

Warrawong Mall Economic Peer Review

DPE

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1. Introduction

1.1 Context

Encouraging increased housing supply across the State of NSW is a key planning objective. So too is management of development to ensure that it does not introduce negative externalities into the local community. To that end Department of Planning is currently assessing a number of potential developments across the State to encourage an increase in housing supply where appropriate.

One of these proposals is the Warrawong Plaza redevelopment at 43-65 Cowper Street, Warrawong. The development aims to retain a minimum of 50,000sqm commercial/retail GFA whilst also adding 1,300 residential dwellings.

DPE has commissioned SGS to undertake a peer review of this development, particularly from an urban economics perspective, with particular regard to the Economic Impact Assessment (EIA) Report written by Think Economics.

1.2 This report

This report provides that review. It mainly focuses on the EIA Report, with regard to the entire development and associated supporting materials. This report is structured as follows:

Section 2 focuses on all the key issues of the development proposal, with a focus on the EIA Report. Whilst there are a number of issues that other specialist consultants are looking to address for that component, we provide comment where it is within our expertise.

Section 3 ultimately arrives at a set of key conclusions on whether the development is supportable based on the evidence presented in the EIA, and if not, where changes are recommended to the EIA.

2. EIA Report Review

2.1 Proposed development

The proposed development constitutes:

- “An increase in the Height of Building Development Standard from 24 metres up to 75 metres (variable between 24m to 75m).
- An amendment to the Key Sites Map to identify 43-65 Cowper Street, Warrawong as “Area 11”.
- The introduction of specific additional ‘Local Provisions’ in Part 7 of the WLEP 2009, through a Site-specific LEP clause 7.24 to allow for the mixed-use redevelopment of the existing retail centre at 43-65 Cowper Street, Warrawong, and references “Area 11” on the Key Sites Map. “

- EIA Report, page 2

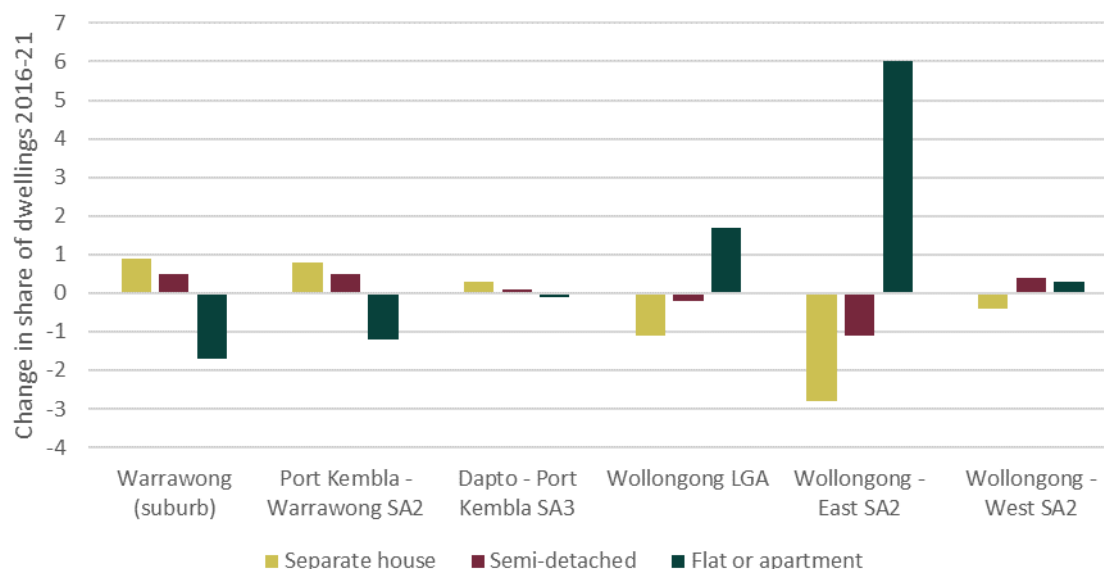
Comment:

Broadly speaking, retaining the majority of commercial GFA and not adding any net additional retail floorspace is not an adverse outcome. The additional 11,950sqm of NLA proposed on-site includes additional office, medical, cinemas, university, and retail floorspace to meet the diverse needs of the community. This is a modest volume relative to the size of the retail centre, but in the current market, is considered to be reasonable without encountering market/demand side risks.

The main issue pertinent to this development is the delivery of 1,300 new dwellings. The local market is transitioning but is still dominated by separate houses. The figure below shows the change in share of dwelling types between the 2016 and 2021 Censuses across the different statistical geographies within which the site sits¹ and compared to the Wollongong CBD (Wollongong – East and Wollongong – West SA2s). This shows limited change in the share of dwellings accounted for by apartments over this period around the site, which is very different to the situation in the Wollongong CBD where apartments have been the predominant dwelling type.

¹ The subject site sits within the Wollongong LGA, Port Kembla – Warrawong SA2, and the Dapto – Port Kembla SA3.

FIGURE 1: CHANGE IN SHARE OF TOTAL DWELLINGS BY TYPE, 2016-21 CENSUSES



Source: ABS 2016, 2021 Census Quickstats.

The specific area in which the site sits has also not seen substantial shares of apartment development in recent times which may be indicative of market demand. The table below shows the respective shares between detached and other residential dwelling approvals for 2022-2023. While the Wollongong CBD in particular shows a high share of recent apartment approvals, in the location of the subject site apartment approvals represent a much smaller share.

TABLE 1: DWELLING APPROVALS, 2022-23

Geography	New house	New other residential building	Total dwellings	% share – house	% share – other residential
Wollongong LGA	492	868	1,366	36%	64%
Dapto - Port Kembla SA3	275	218	494	56%	44%
Port-Kembla - Warrawong SA2	31	8	40	78%	20%
Wollongong CBD*	15	396	413	4%	96%

Source: ABS dwelling approvals.² *Defined as Wollongong – East and Wollongong – West SA2s.

² ABS, 2023, 'Building Approvals, Australia,' released 1/02/2024, <https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/latest-release>

As such, large numbers of apartments on the subject site may be difficult to sell quickly. The competitive offer will need to outweigh similarly priced alternatives (particularly separate houses as the most preferred dwelling type).

If successful, the on-site population will help to drive retail and services demand on-site and in the broader centre.

2.2 Economic overview

The economic overview (section 2.1, under the Regional Overview sub-heading) focuses on (a) the local economy and (b) the population demographics of the area.

The EIA states that the proposed redevelopment will add to existing economic strengths by establishing the planned university campus onsite as well as a range of health and wellness facilities, and that this increased capacity and employment will add to these sectors and create additional skilled employment opportunities locally.

Comment:

If the development proceeds and is taken up, (and subject to passing traffic and urban design assessments) these uses will have a positive economic impact on the centre – increasing its ‘economic gravity’ as well as supporting proximate business and services by virtue of the increased activity in the centre.

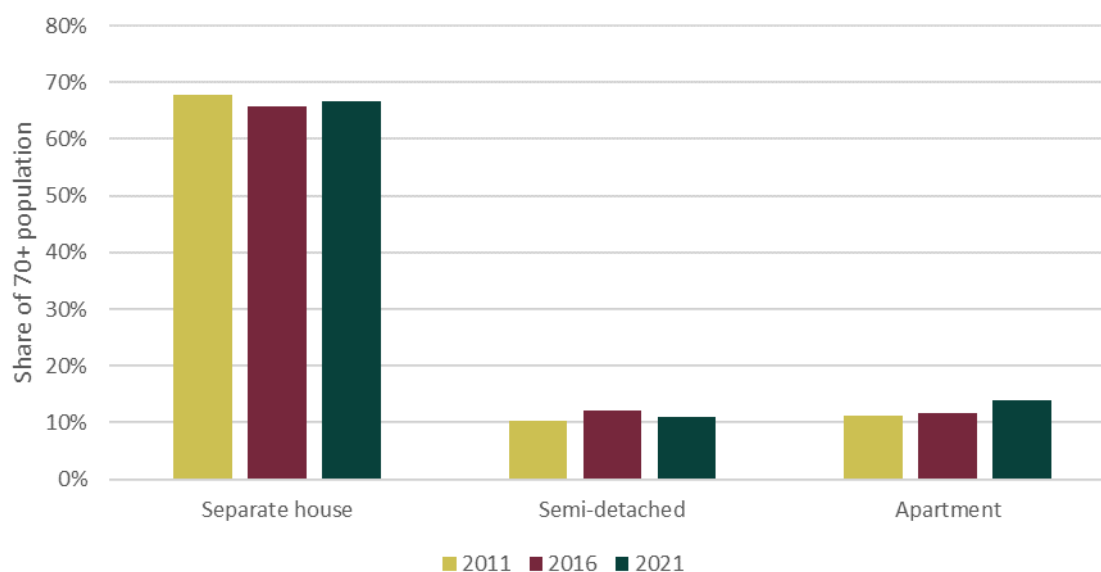
The EIA notes population demographics as a major issue given the volume of dwellings proposed on site. The report cites an ageing population (particularly for 70+ year old residents) as a major reason for the proposed volume of apartments (in addition to background population growth).

Comment:

This correlation is tenuous – one must question how many 70+ year olds are buying or renting out new apartments, as opposed to staying put in their existing dwellings, or moving to 2-bedroom units/townhouses/other semi-detached properties or aged care facilities. When those other options are considered, an increase from 12.9% to 16.2% in the proportion of 70+ year olds may not be significant enough of a shift to substantiate demand for 1,300 dwellings.

Census data also suggests there has not been a substantial shift in people aged 70+ living in higher density and apartment dwellings in the area. The figure below shows the respective shares of the 70+ population living in separate houses, semi-detached, and apartment dwellings in the Wollongong LGA as of 2011, 2016 and 2021 respectively. This shows only a small increase (from 11 per cent to 14 per cent of 70+ year olds) in apartments over this 10-year period.

FIGURE 2: CHANGE IN SHARE OF 70+ POPULATION, WOLLONGONG LGA, 2011-2021



Source: ABS 2011, 2016, 2021 Censuses.

Further evidence that the types of housing proposed (with the Planning Proposal document indicating that this will largely be 1–2-bedroom apartments) will be needed in order to match the future demographics would be beneficial.

The EIA also states:

“The Wollongong region is forecast to continue to experience strong population growth and reach 276,936 people by 2041. This is an increase of around 56,661 people from 2021, or an average of 2,833 people each year. Dwellings are forecast to increase from 86,497 in 2021 to 111,870, an average of 1,269 dwellings each year. The subject site is proposed to have approximately 1,300 units which will help cater to this forecast growth.”

Comment:

This scale of development is significant – the 1,300 proposed dwellings would account for more than a year’s worth of supply for the whole region. While the development would be staged and delivered over time, as noted above, this concentration of dwellings in the one location could present a shock to the housing market and undermine broader strategic planning objectives. As the LGA’s second largest centre, increased densities are likely to be appropriate, and are identified for Warrawong as part of the Wollongong Local Housing Strategy, however, it will be important to understand the level of demand at the local level for the type of dwellings that are being proposed.

The EIA also asserts that increasing the supply of apartments in a desirable central location will help to increase capacity and promote a more affordable housing market for existing and future residents.

Comment:

It has to be noted that simply increasing the supply of dwellings at a local level, while certainly contributing to capacity, does not necessarily contribute to affordability. Nationally, the affordability problem is greatest when it comes to detached houses and (to a lesser extent) semi-detached dwellings. Building more apartments will alleviate those problems slightly through a substitution effect whereby some demand for semi-detached dwellings filters through the apartments, but introducing mass apartment stock alone is not the most efficient use of dwelling supply to solve the affordability problem.

The EIA Report also states that population growth will also drive demand for additional jobs. Assuming that 50 per cent of the population requires employment then this growth will see demand for an additional 28,331 jobs in the region over the next 20 years. The proposed development on the subject site will increase employment and economic output during both its construction and operational phases.

Comment:

It would be better to look at likely participation rates and original destination pairs (to account for remote work and commuting) to derive job requirements. We agree that the site will provide an opportunity for economic activity and employment and will likely have a positive effect on the centre. Some construction employment is likely but not all construction and ongoing employment will be net new employment to the Wollongong area. Comparison of the estimated jobs generated by the proposal to the NSW Government's employment projections for the area may also be useful to set this in context.

2.3 Planning overview

Section 2.2 of the EIA considers national, state, regional and local strategic plans relevant to the Wollongong area's development.

The EIA report references the Draft Wollongong Housing Strategy 2022, in particular the objectives of the strategy to increase housing supply (by 28,000 dwellings by 2041) and offer greater diversity of housing including higher density in appropriate locations.

Comment:

From a policy perspective, the EIA emphasises the jobs links. This is supportable the employment floorspace component of the development proposal is permissible on the basis of being a redevelopment with no major net additions to floorspace.

Policy linkage to dwelling diversity could be more clearly set out in the EIA. The purpose of dwelling diversity is to meet changing demographic needs. The EIA would benefit from the inclusion of housing demand analysis to link demographic growth to need by dwelling type that then demonstrates what types of housing (and how much of each type) is needed in this catchment/local market. This evidence would provide assurance that this proposed development would meet local housing needs. Similarly, as per the previous comment, the potential contribution of the 1,300 dwellings to improving housing affordability needs further evidence to be used as a justification for the project.

The EIA states that:

“the inclusion of a university precinct and creative offices will help drive economic growth to the area. These amenities will increase employment opportunities and raise the number of professional graduates seeking work in the region. The education facilities may also help advance economic growth through investment attraction. These facilities will provide the area with the needed resources for research and development which may attract innovative ideas and foster a start-up community.”

Comment:

A University presence will increase activity and may contribute to the attraction of inward investment. However, that linkage is not guaranteed. The development may have some effect on graduate retention although again we cannot be certain about this. In any case, the economic effect of the University presence and creative offices is likely to be positive. A focus on building capacity for sectors in the knowledge economy also aligns with the target sectors identified in the Wollongong Economic Development Strategy.

Consideration should also be given to how the inclusion of a university on the site, as well as the additional retail space, may impact on strategic objectives for employment in the LGA and the primacy of the Wollongong CBD. For example, Warrawong is identified in the Wollongong Retail and Business Centres Strategy as a Major Regional Centre in the LGA’s hierarchy, intended to “enable access to key services and facilities that offer a range of goods, services and jobs.” This sits below the Wollongong CBD in the hierarchy as a Regional City, which is identified as having “a full range of higher-order services, including hospitals and tertiary education services.”

The EIA’s discussion of the proposal in relation to Council’s Local Strategic Planning Statement (LSPS) says that the proposal will meet the intentions of the LSPS, citing the following land use planning actions:

“Defining a CBD that prioritises jobs growth by safe-guarding appropriate land for commercial development; and defining key retail streets that support a range of uses both day and night.

Promoting a variety of housing types in the right locations to support the City Core and improve affordability.”

Comment:

These actions cited by the EIA are from section 2.1.3 of the Wollongong LSPS. These relate specifically to the findings from the Wollongong City Centre Planning Review and City Centre Planning Strategy and are not the actual principles or actions of the LSPS. As such, the utility of assessing the proposal’s alignment to these two statements is questionable, additionally as they only relate to the Wollongong CBD itself rather than Warrawong where the subject site is located.

Regardless of the applicability of these principles, the EIA also only considers how the proposal aligns with broad objectives. It does not consider the substance of the LSPS, such as whether the site is in an area that has been identified for housing growth/increased densities, which is an important strategic planning consideration.

The EIA also notes that the Wollongong Economic Development Strategy:

“includes promoting innovation and entrepreneurship by providing a favorable environment for start-ups. The document also highlights the shortage of office space within the city centre.”

Comment:

Warrawong is not part of the Wollongong CBD/city centre. As such, if actions related to the city centre specifically are being used to justify the proposal on the subject site, further detail is needed, such as whether increasing office land use is appropriate for the site given the centres hierarchy and strategic planning for employment in the LGA.

The EIA’s consideration of the Local Housing Strategy (LHS) is also similarly high level, and refers to:

“The proposed development provides a strong response to those housing needs by delivering approximately 1,300 apartments in multi-story buildings, including approximately 130 affordable units. The redevelopment of the site will create new housing capacity at an appropriate location in the city centre in line with guidelines listed in the Housing Strategy document.”

Comment:

As the subject site is not located in the CBD, any principles or actions that relate to increased densities in CBD area cannot be used to justify the Warrawong proposal. The EIA has not identified the relevant substance of the LHS, i.e. what it says about Warrawong as a centre – which is to increase development potential around the town centre (action L10, page 19 of the LHS). While the proposal may be in line with this objective and other elements of Council’s strategic plans (such as aims to increase the number of small dwellings in the LGA identified in the Wollongong LSPS), the EIA does not provide a strong rationale for the project based on the strategic planning context.

2.4 Economic benefit assessment

Section 3 of the report assesses the potential economic benefits of the development proposal. There is discussion regarding Input-Output (IO) model outputs. Which are reproduced below (from the EIA Report).

Table 3.1 Construction phase benefits

DIRECT BENEFITS	
Output (\$M)	\$1,000
Gross Value Added (\$M)	\$300
Income (\$M)	\$160
Employment (FTE per annum)	190
INDIRECT BENEFITS	
Output (\$M)	\$1,650
Gross Value Added (\$M)	\$690
Income (\$M)	\$340
Employment (FTE per annum)	350
TOTAL BENEFITS	
Output (\$M)	\$2,650
Gross Value Added (\$M)	\$990
Income (\$M)	\$500
Employment (FTE per annum)	540

Source: ABS National Accounts, Think Economics

Table 3.2 Operational phase benefits

DIRECT BENEFITS	
Output (\$M)	\$70
Gross Value Added (\$M)	\$40
Income (\$M)	\$30
Employment (FTE per annum)	350
INDIRECT BENEFITS	
Output (\$M)	\$60
Gross Value Added (\$M)	\$30
Income (\$M)	\$20
Employment (FTE per annum)	180
TOTAL BENEFITS	
Output (\$M)	\$140
Gross Value Added (\$M)	\$70
Income (\$M)	\$50
Employment (FTE per annum)	540

Source: ABS National Accounts, Think Economics

SGS has run its own parallel analysis, with the results summarised below for the key metrics of output and employment, in comparison to the Think Economics results in their EIA report.

	Construction Phase			Operational Phase		
Output	Think Economics	SGS	Difference	Think Economics	SGS	Difference
Direct (\$m)	\$1,000	\$1,000	\$0	\$70	\$70	\$0
Indirect (\$m)	\$1,650	\$709	\$941	\$60	\$25	\$35
Total (\$m)	\$2,650	\$1,709	\$941	\$140	\$95	\$45
GVA						
Direct (\$m)	\$300	\$300	\$0	\$40	\$40	\$0
Indirect (\$m)	\$690	\$203	\$487	\$30	\$15	\$15
Total (\$m)	\$990	\$503	\$487	\$70	\$55	\$15
Jobs						
Direct	190	190	0	350	354 ³	0
Indirect	350	132	132	180	135	45
Total	540	322	322	540	489	51

Comment:

We found that overall, output, GVA and employment are all much higher in the Think Economics report. The difference in multipliers is the main cause, Think Economics is using a traditional methodology, whereby IO multipliers are unconstrained, all greater than 1, which tends to overstate economic impacts. That is a false assumption because the Australian labour market is heavily constrained – potentially even more so in a regional area like Wollongong/Warrawong.

We have constrained these multipliers based on labour force constraints, and have indirect impacts that are all lower than direct impacts,

Beyond the specifics, there is a broader issue about the use of IO modelling. The standard approach for constructing IO models is based on a static, linear economic structure. This results in flow-on impacts that are usually overstated. This estimation error occurs for several reasons:

- *Models are constructed at a certain point in time, meaning linkages within the economy are assumed to remain constant*
- *There are no supply constraints, meaning an unlimited supply of labour and capital is assumed*

³ Think Economics has rounded their employment numbers to 350, where the different components add up to 354.

- *Factor prices are fixed, meaning there is no allowance for shifts in the prices of labour and capital*
- *Productivity impacts are excluded, resulting in constant returns to scale.*

There is a claimed net increase in floorspace driving and additional 350 on site jobs. It is not clear in the EIA report how the 350 on site jobs have been calculated. There is also no indication in the EIA Report of the proportion of these jobs - retail, office, health etc. Net Gross Lettable Area (GLAR) and Full Time Equivalent (FTE) jobs were provided in the Think Economics letter dated 11th of December. We have calculated their implied employment density assumptions as follows:

Land use	Net GLAR	FTE	Density
Retail & Food and beverage	929	37	25
Office	3,540	177	20
Health and wellness	1,446	36	40
Childcare	1,634	30	54
University	2,786	58	48
Cinema	1,615	16	101
Total	11,950	354	-

Comment:

The employment densities used in the EIA are generally acceptable. A net GLAR increase of 12,000sqm though is quite different an outcome from the original EIA Report's claim that this proposal would merely retain 50,000sqm of employment floorspace in centre.

Such significant variations in employment land use yields suggests that the eventual total employment yield will likely be a function of leasing conditions in the market. For that reason, the 350 extra on-site jobs can only be regarded as a rough estimate at this stage where in reality only a proportion of it might be delivered in an unfavourable market.

2.5 Wider project benefits

The EIA also puts forward discussion of wider economic benefits of the proposal:

- Alignment with planning objectives
- Supporting education
- Enhanced economic profile
- Public transport
- Increase self-containment
- Entertainment
- Higher density housing.

Comment:

Alignment with planning objectives: As noted in previous comments, the EIA has not provided a strong case for the proposal aligning with existing strategic objectives for Wollongong.

Supporting education: As noted in our comments above, the inclusion of university space as part of the development would likely have benefits, however, the assertion that the 2,800 sqm would provide a ‘city centre university campus’ is misleading as the site is not located in the city centre.

Enhanced economic profile: The EIA states that the mix of uses proposed for the site (retail, commercial, academic, health and wellness, and entertainment) will contribute to an enhanced profile in the local area, increase in demand, and that the demand profile will contribute to “an 18-hour economy within the proximate local area.” The EIA has not made a strong case for the latter statement, as the uses will be largely the same as the current floorspace on the site as part of the Mall. That being said, the inclusion of the university floorspace component could be beneficial in diversifying the types of jobs in the Warrawong centre to include more knowledge-intensive jobs. As of 2021, there was a much lower share of these types of jobs in the area around Warrawong (Port Kembla – Warrawong SA2), as shown in the table below.

TABLE 2: EMPLOYMENT BY BROAD INDUSTRY CATEGORY, PORT KEMBLA – WARRAWONG SA2, 2021

Broad industry category ⁴	% share of jobs in 2021
Health and Education	23.0%
Knowledge Services	9.4%
Population Services	32.8%
Traditional Industrial	31.2%

Source: ABS 2021 Census.

Public transport: We agree that the location of site in proximity to transport services is a benefit of the proposal.

Increased self-containment: More evidence is needed to justify the claim that the retail and service uses included on the site will result in improved walkability and reductions in travel times.

Entertainment: The benefit of the project for entertainment rests on the inclusion of the expanded cinema complex and retention of a greater market share of spending in Warrawong. We agree there are likely to be benefits from this.

⁴ Based on ANZSIC classifications as follows:

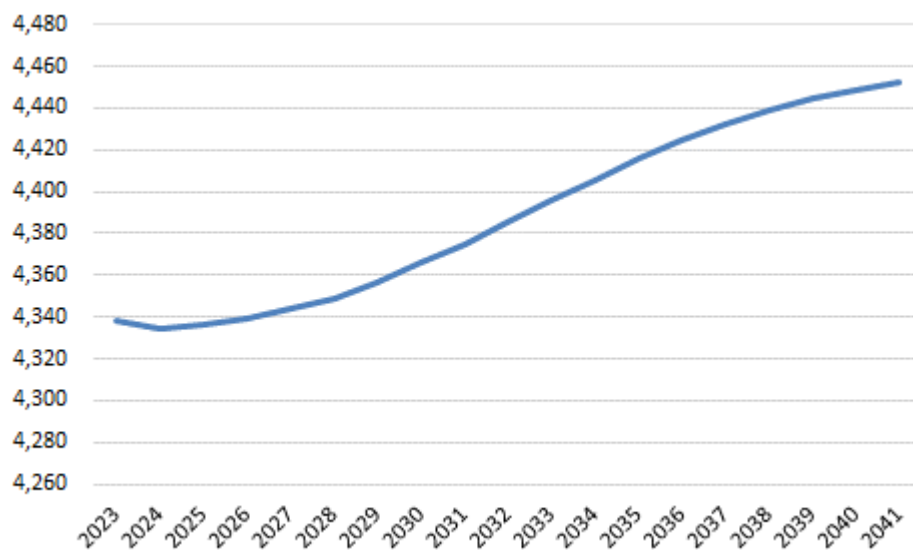
Health and Education: Education and Training, Health Care and Social Assistance.

Knowledge Services: Information, Media and Telecommunications, Financial and Insurance Services, Rental, Hiring and Real Estate Services, Professional, Scientific and Technical Services, Administrative and Support Services, Public Administration and Safety.

Population Serving: Construction, Retail Trade, Accommodation and Food Services, Arts and Recreation Services, Other Services.

Traditional Industrial: Agriculture, Forestry and Fishing, Manufacturing, Mining, Electricity, Gas, Water and Waste Services, Wholesale Trade, Transport, Postal and Warehousing.

Higher density housing: It is stated in this section of the EIA that the proposal will provide high density dwellings in “an appropriate location in the city centre which will address housing choice and affordability objectives.” As per our comments above, this is misleading as a justification for the proposal, as the site is not located within the city centre, and further evidence of the capacity of the proposal to contribute to housing affordability would be beneficial. As a guide, the DPE’s implied dwelling forecasts show the Port Kembla- Warrawong SA2 only has demand for about 140 new dwellings by 2041 – suggesting the level of market risk that this development would need to overcome by pulling demand from other SA2s in the surrounding region in order to sell 1,300 units.



Source: DPE 2022 collapsed SA2 population projects; implied dwelling demand

3. Key Conclusions

Overall despite some issues regarding the way that economic benefits are presented, the commercial and retail aspect of the redevelopment is acceptable – broadly speaking Warrawong would still be a similarly sized centre that will perform a similar economic function to the one it does today. The incoming residents would generate expenditure for on-site retail business and business in the remainder of the centre. How much employment will be generated in the commercial component of the facility will depend on market demand, but ultimately the planning system should be trying to encourage commercial floorspace where reasonable.

The residential component is less straightforward. The City of Wollongong's Draft Housing Strategy quotes dwelling demand forecasts based on 2022 population projections in the region for the following in the Wollongong LGA:

- 7,000 additional dwellings by 2026
- 14,000 additional dwellings by 2031
- 28,000 additional dwellings by 2041

The proposed 1,300 dwelling yield (and the 1,050 dwellings based on the Urban Design report) would (a) contribute towards meeting that need and (b) leave room in the market for more developments. Even though 1,300 dwellings in one development would be a significant proportion of projected total demand, the bottom line is that there is sufficient total demand. There is also broad support for increasing residential density in/around a large centre like Warrawong with retail and employment opportunities available on site.

However, the EIA has not substantially demonstrated that the types of housing proposed (i.e. apartments) is in line with the likely demand in the LGA, and thus presents a significant risk. High level modelling of housing demand for the Wollongong LGA undertaken by SGS (based on trends observed over time), shows the demand for high density/apartment dwellings is likely to still only account for a small share of total housing demand in 2041 – around 16 per cent (see Table 3 below). The proposed 1,300 dwellings on the site would represent nearly 20 per cent of the total demand for apartments (6,654 dwellings) across the whole LGA in the period to 2041.

TABLE 3: HIGH-LEVEL PROJECTED HOUSING DEMAND, WOLLONGONG LGA, 2021-2041

	2021	2041	Change 2021-2041	% share in 2021	% share in 2041
Separate house	59,294	73,098	13,804	66%	64%
Medium density	17,970	22,893	4,923	20%	20%
High density	11,324	17,978	6,654	13%	16%
Other	708	791	83	1%	1%
Total	89,296	114,759	25,463	100%	100%

Source: SGS Economics and Planning, 2023, Housing Demand Model.

From a demographics perspective, the supporting evidence in the EIA for the scale and type of housing development is not fully fleshed out. The assertion that the pattern of older citizens locating in the area underpins the development is unconvincing. While we agree with the EIA report that there is policy support for greater dwelling diversity, there are still questions around the proposed development's dwelling mix and scale in this location.

Development proposal positives:

- There is forecast total dwelling demand in the Wollongong LGA market for the volume of dwellings being proposed on this site, with more available for other developments around the LGA
- The development is in a major centre, which will generate long term benefits by co-locating with established retail and employment opportunities
- Any intent to expand commercial floorspace on site in this current market, particularly in a major centre, should be encouraged

List of recommendations

- Purely from an economics perspective, there are concerns around how the volume of apartment stock can be absorbed by the market given the area's housing market profile. The questions are (a) whether the developer is expecting to build all of these units for sale in the short term and (b) whether there is scope for the developer to consider a broader range of dwelling types in the extra dwelling yield that the proponent is seeking in order to better meet the market. It would be useful if the EIA were able to demonstrate:
 - Market data on anticipated buyer appetite for the products proposed. This might tie into the asserted pattern of older people seeking apartments in the area.
 - Whether a substitution of buyers dwelling choices (from separate houses to apartments) or location (from established apartment markets to Warrawong) is expected.
 - Housing submarket definition and the competitive offer of the site and proposed development in that context. This should ideally include some quantitative assessment of the size of the apartment market and the expected capture of projected demand.

- We have similar concerns about the market take-up of commercial components of the development, and whether in the current market these university and office spaces are realistic. However, we still think that the proposed floorspace should be encouraged where possible. On these points, the EIA would be stronger if it demonstrated:
 - Market depth for creative and office spaces and the competitive offer of the location and proposed development
 - Competitive offer for University space at this location
- The traditional IO modelling approach used inflates employment expectations from the development. These could be amended, but ultimately we don't see it as a key reason to reject the EIA.

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