City of Greater Geelong, Statutory Planning - Date Received 25/05/2021

URBIS

BALMORAL QUAY - MARKET VIABILITY AND MARKET ANALYSIS

Prepared for [redacted]

March 2021

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The data and information that informs and supports our opinions, estimates, surveys, forecasts, projections, conclusion, judgments, assumptions and recommendations contained in this report (Report Content) are predominantly generated over long periods, and is reflective of the circumstances applying in the past. Significant economic, health and other local and world events can, however, take a period of time for the market to absorb and to be reflected in such data and information. In many instances a change in market thinking and actual market conditions as at the date of this report may not be reflected in the data and information used to support the Report Content.

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Urbis staff responsible for this report were:

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INTRODUCTION

Urbis have been instructed to review two key elements for the final stage of the Balmoral Quay development, namely:

- The commercial viability of ground floor retail in this location; and
- The potential shadowing implications from the development on key areas of usage within Rippleside Park located opposite.

Furthermore, Urbis have also been requested to review the relative usage and activity being seen along the existing and new foreshore walkway.

Given the location of the subject site, in this report we have reviewed the potential for a food and beverage based use only as non-food and non-retail uses are not considered suitable in this location.

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GROUND LEVEL COMMERCIAL VIABILITY ASSESSMENT

Urbis has assessed the potential for retail based on the local market, to be supported within the ground floor of the proposed development.

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LOCAL CONTEXT AND COMPETITION

For the purpose of assessing the viability of a ground level commercial tenancy at Balmoral Quay, Urbis has defined a local resident population that would drive the majority of trade to a potential retail offer within the subject development.

The study area as shown adjacent is geographically constrained by Melbourne Road/Princes Highway to the west of the subject site (which limits resident movement from the south west given limited pedestrian connectivity available), and Port Phillip Bay to the east. Constraints to the north and south are defined by the bounds of a typical walkable catchment.

Within the study area there are two other existing food and beverage outlets, including:

- **No.42 Café** that trades over morning and lunch periods, six days a week (closed Monday)
- **Bean & Base** situated along Melbourne Road, operates 7 days a week for morning and lunch. Bean & Base is also open until 9pm on Friday and Saturday nights.

The subject site is approximately 2.5km from Geelong CBD, making for a 6-minute drive or 30-minute walk. The park provides local resident and visitors with open space, a children's playground, outdoor gym, small beach, public toilets and waterfront walkways. It is noted that this area would attract some visitors from beyond the study area for leisure purposes such as leisurely walking, dog walking, sport and children's play.

Local Context and Study Area

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STUDY AREA POPULATION AND SPENDING FORECAST

In order to understand the capacity and viability of a commercial tenancy at Balmoral Quay apartments, the study area's resident population and food and beverage spend market has been assessed.

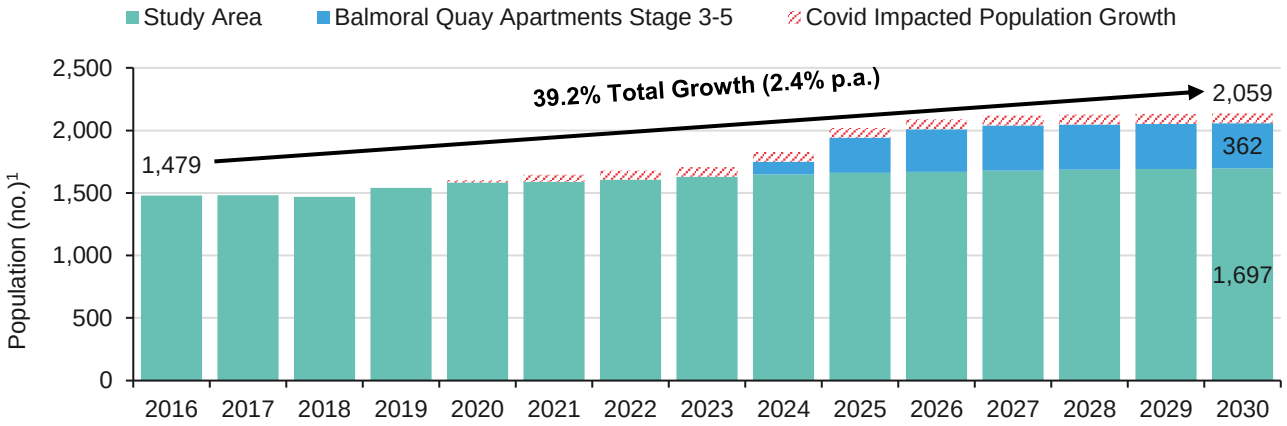
The population forecast for the total study area assumes development at Balmoral Quay as follows:

- Stage 3-4 of will deliver 61 apartments in 2024
- Stage 5 will deliver 90 apartments in 2025
- The take up or sales rates of these apartments is also assumed to be staggered.

Urbis has also considered the impacts that COVID-19 has had on the population outlook for the area. The international border closures have impacted net overseas migration levels, historically a key component of the national and Victoria's population growth. The impact however for Geelong and the study area are expected to be minimal. Geelong as a region is not reliant on overseas migration and rather more of the region's growth is derived from intrastate migration.

Whilst COVID-19 has heavily impacted growth of resident's spend per capita on food and beverage in calendar year 2020, the growth outlook for spend on food and beverage to 2030 is expected to be strong. Combining strong population growth and modest spend per capita growth outlook for the area the total market is expected to more than double by 2030 to $5.8 million.

Study Area Population Forecast



1. As at June
Source: ABS; Urbis

Food & Beverage Spend Market Forecast (Calendar Year – Nominal Dollars)

	Population (no.)	F&B Spend Per Capita ($)	Total F&B Spend ($M)	Pop Growth	+	Spend Per Capita Growth	=	Annual Growth
Total Study Area:								
2020	1,584	1,673	2.7					
2022	1,608	2,153	3.5	0.8%		13.4%		14.3%
2024	1,751	2,355	4.1	4.4%		4.6%		9.1%
2026	2,011	2,498	5.0	7.2%		3.0%		10.4%
2028	2,049	2,649	5.4	0.9%		3.0%		3.9%
2030	2,059	2,810	5.8	0.2%		3.0%		3.2%

1.Spending figures are inclusive of GST and inclusive of inflation after 2020.Source: ABS; Urbis

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STUDY AREA DEMOGRAPHICS

The adjacent table compares the latest Census demographics for the defined study area against non-metro Victoria and metropolitan Melbourne.

The key findings include:

- Average household incomes in the study area sectors are +46% above the non-metro Victorian average. This is a reflection of the older demographic and high proportion of white-collar workers residing in the area.
- Within the study area 22% are aged 50-54 versus non-metro Victoria at 21%. Furthermore, 81% are white collar workers versus 66% in non-metro Victoria.
- A large proportion of residents own their own home, with 45% of residents in this position. This is almost 5% pts more than the non-metro Victorian average and 13% pts more than the metropolitan Melbourne average.
- Overall, the study area is made up of older households with high incomes and fewer younger children.

Study Area Demographics (2016)

	STUDY AREA	NON-METRO VICTORIA	METRO MELBOURNE
Avg. Household Income	$106,000	$73,000	$96,000
Avg. Per Capita Income	$47,200	$32,300	$37,600
Household Income >$104K	43%	24%	38%
Avg. Household Size	2.4	2.4	2.7
Aged 50-64	22%	21%	17%
Families with Children <15	32%	36%	39%
Home Owner	45%	40%	32%
White Collar Worker	81%	66%	73%
Lived in different address 5 years ago	37%	39%	43%

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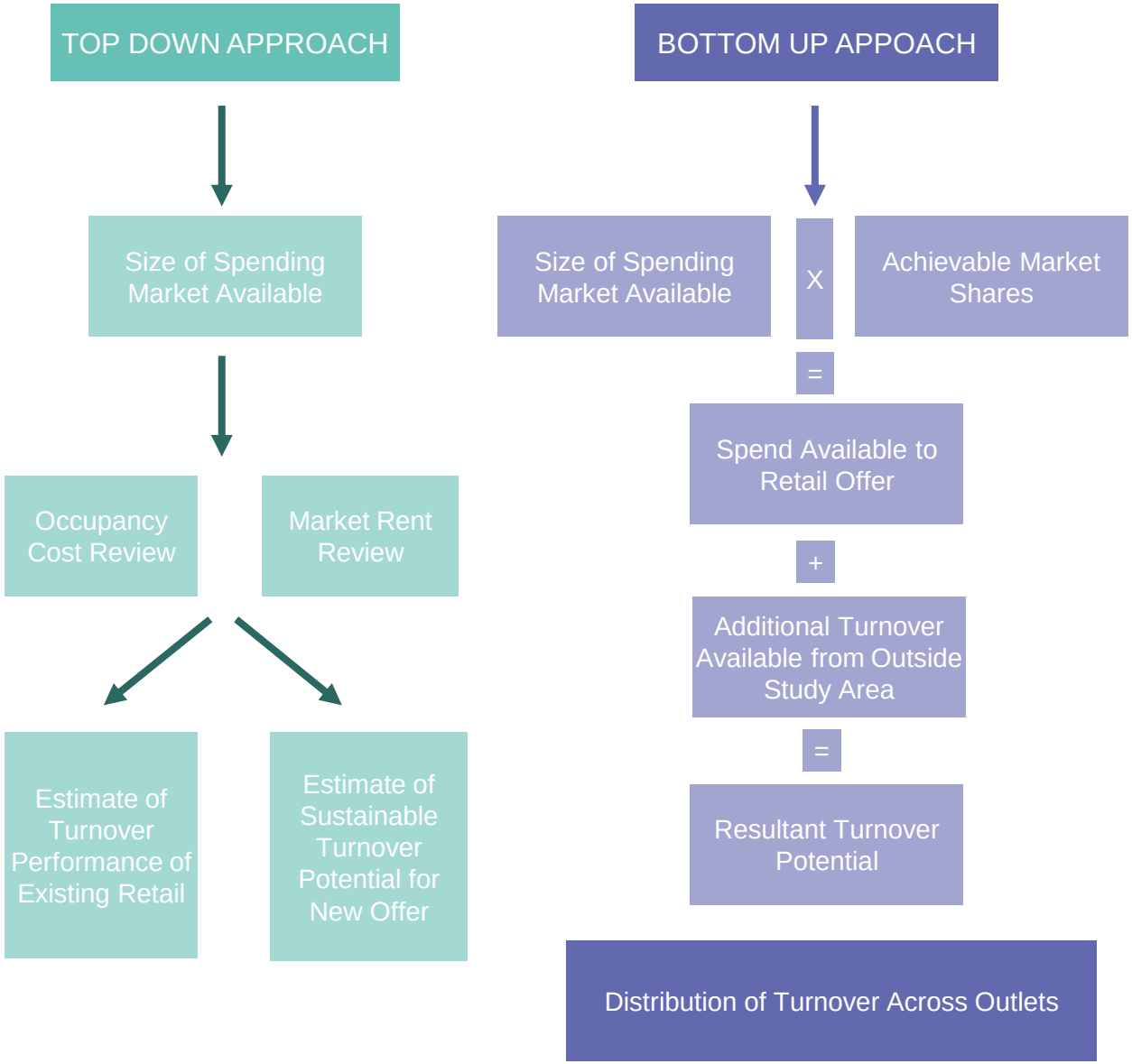
COMMERCIAL VIABILITY ASSESSMENT

In order to assess the viability of a retail offer at the base of the residential tower, we have utilised two approaches as follows:

- **Top Down –** This approach includes a review of the sustainable level of retail which utilises market rents and occupancy costs based on the local context.
- Through this approach we have estimated the performance of the two existing retail offers (Bean & Base and No.42 Café) within the study area. Furthermore, we have assessed a sustainable trading level for the proposed offer.
- We note the performance of the proposed offer could vary based on the type of tenant secured, whether it is another café and therefore shares the market with the existing offerings, or whether there would be scope and appetite to secure a destinational restaurant type offer.
- **Bottom Up –** This approach uses the assessed size of the spending market available and applies appropriate market shares to determine the level of spend that can be retained by the food and beverage offer located within the study area.
- This approach also considers an element of capture from beyond the study area which is particularly relevant in this instance given the draw of parks/beach frontage. The level of capture from beyond could also vary based on whether the offer provided is a café or if a destinational offer was able to be secured in this location.
- Notwithstanding the above, with a new offer proposed, we would expect an increase in the retention rate or market share captured.



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RETAIL POTENTIAL

In order to assess the viability of a retail offer at the base of the residential tower, we have undertaken the following process:

- Reviewed the size of the spending market available in 2025, the expected first full year of trade, after completion of the development.
- Assessed the market share currently being achieved by the existing two offers based on utilising a top-down approach where occupancy costs and rents have been used as a check method, supplemented by benchmarks, to determine the market share and current performance.
- Given the nature of parks and also the location, an element of turnover will come from beyond the defined study area. As such an additional share has been allocated to reflect this.
- With the subject development providing a potential third retail offer within the study area, this would see a slighter higher market share of spending retained to at present.
- Total turnover available in 2025 to the three outlets is estimated at **$1.36 million** with the share expected for the new outlet to account for almost **35%** of this at **$0.47 million.** This share of turnover assumes an impact of around 10% to the two existing offers. Therefore, turnover is derived from growth in the market, the ability to capture a greater share of retail spend overall with an additional offer and impacting the existing offers.
- Given the proximity to No.42 Café in the park, it would be expected that this tenant would be impacted the most. It would also be expected that the residents in the existing Balmoral Quay developments would revert some of their spending from Café No.42 to this offer.

Market Capacity and Tenancy Turnover Estimation (2025- Nominal Dollars)

	Current		Forecast		
	2021	**2024**	**2025**	**2026**	**2027**
Total F&B Spend Available ($mil)	$3.0	$3.9	**$4.4**	$4.6	$4.8
Assessed Market Share	20%	20%	**25%**	25%	25%
Retail Turnover	0.6	0.8	**1.1**	1.2	1.2
Turnover From Beyond	*20%*	*20%*	***25%***	*25%*	*25%*
Resultant Turnover Available to Retail ($mil)	$0.81	$0.99	**$1.36**	$1.40	$1.44
Share of Turnover to Balmoral Quay ($mil)			**$0.47**	$0.49	$0.50
Rent P.A. at Indicative Occupancy @ 6%			$28,338		
Indicative Size (sq.m)			150	100	
Rent per $/sq.m			$189	$283	
Rent P.A. at Indicative Occupancy @ 7%			$33,061		
Indicative Size (sq.m)			150	100	
Rent per $/sq.m			$220	$331	

- If a destinational tenant was secured, a larger reliance would be placed on being able to increase the market share from beyond to 30%-35% given the added draw power. This could see turnover increase closer to $0.6 million in 2025 with an expectation to drive the rent up higher as well. The level of capture would be highly dependent on the tenant.
- The ability however to secure a destinational tenant in this location, is considered limited and is discussed further over page.

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GROUND FLOOR ACTIVATION CONSIDERATIONS

Operator

- Operator selection is the most critical driver of performance in any location.
- For a location such as the subject site, being located away from a high street and not in a retail precinct with critical mass of uses, means the type of operator will need to help drive visitation.
- Appropriate operator selection is important for determining the type of cuisine, their ability to run a successful retail operation and most importantly delivering the right pitch of offer.
- The physical space is an important consideration, with ground floor retail often utilising space that was designed for residential or commercial office uses. As such an appropriate level of design and fitout intervention would need to be considered.

Views/Amenity/Quality

- To create a destinational restaurant, leveraging views/outlook is often important. Given the site is away from the beach, the ability to create this destination is more limited.
- Furthermore, while located adjacent to the park, the road creates a divide and limits the ability to leverage the park from a seating and views perspective.
- The quality of the existing retail offer within the study area comprises as follows:
  - No.42 Café represents a very localised offering, serving breakfast and lunch time periods, however noting the park location does create a point of difference and captive market to visitors.
  - Bean & Base is an older style and dated offer, however is located within the strip/cluster along Melbourne Road. This offer also has extended hours on Friday and Saturday evenings.
  - Given the older style and localised nature of both of these offers, any new retail opportunity delivered in the subject is likely to impact both of these and to an extent cannibalise their offer.

Financial Outcome

- While the turnover performance may support the potential for a small offer, there are some development risks to consider.
- From a development perspective, the rental outcome indicated does not represent a strong financial outcome.
- Rents for new/modern retail offers typically range from $300 - $350 per sq.m, with a sustainable occupancy level at 6%-7%.
- Considering the assessed turnover available, at the above occupancy level, this would suggest a retail outlet in this location could support a rent of around $200 - $330 per sq.m based on a 100-150 sq.m tenancy. It would also be expected that a fitout incentive would need to be offered to sign up a potential tenant.
- Contrasting the subject site against other tenancies available for lease in more highly trafficked locations would be a consideration for any prospective tenant.
- We note older retail spaces achieve rents within the range of $100 - $250 per sq.m, depending on the quality of the offer and the location. It is expected that the two existing operators would be within this range.

Ground Floor Learnings

- There are numerous examples of developments across Melbourne and in the regions whereby the requirement for ground floor activation has resulted in vacancy and or the ultimate use reflecting a low rent outcome.
- Underperformance can be related to:
  - Relative isolation; being away from the key areas of activity
  - Operator not suited
  - Pitch of offer not aligned with the market
  - Space not conducive to retail
  - Size of market not of a scale to support additional retail
  - Off key ant tracks
  - Location does not support a destinational use
  - There are a number of examples even across inner Melbourne such as within Docklands, South Melbourne, West Melbourne, Prahran etc., whereby the requirement for ground level retail and not resulted in the best outcome for the development with prolonged vacancy resulting or the space not utilised for the original intent.

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SHADOWING IMPACTS OF DEVELOPMENT

Urbis has utilised Human Movement Data (HMD) to quantify the level of activity in the neighbouring park Rippleside park to understand the shadowing implications the development may have on areas of activity within the park.

This data allowed us to look at activity in the park over particular time periods including seasons and varying times of day to understand patterns and levels of activity.

OVERALL PARK ACTIVITY

The adjacent map shows overall activity captured through Human Movement data for Rippleside Park over the period of study from January 2016 to February 2021.

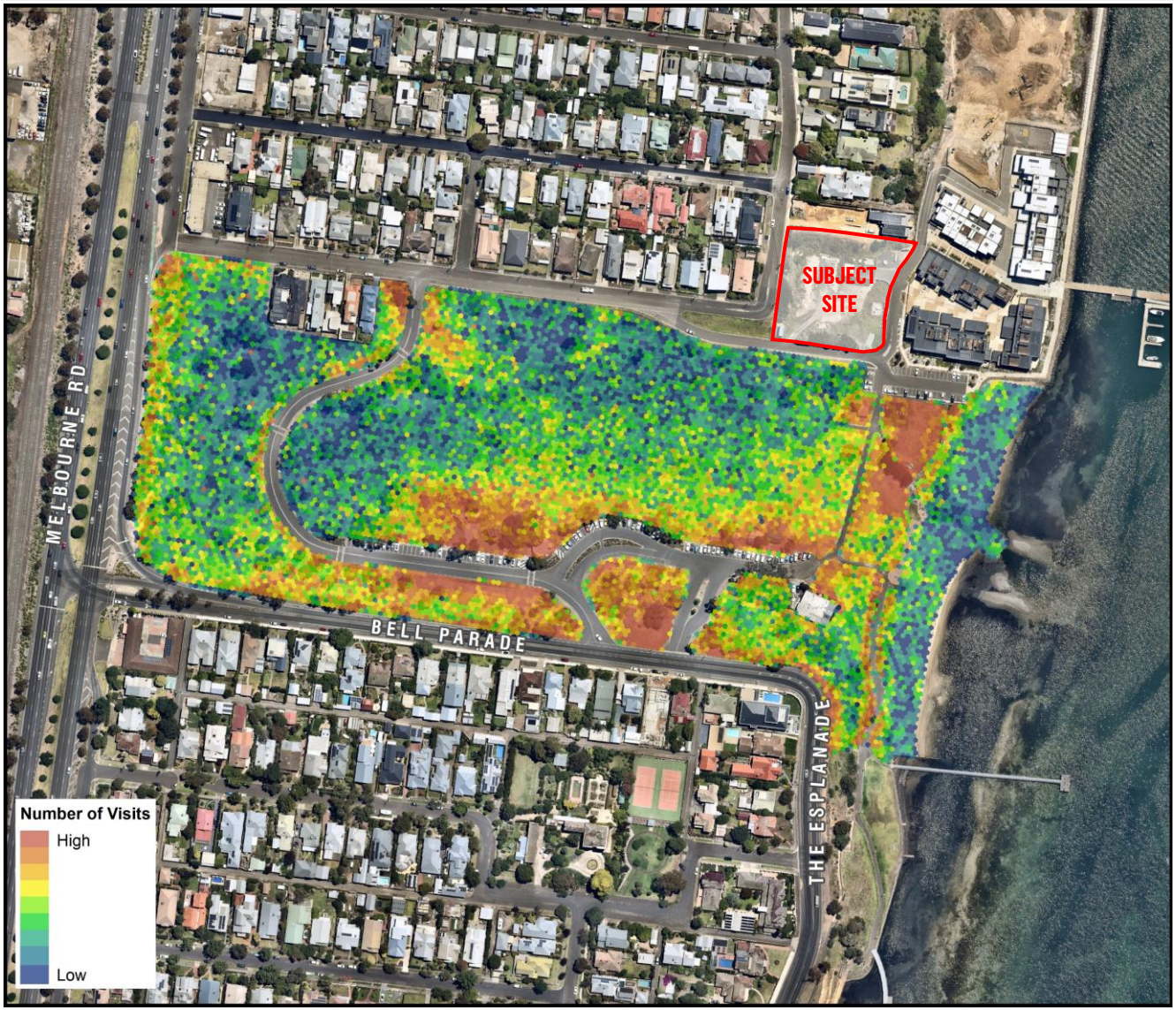
The proposed development of Stage 5 of Balmoral Quays will overlook part of Rippleside Park at the northern edge between Balmoral Crescent and Harbour Drive.

The adjacent map indicates areas of high activity are concentrated around Rippleside Drive, the children's playground, the existing café as well as near to Rippleside Beach.

Lower levels of activity are seen closer to the service road at the western boundary of the park as well as the northern parts of the park fronting Liverpool Street, including the area directly in front of the proposed development.

For all maps in this document the activity for the park has attempted to be quantified by excluding activity from roads, carparks and existing commercial/residential areas.

Overall Activity Heatmap



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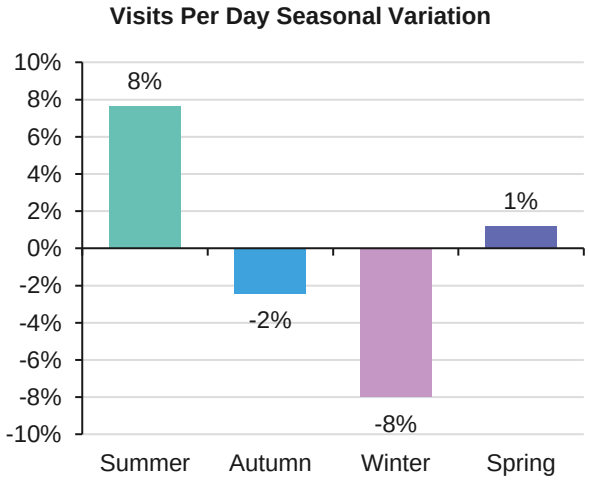
SEASONAL PARK ACTIVITY

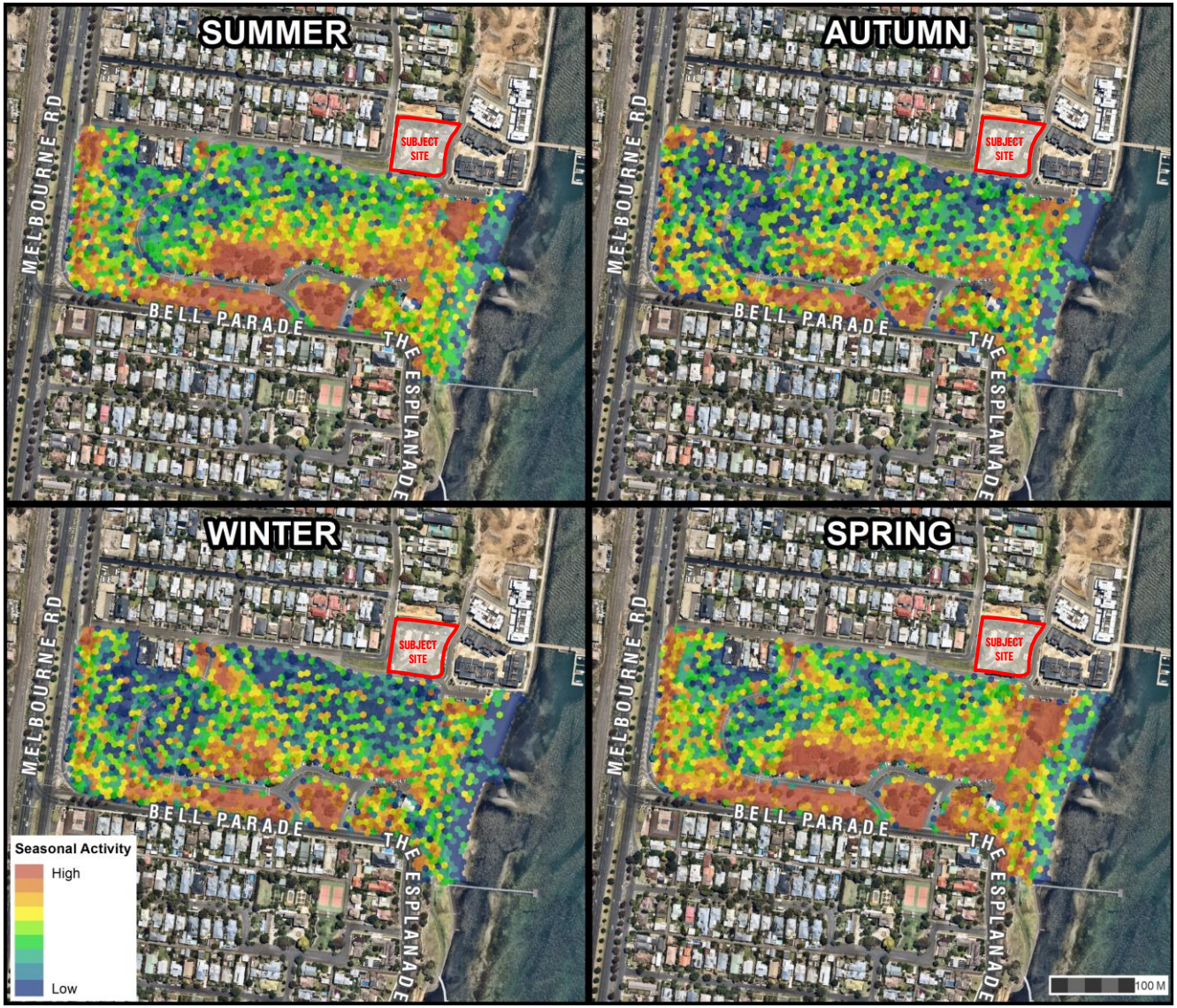
The adjacent maps and charts show relative activity levels in Rippleside Park over each season. As shown by the chart below, activity is lowest in winter (8% below average) and highest in summer (8% above average), demonstrating a strong seasonality pattern.

Winter and Autumn activity is particularly low in the north western corner of the park when compared to activity in the same area for Summer and Spring. The driver of higher activity in Summer and Spring also appears to be mostly clustered around the children's playground and the area closest to the southern carpark.

Overall, across the varying seasons, the level of activity or park usage, in front of the proposed development, is not seen as a highly active area of the park.



Seasonal Activity Heat Maps



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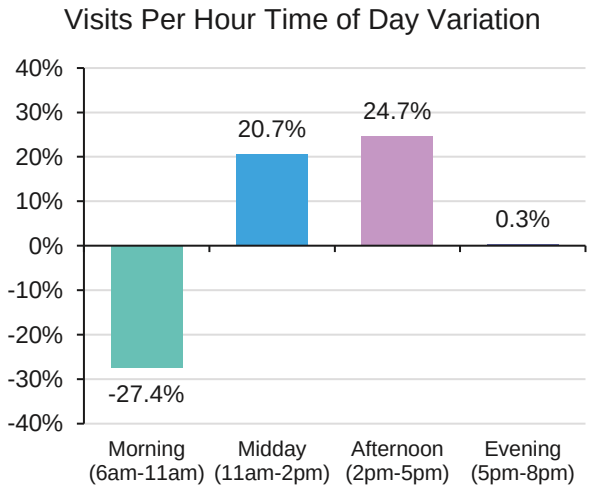
TIME OF DAY PARK ACTIVITY

The adjacent maps and charts show relative activity levels in Rippleside Park over a typical day. As shown by the chart below, activity is lowest in the morning period (27% below average) and highest in the afternoon (25% above average).

The main driver of activity in the park throughout the day appears to be the children's playground in the southern end of the park. Another pocket of activity appears to be the outdoor gymnasium and park to the south of the northern carpark.

The time of day analysis indicates that across the key periods of park usage, activity remains low in the area directly in front of the proposed development.



Time of Day Activity Heat Maps

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USAGE OF FORESHORE PEDESTRIAN WALKWAY

Urbis has utilised Human Movement Data (HMD) to quantify the level of the activity on the pathway along the foreshore at Rippleside Park and in front of Balmoral Quay Apartments.

This data allowed us to look at activity over a calendar year to understand the change in activity in parts of the path over time. Of particular interest is the level of usage of the new constructed foreshore path in front of Balmoral Quay.

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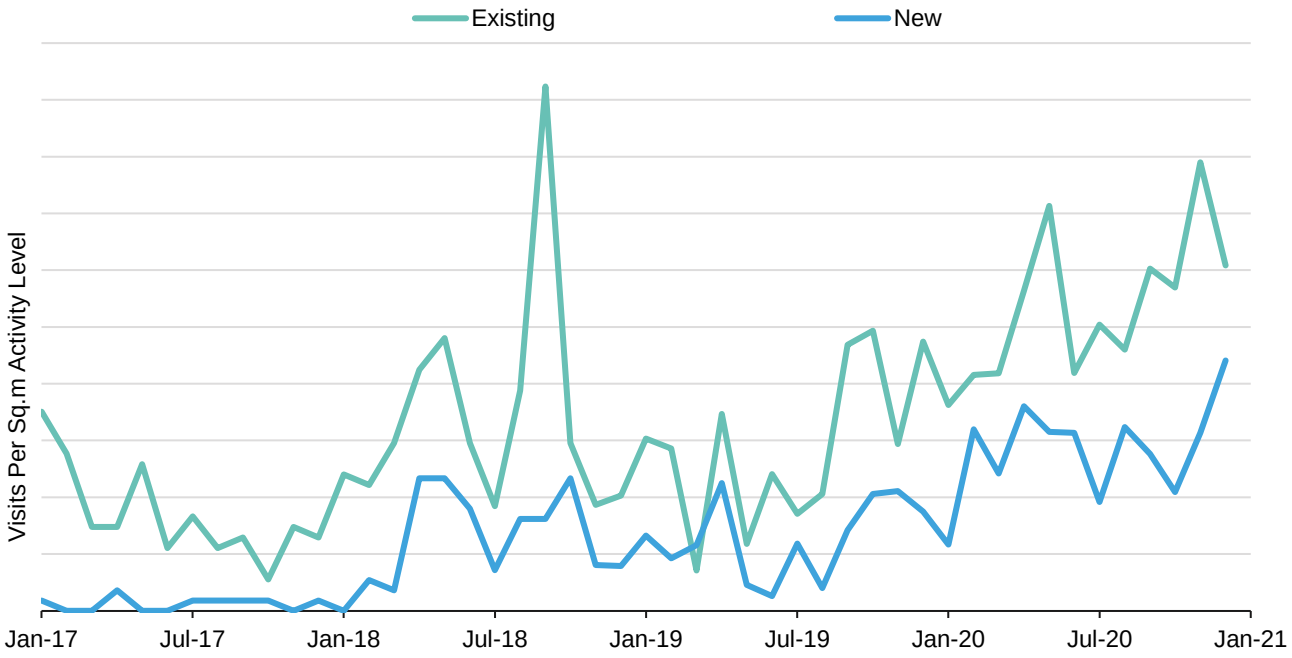
USAGE OF FORESHORE PEDESTRIAN WALKWAY

As part of the Balmoral Quay apartments development, a new waterfront pedestrian walkway has been developed extending from the northern end of Rippleside Park for 500 metres up to St Helens Reserve. Human Movement Data (HMD) has been utilised to assess the level to which the activity has been extended by this new pathway.

In order to make a like for like comparison the number of visits each month has been normalised by the estimated square metres that each section of the pathway takes up. The new pathway was opened to the public by late 2017 and by mid 2018 activity has broadly followed the activity that occurs on the existing pathway to the south.

From July 2018 to December 2020 the new pathway averaged around 50% of the activity seen on the existing pathway. This activity demonstrates the new pathway is being utilised on a similar basis to the more established pathway and provides additional amenity that local visitors have benefited from. Importantly, the new pathway is experiencing growth in activity which is expected to continue as further development occurs.

Monthly Activity Per SQM – Existing Pathway & New Pathway



Waterfront Pathways New & Existing

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