

7 August 2023

Infrastructure NSW
Level 12, 201 Kent St
Sydney NSW 2000

To Whom it May Concern

Re: Central Barangaroo Proposed Development and Land Uses

The Concept Plan for Barangaroo was approved in February 2007 by the Minister for Planning under Part 3A of the *Environmental Planning and Assessment Act 1979*. The Concept Plan has been subject to numerous modifications.

Modification 9 (MOD 9) for Central Barangaroo was initiated in 2014, submitted in 2021 and publicly exhibited in 2022. MOD 9 proposes a total of 144,355sqm GFA in a mix of uses including residential (to a maximum of 28,000sqm), significant retail space (in a basement) and commercial space. A response to submissions is currently being prepared.

Atlas Economics (Atlas) is engaged by Aqualand to undertake a preliminary review and consider the issues relevant to a viable and sustainable land use mix at Central Barangaroo (referred to as 'the Site').

DEMAND CONTEXT

Office and retail markets have faced headwinds on a number of structural fronts, resulting in the re-setting of demand for office and retail floorspace respectively.

- **Productivity gains**

Australia has been increasingly productive over the past two decades. Productivity can be measured through a variety of metrics - Industry Value Added (IVA) is one (the sum of gross outputs less total input costs). Occupiers today can do more with less office space and are therefore focused on a smaller quantum of quality stock that meets their increasingly complex needs.

- **Hybrid/ flexible working**

Hybrid working refers to a working arrangement in which office-based workers split their working week between the office, their home and in some cases a third space such as a co-working facility, library or local coffee shop. Research shows the average Australian workers now spends more than a quarter of their working week (27%) outside the office.

The dispersed nature of office employment activity has meant lower occupancy rates in the office, and consequently less demand for purpose-built office space and a smaller worker population (on any given day) to support local retail services. It has also meant higher demand for dwellings with a study.

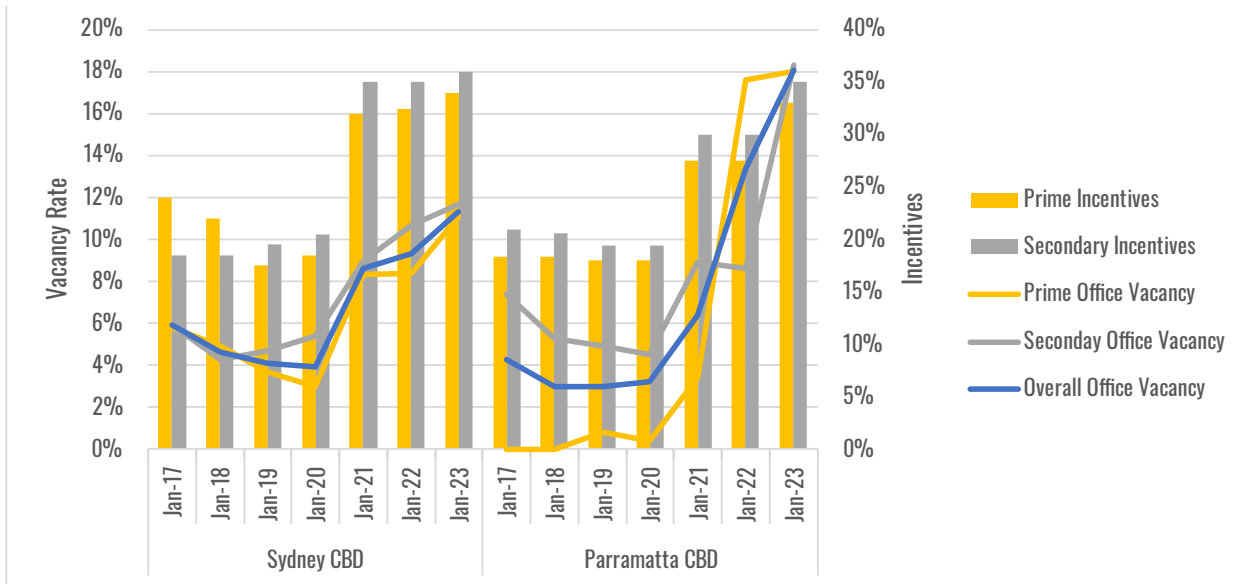
Trends resulting from the COVID-19 pandemic have 're-set' structural demand for some sectors - notably for retail and commercial office floorspace. The re-setting of demand is evident in market indicators with vacancy and incentive levels staying elevated since 2020. The influence of economic conditions on property markets is nuanced and therefore more work will be required to understand how these structural trends impact on various sub-markets and assets.

MARKET INDICATORS

Market indicators are a useful gauge for whether markets are appropriately supplied with the floorspace that meets demand. At its simplest, heightened levels of vacancy and/ or incentives are indicative of a misaligned and/ or oversupplied market.

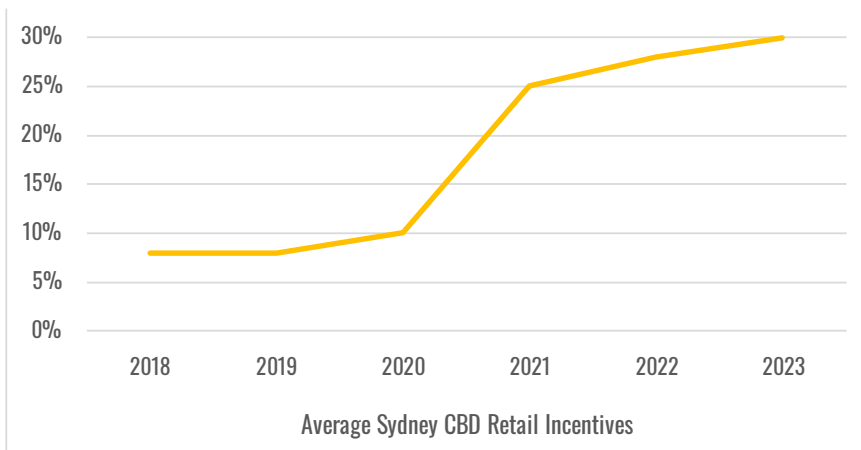
Figure 1 illustrates the movement of office vacancy and incentive levels in the Sydney CBD and the Parramatta CBD. **Figure 2** illustrates the pattern of movement of incentives in Sydney CBD retail.

Figure 1: Sydney CBD Office Vacancy (2017-2023)



Source: PCA, Knight Frank

Figure 2: Sydney CBD Retail Incentives (2018-2023)



Source: Colliers

The graphs show vacancy levels have been rising and remain elevated. Average office and retail incentives are between 30% and 35% in Sydney CBD.

IMPLICATIONS FOR THE SITE

The re-setting of structural demand for floorspace has direct implications for how sites are planned for future development. The take-up of office and retail space is expected to be slower moving forward as the market cycles through vacant space amid a shift in the demand for space per capita. Further, new and imminent completions are relevant to the overall supply and competitive context of the Sydney CBD.

A re-think of the land use mix at the Site would be prudent to ensure the resultant floorspace is viable and sustainable in an important and key part of the Sydney CBD. If required, we would be pleased to undertake more detailed work to assist.

Yours sincerely

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