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REGIONAL COUNCIL

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Chief Executive Officer
Toowoomba Regional Council
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TOOWOOMBA QLD 4350

Attn: Mr Geoff Broadbent
By email: Geoff.broadbent@tr.qld.gov.au

RE: Peer Review (Stage 2) – Need Report for the Office Component, Proposed Technology Park (MCUI/2018/2882)

As requested, we have undertaken reviews of a number of economic need reports prepared for the FKG Group in support of the office component of the proposed Toowoomba Technology Park as part of an application before Council. The application is for a *Material Change of Use – Impact – Preliminary Approval for a Variation Request* over a 34.72ha site described as Lots, 1, 4 and 14 on SP296139 at Witmack Road, Vision Street and Pipe Street in Wellcamp. It is referenced as the Toowoomba Technology Park (TTP area).

The subject site is part of the Charlton Wellcamp Enterprise Area's General Industry Precinct. The TTP area is zoned Medium Impact Industry and is currently used for medium impact industrial uses and vacant land. The Pulse Data Centre is located on Lot 1 of the site. (A masterplan of the TTP is attached to this review.)

The Material Change of Use application seeks to vary the Toowoomba Regional Planning Scheme 2012 to allow "Office" as Accepted Development and reduce the levels of assessment for multiple Centre Activities within the Preliminary Approval Area.

Background

Foresight Partners initially undertook a preliminary review as a draft for discussion of the March 2018 *Toowoomba Technology Park: Location Analysis and Economic Impact Assessment* prepared by Lawrence Consulting on behalf of the FKG Group. Rather confusingly, Lawrence Consulting (LC) produced two reports of the same title and date. The first was lodged with the application and marked as received by Council on 14 June 2018.

The second was also dated March 2018, but marked received by Council on 23 August 2019, and was submitted in response to Council's information request dated 21 February 2019. Our initial or preliminary peer review was of the latter report, which we now understand should have been dated July 2019. We noted the differences between the two reports were relatively minor, consisting mainly the re-organisation of some of the text under a Location Analysis heading, inclusion of some limited additional discussion and analysis, and the addition of a detailed LC Capability Statement.

Relevant sections of Toowoomba Regional Council's 21 February 2019 Information Request (dated 21 February 2019) are reproduced below:

The submitted development application material indicates that Office will comprise approximately 40% of the overall development area. This substantial Office area is not considered ancillary or subordinate or incidental to and necessarily associated with the principal use based on the information submitted to date, and represents a significant departure from the intended land use envisaged within the General Industry Precinct.

It is acknowledged that the approved Data Centre is an anchor for a wide range of uses including Office but Office should only be established where it can be demonstrated that it is incidental to and necessarily associated with the principal use, or ancillary or subordinate to the principal use. The rationale that a wide range of Office uses would significantly benefit from co-location within the PAA is not sufficient to justify such a significant departure from the TRPS. Further information is required in support of, and to provide further clarification, of the limited and specialised Office uses anticipated to occur within the PAA (page 2).

Council's information request identified two options available to the applicant to respond. Option 2 was to amend the application's Table of Assessment to make Office/TTP Office subject to Impact Assessment, so that Office is not identified as an appropriate use within the PAA (Preliminary Approval Area) so that any future development application for Office will be subject to detailed impact assessment which may include assessment of economic need (page 3).

Council's Option 1 requested the submission of further information and justification in support of the proposed Office uses and other proposed Centre Activities (i.e. Child Care Centre, Food and Drink Outlet, Community Use, Function Facility within the proposed PAA. This was to consist of:

The submission of an updated Economic Needs Assessment, prepared by a suitably qualified and experienced person, in support of the establishment of the proposed Office and Centre Activity uses within the PAA may assist in providing the required justification.

The Economic Needs Assessment should include, but not be limited to, demonstration/investigation of the following:

- Impacts of proposed Centre Activities on existing centres (particularly the Toowoomba CBD;
- Consistency with the TRPS;
- Functional need for non-ancillary/subordinate Office uses to be located within the PAA (page 2).

LC's second report (received 23 August 2019) was the applicant's response to Council's Option 1. It was the subject of our preliminary peer review for discussion in a 9th October 2019 meeting held at Council's offices, attended by Council Planning Officers, applicant representatives and Foresight Partners (Mike McCracken) to discuss some of the concerns arising from our initial review of the LC report.

Foresight Partners noted that the LC response report was essentially an input-output analysis forecasting the proposed development's potential to generate employment and value add to Toowoomba's regional economy, assuming it was fully developed and occupied at some future point in time. It may be what the applicant commissioned LC to do but, in our opinion, it was unsuitable as the basis for an economic needs and impact assessment as

generally required and produced as part of addressing planning, economic and community need and impact assessment for specific development proposals. It did not address Council's information request, nor did it make a plausible case for the need and demand for the scale of office space proposed, and therefore could not be relied upon in Council's decision-making.

One of the outcomes of this 9 October 2019 meeting, was an agreement that the applicant would submit a revised and more suitable needs report, initially as a draft for review and discussion with Foresight Partners (and Council Planners). In November 2019 the applicant provided a draft report "*Need Report for the Office Component*" prepared by FKG Group. Foresight Partners subsequently reviewed this draft and held a telephone discussion with FKG Group and offered advice on addressing incomplete information and/or discussion.

On 22 January 2020, Council provided us with FKG Group's completed January 2020 report "*Toowoomba Technology Park, Application for a Preliminary Approval Document, Economic Need Report for the Office Component*", with the instructions to proceed with a formal peer review of that document.

General

Although still relatively basic and unpolished (e.g. page numbering is missing), the FKG report more closely resembles an "industry standard" economic need assessments and is better suited in addressing Council's information request. Overall, and in our opinion, the January 2020 report adequately addresses the thrust of Council's information request.

Lawrence Consulting's July 2019 report is attached as an appendix to the FKG report, and the FKG report relies on some excerpts (generally paraphrased) from that report in support of the needs assessment. However, the FKG's January 2020 report largely supersedes earlier reports and can stand alone.

The following sections of this review correspond to numbered sections of FKG's January 2020 need report.

2. Toowoomba CBD Office Market

The report's introduction clarifies the scale and quantity of office space in question. Of the 22,000m² of office floorspace proposed, an existing approval (MCUC/2016/2385/A) over part of the Toowoomba Technology Park site already allows for 7,250m² office GFA. Consequently, the application is seeking a 14,750m² increase in office space over the site, to be delivered in stages over a ten year period.

Section 2 is a single page that sets out the current supply of office floor space in the Toowoomba CBD. This is based on a figures reported by Economic Associates in May 2013¹ and estimates, made in conjunction with L.J. Hooker, of new floor space added since 2013. At 2013, the Toowoomba CBD commercial office supply was estimated at 211,456m² of which 19,422m² was vacant at that time (a 9.2% vacancy rate). At 2019, the total supply is estimated at 220,456m².

Based on online commercial real estate searches, the Need Report indicates that total stock of office floorspace has increased by 9,000m², or by about 1,500m² per annum between 2013 and 2019. The report then estimates the current vacant floor space in the Toowoomba CBD at some 44,000m² (implying a 20% vacancy rate), as summarised below.

¹ Economic Associates, May 2013, *Commercial & Retail Land Needs Review – Component 1 Final Report*
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Table 1: Estimated Commercial Floor Space in Toowoomba CBD at 2019

	Commercial Floor Space (m²)	(%)
Occupied	176,456*	80%
Vacant	44,000	20%
Total	220,456	100%

Source: page 2, Need Report.

*Foresight Partners calculations.

Although it is not part of this peer review to verify the estimated vacancy rate, we suspect that it may be overstated to some extent.

This is mainly due to the fact that CBD space, particularly at street level, can be used for retail or commercial uses, and this 44,000m² estimate of vacant space probably includes some retail floorspace, or space suitable for either use. Another factor that might slightly reduce the actual vacancy rate is that online leasing advertisements also include some properties that are still occupied, but with an imminent lease expiry.

Nevertheless, based on this analysis, it appears that there is a significant supply of vacant office space in the Toowoomba CBD. Of this vacant space, the FKG report indicates only about 5% (about 2,200m²) is probably equivalent to A-grade office space, with the bulk of vacant space in older establishments.

3. Qualitative Analysis of the Toowoomba CBD Office Market

In section three, the FKG report discusses potential impediments to future development within the Toowoomba CBD. Current commercial vacancy rates, modest take-up rates, fragmented ownership, heritage buildings and car parking are cited as key constraints to further development opportunities in the CBD. We agree that the identified limitations (particularly the commercial vacancy rates) reinforce the notion that significant new commercial development in the Toowoomba CBD is unlikely to occur in the short term.

The function and economic drivers of the Toowoomba CBD are then discussed. We concur with the FKG report in that future development is likely to be driven primarily by regional population and economic growth.

4. Toowoomba Technology Park

Section four contains excerpts from the earlier LC report (prepared 5 July 2019) providing an overview of the proposed Toowoomba Technology Park (TTP), its function and target industries.

It is accepted that the proposed TTP will be a unique facility centred on the first stage of its operating Pulse Data Centre. This is expected to leverage the attraction of targeted industries in agriculture/ag tech, advanced manufacturing, software and cloud-based services, biosciences/bio-tech, mining equipment/services and Defence.

The FKG report highlights that its proposed innovation centre (as part of the technology park) has strong support as a “Global Agrifood Innovation Centre” and lists a range of companies and universities which has its support as “ecoystem” partners (including FKG itself). It is unclear as to the nature of this support and how much (if any) office space or industrial space they will occupy as part of the innovation centre. However, as far as expressions of interest go before a project has planning approval, it is an impressive line-up of partners and lends credibility to the proposed development’s “need” for additional office space.

5. Need Analysis – Why the Toowoomba Technology Park and Not the CBD?

Section five outlines examples of the types of tenants and their requirements that will drive the need for office space within the Toowoomba Technology Park. These include a disaster recovery facility (requiring 1,500m²) which will apparently remain leased, but unoccupied and dormant, until if and when it is needed. Others include the agriculture-based innovation centre and Smart Farm.

This section sets out in dot point format several key reasons supporting the applicant's argument that the functions and components of the TTP cannot reasonably locate within the Toowoomba CBD. Aside from the obvious constraints of larger lot availability and fragmented ownership within the CBD, other points made include that some of the uses, such as manufacturing and R & D (and associated office space), are not envisaged as CBD uses under the Planning Scheme, and not at the scale planned for the TTP.

It also notes the TTP's co-location with the Pulse Data Centre and proximity to established transport infrastructure (Toowoomba Bypass, Wellcamp Airport) and direct access to reticulated high pressure gas supply, which are not available in the CBD. Although no doubt pertinent to some anticipated activities of the TTP, the relevance of these in demonstrating a need for additional office space as is proposed is not obvious.

Overall, we agree that the proposed TTP is a favourable location, with the Pulse Data Centre potentially acting as a catalyst in attracting FKG's targeted industries and firms requiring, or benefitting from, the co-location and/or integration of office and industrial uses within the TTP.

We agree with FKG's comment that:

"This integration and collaboration are not supported at the required intensity where the 'Office' component is physically separated 10km from the balance of the Toowoomba Technology Park uses. To this end, separating the uses will remove the incentive for these businesses to relocate to Toowoomba in the first place."

6. Toowoomba Technology Park – Preliminary Approval Document – Office

This final section reiterates that the applicant seeks to establish a new precinct or ecosystem that will attract and support new industries that do not currently exist within the Toowoomba region on a scale envisaged by FKG. It also addresses, in short dot-point format, some of the specific concerns raised in the Information Request and in the 9th October 2019 meeting with Council Planners.

The FKG report notes that:

- On completion, the additional 14,750m² of office space applied for represents about 7% of the CBD's current estimated supply (the total 22,000m² represents about 10% of the CBD's 220,456m²) and will not have a material impact upon the supply of CBD office space. The report also notes that most of the targeted users to date require large, functional floorplates rather than "prestigious" office space.
- Any impacts upon the CBD which might arise from the TTP development would be diluted or mitigated as new office floorspace would be built in stages as the TTP grows over time. Although stages are yet to be determined, FKG outlines three arbitrary scenarios where all office floorspace is demanded by 2025 (high), 2030 (mid) and

2035 (low in line with historic CBD take up rates of about 1,500m² per annum), assuming a 2020 start.

In our experience, we would expect the low to mid scenarios are the more realistic, but actual take-up will depend on how quickly FKG and its partners can populate its proposed “ecosystem”. As might be expected, demand (take-up) and supply will be lumpy, rather than steady, over the 5 -15 year period encompassed by their three scenarios.

- To assuage concerns about second round uses (e.g. if vacancies arise and become hard to lease, leasing agents/owners will entice users away from the CBD), FKG states that it will not undertake speculative development in new office space and development will be based on securing long term leases (7-plus years).

In our opinion, the prospects of the applicant undertaking speculative office-type development on the TTP site should be minimal. If the applicant cannot secure its targeted (or otherwise acceptable) tenant commitments, it is unlikely to proceed beyond a first stage until market demand warrants the necessary additional investment. We agree that the subject site is suitable for the type of technology park proposed, but its industrial location is not a natural or attractive location for “traditional” office uses, being relatively remote to the urban area and inconvenient for employee access to amenities (shopping and dining options, professional services), although some convenience food and retail activities will be provided to serve the TTP’s workforce. The CBD will maintain its superior advantage with respect to access to amenities.

- The right mix of users is critical to the TTP’s success and it is in the developer’s interest to ensure that each tenant is connected to the precinct and contributes to the envisaged ecosystem. To this end, and for added surety for Council, the applicant proposes to amend the definitions of “TTP Office” to reflect existing approval MCUI/2016/2385 so that separate ‘office’ uses within the TTP have a clear nexus with the other activities located within the precinct or ecosystem.

We also understand that Council planners have appropriate planning controls available to help ensure that the proposed additional office floorspace is developed only for the uses proposed by the applicant.

Conclusions and Recommendations

In our opinion, the proposed Toowoomba Technology Park is an ambitious project and, as a “pioneering” development, naturally carries a higher level of market risk and uncertainty. However, with the pioneering (for a regional population centre) Pulse Data Centre already operating at the core of the project, and the apparent interest from the TTP ecosystem partners, the development could provide the strong boost to Toowoomba’s regional economy, as claimed by the applicant (relying upon the LC report).

The nexus between the data centre and the need for a significantly greater amount of office space above that already approved is not readily apparent if relying only upon traditional office market take-up rates for Toowoomba’s CBD (reported as about 1,500m² per annum). Creating the demand for the whole of the 22,000m² of office space (including the 7,250m² already approved) will lie squarely with FKG and its ecosystem partners bringing its targeted new industry activity to the Toowoomba region.

Consequently, in our opinion, there is little risk that Council's approval of this additional office space associated with the applicant's intended target industries for the TTP will be detrimental to the future growth and development of the Toowoomba CBD's office markets.

In our opinion, the FKG report, although basic, is sufficiently robust for Council to rely upon in its decision-making. Our peer review also concludes that we see no reason to request additional information or clarification from the applicant, at least from an economic and community need perspective.

We trust the above comments are sufficient as part of Council's decision-making, but please do ring or email me should you require anything further.

Yours faithfully



Mike McCracken
Director