Northern Exposure
an analysis of office and commercial accommodation issues in Melbourne’s North

Executive Summary
Northern Exposure
an analysis of office and commercial accommodation
issues in Melbourne's North

A study commissioned by NORTH Link/NIETL and funded
jointly by industry, education and local government in Melbourne's North

Consultants
Australian Research Group
SGS Economics and Planning

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FOREWORD

The significant shortage of office and commercial accommodation in Melbourne's North has previously been identified through both industry feedback and the research report ‘Growing Melbourne's North - developing an integrated economy’ (2003) as a major inhibitor to regional economic growth.

North Link/NIETL and the Northern Melbourne Area Consultative Committee (NACC) have undertaken to analyze this situation at grass roots level detail with the aim of identifying and addressing the limiting factors on the supply and demand for office and commercial accommodation across the region.

This analysis has been accomplished through one on one interviews and workshops with eighty five of the key decision makers and others with first hand experience and knowledge on the subject.

The outcomes of this study and the recommendations developed are now presented in this study ‘Northern Exposure - an analysis of office and commercial accommodation issues in Melbourne’s north’.

NORTH Link/NIETL and the NACC will now commence the process of partnering with key stakeholders to implement key report recommendations in order to grow office and commercial accommodation and contribute further to sustainable economic and employment growth in the northern region of Melbourne.

Gerry Neylan
General Manager Property Development
Melbourne Airport/NORTH Link Chair

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Cathy Sommerville and the Australian Research Group for their enthusiastic completion and interpretation of the research interviews that has resulted in the authorship of this ground breaking report and recommendations.
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- Austrak & GPT Group
- Banyule City Council
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- City of Whittlesea
- City of Yarra
- Hume City Council
- La Trobe University
- Lend Lease Communities
- MAB Business Parks
- Macquarie Goodman
- Melbourne Airport
- Moreland City Council
- Nillumbik Shire Council
- NORTH Link/NIETL
- Northern Melbourne Area Consultative Committee
- Northpoint Enterprise Park
- Origin Energy Asset Management Limited

**Interviewees**

We are most thankful for the time and intellectual guidance of the eighty-four interviewees and the four additional organisations that have provided information and quotes. They are all listed and named in the research except for those that asked to remain anonymous.

**Staff**

The final proof reading and cross checking was an enormous undertaking due to the sheer volume of the report. The staff of NORTH Link/NIETL performed the task magnificently with special acknowledgement to Deb Redmond for her assiduous approach to a most demanding task.
1. Executive summary

NORTH Link/NIETL commissioned the Australian Research Group to conduct this study in late 2006. This project was initiated in response to research and industry feedback that shows the region is suffering from a severe shortage of office and commercial accommodation.

Given the fact that the Northern region is planning for a major population increase of over 250,000 people over the next ten - twenty years, it is considered critical that any economic barriers to growth are removed and that opportunities to increase employment in the region are maximised.

This project has the full support and is fully funded by the seven councils in the region; NORTH Link/NIETL; Northern Melbourne Area Consultative Committee and key property developers and agents in the region.

The study area includes the seven municipalities within the Northern region of Melbourne, namely the cities of Banyule, Darebin, Hume, Moreland, Whittlesea and Yarra plus the Shire of Nillumbik located inside the Urban Growth Boundary and those areas outside of the Urban Growth Boundary that may be relevant to the analysis.

In depth interviews have been conducted with a diverse range of some 85 individuals including large-scale developers, commercial real estate agents, government spokespeople, and business owners.

1.1 Our Approach

This study has taken the research on office and commercial accommodation issues in the North beyond net absorption rates, demographic data and floor space measurements and into the realm of considering the many issues that lie behind the lack of significant office and commercial accommodation in the Northern region of Melbourne.

It goes where the data does not go - into the underlying factors in the North and the current reality of the region - and therefore moves past the historical data that so clearly favours the suburban office market located primarily in Melbourne's South East. Without an office market history on that scale, the data cannot show the potential for the North.

1.2 Principal Conclusions

a. University Hill the test case - promoting its success will be essential

University Hill is seen as the test case and the first such test case for the North. University Hill is going well and selling well. Promoting this will be important as it commences and once it is established.

b. Image of the North remains one of the greatest hurdles

There is a clear need to commence marketing campaigns and develop strategies aimed at changing perceptions of decision makers about the North. To many developers, the North is absolutely outside their realm of thinking on office development and is not a move they’d be prepared to make for fear of damage to their own reputation.

c. Breaking out of the Catch 22 - no history of office accommodation

Developers overwhelmingly still see the North as a risk when it comes to office accommodation; not a safe bet for investment; based almost exclusively on its lack of an established reputation as a location for office and commercial developments. Breaking out of this Catch 22 is critical and University Hill creates the first opportunity to do so. Education on the reasons why the economic data doesn’t always stack up well for office accommodation in the North is an important starting point: the lack of historical patterns and the outdated nature of the last Census data.
d. Need for increased awareness of who chooses to live in the North

Family, multicultural, religious and sporting connections to the North are among the range of factors involved in the decision to live in the North by many highly skilled professionals and very successful businesspeople. These aspects are not well understood outside the region. Many developers, who typically live in the inner city or East or South of Melbourne CBD, cannot understand why anyone would want to live in the North and can certainly not understand why anyone would want to work in an office there. This is a real barrier. There is almost no understanding of what might be called the changing face of the Northern CEO. The many factors that create tight links between wealthy businesspeople or highly skilled workers and their wish to live and work in the North, are not understood.

e. Haven for sustainable office developments

The North is seen to offer great scope for development of sustainable office buildings. There are many reasons for this and they vary across the different parts of the North, however this is a major advantage and one that is most timely and should be marketed.

f. Need to differentiate within the North

Differentiating within the North could become a valuable strategy. Many interviewees see that there are some obvious matches between certain styles of office and the various segments of the North: for example Brunswick is seen as having potential for development of funky, bohemian office spaces; while Coburg could actively develop its multicultural nature into a genuine differentiator between Moreland Road and Bell Street, with Preston having the potential to become a market-focussed alternative style of office space and Thornbury showing potential as a location for businesses with an arts-related focus to their work. Each municipality has potential for its own differentiation.

g. Unmet demand for quality office and commercial accommodation

It is already very clear that there is indeed unmet demand for quality office and commercial accommodation in the North. Though it is in no way seen as being equal to the demand from the East/South-East, given there is very little quality office accommodation in the North, the issue is one of unmet demand. There is a reasonable amount of poor quality, old dilapidated stock, often vacant and usually stuck somewhere between the garbage bins and the Not Quite Right store.

h. Skilled worker mix must be highlighted and reinforced

With skills shortages a critical issue for business today, reassurance is required on the presence of skilled workers in the North and the mix of skills they offer. This is a primary issue due to the skewed perceptions that the North has few skilled workers. The results of the latest Census will be critical in relation to this and engendering greater confidence about the demographic mix of parts of the North.

1.3 Principal Recommendations

• Promote the reality that a well-placed, quality office development in the North would have access to a workforce of approximately 700,000 people across a band from Sunbury and Gisborne and areas closer to the West, right through to the East and North East.

• When available, the most valuable new findings must be actively promoted to provide evidence of changed demographics and emerging patterns since the last Census. Such analysis must take in the characteristics of the entire band from which employees could be drawn – from Gisborne through to Doncaster, Blackburn.

• Those involved with University Hill should do everything possible to support the success of this development, given its importance as a catalyst. Publicising future high rates of tenancy of University Hill will also be important, to address concerns that its success may only lie in the sales of offices.

• Councils could work with the State Government to fast-track planning scheme amendments where it will otherwise have a negative impact on plans for developments containing an office component.

• The Councils need to think: “What do the developers need to encourage them to build offices?”
• Where areas remain badly presented, initiatives should be taken by Councils to change that. Where transformation of an area has occurred, and there is clear evidence of this, the area needs to be marketed or its old reputation will simply remain due to the lack of knowledge about the changes.

• Do not try to promote an area beyond its current reality as this could be counter-productive.

• While the industrial strengths of the North are significant, they do not necessarily link to strengths for office and commercial accommodation and should not necessarily be linked in this way through promotional activities.

• NORTH Link/NIETL in conjunction with the 7 Councils of the North, should seek to begin the early discussions on the need to join the North to EastLink and develop a coordinated approach to this matter.

• There is a critical need to expand the level of understanding of what drives the North and who lives and wants to work in the North, with a greater focus on the various parts of the North and the characteristics of each – demonstrating that it is not one homogenous region.

• In promotional materials, address the issue of perceived risk of developments in the North and provide evidence of outcomes that reveal the risk perception was over-stated.

• The suitability of parts of Whittlesea (and possibly Hume) to campus style offices (low-rise, large footprint buildings, with the new NAB building at Docklands one of the more recent high profile examples) should be highlighted in marketing of the area, particularly in relation to the associated ability to more readily create these as ‘green offices’. There is a greenfields advantage in setting up sustainable support infrastructure.

• The potential of parts of the North as ideal locations for green buildings is a major advantage and one that is timely and should be marketed immediately, given the rapid pace of increasing business interest in this matter. There are many reasons why parts of the North have particular advantages: in addition to Whittlesea having a range of sites that still provide the opportunity to integrate sustainability measures into new office developments; areas within Moreland offer great scope for retrofitting older buildings and creating a funky, green office niche within suburbs such as Brunswick; and the ‘green’ image already associated with areas near to the Yarra River, provide further opportunities to capitalise on green attributes.

• The strategic importance of the presence of Melbourne Airport within the North cannot be overstated and needs to become a key focus of discussion about the potential for the North.

• The need to address the shortage of quality office accommodation in the North is so great that every possible action that can be taken at the various levels of Government must be taken, in order to assist in bringing about change on this issue.

• Representations should be made to the State Government requesting the Urban Development Program commence a systematic measurement of supply of and demand for office and commercial accommodation and land availability across Melbourne, with particular reference to the five main growth areas.

• Publicising the innovative zoning response to University Hill would be a valuable means of encouraging other councils to consider such a response in order to facilitate a major catalyst development.

• There is a pressing need to address the zoning issues preventing development of medical suites adjoining the hospital precinct in Heidelberg – and this matter needs to be resolved as a matter of considerable urgency.

• Councils must maximise options for use of high quality land, help the developers reduce the risk and allow these uses wherever possible. Councils must be able to go to the developers with half the work done and be responsive to market forces.
Councils intent on strengthening the supply of quality office and commercial accommodation within their municipalities must remove barriers at every opportunity.

1.4 SGS Economic and Planning Report
‘Drivers of Office Development in Melbourne’
As an adjunct to this qualitative research report, SGS was commissioned by NORTH Link/NIETL to compile knowledge on the drivers behind the demand for office development and its locational pattern. The work has been undertaken entirely on a desk top basis, relying primarily on previous SGS reports. Customised modelling/projection work was not undertaken for this project.

The SGS review reveals office floor space projections for the Northern Region between 2001 and 2021, during which it is likely to accommodate around 560,000 square metres of additional office floor space.

The SGS report also looks at the three broad groupings of factors that can be expected to reshape the potential for office development in the Northern Region. The first concerns the process of changes in the way customer value is created in the ‘new economy’. In a second and closely related trend, work patterns are changing. Work is now more casualised. Thirdly, market forces will play out within a framework of government policy and public investment. Business type is a key determinant of office locational preference, while the traditional drivers of office location also remain significant.

The SGS report appears as Appendix 1 in the full report.

2. Study Background
Melbourne’s North currently has a rare dual opportunity that few cities have – projected residential growth with the potential for infrastructure supported growth over time. The difficulty is that so much of the opportunity is still not fully understood within government departments although some progress is being made through the efforts of local government and other regional stakeholders.

Consequently, the North is still not given the strategic focus it deserves even though it is in fact the spine of the East coast market network.

2.1 Rationale for the project
This project has been undertaken with the full support and funding from seven LGAs representing the Northern region of Melbourne (Moreland, Yarra, Darebin, Hume, Whittlesea, Banyule, Nillumbik) plus the Northern ACC and NORTH Link/NIETL – the latter organisation is also the Project Manager. It has been developed in response to research and industry feedback that shows the region is suffering from a severe shortage of business and related services that is restricting the economic capacity of the region.

The project was aimed at identifying the reasons for this shortage and determining why commercial business owners are often locating their businesses in other areas of Melbourne and ignoring the benefits available in the Northern region. With the reasons identified, NORTH Link/NIETL will now begin to identify and implement a range of activities and initiatives that will facilitate an improvement for the Northern region in this state of affairs.

Given the fact that the Northern region is planning for a major population increase of over 250,000 people over the next ten - twenty years, it is critical that any economic barriers to growth are removed and that opportunities to increase employment in the region are maximised. This project aims to create a catalyst for the expansion of office and commercial accommodation in the region leading to increased employment opportunities within the region.

This project has been undertaken with the full support and funding from the seven councils in the region; NORTH Link/NIETL; Northern Melbourne ACC and key property developers and agents in the region. This level of support clearly demonstrates the importance of this issue and signals effective regional collaboration to achieve the project outcomes. As this issue is a barrier to regional economic development, it is more appropriate, logical and cost effective for a regional collaborative approach.
2.2 Description of project
This project aims to ultimately increase the supply of business services office and commercial accommodation in Melbourne's Northern Region by identifying and responding to the reasons that have contributed to the level of office and commercial accommodation being underrepresented in the Northern region of Melbourne.

The increase in supply of business services office and commercial accommodation will overcome the current serious gap in supply of suitable office and commercial accommodation needed to attract and retain high value-adding business services in Melbourne's North.

The next step in the project will be to develop a business services office accommodation strategy and identify an investment promotion and attraction facilitation program in Melbourne's North and the municipalities within it designed to meet the shortfall.

2.3 Why the study was required
The project was required in order to build on the “Growing Melbourne’s North - developing an Integrated Economy” report that identified a severe shortage in the provision of business and related services in Melbourne's North. The report recommended that a new strategic and collaborative approach is required to increase the level of employment, investment and businesses involved in the service sectors to support sustained prosperity in Melbourne's North.

A key step in this process is to increase the supply of commercial office space to attract and retain high value adding business services in Melbourne's North.

2.4 Project Objectives
This project is a first step to facilitating new investment in office and commercial accommodation in Melbourne's North. It was designed to identify and make recommendations for a marketing and promotion investment attraction strategy to help overcome the problem.

This project was aimed at identifying:

- Why the demand for office and commercial accommodation is higher in locations other than the North
- Why the supply of office and commercial accommodation in the North is lagging and how it may be improved
- The needs and motivations of those in a position to influence and cause the development of office accommodation space and their perceptions of the Northern region
- The needs and motivations of those requiring the space and their perceptions of the Northern region
- The opportunities that the North of Melbourne provides, now and in the future, for office and commercial accommodation development
- Recommendations for marketing initiatives based on the findings, to improve the supply and demand of office and commercial accommodation in Melbourne's North

The project was designed to gather information from government, real estate agents, developers, financiers, Property Councils, providers of serviced offices and any others that may be able to provide useful information on the issue.
2.5 Geographic Scope

The study area included the seven municipalities within the Northern region of Melbourne namely the cities of Banyule, Darebin, Hume, Moreland, Whittlesea and Yarra plus the Shire of Nillumbik located inside the Urban Growth Boundary and those areas outside of the Urban Growth Boundary that may be relevant to the analysis.

2.6 Market analysis by SGS Economics and Planning

A market analysis of the likely demand for existing and long term projected floor space and industrial land use requirements was considered necessary to inform a review and provide a better understanding of office, commercial and industrial land use for the determination of future requirements.

The market analysis was to provide information on:

- Projected floor space demands within the Northern region of Melbourne.
- Floor space demand analysis to include demand for various categories of conventional retail (clothing, food, home wares etc); non-retail floor space such as offices, banks, personal and business services etc); bulky goods retail and any other commercial accommodation.
- Projected industrial land requirements and employment potential.
- Assessment of the region’s existing and projected share of regional retail employment.
- Commercial and industrial uses that have specific land and/or location preferences and details of those preferences.

The analysis was to take into account the current and potential roles of each of the seven municipalities in providing services to the broader region, given the scenarios for population growth within the region.

This component of the study was conducted separately by SGS Economics and Planning. Several key points are outlined below but complete findings, conclusions and references from this study are contained in a separate report to NORTH Link/NETL.

Key Findings - SGS Economics and Planning, ‘Drivers of Office Development in Melbourne’

- The advent of the knowledge economy, which is primarily accommodated in offices, is increasing the need for office floor space across a range of sizes and in a variety of locations. As the metropolitan economy restructures, with increased interchange at the global level, and the ensuing changes in the way Melburnians work, the spatial distribution of employment is also altered. Within metropolitan Melbourne, there has been a well-documented rise in suburban employment.
- SGS has projected that up to the year 2021, the Northern Region of Melbourne is likely to accommodate around 560,000 square metres of additional office floor space.
- The ‘unbundling’ of value chains with globalisation has opened up opportunities for small businesses linked to inter-regional exporters. Arguably, a significant proportion of these small businesses could be attracted into centres across the region, building upon existing technology and research precincts. Success in this regard is likely to require positive clustering strategies.
- Redundant retail shopfronts provide an example of small premises which could potentially attract small office uses. Elements of these spaces which are attractive in the new economy work environment include:
  - Small floorplates;
  - Excellent access to public transport;
  - Access to an increasingly skilled workforce.
- The majority of Melbourne’s outer municipalities do not currently have the attributes that would potentially make them strong candidates for attracting advanced business services in high numbers. In order to capture some of the small office market, outer suburbs will have to pro-actively develop their activity centres into ‘lifestyle’ locations that would attract the highly skilled workforce new economy firms’ demands.
3. Background & Methodology

3.1 Methodology
Methodology for this project involved the following components:

1. Two project design and briefing workshops.
2. Desktop research of available studies and data review.
3. Conducting 84 interviews using in-depth interview techniques. More than 90% of these interviews were conducted by a senior consultant. They were conducted through a mix of telephone and in-person, and were approximately 30 minutes to an hour in duration. In a number of cases, 2 individuals (or 3-4 on two occasions) were present, but typically they were conducted as one-on-ones, using unstructured, probing interview techniques.
4. A small scale economic analysis component was also conducted separately by SGS and is the subject of a separate report. Findings are only briefly referenced in this report.
5. Overview of marketing issues arising from this study and key recommendations.
6. Preparation of presentation and report.

Initially the study methodology proposed a quantitative study of a number of small businesses but ultimately it was determined that the in-depth one-on-ones with more senior interviewees, was the most effective and so the quantitative component was replaced with additional in-depth interviews.

3.2 Interviewees
Most interviews were conducted by Cathy Sommerville, Senior Consultant. Approximately ten interviews were conducted by Lissie Ratcliffe, Researcher.

Detailed notes were made for each interview and these have been thoroughly reviewed to elicit findings for this report.

a. Quotes and attribution
In many cases, interviewees gave approval for their quotes to be used along with their name; a number of interviewees preferred not to have their names listed with their quotes. Other interviewees preferred not to be named individually within this report. Each of those preferences has been respected in this report.

Where an interviewee’s comments would have clearly revealed which individual had provided that quote and that person had not approved quotes to be attributed, we have omitted such quotes from this report and instead, have aggregated their response in various findings and conclusions within the report.
b. List of interviewees

A total of 84 in-depth interviews took place with representatives of the organizations listed below. In some cases, there were multiple interviews undertaken. The names of the people interviewed and their organizational responsibility are listed in the full copy of the report.

60L
Aimtec
Alepat Taylor & Liuzzi Property Group
Amcor Business Services
Asian Pacific Building Corporation
Austrak
Australian Conservation Volunteers
Australian Industry Group
Australian Personnel Solutions
BlueStar Logistics
Broadmeadows Shopping Centre
Brunswick Business Incubator
Caribbean Gardens
CB Richard Ellis Research
Charter Keck Cramer
Colliers International
Colonial First State Property Management
Commonwealth Bank of Australia
Contour
CPR Communications
Crazy John’s
CRI Australia
Darebin Enterprise Centre
Deal Corporation
Delfin Lend Lease
Department of Innovation, Industry and Regional Development
Department of Sustainability and Environment
Folkestone Limited
Green Bay Communications
Growth Areas Authority
Ingram Property Group
Investa Property Group
Jones Lang LaSalle
Kelly & Kelly Property
Kodak (Asia)
La Trobe R & D Technology Park
La Trobe University
Leighton Properties
Lend Lease Communities
MAB Business Parks

Macquarie Goodman
Major Projects Victoria
MAP Venture Partners
Melbourne Airport
Member of Templestowe Province (former)
Mercy Hospital for Women
MFS Diversified Group
Ming Zhang Accountants
National Australia Bank
National Economics
NCI
NORTH Link/NIETL
Northpoint Enterprise Park
Origin Energy Asset Management Limited
Pacific Personnel
Preston Mosque
Quadrant Securities
RMD Metal Products
RMIT University
Roxburgh Park Shopping Centre
Rydges Hotels
Salta Properties
Siemens
Sikh Temple, Craigieburn
Stockland Development
Telfer & Telfer Homes
Townsend Homes
Underwood & Hume
Urban Pacific Limited
Valve Tech Engineering
Victoria Gardens
Whitehorse Strategic Group
Yarra Group
Zektin Passivation Services
c. Local Government Consultation
Interviews took place with staff from the economic development; planning; property & valuations and strategic planning divisions. The names of the people interviewed from each LGA and their organizational responsibility are listed in the full copy of the report.

Banyule City Council
City of Darebin
City of Whittlesea
City of Yarra
Hume City Council
Moreland City Council
Nillumbik Shire Council

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[Copies of the full report may be purchased from NORTH Link/NIETL]

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5.17 CASE STUDY: CB Richard Ellis
5.18 CASE STUDY: Darebin Enterprise Centre
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