should contribute to the attractiveness of the sub-precinct to these workers.

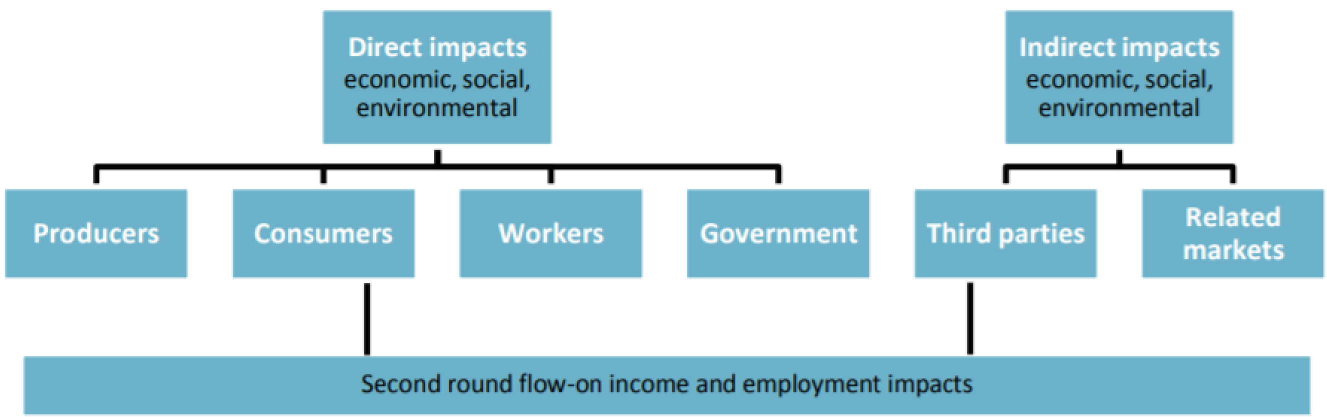
COVID-19 has highlighted the increased importance of the technology sector for the economy. The usage of technology to enable remote working and communications is likely to create long-term increases in activity in the technology sector which will require increased staffing levels. In the post-COVID recovery period, technology and innovation sectors are likely to play a critical role in Australia's competitive advantage, especially in Sydney which is home to 60% of Australia's fintech companies and 50% of the growth in Professional, Scientific and Technical Services jobs (Ernst & Young, 2019). Block C would provide commercial space and facilities for technology companies to grow in an innovation hub environment, building off the anchor tenancy of Atlassian in Block A.

RAPID
COST-BENEFIT ANALYSIS

RATIONALE FOR RAPID COST-BENEFIT ANALYSIS EVALUATION

COST-BENEFIT ANALYSIS

- Cost-benefit analysis (CBA) is an appraisal and evaluation technique that estimates the economic, social and environmental costs and benefits of a project or program in monetary terms.
- The aim of the CBA is to measure the full impacts of a specific development proposal on the households and firms in a specified community. Rapid CBA modelling is used to provide a ‘high level’ assessment of the economic viability of a specific development proposal in the early stages of the approvals process.
- CBA measures the change attributable to a development action, relative to a situation without the proposed action. The impacts of a development decision will typically include both costs and benefits to some members of the community.
- The NSW Treasury Guidelines recommend that the following measures should be calculated for each specific development proposal / option in a CBA evaluation:
  - **NPV** – The difference between the present value of benefits and the present value of costs.
  - **BCR –** The ratio of the present value of total benefits to the present value of total costs.
- The NPV and BCR both show that for a given discount rate, a development is potentially worthwhile when the benefits exceed the costs of a development proposal. This is demonstrated when the NPV is positive or the BCR is greater than or equal to 1.0. When the present value of benefits is greater than the present value of costs, the development is increasing overall welfare.



Source: NSW Treasury, 2017

BLOCK C DEVELOPMENT RAPID COST-BENEFIT ANALYSIS

RAPID COST-BENEFIT ANALYSIS SUMMARY (30-YEAR PERIOD)

Item	Sensitivity Analysis (3%)	Benchmark (7%)	Sensitivity Analysis (10%)
Costs			
Construction costs	$404.6	$376.6	$357.7
Hotel, retail & event facility operating costs	-$1.8	-$1.0	-$0.7
Commercial office operating costs	$68.7	$40.6	$29.0
Total Costs	**$471.5**	**$416.2**	**$386.0**
Benefits			
Increased hotel revenue	$141.6	$83.7	$59.8
Event & conference revenue	$41.1	$24.3	$17.4
Retail revenue	$73.6	$43.6	$31.1
Commercial office revenue	$446.3	$264.0	$188.6
Increased plaza public space	$12.9	$7.6	$5.4
Congestion reduction	$269.1	$159.2	$113.7
Total Benefits	**$984.6**	**$582.3**	**$416.0**
Net benefits	**$513.1**	**$166.2**	**$30.0**
Benefit-Cost Ratio (BCR)	**2.1**	**1.4**	**1.1**

Notes:
1. *All dollar values represent present values (2019 dollars) of costs and benefits accruing over a 30-year period*
2. *All values are in millions of dollars*
3. *Totals may not add due to rounding*
4. *Standard NSW Treasury practice discounts values using a 7% real discount rate, with sensitivity analysis using a 3% and 10% discount rate*

Source: Urbis calculations

CONCLUSION

KEY CONCLUSIONS

WESTERN GATEWAY SUB-PRECINCT ECONOMIC IMPACTS

- The proposed development of Block C will contribute to the Western Gateway sub-precinct becoming a vibrant and successful technology and innovation hub in the heart of Sydney, attracting global brands and international guests.
- The construction phase will support **286 direct jobs, and 377 indirect jobs per year at peak** and generate **$105.2 million in GVA per year** to Greater Sydney.
- The development of Block C will deliver an additional **20,887sqm NLA of commercial floorspace** to the Sydney CBD, with the sub-precinct **directly supporting 1,270 jobs.**
- The development of Block C will provide the Western Gateway sub-precinct with complimentary retail, food and beverage, event and conference facilities and hotel accommodation with adjacent commercial office space.
- The Block C site will contribute 9% of the 25,323 jobs and $3.7b GVA of economic activity supported in the Western Gateway sub-precinct when combined with the impacts of Block A and Block B.
- The Western Gateway sub-precinct proposal will increase open space for the public, including widening of footpaths, supporting the forecasted growth in foot traffic as a result of the sub-precinct development.
- The rapid CBA undertaken of the proposed Block C development indicates that the project is economically viable. The CBA evaluation yields a positive **NPV of $166.2m** and a **BCR of 1.4**, above 1.0, at the benchmark social discount rate of 7% for the 30-year period under review.
- Further quantification of demand factors including derived demand from commuters, residents and businesses should also be undertaken to identify additional net economic benefits.
- The rapid CBA evaluation has been conducted according to the NSW Treasury Guidelines to Cost-Benefit Analysis [TPP 17-03] and is aligned to the Commonwealth Government's Building Better Regions Fund Application for Infrastructure Projects.

APPENDIX A
APPROACH TO ECONOMIC MODELLING

APPENDIX A

APPROACH TO ECONOMIC MODELLING

Urbis has modelled the high-level economic impacts of Block C of the Western Gateway sub-precinct by reviewing data provided by TOGA Group, as well as publicly available sources. The high-level impact modelling has been supplemented with a high-level review of available literature. The economic activity which is expected to be undertaken on the site has been estimated and complemented with a rapid cost-benefit analysis of the project.

Economic activity estimates, such as value-added and employment were calculated using the REMPLAN Input-Output model. REMPLAN is an Input-Output model that captures inter-industry relationships within an economy. It can assess the area-specific direct and flow-on implications across industry sectors in terms of employment, wages and salaries, output and gross value-added (Gross Regional Product). REMPLAN base data is drawn from the Australian Bureau of Statistics and other government agencies. It provides highly reliable and defensible economic modelling across any state or region in Australia.

The cost-benefit analysis been conducted to assess the net economic benefits of the proposal. The analysis has projected the economic impacts of the proposed project over a 30-year period based on the data available. While economic activity estimates include employment and gross-value added generated by the retail, hotel, events, commercial and building operations these are not used in the cost-benefit analysis. Cost-benefit analysis in general excludes estimates of the employment and gross value-added contribution of operations on a site, unless there is clear evidence that these benefits could not have been supported by alternative sites in NSW. Similarly, economic multiplier (indirect) estimates of flow-on activity in supply-chains is not included in a cost-benefit analysis as the same economic multiplier impacts could be achieved through alternative investments available in the base case and therefore multiplier impacts are not marginal benefits to NSW.

Key assumptions:

- Economic activity estimates have been calculated based on Greater Sydney LGA for REMPLAN input-output modelling
- Construction period of 42 months for the sub-precinct with associated GVA and benefits
- Operation commences the following month after construction is competed with associated GVA benefits
- No identifiable major negative externalities associated with the Western Gateway sub-precinct
- Low risk of any major restructure maintenance/asset refurbishment costs for 30 years
- Equal access to public amenities
- Commuters passing through the sub-precinct are likely to do so as part of their commute to work everyday and approximately 66% of movements occur in an on-peak 3.5 hours period each day

APPENDIX B
RAPID COST-BENEFIT ANALYSIS ITEMS

APPENDIX B

ECONOMIC COSTS

Cost Area	Value	Commentary	Source
Construction costs	$428,000,000 over 3 years	The construction phase is expected to take 36 months from November 2021 to November 2024. The construction of the TOGA building and plaza is expected to comprise approximately $386 million in construction costs and $42 million in professional fees including design and architectural costs.	▪ TOGA Group
Hotel, retail & event facility operating costs	-$152,128 per annum	The new hotel of 210 rooms and serviced apartments is expected to incur approximately $2.7 million in operating costs per annum. Operating costs for the events and conference facility operations are included in this estimate. Retail usage of the Parcel Post Building is expected to involve outgoing costs of $1.0 million per annum, assuming retail use of 2,987sqm net lettable area (NLA) which incurs benchmark operating costs of $350 per sqm. Current hotel operations in the Adina hotel incurred $3,852,128 in operating expenditure in the 2019 financial year. As such, the change in annual operating costs of the overall hotel, retail and events facility is forecast to be a reduction of $152,128, calculated as the difference between the future costs and current expenditure.	▪ TOGA Group
Commercial office operating costs	$4,177,400 per annum	Operating costs for the 20,887sqm NLA of commercial office space provided in the TOGA building are estimated using a benchmark expenditure of $200 per sqm.	▪ TOGA Group

APPENDIX B

ECONOMIC BENEFITS

Outcome	Gross Value	Commentary	Source
Increased hotel revenue	$8,600,000 per annum	The value of the economic benefit from hotel activities is assumed to be captured through the revenue generated to the operator. The revenue generated reflects the willingness to pay of consumers for the hotel's activities. The expanded hotel will generate approximately $15.8 million per annum or $0.3 million per week. In the 2019 financial year the current Adina hotel operations generated $7.2 million in revenue. The annual benefit from the increase in hotel activity is valued as the difference between the expected revenue from future operations and revenue in the 2019 financial year.	▪ TOGA Group
Events and functions revenue	$2,500,000 per annum	Economic benefits from the events and function center operations are assumed to be captured by the revenue of the operator, reflecting willingness to pay of facility users. The expected annual revenue estimate has been provided by TOGA Group.	▪ TOGA Group
Retail revenue	$4,480,500 per annum	Economic benefit from the increased area for retail operations on the site are assumed to be encompassed into the revenue accruing to the building operator. The estimate is based on a benchmark of $1,500 in nett rent per sqm of net nettable area. Benchmark revenue is applied to 2,987sqm of retail floorspace within the Parcel Post Building and Henry Dean Plaza to arrive at $4.5 million per annum.	▪ TOGA Group
Commercial office revenue	$27,153,100 per annum	The economic benefit from the provision of commercial office spaces on the TOGA building are assumed to be predominantly captured in the revenue accruing to the building owner. The estimate is based on a benchmark of $1,300 gross rent per sqm of NLA. Benchmark revenue is applied to 20,887sqm of commercial office floorspace to arrive at $27.2 million per annum.	▪ TOGA Group

APPENDIX B

ECONOMIC BENEFITS

Outcome	Gross Value	Commentary	Source
Increased plaza public space	$768,364 per annum	The increase in public space made available through the development has been valued equivalent to the cost of an equivalent amount of land used for commercial property in the City of Sydney LGA. A value of $10,169 per annum in land rent is derived from Valuer General (2018) data on recent sales and an assumed yield of 5%. This value is then multiplied by the 1,539sqm of ground area.	▪ Valuer General (2018). *Land Values in the City of Sydney local government area* ▪ Urbis calculations
Congestion reduction	$16,372,880 per annum	The proposed Western Gateway sub-precinct development will increase the ground area and walkway space through to Central Station from 2,000sqm to 3,539sqm, an increase of 77%. This increase in ground area will enable an increase in pedestrian activity, easing pressure on the existing walkway arising from the increasing usage. Assuming the space is currently fully utilised, pedestrian movements will be enabled to increase in proportion to the amount of walkway available. From the latest Bureau of Transport Statistics (2014) data and Urbis calculations, there are approximately 11.2 million pedestrian movements through Henry Deane Plaza per year travelling into and out of Central Station. Therefore a 77% increase in capacity will enable an increase of 8.6 million movements per year. Of these increased movements 22.1% are predicted to be moving from road to rail transport into the city, based on Australian Bureau of Statistics (2014) data on the proportion of commuters to Sydney CBD who drive or are passengers in private vehicles. As additional commuters to the city are more likely to be migrants to Australia than current residents, a downward correction in this estimate was used to account for research from the Centre for Independent Studies (2018) which has shown that migrants to Australia are 6.8% less likely to drive to work. The estimate or the proportion of additional commuters who would otherwise be drivers was reduced by 6.8% to 20.6%. From research conducted by Deloitte Access Economics (2017), each trip converted from a car commute to a rail commute creates a congestion and carbon emission reduction value of $9.93 per trip. This per trip value has been applied to the 20.6% of the 8.6 million additional trips per year which can be facilitated through the increase in walkway space.	▪ Deloitte Access Economics (2017). *Value of Rail: The contribution of rail in Australia* ▪ Bureau of Transport Statistics (2014). *Train Statistics 2014* ▪ Australian Bureau of Statistics (2018). *Census of Population and Housing* ▪ Centre for Independent Studies (2018). *Mapping migrants: Australians' wide-ranging experiences of immigration* ▪ Urbis calculations

APPENDIX C
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APPENDIX C

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