TRANSFORMING CANBERRA'S CITY CENTRE

PROPERTY COUNCIL of Australia

CITY. CANBERRA CBD LTD

DISCUSSION PAPER

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BACKGROUND

A city without a vibrant centre is a city without a heart – and Canberra's city centre is in drastic need of CPR.

Stretching from Braddon in the north to Constitution Avenue in the South, and from the Canberra Centre across to the Australian National University, Canberra's CBD is currently a place of great potential – and of missed opportunity. The city centre currently has a 14.7 per cent office vacancy rate – and this is predicted to rise over the next year. This isn't just a problem for commercial property owners. Urban blight is emerging as a serious concern.

At the same time, the CBD's retail sector street-level vacancy rate is 15.9 per cent. The vacant shops, faded signage and 'for lease' signs along City Walk are visible proof that we must invest more in our city centre. We can do better.

The size of the opportunity is as vast as the CBD itself. The CBD is 116 hectares in total, and the 1.5 kilometre walk from the Canberra Centre to the lake is something many have observed requires a 'packed lunch'.

Each day, 38,000 office workers make their way into the city centre, while a further 30,000 people head for ANU. People come to work, shop, socialise and do business. The city centre is not just a another 'town centre', but should be seen by all Canberrans as the principal focus of economic, social and cultural activities – as well as a great place to live.

The reduction of the Commonwealth public service can be measured both in terms of

people (approximately 6,600 in the ACT) and in square metres of office space (JLL estimates a contraction of 92,500 square metres). This downsizing has an impact on the property industry, but also on retailers. The average office worker spends $8.50-$10.50 a day on lunches and coffees –money vital for the CBD's economy.

The ambitions laid out in the ACT Government's City Plan include more people living in the city centre, less through-traffic, better connections across the city and to the lake, and a modern built environment which fosters a dynamic and vibrant atmosphere. While we are encouraged by the ACT Government's commitment to Canberra's city centre, particularly through the establishment of a new urban renewal portfolio, there is further work to be done.

So, how do we create a three dimensional city centre that is unique to Canberra?

Lighthouse public sector projects such as a convention centre, football stadium and aquatic centre can act as incentives for more investment from the private sector. Many CBD areas that hum with vim and vitality – including the NewActon precinct, Lonsdale Street in Braddon, Bunda Street and ANU Exchange – are the result of private sector vision, energy and capital investment.

Canberra, with a single government overseeing state and local council responsibilities, innovative local business groups, and an intelligent, informed community, should be a dream jurisdiction for investors. And yet, this is not always the case.

Development in Canberra is hindered by onerous red tape, taxes, fees and charges – all of which have the perverse effect of slowing investment, employment and productivity. The size of our population compared with our dispersed geography is a great challenge, and we are hindered by a reluctance to embrace innovation.

The price of doing nothing is great. Currently, the hallmarks of our city centre are transport bottlenecks, empty streets, boring building façades and ageing infrastructure. What should be the engine room of our city is, in reality, a provincial town centre.

Canberra CBD Limited and the Property Council of Australia both represent passionate people and major stakeholders in our city who want Canberra to be the best city it can be for the community and the nation.

On 28 November 2014, the Property Council and Canberra CBD Limited brought together people with an interest in the city centre – from planners and public servants, retailers and restaurateurs to building owners and designers – to explore how we create new landmark addresses, attract more residents into the CBD and rejuvenate our tired existing buildings. We want to work with the ACT Government and its agencies to achieve:

- **A city with a shared vision –** developed by government in consultation with business, industry and the community and embraced by all.
- **A city that is planned –** and managed by an integrated strategic master plan that considers transport, infrastructure, retail and commercial opportunities and community and recreational facilities and provides certainty for investment.
- **A connected city centre –** where working is easy.
- **A city that drives the economic wellbeing of Canberra –** and a centre that feels like a Central Business District where people can work, rest and play.
- **A unified city with a focus, heart and soul –** where the centre is easily identifiable, where there is no division or definition between City East and City West, and where there is a strong relationship with the Australian National University and Canberra Institute of Technology.
- **A city with architecture befitting the nation's capital –** with the Sydney and Melbourne buildings playing a central role and a lively Northbourne Avenue which signals the city centre.
- **A city developed over time –** with a short, medium and long term development plan, prioritised actions, staged upgrades and "visible early action", such as uniform pavement treatments.
- **A 24-hour, dynamic and vibrant city –** that is accessible to all and which offers a range of employment and residential choice, reinvigorated strip retail footage, state-of-the-art services, public and private transport options day and night and a centre that allows freedom of pedestrian movement.
- **A city with coordinated governance and management –** between the ACT and federal governments, in particular the National Capital Authority, and other relevant ACT government agencies.
- **A city with one clear vision –** which is mindful of the other town centres and identifies policy outcomes and how they will be achieved.
- **A city with modern and flexible planning controls –** including sensible height restrictions.
- **A city centre that is a tourism destination –** pavements and furniture that are of exceptional standard accompanied by a high quality cleaning regime and year-long events program.

We must commit to working together to create new landmark addresses that attract people at many different stages of life, to rejuvenate our tired existing buildings and to make employment in the city an attractive and competitive proposition. This discussion paper looks at how to re-invigorate our CBD to deliver outstanding economic, social and environmental results for the community as a whole.

UNDERSTANDING THE CHALLENGE

ECONOMIC INDICATORS

A sluggish ACT economy has an impact on the vitality of Canberra's city centre.

According to ACT Treasury, the estimated resident population of the ACT at 31 March 2014 was 385,573 persons. For the year ended 31 March 2014, the ACT population rose 1.4 per cent, below the national growth rate of 1.7 per cent.

'Public administration and safety' continues to be the largest industry in the ACT with a 30.7 per cent share of current price Gross State Product (GSP) in 2013-14, followed by 'construction' (10.1%) and 'professional, scientific and technical services' (8.3%).

Downsizing of the Commonwealth Public Service has had a clear impact on Canberra's economy, with unemployment trending upwards. However, the workforce participation rate is the second highest in the country, and unemployment, as for the fourth quarter of 2014, remains low (4.6%).

Canberra continues to have the highest number of people with tertiary qualifications and the highest median household income of all major cities.

The ACT's GSP, the 'value added' by the ACT economy, rose 0.7 per cent in real terms in 2013–14, below the national GDP growth rate of 2.5 per cent.

ACT Treasury's Retail Trade report (September 2014) found that retail turnover in the ACT increased by 1.9 per cent in seasonally adjusted terms, compared with a national increase of 1.2 per cent.

Year-on-year comparisons find increases in retail turnover for 'clothing and soft goods', 'food retailing' and 'other' retailing. Conversely, decreases were recorded in 'cafés, restaurants and takeaway food services', 'household goods' and 'department stores'.

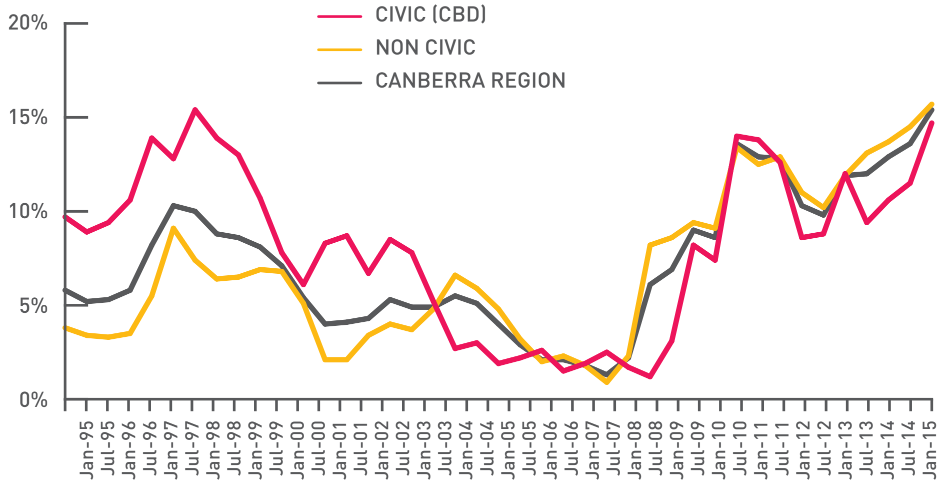
Of significance, Canberra was ranked Australia's most liveable city in the 2014 'My City' survey, conducted by Auspoll on behalf of the Property Council of Australia.

COMMERCIAL OFFICE MARKET

The commercial leasing market in Canberra is challenging. The CBD vacancy rate increased from 11.5 per cent to 14.7 per cent in the last six months, according to the Property Council of Australia's January 2015 Office Market Report (Figure 1). This is due to 20,014 square metres of supply additions. Net absorption was -8,857 square metres. Withdrawals totalled 5,148 square metres. The recent downsizing of the Commonwealth public service has resulted in an increase of sub-lease availability and a rise in vacancy.

More detailed information on office vacancies can be found at the Appendix.

FIGURE 1 CANBERRA OFFICE VACANCY BY PRECINCT



SOURCE: PROPERTY COUNCIL OF AUSTRALIA

FIGURE 2 CANBERRA STOCK PROFILE

SOURCE: PROPERTY COUNCIL OFFICE MARKET REPORT 2015

RETAIL SECTOR VACANCIES

Canberra CBD Limited's Street Level Activity Report (December 2014) highlights the significant challenge of street level vacancies throughout the city centre. A total of 110 vacant units (of 689 identified city centre units) were recorded, representing an overall vacancy rate of 15.9 per cent.

Many factors affect street level activity in Canberra's CBD. These include consumer confidence, an increase in online retailing, the impact of discount retailers, substantial increases in rates, increases in electricity and other operating costs, and the ripple effect of public service downsizing and consequential empty office space in the city.

TABLE 1 STREET LEVEL ACTIVITY DECEMBER 2014

STREET NAME	OCCUPANCY NO.	VACANCY NO AND %
Mort Street, Braddon	36	3 – 8.33%
Lonsdale Street, Braddon	61	6 – 9.83%
Girrawheen Street, Braddon	3	0 – 0%
Elouera Street, Braddon	12	2 – 16.66%
Torrens Street, Braddon	19	4 – 21.05%
New Acton Precinct	11	1 – 9.09%
Marcus Clarke Street, City	18	4 – 21.05%
London Circuit, City	30	7 – 23.33%
Allara Street, City	15	1 – 6.66%
Binara Street, City	2	0 – 0%
Akuna Street, City	8	2 – 25%
City Walk, City	32	6 – 18.75%
Petrie Plaza, City	16	2 – 12.5%
Ainslie Avenue	17	2 – 11.76%
Garema Place, City	57	7 – 12.28%
Baileys Arcade, City	26	7 – 26.92%
Bunda Street, City	20	6 – 30%
Northbourne Ave, City	12	2 – 16.66%
Alinga Street, City	4	1 – 25%
Moore Street, City	14	3 – 21.42%
Rudd Street, City	4	2 – 50%
Barry Drive, City (Excluding ANU)	12	2 – 16.66%
Waldorf Apartments, City	11	4 – 26.36%
Sydney Building, City	30	12 – 40%
Melbourne Building, City	36	7 – 19.44%
Glebe Park Apartments, City	5	0 – 0%
ANU, City	36	0 – 0%
Farrell Place, City	6	0 – 0%
Gordon Street, City	3	0 – 0%
University Avenue, City	10	0 – 0%
Centrepoint, City	6	14 – 233.33%
Hobart Place, City	7	2 – 28.57
	579	**110**

SOURCE: CANBERRA CBD LIMITED STREET LEVEL ACTIVITY REPORT (DECEMBER 2014)

THE OPPORTUNITY FOR CANBERRA

The secondary office buildings in Canberra's CBD and older buildings in selected fringe precincts represent an opportunity for the city.

Re-lifing and conversion of these buildings can be a driver for positive economic, social and environmental outcomes for the city. The city wide benefits potentially include:

- Attracting investment in CBD commercial and residential property
- Driving down the overall commercial office vacancy rate, fast-tracking the viability of new premium developments in the CBD
- Encouraging residential development that expands the resident population, night economy and vibrancy in our CBD and fringe precincts
- Increasing the diversity of residents in the CBD – from students to those in retirement
- Improving design outcomes and street activation in the city – unlocking pockets that are currently 'dead' outside normal business hours
- Promoting innovation and creativity across the city
- Maximising the use of existing infrastructure and delivering on long-term sustainability priorities
- Building on Canberra's green credentials by recognising and valuing the embedded carbon in existing structures
- Minimisation of commuters' reliance on the motor vehicle
- Securing a safer city through more after-hours passive surveillance and pride from those residing in the city
- Increased work and economic activity in the CBD for the contractors and service providers who will undertake the conversions
- More bespoke residential, commercial and retail offerings suited to international investors and visitors – including students
- Redesigned laneways so that rear loading is more efficient, with land sales reactivating areas while raising revenue for the ACT Government
- Rehabilitation of the city, and its fringe precincts, as Canberra's central, vibrant hub.

To achieve this, the ACT Government in concert with industry, needs to build a package of incentives, promotional programs and support services to encourage the rehabilitation of parts of the CBD and fringe.

LESSONS FROM POSTCODE 3000

What did Postcode 3000 achieve in Melbourne?

Postcode 3000, a project initiated by Melbourne City Council in the early 1990s, helped to transform Melbourne's CBD from an ageing commercial district with a high vacancy rate into a vibrant city centre.

Like Canberra now, Melbourne's secondary space problem was particularly acute, with an average vacancy rate of around 26 per cent over the decade and a peak secondary vacancy rate of 30.2 per cent in 1993.

One of the program's major successes was facilitating the conversion of obsolete office buildings to new uses – fast-tracking the withdrawal of these buildings from the office market.

More than 500,000 square metres of space was withdrawn from the market over the period of the Postcode 3000 project. Without this program, it is unlikely the total Melbourne CBD office vacancy rate would have fallen from 25.8 per cent in 1992 to 7.5 per cent in 2000.

The broader citywide impacts of the program are also impressive. The program is credited with achieving a:

- 3,311 per cent increase in apartments in the CBD between 1992 and 2002
- 830 per cent increase in residents between 1992 and 2002

- 275 per cent more cafés and restaurants between 1993 and 2004
- 98 per cent increase in night time pedestrian traffic between 1993 and 2004, reflecting the growth of bars and cafés and a safer, more welcoming environment
- 71 per cent more public space on streets and in squares between 1994 and 2004
- 62 per cent more students in the CBD between 1993 and 2004
- Doubling of pedestrian traffic in the Bourke Street Mall between 1993 and 2004 from 43,000 people per day to 81,000.

Importantly, these outcomes were achieved while still retaining and growing the core commercial functions of the CBD.

HOW WAS THE PROGRAM STRUCTURED?

The program provided financial incentives, technical support, street level support and promotion to underpin private sector investment in the renewal process.

The Melbourne City Council has made it abundantly clear that the financial cost to council was minimal, particularly in the context of the outcomes that were delivered.

Below is a brief outline of the different mechanisms used in the Postcode 3000 project:

FINANCIAL INCENTIVES

- Fee relief
  - No open space fees for residential development
  - Performance based refunds on planning fees
- Reassessment of local government rates for the period of construction

TECHNICAL SUPPORT

- Building and Planning Support Service Centre – provided specialist advice and support for building conversions and new development in the CBD
- Streamlined approvals
- Guidelines to promote and support building recycling and innovative conversion
- Market analysis reports

STREET LEVEL SUPPORT

- Capital works at street level to support development
- Resolution of parking issues

CITY LIVING PROMOTIONS

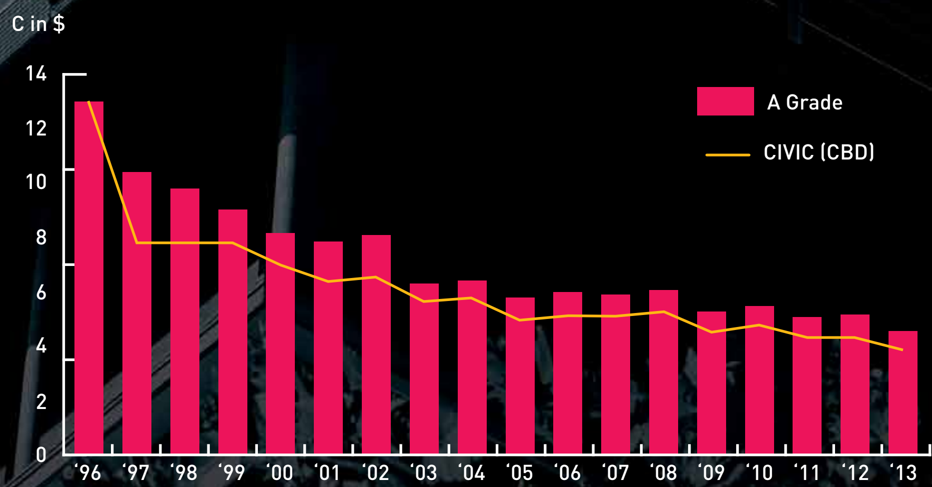
- Public relations and media program
- Project newsletters
- Information packs and advice for key groups
- Demonstration projects.

Significantly, the City of Melbourne was able to undertake this project without raising residential or non-residential rates. (See Figure 4).

The built form outcomes were equally impressive. Just one example is the transformation of the Telstra building on the corner of Russell and Little Collins streets. Renowned architect Nonda Katsalidis redeveloped the tired art deco telephone exchange into a luxury apartment. building Fender Katsalidis were later instrumental in the development of the NewActon precinct in Canberra.

FIGURE 3 TRANSFORMATION OF TELSTRA EXCHANGE TO HERO APARTMENTS

FIGURE 4 CITY OF MELBOURNE RATES HISTORY 1996-2013



SOURCE: POSTCODE 3000: A CASE STUDY IN GOVERNMENT AND BUSINESS WORKING TOGETHER

APPLYING MELBOURNE'S LESSONS TO CANBERRA

The Canberra city and parts of the fringe are facing many of the same challenges that Melbourne confronted in the 1990s: in particular, an oversupply of lower grade commercial building stock.

Therefore it would appear an opportune time for industry and government to jointly explore the potential for a coordinated approach to the conversion of older office accommodation.

Preliminary examination by the Property Council and Canberra CBD Limited has identified four tiers of incentive packages that could be developed for Canberra. These are:

1. **Broad based –** conversion or redevelopment of existing sites.
2. **Refined –** limited to the conversion or creative reuse of existing buildings.
3. **Specific –** tailored to achieve a specific social or built form outcome.
4. **Innovative –** promotes and rewards innovation and creativity.

Each of these is described in more detail on the following pages. Most incentives could be achieved by negotiation now.

BROAD-BASED

DESIRED OUTCOME:

To fast-track the redevelopment and activation of underutilised sites in the CBD and selected fringe precincts.

SPECIFIC PARAMETERS

- No specific preference for reuse of existing structures vs complete redevelopment
- No specific preference for the type of use.

POSSIBLE ACTIONS AND INCENTIVES:

- Reduced taxes, fees and charges
- Planning innovation (creative rather than restrictive height and setback rules)
- Stamp Duty concessions where consolidation of sites occur AND there is redevelopment within 2-3 years
- Streetscape improvements
- Promotional activities
- Advice and support services.

EXAMPLE OUTCOME FROM A **BROAD BASED INCENTIVE PROGRAM**

DEMOLITION AND REDEVELOPMENT

An assessment of a secondary grade office building in the Canberra CBD has determined that it is not appropriate for adaptive conversion to another use due to the structural features of the building.

The only suitable solution is the demolition of the building and redevelopment of the site. However, such an outcome is unlikely to be achieved because of the inability of the development to generate a return that meets financing thresholds.

The risk to Canberra:

- The site remains inactivate for a long period of time with little or no investment on the site. The result would be lower amenity and lower levels of investment in the city as well as an inactive site.

How could a broad based incentive program make a difference?

- Lower government costs such as development assessment fees and infrastructure charges coupled with targeted planning concessions could tip the balance in favour of the project proceeding.

REFINED

DESIRED OUTCOME:

- To fast-track the redevelopment and activation of underutilised existing buildings in the CBD and selected fringe precincts.

SPECIFIC PARAMETERS

- A stated preference for the upgrade, reuse or conversion of existing structures
- No specific preference for the type of use.

POSSIBLE ACTIONS:

In addition to the broad based actions and incentives the refined program could include:

- Access to environmental upgrade agreements
- Tailored guidelines to provide information for building owners on how to upgrade or convert an existing building.
- Engage a planning consultant to provide technical support to assist in navigating the challenges associated with building codes, planning controls and community engagement.

EXAMPLE OUTCOME FROM A **REFINED INCENTIVE PROGRAM**

UPGRADE TO A HIGHER QUALITY OFFICE BUILDING

An assessment of a secondary grade office building in the Canberra CBD has determined that its location means that its highest and best use is to remain an office building. The building is also not completely vacant, with the existing tenant's lease not expiring for some years. However, significant investment is required to bring the building up to an A Grade standard to make it viable as an office building for the long-term.

The most suitable solution is to 'gut' the building and invest in entirely new facilities and services to lift the amenity and environmental performance. However, such an outcome is unlikely to be achieved because of the inability of the owner to generate a return that meets financing thresholds to undertake the work. Specifically the cost savings that will be made as a result of the improved environmental performance of the building (ie lower electricity costs) will flow to the tenant, not the owner who has made the investment. This is known as a split incentive.

The risk to Canberra:

- There continues to be little or no investment in the building. The result would be lower amenity and lower levels of investment in the city.

How could a refined incentive program make a difference?

- Other Australian cities have embraced 'Environmental Upgrade Agreements' as a means of overcoming this split incentive. EUAs are a financing mechanism whereby the local government plays a role in fairly apportioning the costs and savings of the investment between the tenant and the owner.

SPECIFIC

DESIRED OUTCOME:

- To fast-track the redevelopment and activation of underutilised existing buildings in the CBD and selected fringe precincts.

SPECIFIC PARAMETERS

- A stated preference for the upgrade, reuse or conversion of existing structures
- Targeted towards a specific type of use – for example student accommodation or retirement living.

POSSIBLE ACTIONS AND INCENTIVES:

In addition to the broad based and refined actions and incentives, the specific program could include:

- Targeted financial incentives for particular use types
- Targeted planning or other concessions.
- Tailored guidelines and market analysis to support and promote the community and market's understanding of the converted use.

EXAMPLE OUTCOME FROM A **SPECIFIC INCENTIVE PROGRAM**

STUDENT ACCOMMODATION

An assessment of a secondary grade office building in the Canberra CBD has determined that it may be appropriate for conversion to student accommodation due to proximity to the university and other services.

However, the building has a significant amount of basement car parking that is needed for a commercial building, but not student accommodation. In essence, the basement car parks have little value to someone looking to convert the site into student accommodation. Writing off the value of the basement car parking is not a viable solution for the owner as it would have serious implications for the valuation of its portfolio and its associated financing arrangements. Therefore the conversion does not proceed.

The risk to Canberra:

- There continues to be little or no investment in the building. The result is a lower amenity and lower levels of investment in the city. The city would miss the opportunity to promote an important and in demand accommodation type.

How could a specific incentive program make a difference?

- Planning restrictions prevent the owner operating a commercial car park in the building basement. As part of a specific incentive program, the ACT Government may allow the owner to operate the car park as a commercial operation provided the building was converted to student accommodation. This would be no cost to the ACT Government, but would significantly alter the project's viability.

INNOVATIVE

DESIRED OUTCOME:

- To promote innovation and creativity in the redevelopment and activation of underutilised existing buildings in the CBD and selected fringe precincts.

Possible actions and incentives:

In addition to the broad based, refined and specific actions and incentives, the Innovative program could include:

- A grant, award or incentive for an upgrade or conversion that incorporates innovative design, building techniques or community facilities.

EXAMPLE OUTCOME FROM AN **INNOVATIVE INCENTIVE PROGRAM**

PUBLIC SPACE

An assessment of a secondary grade office building in the Canberra CBD has determined that it may be possible, through redevelopment, to provide increased community access to existing or new public transport facilities or parklands through the site. This would have the advantage of activating the site, as well as providing greater levels of public amenity.

However, the increased activation of the site and associated retail and commercial opportunities do not generate sufficient commercial returns to warrant the investment.

The risk to Canberra:

- There continues to be little or no investment in the building. The result would be lower amenity and lower levels of investment in the city. The city would also miss the opportunity to improve access for residents.

How could an innovative incentive program make a difference?

- The ACT Government could invite proposals from owners who believe aspects of a possible redevelopment would provide a social, economic or cultural dividend to the city's residents beyond the base value of an upgraded building. If it is deemed to be a worthwhile investment in the city, the ACT Government may provide a grant, award or other incentive to promote the work.

CREATING A CULTURAL PRECINCT IN CANBERRA'S CBD

A vibrant city is important to the image, status and future success of not just Canberra, but of the nation.

We must reprioritise our city as more than a 'central business district' but also as a cultural precinct.

Canberra's heart can become a crucible of creativity and entrepreneurship. Canberra's city could be teeming with activity – vibrant commercial spaces, pop up galleries and retailing, food trucks, public art installations, child-friendly play spaces and urban greenery.

With the exception of Glebe Park, City Hill, Veterans Park and Latin America Plaza, green space is limited in our city centre. We need to identify more opportunities for pocket parks that will offer amenity to future residents. And we need to make better use of existing public realm areas.

Our region has a rich community of artisans, craftspeople and growers who could temporarily occupy vacant spaces for their creative enterprises and help us breathe new life and purpose into our older and valuable city buildings.

Other buildings can be repositioned as 'incubators' for budding entrepreneurs and start-ups, drawing on the hotbeds of innovation at our universities and CSIRO.

We need to attract a broader demographic of people into our city – to live, work and play.

Building a compact, diverse, walkable, fine grain and human scale city requires innovation and commitment. The solutions we find for Canberra will be unique to Canberra.

Great cities are defined by their public realm. It is the parks and public transport, street patterns and buildings, walkways and waterways that define a city's character and capture the imagination of its citizens.

As former Mayor of Bogota, Enrique Penalosa says "public space is for living, doing business, kissing and playing. It can't be measured by economics alone. It must be felt with the soul."

LESSONS FROM NEWACTON

WHAT HAS THE MOLONGLO GROUP ACHIEVED?

In less than a decade, a forgotten corner of Canberra's CBD has been transformed into one of Australia's most memorable new neighbourhoods.

ANYTHING BUT ORDINARY

Molonglo Group was determined "not to be ordinary" when it laid out its vision for NewActon, which was to be a place of outstanding quality and design, world-leading environmental sustainability and a destination with a thriving social and cultural life. The 2.5 hectare site provided the scope to create a 'place' rather than a building. Molonglo Group's Managing Director, Nectar Efkarpidis says "we're not developers – we're custodians building public assets." This required a collaborative approach with architects, interior designers, landscape architects, engineers, artists, artisans and creatives, marketing agents, key tenants, builders and regulators, as well as an ongoing management approach.

A MIXED-USE MASTERPIECE

Molonglo Group has used mixed-use development to act as a 'microcosm of urban life', recognising that the space between the buildings is as important as the buildings themselves.

The precinct embraces what the Molonglo Group calls "the philosophy of public occupation", attracting everyone from five star travellers to office workers, residents to restaurant goers, and cyclists to cinema buffs. People come to work and play, buy and sell, interact and exchange ideas.

Surprises and delights are around every corner. NewActon blends old and new to create not just a precinct, but an experience. The hotels, for example, weren't designed solely for hotel guests; the commercial buildings aren't just the preserve of office workers. The precinct encourages everyone to enjoy the spaces.

ACTIVITIES, ARTS AND CULTURE HUB

Molonglo Group's Nectar Efkarpidis argues that "the sign of a great city or great precinct is the strength of its cultural and artistic life. Arts and culture are economic drivers for success."

Embracing Charles Landry's philosophy that "the creator of the space is the curator of the space," art gives life to the precinct, and is both playful and thought-provoking.

A full-time events manager and cultural coordinator drives an innovative arts program that includes poetry slams, contemporary art exhibitions, innovative concerts and multi-arts festivals. This program, together with the cafés, bars, restaurants and cinemas, attracts people day and night.

BLENDING OLD AND NEW

The buildings were not designed and built to prescriptive standards simply to meet quick planning approvals. Creative titling was required, particularly on the Nishi building.

The new buildings in the precinct - NewActon East, South, Nishi and the Gallery – do not mimic the old. Instead, despite their varying heights and styles, the new buildings join the heritage Hotel Acton in a 'conversation'.

It is the integration between building uses and the spaces between those buildings makes the precinct worthy of the national 2014 Australia Award for Urban Design for a completed large-scale project. This isn't NewActon's only accolade, either. Hotel Hotel was named Australia's best boutique hotel in 2014 by Gourmet Traveller magazine, and recently attracted the attention of the New York Times.

NewActon, which was created through private sector vision, investment and effort, is a lighthouse example of the potential of our city centre. We can create places that encourage both lingering and bustling, that embrace both physical and intellectual pursuits, and that balance the old and the new. The Molonglo Group has created a memorable neighbourhood – and we need more of them.

NEXT STEPS

The opportunities associated with the evolution of the Canberra CBD and selected fringe precincts are limitless – provided the right suite of incentives, promotional programs and support services are developed, and private sector investors come on board.

This paper has outlined some preliminary options for consideration. However more detailed analysis and refinement would be needed to ensure the final program was well designed and effective.

The Property Council and Canberra CBD Limited recommend consideration of the following:

FINANCIAL

Financial constraints, such as taxes, fees, charges (particularly the Lease Variation Charge) affect our ability to revitalise the CBD.

The lease variation charge (LVC) largely prohibits the adaptive reuse of redundant C and D Grade commercial offices, and unless the ACT Government adopts a more realistic taxation policy, these sites will continue to deteriorate and detract from the liveability of the city centre.

The charge adds significant costs to new development which are ultimately passed on to the purchaser – with negative effects on affordability. Contrary to the Territory's policy to increase urban density, LVC focuses new development into greenfield areas or vacant sites in established areas where development is more cost-effective.

The Territory's forecast revenue from the LVC has plummeted – indicating that the volume of redevelopment has been dramatically reduced.

Similarly, a report prepared in 2012, *The ACT Lease Variation Charge: Implications for Housing Affordability, Development and Growth in Canberra* prepared by the Allen Consulting Group, found that in the first year following introduction of LVC the number of development applications processed in the ACT fell by 56 per cent. We believe this decline will continue unless swift action is taken.

Reviewing the methodology for the purpose of LVC, and removing complications, is an essential step in our transformation of the CBD. We urge the ACT Government to:

- Create a remission category for new City developments where for the first 2 years LVC will be nil and subsequently the remission rate is 50 per cent
- Apply LVC at the end of the development pipeline
- For codified variations – apply a 75 per cent tax remission (i.e. 25 per cent LVC)
- For non-codified variations – apply a 25 per cent tax remission and allow the full opportunity costs to be taken into account in assessing the before and after values (i.e. offsetting for existing improvements, demolition and onsite/offsite works).

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REGULATORY

The ACT Government should consider establishing a renewal commission or corporation to coordinate city centre revitalisation and ensure an integrated approach to redevelopment.

By incorporating public and private sector expertise, renewal commissions or corporations help resolve bureaucratic and structural impediments to transform specific precincts.

A statutory CBD Development Authority would be responsible for creating master plans, coordinating infrastructure and whole of government activity, and accommodating growth. It would encourage investment and facilitate public finance opportunities. It would also educate the Canberra community about the benefits of renewal and change.

The CBD Renewal Authority would drive solutions for potentially slow developments, including on height restrictions, set back requirements and plot ratios, land acquisition, site consolidation and water, gas and electrical infrastructure demands and cleaning.

Given the ACT Government's commitment to redeveloping the Canberra city centre, a renewal commission or corporation is an ideal vehicle for capturing and delivering the best ideas and governance in an efficient and effective way.

TECHNICAL

A range of technical challenges and opportunities must be understood and resolved to facilitate the potential reuse of existing buildings. Innovative approaches to design and redevelopment require a range of technical issues to be addressed, including:

- Heritage requirements
- Building code requirements (particularly around balconies, depth of apartments, fire services)
- Planning requirements.

In particular, we must balance the need to provide high-quality public transport with the need for adequate car parking. While the Property Council and Canberra CBD Limited support the vision for a more pedestrian-focused central city, the provision of adequate car parking is essential to support the commercial, retail and residential parts of the city. For the city to grow there must be sufficient, publicly-accessible car parking for long and short stay car parking. More flexible use should be encouraged for existing car parking spaces, such as the availability of underutilised car spaces within existing commercial buildings.

MARKET

Further investigation into the market drivers that will affect the success of the program is required. Issues needing further analysis may include:

- The demand for targeted use types such as student accommodation or retirement living
- The suitability of specific precincts or locations for particular uses
- The dynamics and impacts of international investment in the residential and commercial sectors.

COMMUNITY

Revitalisation of our city's heart must align with the community's expectations. Issues requiring further analysis may include:

- Existing strategies and plans, such as the City Plan
- Community engagement opportunities, particularly with schools and the Canberra Institute of Technology, and with places of worship
- Communication strategies.

PEOPLE

We have a wealth of clever, creative people in the nation's capital who are passionate about revitalising our CBD. This can be complemented with experts from other successful projects, such as the Postcode 3000 project in Melbourne.

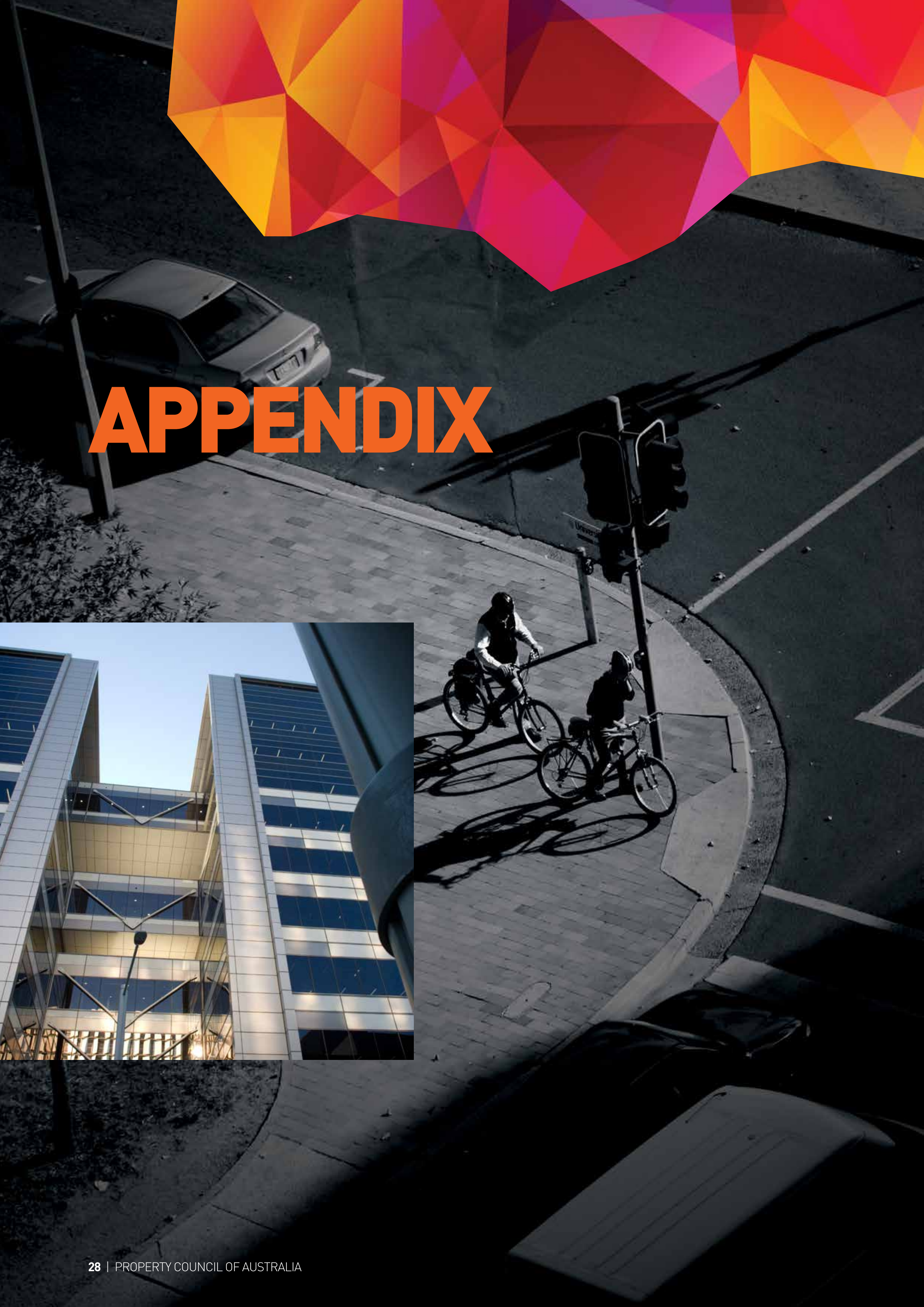
CONCLUSION

The Property Council and Canberra CBD Limited believe there is value in further exploration of a tailored program to promote the redevelopment, upgrade and/or reuse of underutilised commercial sites in our city centre.

The success of the Postcode 3000 project in Melbourne in the 1990s is evidence that such a program can work. Similarly, investment in our cultural capital, as seen in NewActon and elsewhere, can deliver dividends.

Our CBD faces many challenges – but we have the opportunity to convert those challenges into an outstanding legacy for the citizens of Canberra.

APPENDIX

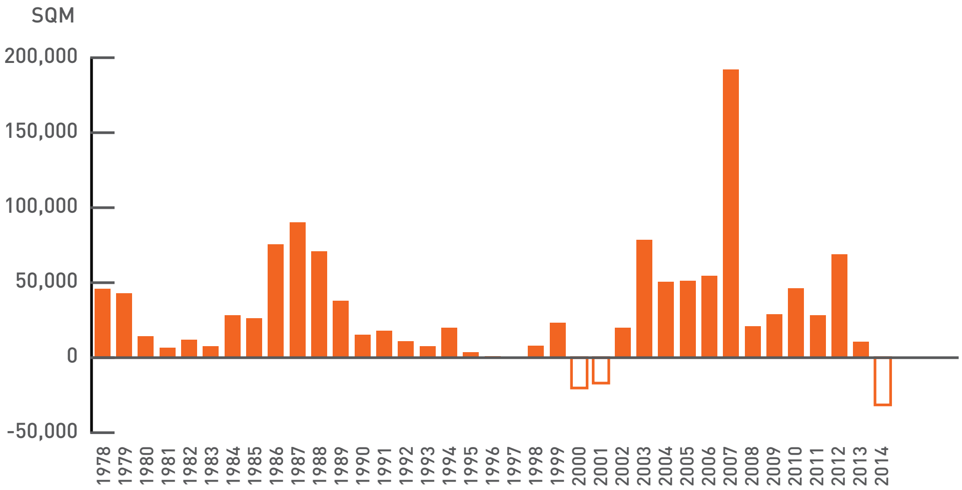


OFFICE MARKET VACANCY RATES

JLL has tracked the Canberra market since 1978. Over this time (1978 to 2014), the demand for office space has been relatively stable. Average net absorption under a federal Labor government was 32,300 square metres, compared with 33,100 square metres under a Coalition government. However, excluding the record high year for net absorption in 2007 (192,200 sqm), the average under the Coalition was much lower, at 23,200 square metres per annum.

A contraction in demand (defined as reduction in occupied space) over a 12 month period in Canberra is unusual. Between 1978 and 2014, JLL only recorded two occasions when net absorption was negative over a calendar year (2000 and 2001). Over 2014, JLL recorded negative 31,485 square metres of net absorption in Canberra. 2014 will represent the third occurrence of negative net absorption over a calendar year in Canberra (Figure 5). A contraction in demand and the completion of new office product has pushed the vacancy rate higher.

FIGURE 5 CANBERRA NET ABSORPTION, 1978-2014



SOURCE: JLL RESEARCH

A number of development projects in the city centre are under construction and scheduled to reach practical completion over 2015 (Table 2). Of the 10 projects JLL is currently tracking, seven are under construction and will add 19,970 square metres of office space to the market over 2015. A number of development projects have plans approved or submitted. However, many of these planned office projects will not commence construction until a significant level of pre-commitment is achieved.

With the exception of one small pre-commitment to 10-12 Lonsdale Street in Braddon, all of the space under construction in Canberra is speculative construction. Furthermore, a number of projects in Canberra have development approval. In the short to medium-term, however, it is unlikely these projects will commence without significant pre-commitment.

TABLE 2 PROJECTS UNDER CONSTRUCTION 2015

PROJECT	CONSTRUCTION TYPE	COMPLETION YEAR	DEVELOPMENT STAGE	OWNER	NLA
50 Blackall Street	Full Refurb	2015	Construction	MAB Diversified Property Trust	4,727
10-12 Lonsdale Street	New Development	2015	Construction	Max Profit Pty Ltd	1,745
216 Northbourne Avenue	Partial Refurb	2015	Construction	UNSW	1,200
63-67 Constitution Avenue	Full Refurb	2015	Construction	Hindmarsh Group	1,200
63-67 Constitution Avenue	New Development	2015	Construction	Hindmarsh Group	1,500
Gozzard Street (Efkarpidis St)	New Development	2015	Construction	KDN Group Pty Ltd	9,000
Keltie Street	Partial Refurb	2015	Construction	Westfield Group / The GPT Group	600
Section 96	New Development	Mooted	DA Approved	QIC	37,000
68-72 Northbourne Avenue	New Development	Mooted	DA Applied	Walker Corporation Pty Ltd	52,000
Gozzard Street	New Development	Mooted	DA Approved	Undisclosed Private Investor	2,250
				Total	**111,222**

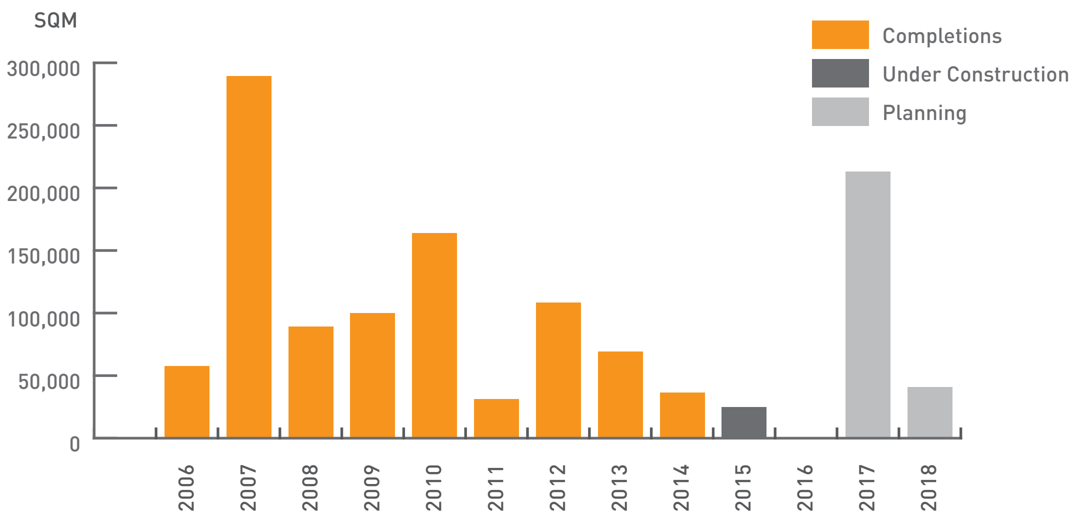
SOURCE: PROPERTY COUNCIL OFFICE MARKET REPORT JANUARY 2015

As a result, JLL forecasts vacancy will remain elevated over the course of 2015. The vacancy rate in Canberra is above average for all grades of office product. However, the composition of vacancy is skewed more towards B and C Grade assets (Table 3).

While the A Grade vacancy rate in Canberra's city centre is 13.0 per cent, this is skewed by sub-lease availability. In contrast, the vacancy rate for the B and C Grade sector (17.1% and 22.6%) is significantly higher than the broader Canberra market (Table 3).

We need policies and programs that encourage upgrading or conversion of existing buildings to new uses to promote growth in the areas of the CBD that need it. Changes to the LVC system that stimulates activity in the market and drive economic activity are now urgently required.

FIGURE 6 CANBERRA COMPLETIONS & DEVELOPMENT PIPELINE 2006-2017



SOURCE: JLL RESEARCH

TABLE 3 VACANCY & NET ABSORPTION BY GRADE FOR CANBERRA CBD

GRADE	TOTAL VACANCY DEC 14 (%)	NET ABSORPTION, 6 MONTHS TO DEC 14(SQM)	NET ABSORPTION, 12 MONTHS TO DEC 14 (SQM)
A	12.98	-8,114	-5,669
B	17.1	-2,475	-13,792
C	22.6	-2,928	-12,024
D	13.0	-68	162
Total	**15.1**	**-13,517**	**-31,485**

SOURCE: JLL RESEARCH

LESSONS FROM THE PAST

The last time the city precinct had an extended period of double digit vacancy was in the mid-1990s. Vacancy was above 10 per cent for three successive years in the city precinct (1996, 1997 and 1998). This was broadly a demand-side event precipitated by the Howard Government's 1995-96 Budget.

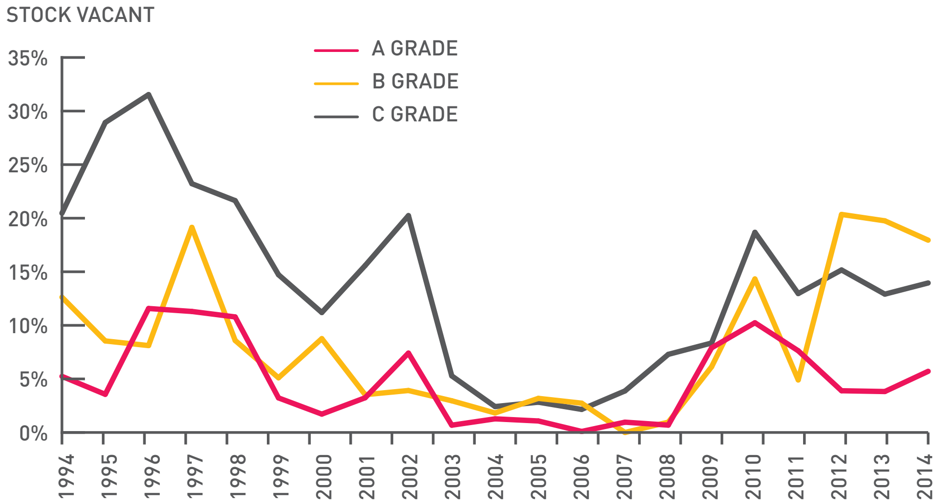
Deloitte Access Economics states that total 'public administration and safety' employment in the Canberra city and Barton precincts was 19,380 workers in December 1996. After contracting in 1997 and 1998, it took until December 2000 before the previous peak in public administration employment was recaptured.

The downsizing of the public sector affected the Canberra city office market for a decade. Over the 10 years to 2014, audited net absorption in the CBD was essentially zero (-2,000 sqm). However, vacancy was largely concentrated in lower quality grades of office product. Vacancy for B Grade assets peaked at 19.1 per cent in 1997, while C Grade vacancy moved above 30 per cent in 1997 (Figure 7).

The weak demand resulted in a period of limited new supply and the withdrawal of older style office stock for refurbishment or redevelopment. Completions were 24,970 square metres in the city centre between 1997 and 2005. The high vacancy factor in secondary grade assets resulted in a number of withdrawals. Over the same period withdrawals were double the level of completions (49,700 sqm) in the city precinct (Figure 8).

The risks today are similar to those faced in the mid-1990s. However, no two real estate cycles are the same and the Canberra CBD office market has some notable differences to the mid-1990s. In the mid to late 1990s, sub-lease availability was largely unchanged in Canberra. Federal government departments retained excess space which allowed them to grow headcount over the 2001 to 2003 period without leasing additional space. In this downturn, the public sector has taken a more strategic approach to real estate portfolio management. The public sector has consolidated operations and released excess space to the market. As a result, sub-lease availability has increased. Any headcount expansion over the medium-term will, therefore, require additional office space.

FIGURE 7 CANBERRA CITY VACANCY RATE BY GRADE 1993-2014



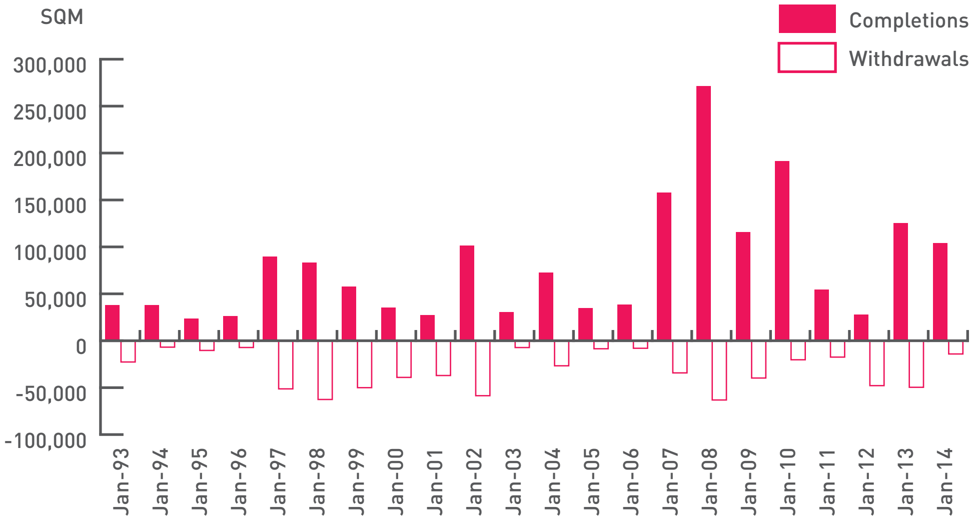
SOURCE: PROPERTY COUNCIL OFFICE MARKET REPORT, JLL RESEARCH

Workspace ratios are significantly tighter in the Canberra CBD and Barton than the mid-1990s. JLL has calculated the workspace ratio by taking the white collar employment numbers from Deloitte Access Economics and dividing by occupied stock. The main limitation of this methodology is that it includes the private sector. However, it provides an insight into workspace ratio trends across the Canberra city and Barton precincts.

In 1998, JLL assessed workspace ratios at 30 square metres per person. This ratio compressed to 21.5 square metres per person in 2003. The compression in workspace ratios as tenants used space more efficiently limited the potential for growth in the market over this period.

In 2014, JLL calculated a workspace ratio of 18.5 square metres per person. An increased efficiency dividend impact (an annual funding reduction for Commonwealth Government agencies) and recent changes to the PRODAC (Australian Property Data Collection) guidelines, reflecting the occupational density target for usable area from 16 square metres per occupied workpoint to 14 square metres, will exert further pressure on workspace ratios. Significantly, JLL's calculation for workspace ratio is based on Net Lettable Area and includes training facilities, storage and meeting rooms. As a result, the potential impact from workspace ratio reduction is less in this cycle than the mid-1990s.

FIGURE 8 CANBERRA CITY COMPLETIONS & WITHDRAWALS 1993-2014



SOURCE: PROPERTY COUNCIL OFFICE MARKET REPORT, JLL RESEARCH

PRIME VS SECONDARY STOCK

Canberra has a similar proportion of B Grade and C Grade office stock as Sydney, Melbourne and Perth. Brisbane is an outlier in the composition of office product – Brisbane has a much higher proportion of B Grade and C Grade stock. With the exception of Sydney, the vacancy trends are similar – B Grade vacancy is significantly higher than A Grade (Table 4).

The other major office markets – Sydney, Melbourne, Brisbane and Perth – have a more diverse tenant base than Canberra. Analysis of the Deloitte Access Economics employment numbers for Canberra implies that 38.9 per cent of white collar employment is within the 'public administration & safety' category. However, the proportion of workers in this cohort is significantly higher in the Canberra city and Barton precincts (72.9%).

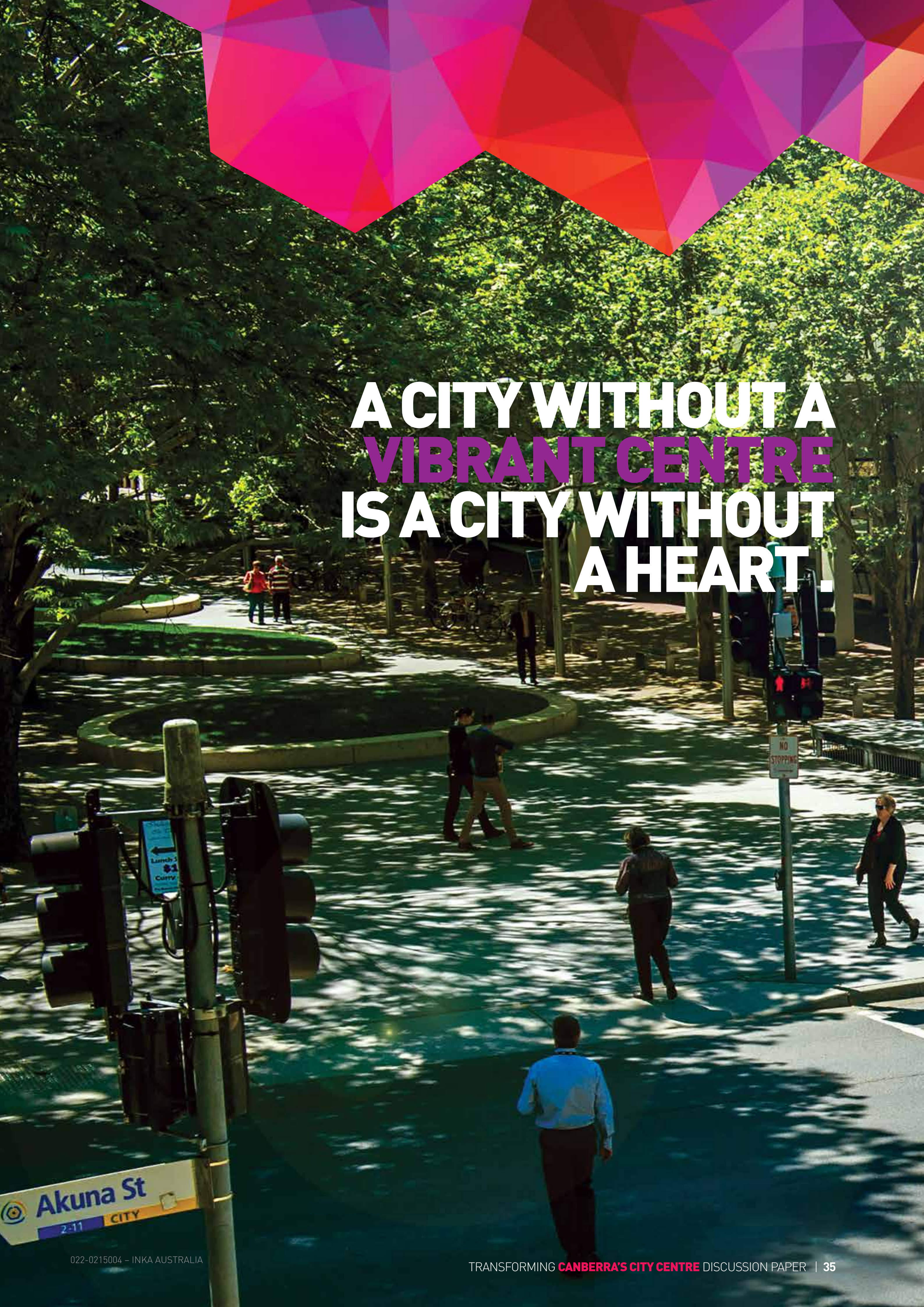
The B Grade market typically has a higher proportion of small to mid-sized occupiers (less than 1,000 sqm) and fewer public sector occupiers. Small to mid-sized businesses are less driven by corporate social responsibility agendas and are more price sensitive to real estate accommodation costs. As a result, the B Grade office market in Sydney, Melbourne, Brisbane and Perth has greater depth to the tenant market for B Grade office space than Canberra.

TABLE 4 OFFICE MARKETS PROPORTION OF STOCK BY GRADE 3Q14

GRADE	CANBERRA	SYDNEY	MELBOURNE	BRISBANE	PERTH
Premium	0	14.8	9.2	9.4	16.9
A	60.0	39.4	51.6	35.8	40.0
Prime	**60.0**	**54.2**	**60.8**	**45.2**	**56.9**
B	31.1	29.9	16.1	44.1	26.2
C	8.9	12.3	19.3	8.9	16.5
D	0	3.6	3.8	1.8	0.5
Secondary	**40.00**	**45.8**	**39.2**	**54.8**	**43.1**

SOURCE: JLL RESEARCH

A CITY WITHOUT A VIBRANT CENTRE IS A CITY WITHOUT A HEART.



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