

Blackwattle Bay Land Use Assessment

Final Report

Infrastructure NSW

20.3.24



SGS
Economics
& Planning





© SGS Economics and Planning Pty Ltd 2024

This report has been prepared for Infrastructure NSW. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

OFFICES IN CANBERRA, HOBART, MELBOURNE, AND SYDNEY ON THE COUNTRY OF THE NGAMBRI/NGUNNAWAL/NGARIGO, MUWININA/PALAWA, WURUNDJERI, AND GADIGAL PEOPLES.

Contents

1.	Introduction.....	5
1.1	Background.....	5
1.2	This report	5
2.	Strategic context.....	6
2.1	Policy context	6
2.2	Trends and drivers – commercial market	10
2.3	Trends and drivers – residential market	14
2.4	Implications for Blackwattle Bay	19
3.	High-level demand.....	21
3.1	Projected population	21
3.2	Projected employment	22
3.3	Potential dwelling and office floorspace demand	24
3.4	Future supply and competitive offer	26
3.5	Implications for Blackwattle Bay	28
4.	Market conditions	30
4.1	Recent sales data	30
4.2	Recent rental data	34
4.3	Trends and insights from consultation	36
4.4	Implications for Blackwattle Bay	38
5.	Summary and conclusions	40
5.1	Summary	40
5.2	Conclusions for land use	41

LIST OF TABLES

Table 1	Population 2021-2041, City of Sydney LGA.....	22
Table 2	Industry of Employment 2021-2041, City of Sydney LGA	23
Table 3	Land Use Category Floorspace Ratios	25
Table 4	Forecast Floorspace Demand, City of Sydney LGA (SQM).....	26

Table 5 Current and Future Commercial Floorspace Projects in City Of Sydney	27
Table 6 Average Commercial Sale Prices per SQM 2019-2023.....	31
Table 7 Average Retail Sales Prices per SQM 2019-2023	32
Table 8 Average Residential Sales Prices per SQM 2019-2023.....	34
Table 9 Commercial Office Leased Price per SQM 2023	35
Table 10 Retail Leased Price per SQM 2023	35
Table 11 Residential Leased Price per Week 2023	36
Table 12 Insights from Agent Consultation	37

LIST OF FIGURES

Figure 1 Working Arrangements, Australia	11
Figure 2 Sydney CBD Office Demand by Grade, Total Absorption 2020-23 (SQM)	12
Figure 3 Average Net Effective Rents (\$/ p.a), Sydney CBD.....	13
Figure 4 Total Office Vacancy, Sydney CBD	13
Figure 5 Number of Bedrooms in Dwellings, % Change 2016-2021	15
Figure 6 Mean Residential Price by State/Territory, 2011-2023	16
Figure 7 Residential Approvals 2022-23	17
Figure 8 Residential Approvals, City Fringe, 2018-2023	18
Figure 9 Average Residential Vacancy Rate 2019-2023.....	19
Figure 10 Population Projections, City of sydney LGA	21
Figure 11 Total Employment, City of Sydney LGA	22
Figure 12 Total Employment by Industry, City of Sydney LGA.....	23
Figure 13 Forecast Housing Demand, City of Sydney LGA, 2021-2041.....	24
Figure 14 Future Floorspace Demand, City of Sydney LGA (SQM)	26
Figure 15 Average Commercial Sales, City Fringe Combined	30
Figure 16 Average Retail Sales, City Fringe Combined	32
Figure 17 Average Residential Sales, City Fringe Combined	33

1. Introduction

1.1 Background

Blackwattle Bay is a significant urban renewal precinct on Sydney Harbour. The redevelopment is being led by the NSW Government as a State Significant Precinct, with approval to rezone granted by the Planning Minister in December 2022. The precinct is intended to be mixed use, including the redeveloped Sydney Fish Market, new housing and jobs, and 34,000 square metres of public space.¹

Infrastructure NSW proposes to remove the statutory requirement for at least a 57/43 split between residential and commercial land uses within Area 17 of the precinct, which would allow for an approximately 70/30 split within Area 17 and around 1,500 dwellings to be developed across the precinct (approximately +320 dwellings and reduction of 25,500 square metres of office floorspace). The share of residential land uses in Area 17 is proposed to be increased from the approved rezoning in response to Government's priority to increase housing supply and feedback from industry's concern about the land use mix and the viability of commercial land uses in a post-COVID environment.

1.2 This report

To inform the ongoing planning and future land use split for Area 17 of the Blackwattle Bay precinct, this report presents a land use assessment which:

- Establishes the relevant strategic context for the precinct and potential competitor precincts.
- Assesses the demand for residential and non-residential land uses on Area 17 at a high level.
- Identifies economic activity and impacts, and implications for the site.

The report has primarily focused on the commercial floorspace element of the land use mix, and whether a minimum commercial floorspace requirement should be required in the Blackwattle Bay precinct given the nature of current and forecast markets. Some discussion in the report around residential and retail uses is provided to understand the broader context.

The remainder of this report is structured as follows:

- Section 2 introduces the strategic context around the precinct, and trends and drivers impacting on the commercial and residential floorspace demand.
- Section 3 provides a high-level estimate of the future demand for dwellings and office floorspace.
- Section 4 summarises recent sales and rental data to provide a picture of current residential and commercial markets.
- Section 5 provides a summary and conclusions from the analysis.

¹ NSW Government, 2024, <https://www.planningportal.nsw.gov.au/blackwattlebay>

2. Strategic context

This section reviews and summarises policy and strategy relevant to the precinct, and outlines high level market trends and drivers relevant to future demand for floorspace in the Blackwattle Bay area.

2.1 Policy context

Greater Sydney Region Plan – A Metropolis of Three Cities (2018)

The Greater Sydney Region Plan is the NSW Government's 40-year strategy and coordinates the approach to infrastructure and collaboration, liveability, sustainability and productivity across Greater Sydney. The Plan has a vision of three connected cities, the Eastern Harbour City, the Western Parkland City and the Central River City.

Blackwattle Bay is situated within the Eastern Harbour City. The Blackwattle Bay precinct sits at the edge of the existing economic core of the Eastern Harbour City, which has a large amount of Greater Sydney's jobs and an innovation corridor. The Precinct will also contribute to the 20-year housing target for the Eastern Harbour City, where the target is 157,500 dwellings between 2016-2036. It is also located within the Harbour CBD Innovation Corridor identified in the Plan, with a focus on high-tech and start-up hubs around Pyrmont.

It is noted that the Greater Sydney Region Plan is due for review, and that the economic and employment conclusions of this document pre-date the effects and implications of the COVID-19 for strategic planning.

Eastern City District Plan (2018)

The Eastern City District Plan is a 20-year plan to manage growth in the context of economic, social and environmental matters to achieve the 40-year vision for Greater Sydney. The Blackwattle Bay precinct aligns with the existing economic strength of the Eastern Harbour City, which has the largest office market in the region and a large share of Greater Sydney's jobs.

The Plan highlights that the Blackwattle Bay precinct is within an 'Innovation Corridor', which also includes the Darling Harbour, Walsh Bay, UTS, and Redfern-Eveleigh Precincts.

The Precinct is consistent with the goals set out under the Plan as it promotes:

- Infrastructure supporting new development within 30mins of a metro cluster.
- Increased dwellings located within 30mins by public transport of a metro cluster.
- Increased public open space and walkability.
- Increased housing options and jobs near a metro cluster, building on the already high jobs and housing in the City.

- Growth and investment in the ‘Innovation Corridor.’

It is noted that the Eastern City District Plan is due for review, and that the economic and employment conclusions of this document pre-date the effects and implications of the COVID-19 for strategic planning.

Pymont Peninsula Place Strategy (2020)

This Place Strategy creates a 20-year vision and planning framework to support the NSW Government’s vision to transform the Pymont Peninsula. The Strategy sets out 10 Directions addressing matters of strategic economic, social, and environmental significance to guide growth and change to 2041.

The Blackwattle Bay area (which includes the precinct) is identified as a key area of transformation that can accommodate more growth and change than other parts of the Peninsula. Redeveloping Blackwattle Bay is identified as addressing the missing link that will connect the harbour foreshore walk from Pirrama to Wentworth Park, and the new Sydney Fish Market and beyond.

The Strategy outlines 20 place priorities for Blackwattle Bay. The Blackwattle Bay precinct aligns with the place priorities by:

- Redeveloping the precinct into a mixed-use area with a focus on knowledge-based jobs, retail and residential.
- Providing for residential development for a range of people.
- Encouraging green roofs and podiums in new developments.
- Introducing controls to ensure development protects sunlight to public space.
- Promoting active transport and public transport use through easy, efficient and safe connections.
- Conserving, protecting and enhancing the Precinct’s Aboriginal heritage.
- Completing one of the final links of the harbour foreshore walk.
- Providing residential development without compromising commercial development and the attractiveness of Blackwattle Bay for cultural, entertainment, arts and leisure activities supporting a diverse and vibrant 24-hour economy.

The Strategy also notes a focus on prioritising commercial floorspace for knowledge jobs.

Pymont Peninsula Place Strategy – supporting Economic Development Strategy (2020)

The NSW Government economic development strategy provides recommendations on how to ensure strong and lasting economic growth and realise the strategic vision for the peninsula.

The Strategy highlights that for Blackwattle Bay, jobs are forecast to increase by 20,000-23,000 by 2041, representing growth of 54 – 63 per cent compared to 2017 levels. The forecasts provide for an economic and commercial future for the precinct where knowledge industry jobs, productivity and job density all increase supported by new developments and infrastructure. As such, a greater supply of commercial buildings will be required across the precinct by 2041 (an additional 600,000 – 800,000 square metres of floorspace will be required). This will also lead to increased retail and residential development density.

The Strategy includes recommendations to support the growth of the Pymont Peninsula. One of these recommendations is to rejuvenate Blackwattle Bay through new hubs of activity and enhanced

shopfronts, streetscapes and public spaces. This aligns with the proposal for the Blackwattle Bay precinct as it will include activated shopfronts and street frontages, with high quality and interesting public open space.

It is noted that the Strategy was finalised in 2020 before the extent and nature of the impacts of COVID-19 on employment, ways of working, and demand for office floorspace were understood.

Blackwattle Bay State Significant Precinct Finalisation Report (2022)

This report documents the NSW Department of Planning and Environment's² assessment and finalisation of the proposed planning amendments to enable the renewal of the Blackwattle Bay State Significant Precinct. The planning controls will enable:

- Approximately 97,500 square metres of new residential gross floor area (GFA) allowing for about 1,200 new apartments (or around 2,400 new residents)
- Approximately 100,320 square metres of new commercial and retail GFA creating about 5,600 jobs.
- New buildings ranging between six and eight storeys up to a maximum of 35 storeys (or a maximum height of RL 141 metres)
- A 30-metre-wide foreshore promenade providing continuous public access between the Glebe Island Bridge and the new Sydney Fish Market, completing one of the final links of the harbour foreshore walk around the Pyrmont Peninsula.
- Over 30,000 square metres of new parks, foreshore promenade and public space.
- Contributions towards and provisions for infrastructure, such as community and cultural uses such as libraries, childcare facilities and/or community centres in the area and affordable housing.

It is noted that the SSP Finalisation was undertaken in 2022, and as such relied on pre-COVID-19 data and was prepared before the full impacts of the pandemic were understood.

As noted in the introduction, the current proposal for the site includes a revised quantum of residential and commercial floorspace to what is identified in the Finalisation Report, and would see around 1,500 new apartments, around 2,700 residents, and around 4,200 jobs in the precinct. These should still be considered as indicative, as the final quantum of floorspace will be confirmed as the precinct is designed in more detail and progresses through DA processes.

Draft Ultimo Pyrmont Planning Framework (2023)

In 2023 the City of Sydney resolved to approve a Planning Proposal for Ultimo Pyrmont for submission to DPHI for a Gateway Determination.³ The framework is the City's response to the Pyrmont Peninsula Place Strategy, and identifies the required changes to controls to facilitate the proposed growth in the area.

² Now DPHI.

³ <https://meetings.cityofsydney.nsw.gov.au/mgAi.aspx?ID=16388#mgDocuments>

Concerning commercial floorspace specifically, the draft framework documentation has identified that:

- During consultation, many comments were received regarding the viability of commercial floorspace in a changed environment for business post-COVID with greater flexible working, and that there was too much focus on the supply of commercial floorspace in light of the housing supply shortage.
- The focus for the City has been on meeting the required job targets in the most appropriate way.
- Demand for office floorspace will be determined by the market, with the proposed controls able to create the capacity for such space to be provided.
- A number of previously commercial-only sites are proposed to allow for residential uses.⁴

In particular, the Planning Proposal seeks to concentrate employment uses around the new Metro station on the ridgeline to support a critical mass of well-connected businesses, with middle- and outer-ring areas having greater focus on housing (such as Blackwattle Bay).

Recent reforms to NSW housing policy

The NSW Government has recently made changes to policy to attempt to address the housing crisis, including a focus on rebalancing housing growth to locations close to transport, jobs and existing infrastructure. The focus of the policy changes has been around housing supply, with the intent for more housing supply to drive down the cost of renting and make buying a home more affordable.

As part of the National Housing Accord, the NSW Government has committed to progressing investigations and implementation of additional planning reforms that support diverse, well-located housing supply.

The reforms introduced have included:

- The creation of a Transport Orientated Development Program, where eight Sydney transport hubs have been identified for accelerated rezoning for the delivery of up to 47,800 new homes over the next 15 years.
- Proposed rezonings within 400 metres of Metro or suburban rail stations in 31 locations across NSW, potentially allowing for 138,000 new homes to be created.⁵
- Updates to the State Environmental Planning Policy (Housing) 2021 (SEPP), allowing for projects that include at least 10-15% affordable housing to be eligible for height and floor space ratio bonuses of 20-30%.⁶
- Changes to planning rules to facilitate low and mid-rise housing forms, through allowing for selected housing types to be permissible in R2 and/or R3 zones in some locations regardless of permissibility under LEPs.⁷

⁴ <https://meetings.cityofsydney.nsw.gov.au/documents/s78871/Public%20Exhibition%20-%20Planning%20Framework%20-%20Ultimo%20Pyrmont%20Sydney%20Local%20Environmental%20Plan%202012%20Ulti.pdf>

⁵ <https://www.nsw.gov.au/media-releases/addressing-housing-crisis-nsw>

⁶ <https://www.planning.nsw.gov.au/policy-and-legislation/housing/housing-sepp>

⁷ <https://www.planning.nsw.gov.au/policy-and-legislation/housing/diverse-and-well-located-homes>

These reforms will potentially impact on housing supply generally, and particularly in areas surrounding Blackwattle Bay, with the Bays West precinct identified for accelerated rezoning to support new homes within 1,200 metres of the new Metro station. The reduction in commercial floorspace and increase in the number of dwellings in Blackwattle is in line with the broad agenda to focus on the delivery of housing to support affordability outcomes.

2.2 Trends and drivers – commercial market

Work from home and commuter patterns

The COVID-19 pandemic fundamentally changed attitudes towards work from home. This has broad implications for residential and commercial (retail and office) markets, transport planning and service planning.

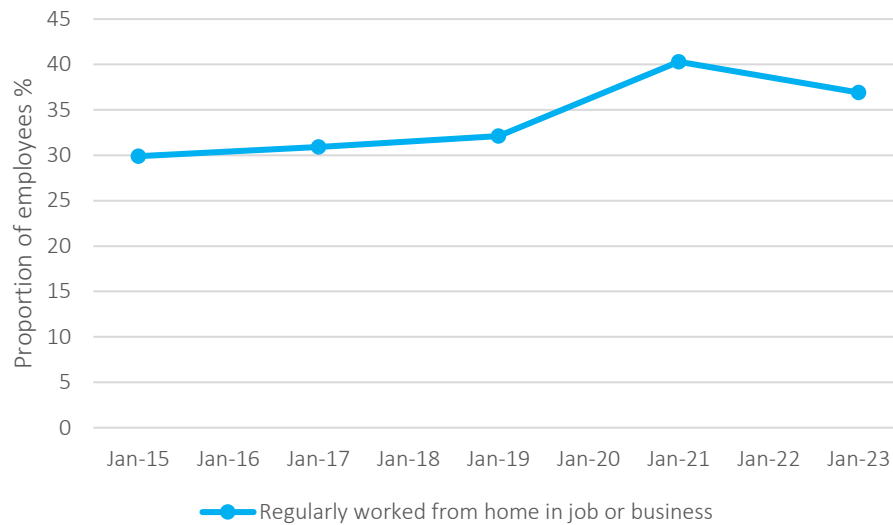
With office-based employers finding it difficult to entice workers back into offices, more is being expected of the office buildings themselves and the precincts in which they exist. This is translating into greater demand for meeting and circulation space, greater in-office amenity (food and drink, informal break-out/ relaxation spaces, etc.) as well as better access to open space, facilities and services within office precincts.

Recent findings have suggested that the ‘new normal’ is hybrid working, with one to two days a week working from home and three to four days from the office. However, the office location may not be where it was before. Established CBD locations and office parks are being seen as less attractive than high amenity satellite offices closer to home with shared space.⁸

It is expected people will continue to seek flexibility in their working arrangements to avoid lengthy commutes, traffic congestion – particularly as Millennials (who have spent much of their careers working under flexible arrangements) take up leadership roles. Prior to the pandemic, the proportion of people regularly working from home was steadily increasing. There was a marked spike in work from home during the pandemic in 2021. Although the incidence dropped after the pandemic the incidence of work from home is still higher than pre pandemic levels and seem to be returning to trend-based growth as shown by ABS data in Figure 1.

⁸ <https://www.sydney.edu.au/business/our-research/institute-of-transport-and-logistics-studies/transport-opinion-survey.html>

FIGURE 1 WORKING ARRANGEMENTS, AUSTRALIA



Source: ABS, 2023.⁹

Post COVID office markets

Corporate Australia is demonstrating confidence in CBD office markets overall. COVID has changed the role of the office – what it is used for and how central a role it should have. Companies will now be well aware that they can make do with less office space as a result of people choosing to regularly work from home, but have also realised they need a higher quality, and more resilient office space so employees can come together to receive the benefits of collaboration.¹⁰

In CBD markets, businesses are increasingly relocating to smaller, high- quality spaces, diminishing demand for lower-grade buildings. Referred to as the ‘Great office upgrade’ or ‘Flight to quality,’¹¹ there is a clear trend of tenants upgrading across and within office market grades.¹² This trend reinforces a post pandemic tenant preference for buildings and office space that provide a combination of high performance, enhanced experience and greater flexibility, as well as businesses being able to take advantage of the higher vacancies and lower rents. This includes workspaces located close to multiple public transport options, food and retail operators, green space and wellness activities. Activating these amenities provides an attractive reason for workers to come back to the workplace. As evident in Figure 2, Sydney CBD office demand is greatest for premium grade space. It is expected that this trend will be the primary driver of leasing activity in the Sydney CBD over the near term.¹³ The Sydney City Core in particular will benefit from this trend, as it is the most centralised location and has the bulk of premium assets in the CBD.¹⁴

⁹ <https://www.abs.gov.au/media-centre/media-releases/working-home-remains-popular-less-2021>

¹⁰ <https://www.wsp.com/en-au/insights/how-will-covid-19-change-demand-for-office-space>

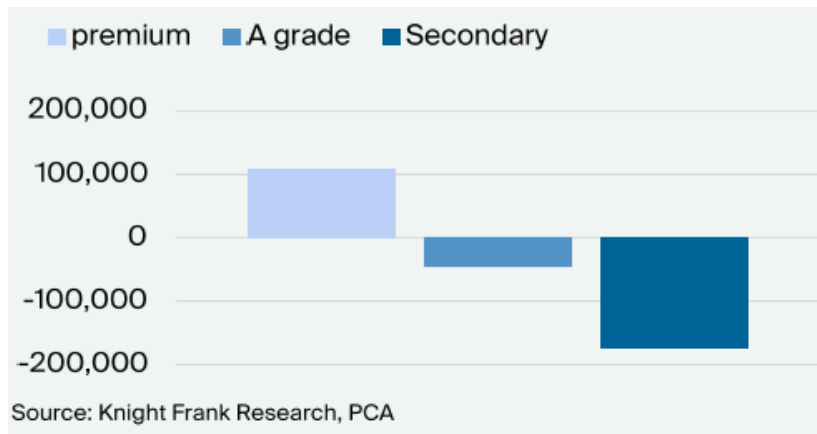
¹¹ <https://www.propertycouncil.com.au/media-releases/sydney-cbd-records-highest-future-supply-demand-across-australia>

¹² <https://www.investa.com.au/hubfs/Research%20Investa%20Inside%20-%20May%202023.pdf>

¹³ <https://mktgdocs.cbre.com/2299/77a01681-c040-4563-8b50-e46c684bceb6-1268940677.pdf>

¹⁴ Cushman & Wakefield, 2023, Sydney CBD office Q4, 2023

FIGURE 2 SYDNEY CBD OFFICE DEMAND BY GRADE, TOTAL ABSORPTION 2020-23 (SQM)



Source: Knight Frank, Sydney CBD office, 2023.¹⁵

CBD commercial

Demand for office space in the Sydney CBD is becoming more tightly focused on the CBD Core, as this is where the bulk of premium assets are. Furthermore, limited new supply came online in 2023 with around 27,000 square metres of refurbished space completed in the first half of the year and 62,000 square metres completed the remainder of the year.¹⁶

Increasingly, office occupiers who were looking for space in 2023 were in the market for prime space (90 per cent of office occupiers looking for space in 2023),¹⁷ as premium offices offer a high level of amenity and high ESG credentials. Higher amenity paired with smaller tenancy footprints are making premium assets a more viable choice for companies who might not have previously considered them.¹⁸ As of Q2 2023, average net face rents slightly declined in Sydney CBD. This period also saw a 1.1 per cent decrease in average prime net face rents (see Figure 3), driven mainly by increasing average incentives in the Midtown (area around Town Hall) and Western Corridor (area around Barangaroo foreshore) where larger sub-lease and backfill vacancies exist. It is predicted through to 2024, rents will remain stable or slightly increase¹⁹, but remain significantly below pre-COVID rates.

¹⁵ Knight Frank, 2023, Sydney CBD office market report, August 2023

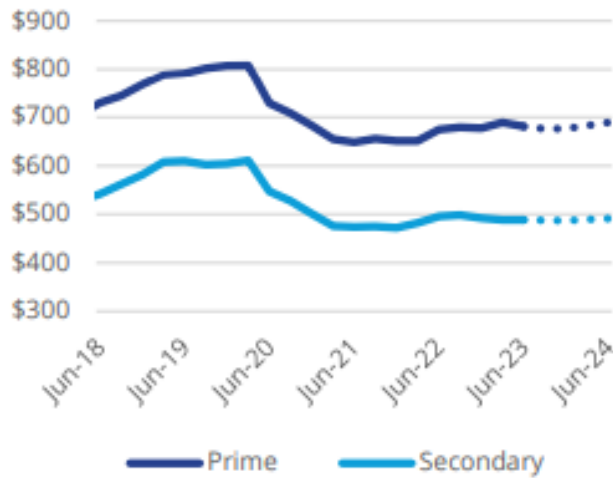
¹⁶ Cushman & Wakefield, 2023, Sydney CBD office Q4, 2023

¹⁷ <https://www.cbre.com.au/insights/articles/why-employees-are-returning-to-the-office>

¹⁸ <https://www.cbre.com.au/insights/articles/why-employees-are-returning-to-the-office>

¹⁹ Colliers, 2023, Australian CBD Office Snapshot, Q2 2023

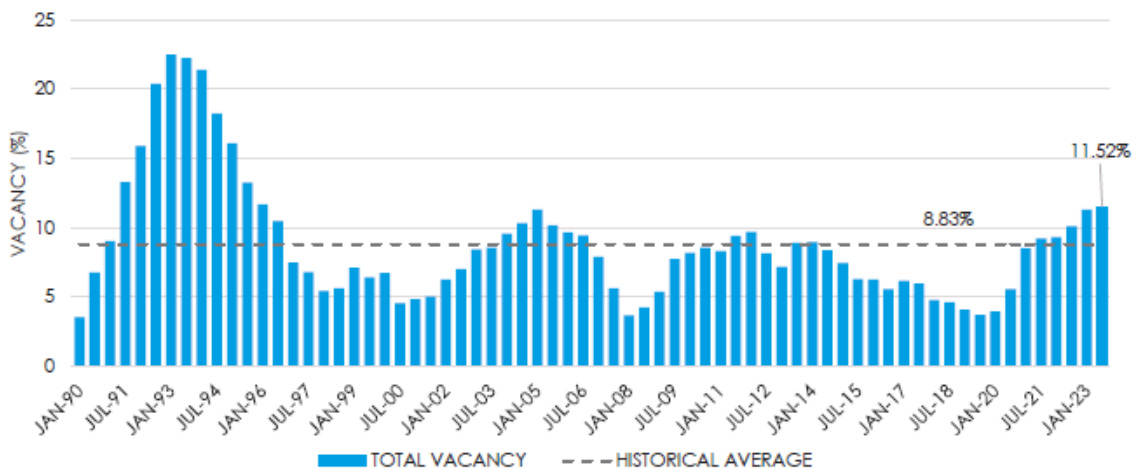
FIGURE 3 AVERAGE NET EFFECTIVE RENTS (\$/ P.A), SYDNEY CBD



Source: Colliers, 2023.

As of mid-2023, the Sydney CBD office market was experiencing weak demand overall putting upward pressure on vacancy rates. Overall, vacancy levels are continuing to decline which indicates increased demand, but still sit above their long-term averages. The overall vacancy rate increased to 11.52 per cent as of July 2023, which is the highest vacancy rate since 2005 and more than double the vacancy rate in the period immediately prior to the COVID-19 pandemic. This vacancy rate trend has remained for Q4 2023.²⁰ In 2023, there was a total of 604,902 square metres of available space for lease in the Sydney CBD office market, however the City Core experienced decreases in vacancy as compared to outer CBD areas,²¹ which is reflective of the higher demand observed for premium spaces.

FIGURE 4 TOTAL OFFICE VACANCY, SYDNEY CBD



Source: CI Australia, Sydney CBD office market report H1, 2023.

²⁰ Cushman and Wakefield 2023, Sydney CBD office Q4 2023

²¹ CI Australia, Sydney CBD office market report H1, 2023

2.3 Trends and drivers – residential market

Changing household dwelling preferences

The pandemic has had a significant impact on the types of residential properties in demand. Generally, during the lockdown period buyers demonstrated a preference for houses, likely due to the increased time spent at home. This was driven by the desire to have more space, both inside and out, again linked with work from home. Overall, buyers continue to prefer houses over units in metropolitan areas, but location and affordability are increasingly impacting on purchasing decisions.²² As the HomeBuilder scheme came to a close in 2021, the percentage of homes purchased versus apartments fell back to pre-COVID levels. This rebalancing has shifted the housing market somewhat back to its pre-pandemic state, and units are becoming increasingly attractive to buyers.²³

However, research has also identified that in Australia there has been marginal increases in the proportion of smaller dwellings and a big increase in four-bedroom and five-bedroom dwellings,²⁴ as evident in the figure below. This suggests the redevelopment of many three-bedroom dwellings into larger houses, and is particularly notable in regional areas. Figure 5 also shows that in Greater Sydney between 2016-2021, there was a 32 per cent increase in the number of five-bedroom dwellings (an increase of 32,824 dwellings over the period), and a 31 per cent increase in six bedroom or more dwellings (a smaller net increase of 1,490 dwellings). In Sydney, Melbourne, and Brisbane there have been increases in the number of large-scale apartment developments (four storeys or more), which has contributed to a small increase in the proportion of one and two-bedroom stock.²⁵

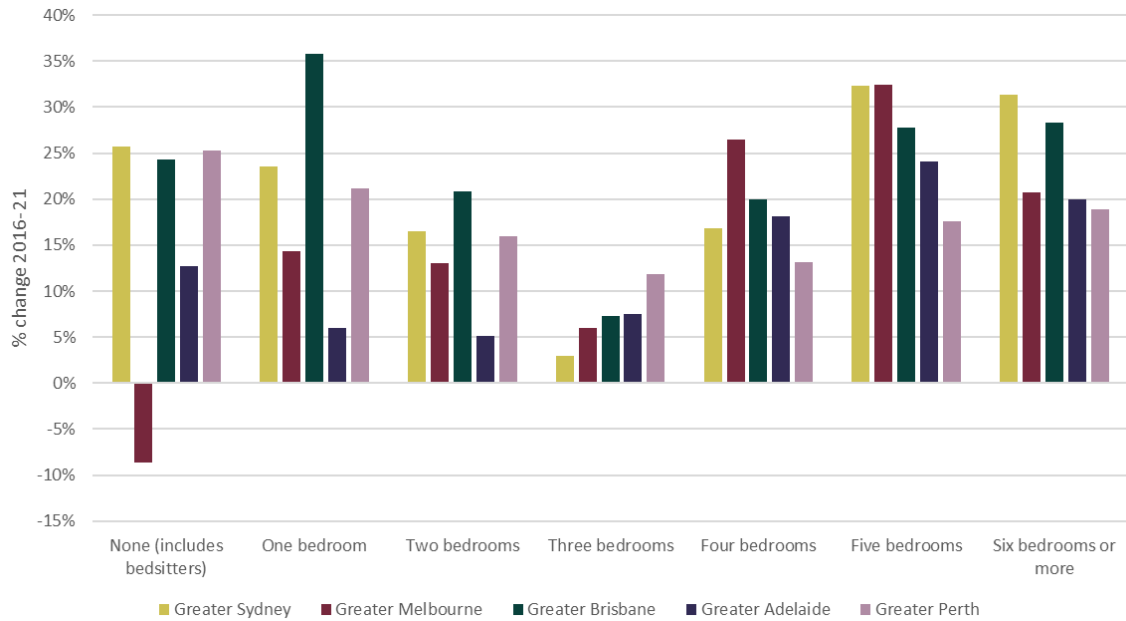
²² <https://www.ahuri.edu.au/sites/default/files/documents/2023-05/PES-399-How-Australian-housing-patterns-changed-during-COVID-the-new-normal.pdf>

²³ <https://ironfish.com.au/blog-news/australian-property-market-returned-to-normal/>

²⁴ <https://www.ahuri.edu.au/sites/default/files/documents/2023-05/PES-399-How-Australian-housing-patterns-changed-during-COVID-the-new-normal.pdf>

²⁵ <https://www.ahuri.edu.au/sites/default/files/documents/2023-05/PES-399-How-Australian-housing-patterns-changed-during-COVID-the-new-normal.pdf>

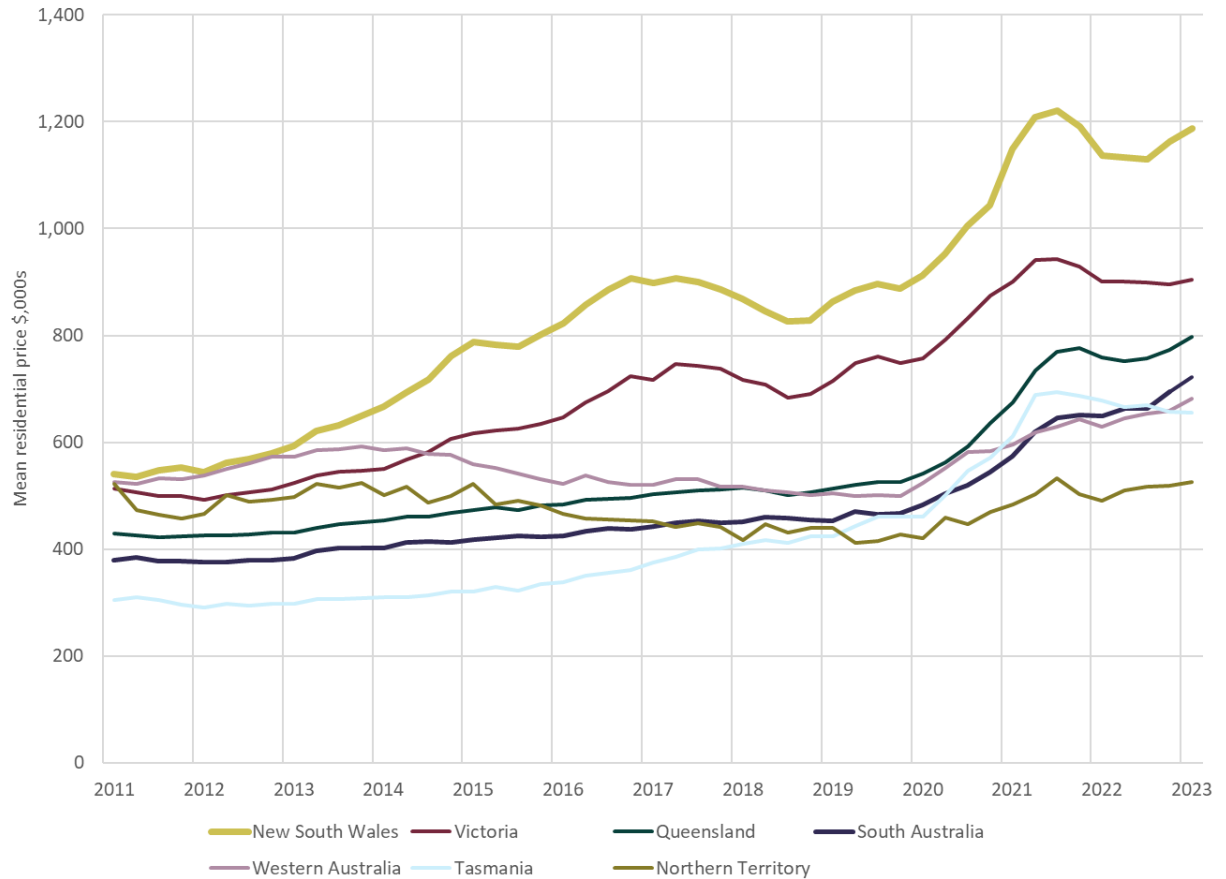
FIGURE 5 NUMBER OF BEDROOMS IN DWELLINGS, % CHANGE 2016-2021



Source: ABS Census Tablebuilder, 2016, 2021.

Housing in NSW, and especially in Sydney, is increasingly expensive and is becoming more unaffordable. As evident in Figure 6, in NSW the mean residential price has continued to increase, especially post pandemic between 2021 and 2022. As of September 2023, the mean residential price in NSW peaked again to \$1,187,200 million.

FIGURE 6 MEAN RESIDENTIAL PRICE BY STATE/TERRITORY, 2011-2023



Source: ABS, 2023.²⁶

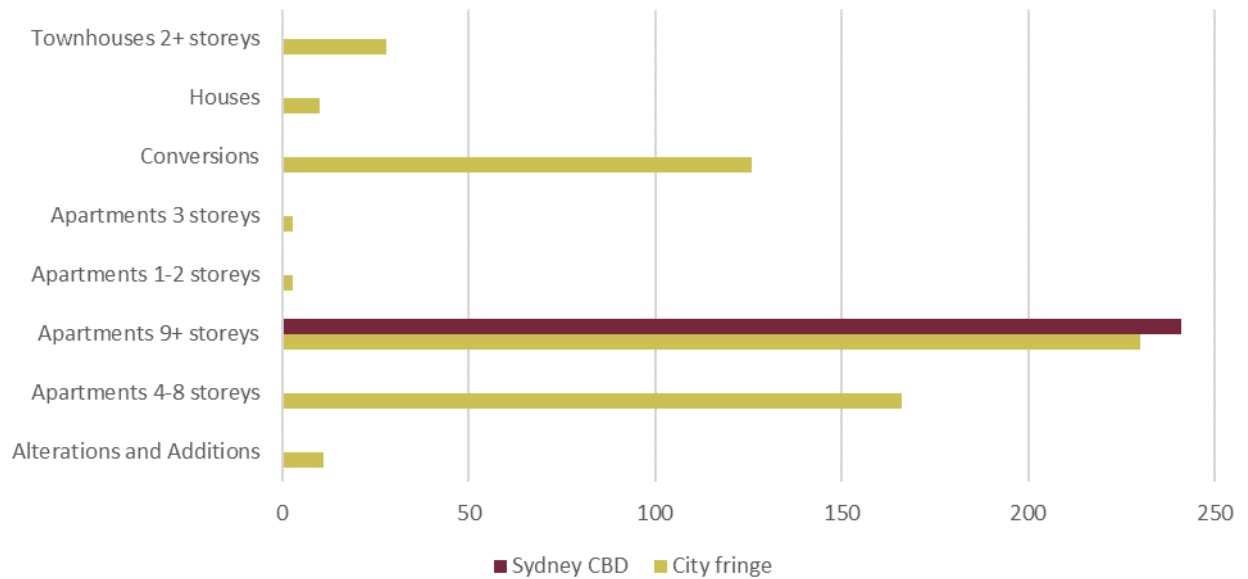
CBD residential

High and medium density continues to be the dominant dwelling type being developed in the Sydney CBD and the city fringe.²⁷ Evident in Figure 7, which shows the number of residential approvals in 2022-23, all of the dwellings approved in the CBD, and the majority of those in the city fringe were apartments in buildings of nine storeys and above. The city fringe also saw relatively high numbers of approvals for apartments in buildings of 4-8 storeys during this time.

²⁶ <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release#key-statistics>

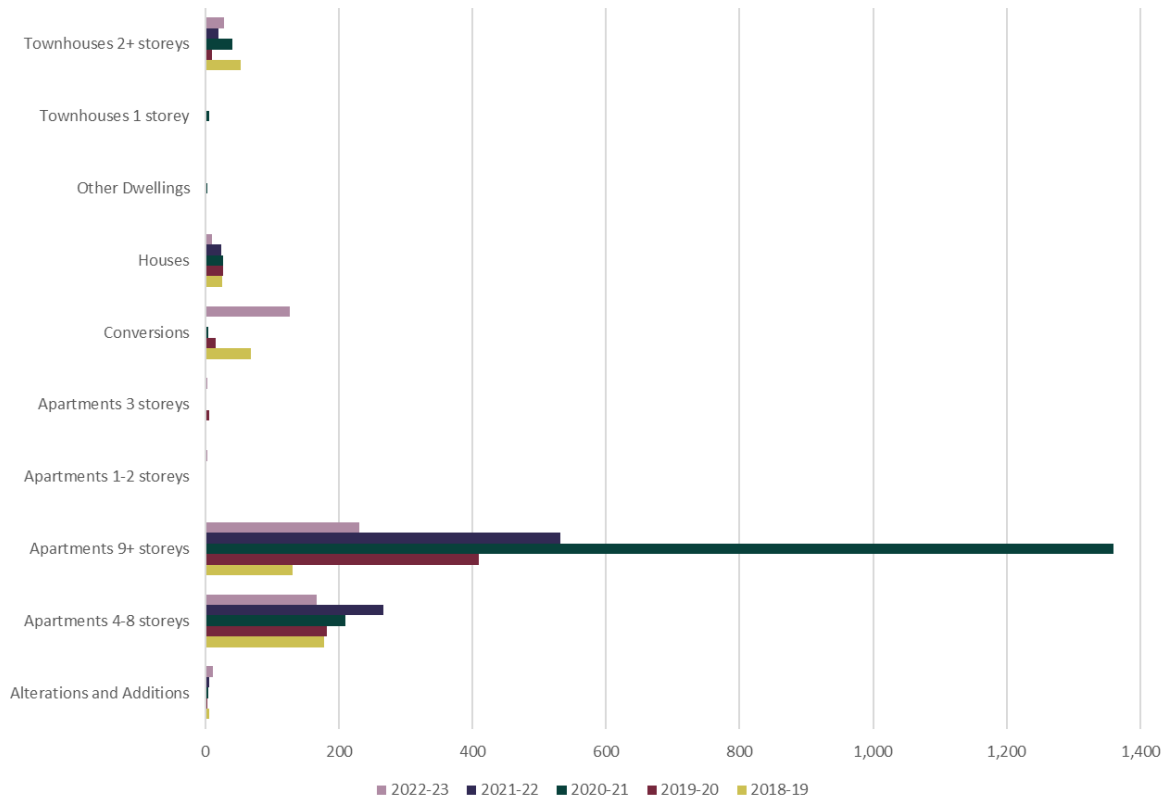
²⁷ The data is based on SA2 locations. Sydney CBD refers to: Sydney (North) - Millers Point, Sydney (South) - Haymarket. City fringe refers to the suburbs of: Camperdown - Darlinghurst, Chippendale, Darlinghurst, Glebe - Forest Lodge, Newtown (NSW), Potts Point - Woolloomooloo, Pyrmont, Redfern, Rosebery - Beaconsfield, Surry Hills, Ultimo, Waterloo, Zetland.

FIGURE 7 RESIDENTIAL APPROVALS 2022-23



Source: NSW Government Planning and Environment, Greater Sydney Urban Development Program, 2023.

Between 2018-19 and 2022-23, residential approvals in city fringe suburbs have mainly comprised of apartments that are in buildings of 4-8 storey and 9 storeys and above (see Figure 8). In the Sydney CBD, apartment buildings of 9 storeys and above were the prevailing type approved between 2018-19 and 2022-23, peaking in 2020-21 and again in 2022-23.

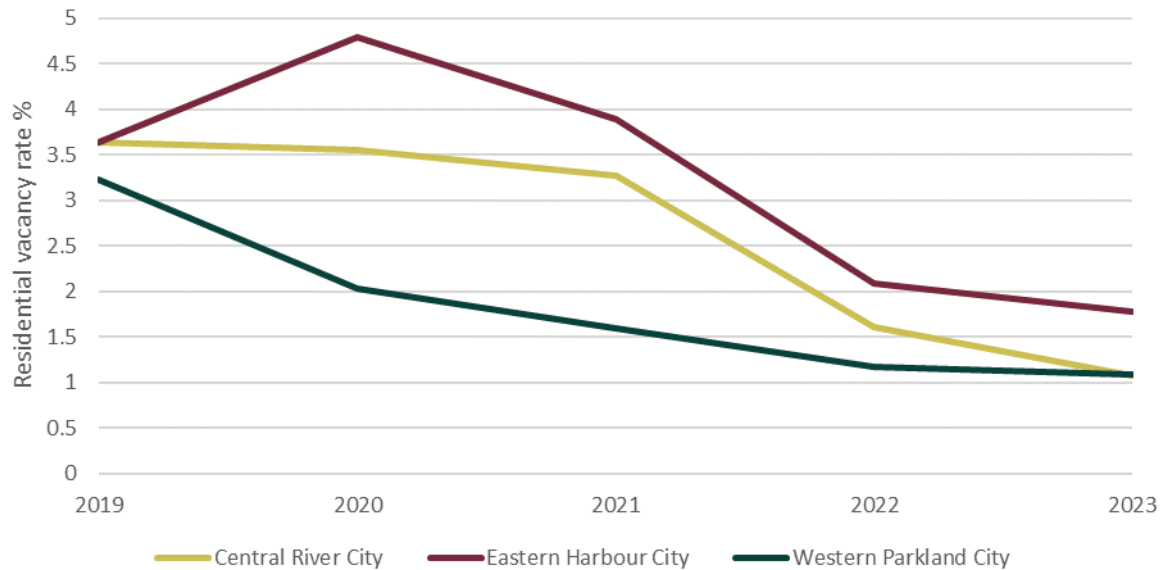
FIGURE 8 RESIDENTIAL APPROVALS, CITY FRINGE, 2018-2023

Source: NSW Government Planning and Environment, Greater Sydney Urban Development Program, 2023.

Reflective of the current challenges for housing availability and affordability affecting much of Australia, the average residential vacancy rate in all regions of Greater Sydney has significantly decreased since 2021, as illustrated in Figure 9. For the Eastern Harbour City, in which Blackwattle Bay is located, residential vacancy declined to a low of 1.8 per cent in 2023, however this is a higher vacancy rate compared to the Central River and Western Parkland City. For the Sydney CBD, the residential vacancy rate peaked during the pandemic, however, the rate has returned to pre-pandemic levels of 4.2 per cent as of January 2024.²⁸

²⁸ SQM Research, 2024, https://sqmresearch.com.au/graph_vacancy.php?region=nsw-Sydney%20CBD&type=r&t=1

FIGURE 9 AVERAGE RESIDENTIAL VACANCY RATE 2019-2023



Source: NSW Government Planning and Environment, Greater Sydney Urban Development Program, 2023.

2.4 Implications for Blackwattle Bay

- The Blackwattle Bay site was considered part of the Harbour CBD Innovation Corridor as identified in the NSW Government's key metropolitan planning documents and is highlighted as a significant location for knowledge-based employment sectors including start-ups.
- The proposed land uses generally align with the broader policy context at both local and state levels, which includes aspirations for the precinct to include a mix of uses, with a particular focus on knowledge-based jobs and retail alongside residential capacity.
- The City of Sydney has identified that the provision of commercial floorspace in the Pyrmont Ultimo area should be determined by the market, in response to reduced demand and increased uncertainty in the post-COVID environment, and focused more tightly on the area immediately surrounding the Pyrmont Metro Station.
- Larger shares of people working from home over the long term will impact on demand for office floorspace. A return to the pre COVID growth trend of work from home is expected but from a higher post-COVID base. The way that this translates through to total office floorspace demand is uncertain as office spaces are reconfigured to be more attractive (often with more communal space offsetting less individual workspace) and also with the effects being unevenly felt by different office submarkets. Providing a variety of and flexible office floorspace types that can allow for adaption and different requirements is a prudent risk mitigation strategy.
- Reported as the 'great office upgrade' and 'flight to quality', there has been sustained demand for high quality, modern office space in spite of lower overall demand for office floorspace. Amenity and sense of address are key concepts here. High amenity locations (with attractive open space, views, food and drink options, recreation facilities, etc) can outcompete the convenience of work

from home. Similarly, maintaining a commercial sense of address is important for professional services, finance and insurance services, and similar sectors at both the large corporate and boutique ends of the scale. Blackwattle Bay has significant positive attributes here - offering new offices in an attractive waterside location near a Metro and light rail station offers good prospects of meeting demand in a more buoyant office submarket. However, for prime office space, the Sydney CBD core will be a competitor. At the same time, higher vacancy rates and lower rents in general across the market will impact on the feasibility of new office premises.

- The pandemic and post-pandemic trends have impacted on the types of residential properties that are in demand. Residential units are in high demand, influenced by broader housing affordability issues across Sydney, with high density the predominant dwelling type being developed in the Sydney CBD and the city fringe areas. The emphasis of NSW Government policy to quickly increase dwelling supply lends significant support to the Blackwattle Bay proposal and a higher split of residential dwellings compared to commercial floorspace. Blackwattle Bay's residential component has the potential to contribute to the supply of new housing to address the high demand for housing generally, with housing typologies consistent with its context.

3. High-level demand

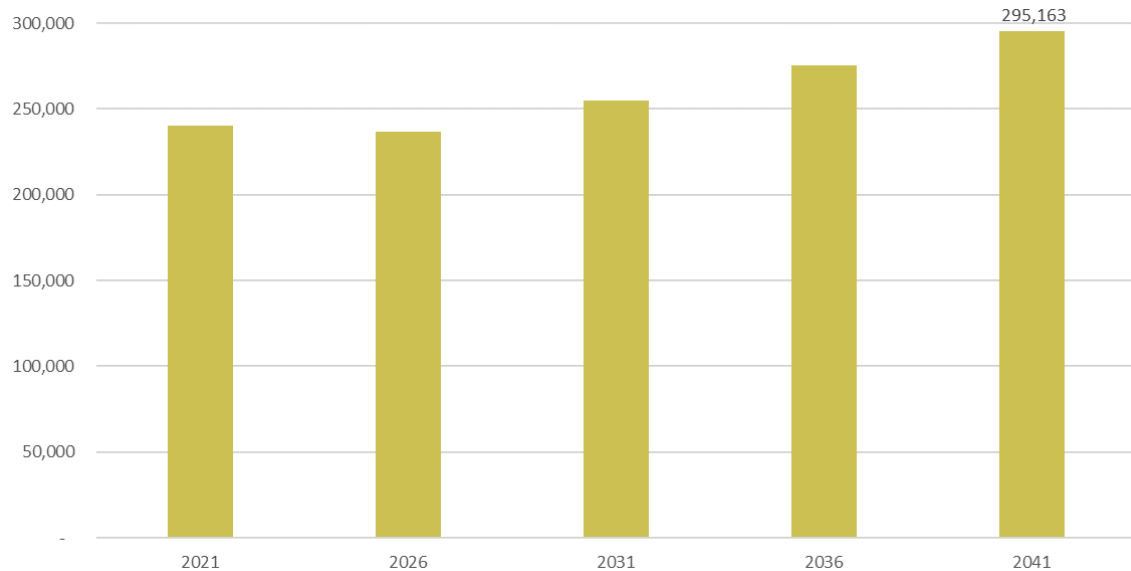
This section provides a high-level estimate of the future demand for dwellings and office floorspace at a broad level.

3.1 Projected population

Population in the City of Sydney LGA is predicted to continue increasing, to around 295,000 people by 2041, as shown in Figure 10. As shown in

Table 1, total growth between 2021-2041 is nearly 55,000, with a compound annual growth rate (CAGR) of one per cent. Blackwattle Bay is expected to support around 2,700 residents once complete,²⁹ which represents approximately one per cent of the City of Sydney's total population in 2041.

FIGURE 10 POPULATION PROJECTIONS, CITY OF SYDNEY LGA



Source: Transport for NSW, TZP, 2022.³⁰

²⁹ The proposed staging and timeframes for development of the precinct suggest Stage 4, which is the final stage, will occur between 2033- 2036. Therefore, it is assumed the project will be complete around 2041. Estimated resident population provided by .id Forecasts.

³⁰ <https://www.transport.nsw.gov.au/data-and-research/reference-information/travel-zone-projections-2022-tzp22>

TABLE 1 POPULATION 2021-2041, CITY OF SYDNEY LGA

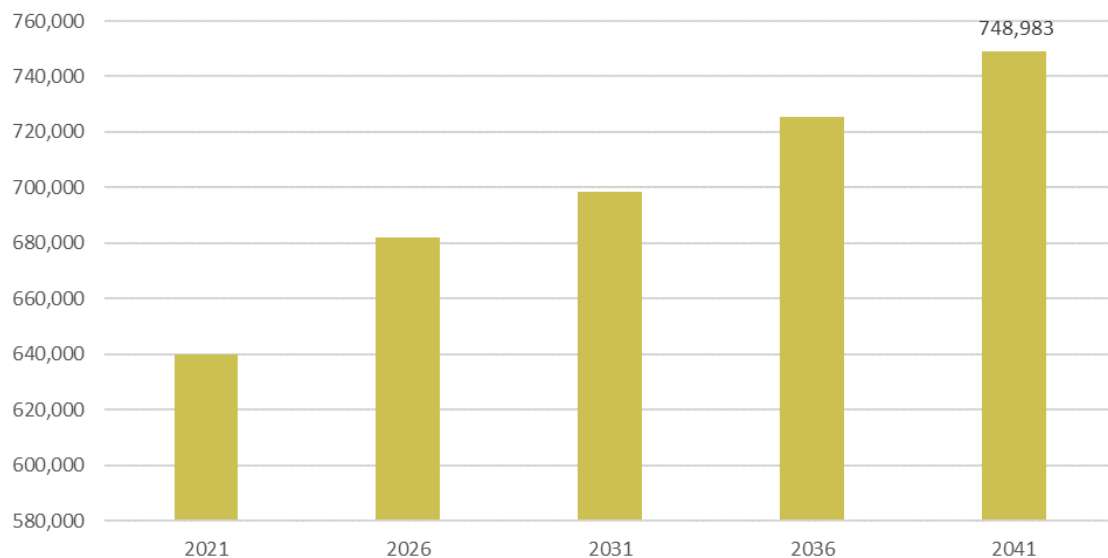
	2021	2041	Growth 2021-41	Total annual growth	CAGR
City of Sydney	240,292	295,163	54,870	2,744	1.0%

Source: Transport for NSW, TZP, 2022.

3.2 Projected employment

Employment in the City of Sydney LGA is expected to continue to increase, reaching approximately 749,000 jobs by 2041, shown below in Figure 11. This indicates a CAGR of one per cent in the period 2021-2041. Blackwattle Bay is expected to support around 4,000 employees once complete,³¹ which represents approximately 0.6 per cent of the City of Sydney's total employment in 2041.

FIGURE 11 TOTAL EMPLOYMENT, CITY OF SYDNEY LGA



Source: Transport for NSW, TZP, 2022³².

Figure 12 below shows the projected number of jobs by broad industry category (BIC).³³ The knowledge intensive industry already represents a large share of employment in the LGA and is expected to

³¹ Estimates of employment provided by .id Forecasts.

³² <https://www.transport.nsw.gov.au/data-and-research/reference-information/travel-zone-projections-2022-tzp22>

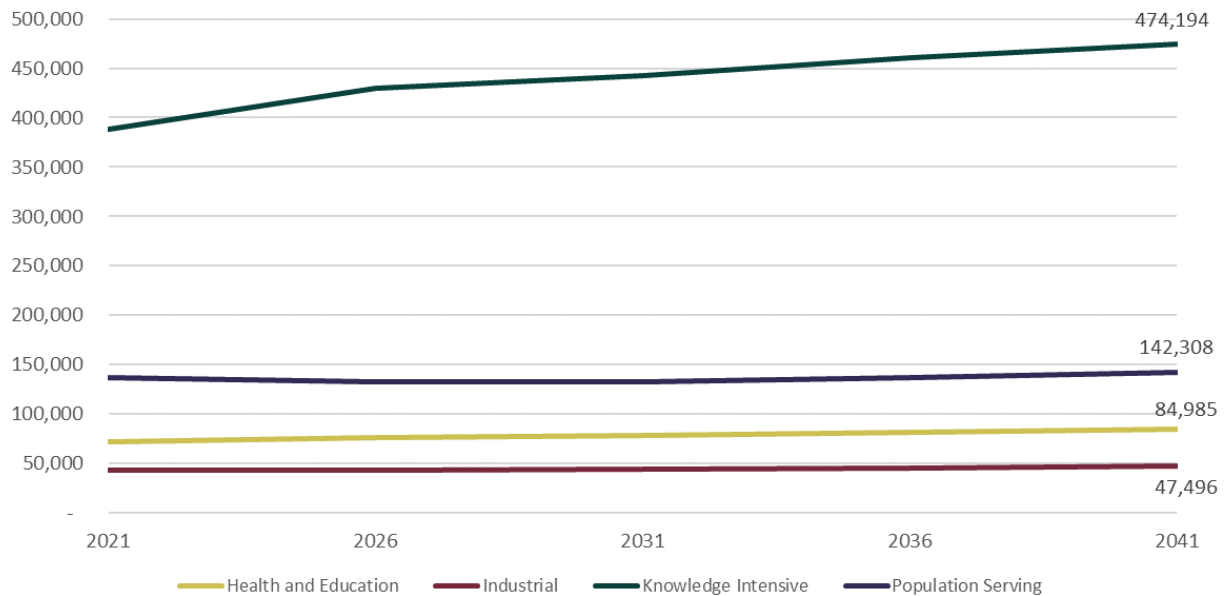
³³ **Health and education BIC includes the industries:** Tertiary Education, Other Education, School Education, Residential Care and Social Assistance Activities, Hospitals, Medical and Other Health Care Services.

Knowledge intensive BIC includes the industries: Information Media and Telecommunications, Financial and Insurance Services, Rental and Hiring Services (except Real Estate), Property Operators and Real Estate Services, Professional, Scientific and Technical Services, Administrative and Support Services, Public Administration, Defence, Public Order, Safety and Regulatory Services.

Population serving BIC includes the industries: Construction, Retail Trade, Food and Beverage Services, Accommodation, Arts and Recreation Services, Repair and Maintenance, Personal and Other Services.

continue to grow to 2041. As shown in Table 2, between 2021-2041, total growth in knowledge intensive industries is expected to increase by approximately 85,000, with a CAGR of one per cent. All other industries of employment are expected to moderately increase by comparison to 2041. As knowledge intensive sectors make up a large share of the demand for office and associated floorspace, this suggests there is likely to be continued demand for commercial office space in the LGA.

FIGURE 12 TOTAL EMPLOYMENT BY INDUSTRY, CITY OF SYDNEY LGA



Source: Transport for NSW, TZP, 2022.³⁴

TABLE 2 INDUSTRY OF EMPLOYMENT 2021-2041, CITY OF SYDNEY LGA

Industry of employment	2021	2041	Growth 2021-2041	Total annual growth	CAGR
Health and Education	71,570	84,985	13,416	671	0.9%
Industrial	42,985	47,496	4,511	226	0.5%
Knowledge Intensive	388,301	474,194	85,893	4,295	1.0%
Population Serving	137,055	142,308	5,253	263	0.2%

Source: Transport for NSW, TZP, 2022.³⁵

Industrial BIC includes the industries: Agriculture, Forestry and Fishing, Mining, Light product and equipment manufacturing, Heavy product and equipment manufacturing, Materials manufacturing, Chemicals manufacturing, Wood products manufacturing, other product manufacturing, Food product manufacturing, Electricity, Gas, Water and Waste Services, Wholesale Trade, Warehousing and Storage Services, Road, Rail and Water Transport, Air and Space Transport, Other Transport.

³⁴ <https://www.transport.nsw.gov.au/data-and-research/reference-information/travel-zone-projections-2022-tzp22>

³⁵ <https://www.transport.nsw.gov.au/data-and-research/reference-information/travel-zone-projections-2022-tzp22>

3.3 Potential dwelling and office floorspace demand

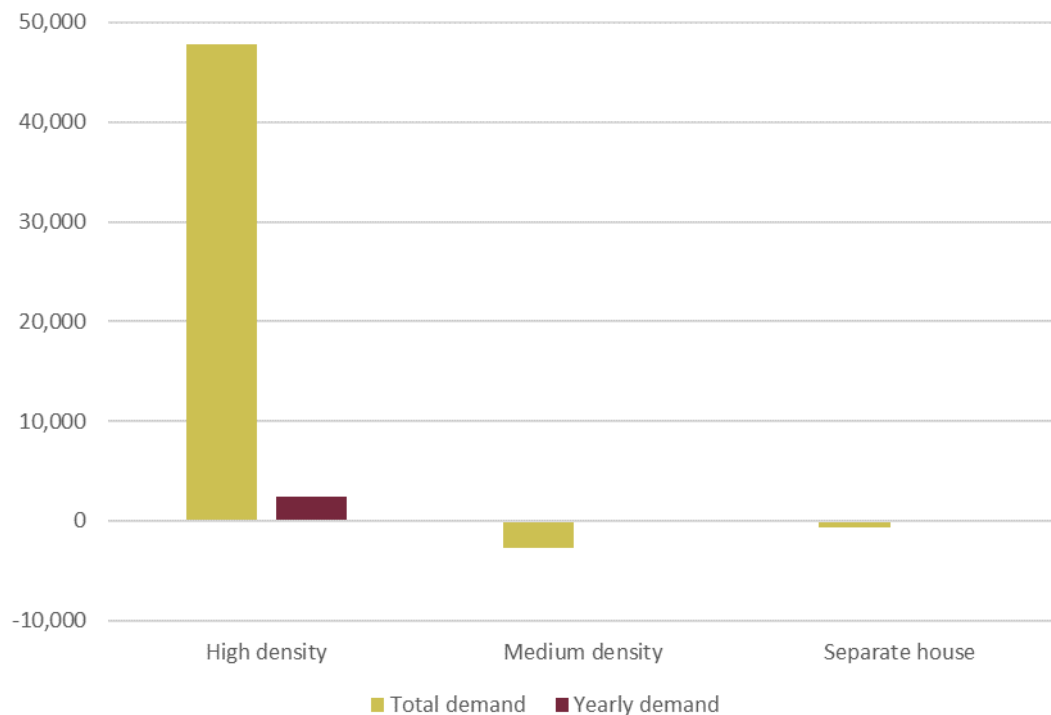
Forecast dwelling demand

SGS's housing demand model (HDM) produces an estimate of number of dwellings needed by type and size to house the future community in a given area, in this case for the City of Sydney LGA at a high level. The model synthesises population projections, local demographic trends and local trends in the revealed housing preferences for different household types (i.e. what proportion of households live in each kind of dwelling).

The high-level demand results for the LGA indicate that greatest demand is expected to continue to be for high density housing, as shown in Figure 13. Between 2021-2041, the projected demand for high density housing equates to approximately 2,300 dwellings per year.

The Blackwattle Bay precinct is expected to provide approximately 1,500 apartments to accommodate 2,700 residents. Therefore, the precinct will cater for approximately three per cent of the City's demand for high density apartments in 2041.

FIGURE 13 FORECAST HOUSING DEMAND, CITY OF SYDNEY LGA, 2021-2041



Source: SGS, 2023, Housing Demand Model.

Forecast commercial floorspace demand

SGS has undertaken analysis to understand the potential future need for commercial floorspace (office and retail) across the LGA, to inform the assessment of the Blackwattle Bay precinct. This has utilised the NSW Government's TZIP22 forecasts for employment for the City of Sydney LGA, and the DPHI's 2023 common planning assumptions for workspace ratios. The relevant ratios used are shown in Table 3.

TABLE 3 LAND USE CATEGORY FLOORSPEACE RATIOS

Land use	Assumed sqm per job
Retail ³⁶	35
Commercial ³⁷	15

Source: NSW DPHI, 2023 CPA Workspace Ratios.³⁸

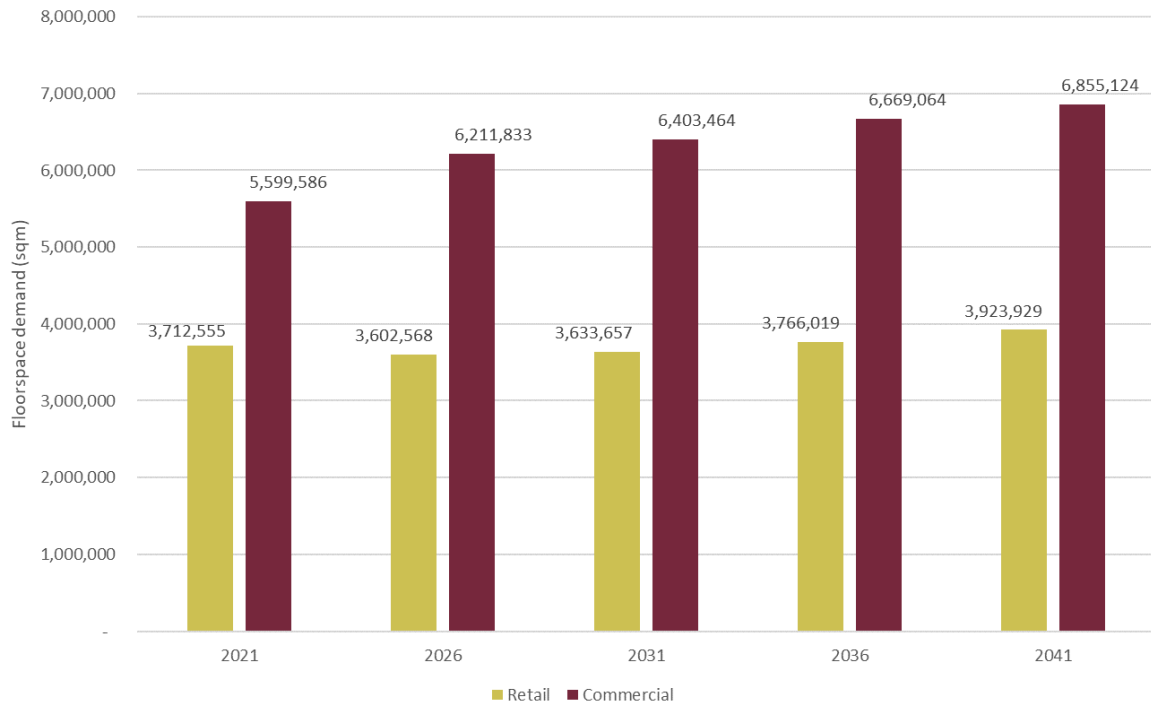
Based on these figures, by 2041, there is forecast to be demand for around 3,900,000 square metres of retail and 6,800,000 square metres of commercial floorspace across the whole City of Sydney LGA (shown below in Figure 14 and Table 4) – equating to growth of around 1.2 million square metres for commercial floorspace. Of this, the proposed reduction in commercial office floorspace (approximately 25,500 square metres within the Blackwattle Bay Precinct as a result of removing the 57/43 statutory requirement represents only around two per cent of this projected growth.

³⁶ Retail includes the industries of: Accommodation and Food Services, Other Services, Rental, Hiring and Real Estate Services, Retail Trade.

³⁷ Commercial includes the industries of: Administrative and Support Services, Financial and Insurance Services, Information Media and Telecommunications, Professional, Scientific and Technical Services, Public Administration and Safety.

³⁸

https://www.planningportal.nsw.gov.au/modules/custom/job_insight_tool/data/Guidances%20Sources%20and%20Notes%20for%202023%20CPAG%20Workspace%20Ratios.pdf

FIGURE 14 FUTURE FLOORSPACE DEMAND, CITY OF SYDNEY LGA (SQM)

Source: SGS, 2024.

TABLE 4 FORECAST FLOORSPACE DEMAND, CITY OF SYDNEY LGA (SQM)

	Employment 2021	Employment 2041	Projected floorspace demand 2021	Projected floorspace demand 2041	Projected change 2021-41
Retail	106,073	112,112	3,712,555	3,923,929	211,374
Commercial	373,306	457,008	5,599,586	6,855,124	1,255,538

Source: SGS, 2024.

3.4 Future supply and competitive offer

Known commercial floorspace supply

Table 5 below shows the estimated floorspace expected from a selected number of the larger office projects that are either being constructed or are planned for within the City of Sydney. Inclusive of Blackwattle Bay, this totals over 730,000 square metres – noting that there will also be further office floorspace provided in future sub-precincts of the Central Precinct aside from the Western Gateway. Compared to the potential future demand for commercial floorspace across the LGA to 2041, this represents around 58 per cent.

Noting that this is over a 40-year timeframe, it suggests that a significant amount of the future need for commercial floorspace is likely to already be able to be met by projects currently in the pipeline, reducing the imperative for a minimum level of provision at Blackwattle Bay to be required.

The current volatility and lack of confidence in the CBD office market in particular is also reflected in projections that suggest very limited stock will be delivered in the short term after projects are completed in 2024 but may rebound by 2027.³⁹

TABLE 5 CURRENT AND FUTURE COMMERCIAL FLOORSPEC PROJECTS IN CITY OF SYDNEY

Development	Approx. floorspace (sqm)
Central Precinct Western Gateway (Blocks A, B, and C)	250,000
55 Pitt St	63,000
1 Elizabeth St	72,500
121 Castlereagh Street	11,500
39 Martin Place	30,000
252 Pitt St (Parkline Place)	47,850
33 Alfred St (Quay Quarter)	31,000
Cockle Bay Wharf	75,000
Harbourside	42,500
Martin Place North	74,500
Martin Place South	36,300
Blackwattle Bay precinct – estimate only	80,000
Total	734,150
Approx. share of CoS LGA demand to 2041	58%

Source: compiled by SGS, 2024.⁴⁰

³⁹ JLL, 2023, 'Sydney CBD office: flood of supply, then drought,' October 31 2023, <https://www.jll.com.au/en/trends-and-insights/research/sydney-cbd-office-flood-of-supply-then-drought>

⁴⁰ Compiled from multiple online sources and information provided by INSW: <https://www.atlassiancentral.com.au/>; <https://cw-gbl-gws-prod.azureedge.net/-/media/cw/marketbeat-pdfs/2023/q4/apac-and-gc/australia---sydney-cbd-office-q4-2023.pdf?rev=87123649037941fc8fe23a4430a90c32>; <https://www.propertycouncil.com.au/news-research/research/office-market-report>.

Competitive offer of Blackwattle Bay

While the Blackwattle Bay precinct is located in a fringe market, due to its likely offering of prime office space it is more likely to have to compete with some of these projects in the CBD. The largest potential competitor is the Central precinct, which is planned to see significant change and growth in the commercial space available in that part of the city, including the Railway Square project.

The Central development has a clear focus on the tech sector, with the vision to be a ‘vibrant innovation and technology precinct,’ and companies like Atlassian as major tenants.⁴¹ While both precincts have the potential to cater to tenants requiring office space, Blackwattle Bay’s location and the focal point of the Fish Market may attract a different type of tenant compared to Central and other projects in the core of the CBD.

The benefits of Blackwattle Bay as a location for office space are clear, however, it will still be subject to the issues affecting the broader market, that may affect its viability – particularly with ongoing uncertainty following the pandemic and whether rates of working from home will change over time. The uncertainty factor suggests there is a need for flexibility in how much commercial floorspace is provided, to be able to respond to trends as they emerge over the course of the development timeframe rather than over-committing based on pre-COVID ways of working.

3.5 Implications for Blackwattle Bay

- Employment and population in the City of Sydney is predicted to continue to increase to 2041. High level results from the HDM indicate that high density housing will continue to be in demand to 2041 given expected household types in the LGA. The proposed housing typologies to be delivered in the Blackwattle Bay precinct are consistent with this future demand.
- Employment forecasts suggest that the LGA will continue to see demand for office space as knowledge intensive jobs are expected to remain dominant in the LGA.
- The commercial floorspace identified as in the pipeline, combined with the estimated amount to be included in the Blackwattle Bay precinct, already represents around 58 per cent of the additional demand projected to be needed across the LGA to 2041, with a lot of this to be delivered within the next few years. This suggests there is limited need to specify a mandatory minimum for commercial floorspace in Blackwattle Bay. Additionally, the trend-based forecasts underpinning the projected demand do not necessarily account for more recent shifts in the demand for office floorspace post-COVID with more workers choosing to work remotely. Discussed further in the next chapter, consultation with leasing agents has indicated that there is less demand for city fringe office space, and it can be difficult to lease commercial space in new-mixed use precincts in Sydney currently. There remains significant risk and uncertainty in office markets.
- The proposed reduction in commercial floorspace within Area 17 of the Blackwattle Bay precinct (approximately 25,500 square metres assuming a change from a 57/43 to 70/30 split) is very minor within the context of both existing planned projects within the City of Sydney LGA, and within the context of overall projected employment growth. The proposed change in land use mix does not preclude employment growth from being accommodated in within Blackwattle Bay or in other

⁴¹ <https://www.investment.nsw.gov.au/innovation/precincts/tech-central/>

future projects elsewhere within the City of Sydney LGA (or other employment centres) should demand arise.

4. Market conditions

This section summarises recent sales and rental data to provide a picture of the current residential and commercial markets relevant to the site.

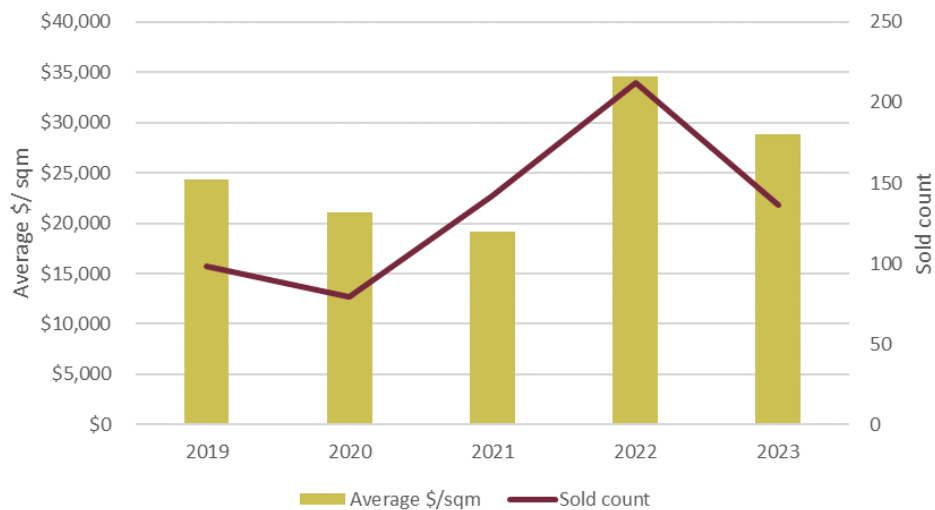
4.1 Recent sales data

Recent sales data has been compiled for suburbs in the city fringe, namely: the suburbs of Pymont, Ultimo, Surry Hills, and Eveleigh. The suburbs of Pymont and Ultimo were selected as they immediately surround Blackwattle Bay. The inclusion of Surry Hills and Eveleigh have been based on market reports and feedback from the agent consultation with identified that both are similar and competing city fringe office, retail, and residential markets to Blackwattle Bay.

Commercial

The average commercial sold price per square metre in city fringe locations declined during the pandemic during 2020 and 2021, to approximately \$21,000 and \$19,000 per square metre respectively. Post-pandemic in 2022, commercial sale prices peaked at \$34,618 per square metre, and then slightly declined to \$28,882 per square metre in 2023. Between 2019-2023, there has been a high volume of commercial sales, peaking in 2022 with 212 properties sold.

FIGURE 15 AVERAGE COMMERCIAL SALES, CITY FRINGE COMBINED



Source: Valuer General, 2024.⁴²

⁴² Valuer General bulk data. Note prices per square metre are not available for all sales transactions and may influence the averages shown here.

Table 6 shows that commercial sale prices per square metre in the identified city fringe suburbs are very different, with different patterns seen through and post the pandemic period. The highest observed prices per square metre have been in Ultimo, and the lowest in Eveleigh, though the number of transactions in each suburb also varies substantially. Pyrmont saw the largest number of sales in 2023, followed by Surry Hills.

TABLE 6 AVERAGE COMMERCIAL SALE PRICES PER SQM 2019-2023

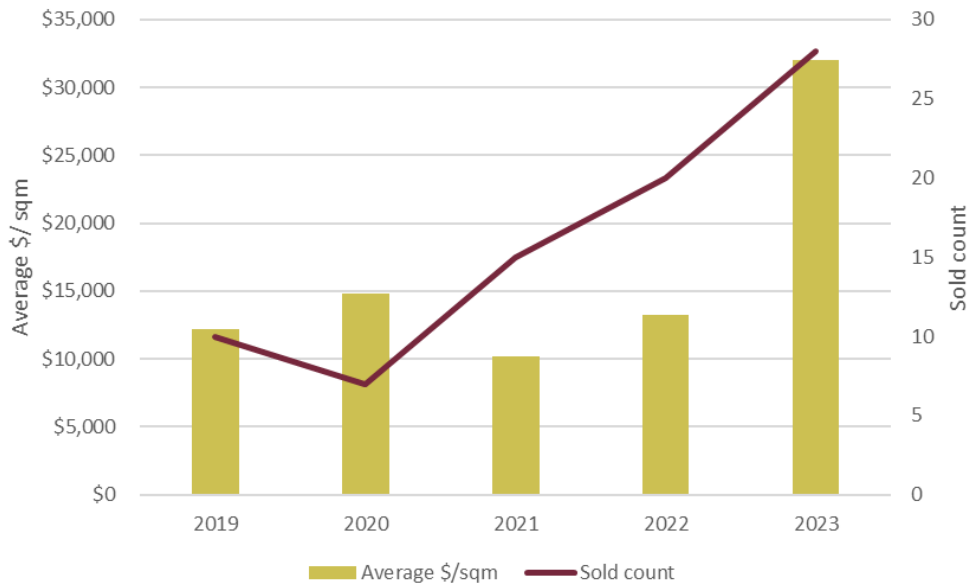
Suburb	2019	2020	2021	2022	2023
Eveleigh	\$13,724	-	-	-	-
Pyrmont	\$17,244	\$35,492	\$16,979	\$31,975	\$23,238
Surry Hills	\$27,963	\$16,382	\$18,010	\$33,054	\$23,768
Ultimo	\$12,830	\$36,666	\$23,459	\$40,723	\$50,443

Source: Valuer General, 2024.⁴³

Retail

The average price per square metre for retail in city fringe locations also declined during the pandemic but have generally increased since 2020 and 2021 (the peak of the lockdowns). Figure 16 below shows the average prices and number of sales in city fringe suburbs identified in Table 7. Post pandemic, prices for retail premises have been increasing, though prices and the number of transactions also varies substantially between suburbs. Between 2019-2023, there was a relatively low number of retail sales generally, peaking in 2023 with 28 properties sold.

⁴³ Blank cells indicate where no sales prices were recorded.

FIGURE 16 AVERAGE RETAIL SALES, CITY FRINGE COMBINED

Source: Valuer General, 2024.

Shown in Table 7, average retail sales price per square metre in 2023 were highest in Surry Hills, followed by Ultimo. It is difficult to draw substantive conclusions from the changes in square metre values over this period given the small number of transactions in these suburbs, and the majority being in Surry Hills.

TABLE 7 AVERAGE RETAIL SALES PRICES PER SQM 2019-2023

Suburb	2019	2020	2021	2022	2023
Forest Lodge	\$11,672	-	-	-	-
Glebe	\$14,776	\$11,871	\$10,719	\$11,628	-
Pymont	\$17,067	\$23,610	\$10,069	-	\$6,173
Surry Hills	\$6,265	-	\$9,064	\$14,321	\$38,333
Ultimo	-	-	-	-	\$23,190

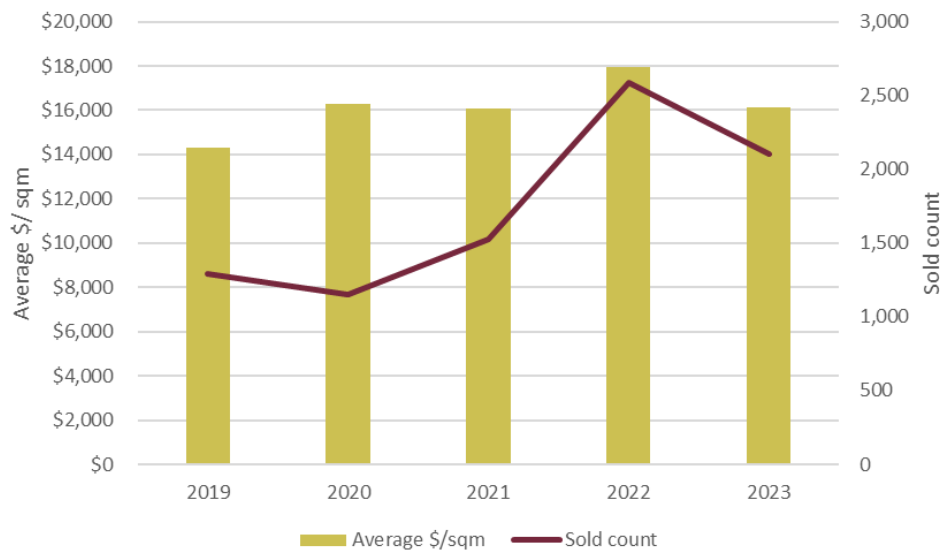
Source: Valuer General, 2024.⁴⁴

⁴⁴ Blank cells indicate where no sales prices were recorded

Residential

The average residential sold price per square metre in city fringe locations remained relatively stable during the pandemic, experiencing a very slight decline in 2021 (potentially influenced by restrictions on migration and border closures). In the fringe suburbs (identified in Table 8), residential prices peaked in 2022 at \$17,935 per square metre, then slightly declining in 2023 to \$16,121 per square metre. Between 2019-2023, there was a high number of residential sales, peaking in 2022 with 2,584 properties sold.

FIGURE 17 AVERAGE RESIDENTIAL SALES, CITY FRINGE COMBINED



Source: Valuer General, 2024.

Shown in Table 8, the average residential sold price per square metre in 2023 was relatively similar across the compared fringe suburbs, ranging from a high of \$19,051 per square metre in Surry Hills and a low of \$12,115 per square metre in Forest Lodge.

In 2023, Surry Hills saw the largest number of sold residential properties (704), while Pyrmont and Glebe also saw high numbers (456 and 363 respectively).

TABLE 8 AVERAGE RESIDENTIAL SALES PRICES PER SQM 2019-2023

Suburb	2019	2020	2021	2022	2023
Eveleigh	-	-	-	-	\$16,165
Forest Lodge	\$10,390	\$10,735	\$11,790	\$11,458	\$12,115
Glebe	\$10,444	\$12,091	\$14,518	\$14,510	\$14,771
Pymont	\$15,733	\$17,266	\$16,436	\$16,099	\$15,894
Surry Hills	\$17,573	\$19,884	\$18,879	\$23,566	\$19,051
Ultimo	\$14,253	\$16,796	\$14,651	\$21,504	\$17,908

Source: Valuer General, 2024.⁴⁵

4.2 Recent rental data

Commercial rents

As shown in Table 9, compared to the Sydney CBD, prime commercial office rents are significantly lower in fringe locations per square metre. However, in Pymont and Ultimo, which are nearby to Blackwattle Bay, A-grade office rents are around \$800 per square metre – which is closer to the rents seen for the CBD.

⁴⁵ Blank cells indicate where no sales prices were recorded

TABLE 9 COMMERCIAL OFFICE LEASED PRICE PER SQM 2023

Region	Leased price/ sqm
Sydney CBD	Prime: \$980 Secondary: \$725 ⁴⁶
Sydney CBD fringe overall ⁴⁷	Prime: \$770 Secondary: \$650 ⁴⁸
Pymont/ Ultimo	A grade: \$800 ⁴⁹
Eveleigh	Prime: \$700- \$850 ⁵⁰
Surry Hills	Prime: \$700- \$900 ⁵¹
Redfern	Prime: \$550- \$750 ⁵²

Source: Cushman and Wakefield 2023, Colliers 2023, Knight Frank 2023.

Retail rents

As may be expected, leased prices per square metre for retail spaces are significantly less in fringe markets than in the core of the CBD. Fringe rents have ranged between \$600-\$800 per square metre, compared to the CBD where leased prices can be up to \$10,944 per square metre for prime premises.

TABLE 10 RETAIL LEASED PRICE PER SQM 2023

Region	Leased price/ sqm
Sydney CBD	\$10,944 (CBD super prime) ⁵³
Sydney CBD fringe	\$600- \$800 ⁵⁴

Source: Colliers 2023, local agent consultation.

⁴⁶ Cushman and Wakefield, 2023, Sydney CBD office Q4 2023

⁴⁷ Sydney CBD Fringe in this context refers to the suburbs of: Alexandria, Beaconsfield (NSW), Bellevue Hill, Bondi, Bondi Beach, Bondi Junction, Bronte, Camperdown (NSW), Chippendale, Darling Point, Darlinghurst, Darlington (Sydney - NSW), Double Bay, Dover Heights, Edgecliff, Elizabeth Bay, Erskineville, Eveleigh, Forest Lodge, Glebe (NSW), Haymarket, Moore Park, Newtown (NSW), North Bondi, Paddington (NSW), Point Piper, Potts Point, Pymont, Queens Park (NSW), Redfern, Rose Bay (NSW), Rosebery (NSW), St Peters (NSW), Surry Hills, Tamarama, Ultimo, Vaucluse, Waterloo (NSW), Watsons Bay, Waverley (NSW), Woollahra, Woolloomooloo, Zetland

⁴⁸ CBRE, 2023, Sydney office rental rate and incentives snapshot, Q2 2023. Net face rental rate/ sqm recorded

⁴⁹ Cushman and Wakefield, 2023, Metro Sydney office Q4 2023

⁵⁰ Knight Frank, 2023, Sydney City Fringe office insight July 2023

⁵¹ Knight Frank, 2023, Sydney City Fringe office insight July 2023

⁵² Knight Frank, 2023, Sydney City Fringe office insight July 2023

⁵³ CBRE, 2023, Sydney retail report, Q4 2023

⁵⁴ Local agent consultation

Residential rents

Table 11 below shows average and median leased prices per week for houses and apartments respectively in the CBD and the suburbs immediately adjacent to Blackwattle Bay. Prices per week for houses are higher in the fringe areas than the CBD (though noting that there are a limited number of separate houses in the CBD), while apartment prices per square metre are lower than the CBD, ranging from \$700 per week in Ultimo and \$850 per week in Pyrmont and Glebe.

TABLE 11 RESIDENTIAL LEASED PRICE PER WEEK 2023

Region	House leased price/ week	Apartment leased price/ week	Vacancy rate January 2024 ⁵⁵
Sydney CBD	\$795 (average)	\$900 (median)	4.5%
Pyrmont	\$910 (median)	\$850 (median)	2%
Glebe	\$910 (median)	\$850 (median)	1.7%
Ultimo	\$925 (median)	\$700 (median)	3%

Source: Property Value, 2023.⁵⁶

4.3 Trends and insights from consultation

To complement the market data analysis, SGS undertook consultation with four real estate agents working in the city fringe markets. The focus of this consultation was to understand their perceptions and on-the-ground perspective of the retail, commercial property market in the city fringe, and any insights in relation to the Blackwattle Bay precinct.

The consultation was conducted via telephone over 15–20-minute periods, in a semi-structured interview format. A summary of findings from the consultation are presented in Table 12 below.

⁵⁵ SQM Research, 2024 <https://sqmresearch.com.au/>

⁵⁶ All prices are prices for the past 12 months. <https://www.propertyvalue.com.au/>

TABLE 12 INSIGHTS FROM AGENT CONSULTATION

Question/theme	Retail/ commercial market
General perceptions of the Blackwattle Bay precinct?	<ul style="list-style-type: none"> Seen as a smaller scale Barangaroo precinct. Likely to attract more tourists to the area with the new development and Fish Market which is already popular. Noted that new master planned developments which incorporate residential, commercial, and retail are in demand in the Sydney market. Some concerns noted about the oversupply of commercial space in Blackwattle Bay, as new precincts generally struggle to attract commercial tenants. This can be seen in Baranagroo where there are multiple commercial spaces for lease.
Vacancy rate?	<ul style="list-style-type: none"> Retail: in Pyrmont vacancy is around 8%. Commercial: in Pyrmont vacancy is around 7%.
Competitor precincts and why is there demand in those other places?	<ul style="list-style-type: none"> Retail: the Sydney CBD is the most popular/well known shopping destination. Broadway area may be a competitor for Blackwattle Bay. A now abandoned project featured around 700 sqm of retail with residential above. Commercial: Blackwattle Bay is unique as it is a mixed-use waterfront location next to a popular tourist attraction. It will likely have its own unique clientele, which will likely be international. The South Eveleigh precinct has a similar price guide to Glebe/Pyrmont market but is not a major competitor as it is not a waterfront location and is closer to the inner west.
Average price/sqm?	<ul style="list-style-type: none"> Retail: in Glebe are around \$1,000/week (\$700- \$800/sqm). In Pyrmont are around \$1,000-\$1,500/week (around \$600/sqm).
What types of spaces are in demand for city fringe/around Blackwattle Bay?	<ul style="list-style-type: none"> Commercial: Smaller office spaces are in demand in city fringe locations due to people working from home more (larger spaces are in less demand). Some concerns that the larger floorplates proposed in Blackwattle Bay will not be in demand.
What types of properties are currently on the market in city fringe locations?	<ul style="list-style-type: none"> Commercial: In Pyrmont there are a large number of smaller office spaces on the market.
What types of businesses/ residential spaces would be attracted to Blackwattle Bay?	<ul style="list-style-type: none"> Retail: Complementary retail to the new Sydney Fish Market development nearby. This could include restaurants and cafes. Commercial: Smaller businesses are already catered for in city fringe locations. Blackwattle Bay will likely attract medium-larger corporations due to the attractive waterside location. Commercial will also complement the new Fish Market well.
Change after COVID and impact on the local market?	<ul style="list-style-type: none"> Retail: During COVID there was an obvious decline due to lockdown measures, but city fringe markets have recovered well. Commercial: In Pyrmont there was a significant decline in commercial leasing post COVID, but it is recovering slowly. What properties are in demand has changed as businesses are looking for smaller workspaces.

Source: SGS, 2024.

4.4 Implications for Blackwattle Bay

Commercial

- Some concerns have been raised that the amount of commercial space proposed in Blackwattle Bay is not needed in the city fringe. This is evidenced by high current vacancy rates in Pyrmont (around seven per cent) and multiple offices being on the market in nearby locations. The CBD vacancy rate for commercial properties remains more than double pre-pandemic levels, where vacancy rates were between three and five per cent in 2018-2019. In 2020 CBD commercial vacancies steeply climbed to closer to 10 per cent vacancy and are currently peaking at 11.5 per cent as of Q4 2023.
- Average rates per square metres for commercial sales in city fringe locations have also fluctuated in the post-COVID environment. Suburbs with the highest average commercial sale price per square metre were in Surry Hills, Ultimo and also in nearby Pyrmont. Rental rates for commercial properties are significantly less in city fringe locations than the CBD especially for prime space. The volatility of the market and uncertainty about how this will play out in the long term makes a strong case for allowing for flexibility in the provision of commercial floorspace in the Blackwattle Bay precinct.
- The consultation undertaken has indicated that smaller office types are in demand due to work from home patterns. Smaller businesses are already catered for to some extent in fringe markets and there are vacancies surrounding Blackwattle Bay. The view is that the Blackwattle Bay may be able to attract larger tenants/corporations because of its location, and it will likely have a unique clientele who values its locational attributes.

Retail

- The average price per square metre for retail in city fringe locations fell during the pandemic but have generally increased since then. Similarly, retail vacancy rates have begun to decrease. Surry Hills has seen the highest number of transactions in recent years, as well as the highest price per square metre in 2023. However, rental rates for retail vary greatly between CBD and city fringe locations, at approximately \$600-\$800 per square metre in the city fringe.
- The consultation with agents highlighted that the CBD and Broadway are likely to be the Blackwattle Bay precinct's greatest retail competitor. However, the precinct benefits from having the Fish Market as the anchor tenant where there will be a high level of activity from visitors, tourists, the local population and office workers in the precinct.

Residential

- The average dwelling price per square metre in city fringe locations remained relatively stable during the pandemic, though there have been differences between suburbs and fluctuations over time. Again, Surry Hills featured as the fringe suburb with the highest sold price per square metre. In the areas closest to Blackwattle Bay (Glebe and Pyrmont) have seen prices per square metre of around \$15,000.
- For the Sydney CBD, the residential vacancy rate peaked during the pandemic, though the rate has returned to pre-pandemic levels of 4.2 per cent as of January 2024. Overall, city fringe locations have seen lower vacancy rates compared to the CBD, ranging from 1.7 per cent in Glebe to three

per cent in Ultimo. This aligns with local agent consultation which noted there are higher residential vacancies at the moment influenced by high interest rates.

5. Summary and conclusions

This section provides a summary of conclusions from the land use assessment.

5.1 Summary

Blackwattle Bay is a significant urban renewal precinct for Sydney. The current proposal includes around 1,500 new dwellings, to accommodate a population of around 2,700, and floorspace for 4,200 jobs.

Alignment with strategic policy

The proposed uses in the Blackwattle Bay precinct are consistent with metropolitan strategic policy, with this part of the city included within the Harbour CBD Innovation Corridor and a focus for knowledge-intensive sectors. A reduced quantum of commercial floorspace is still likely to be able to accommodate future uses consistent with the broad strategic aims of the NSW Government and City of Sydney, while also accommodating additional residential uses. As part of the National Housing Accord, the NSW Government has committed to progressing investigations and implementation of additional planning reforms that support diverse, well-located housing supply, which this planning amendment directly supports.

Broader trends and market conditions affecting commercial office demand

In the post-pandemic period increased levels of working from home and ‘hybrid’ working becoming more common in the economy. This has significantly impacted commercial markets in general and fringe commercial markets in particular. Fewer commercial properties are being turned over in Sydney, rents are lower than before COVID-19, and office vacancy rates are also the highest they have been in over a decade. Sales prices per square metre for commercial spaces have also declined. As such, there remains significant uncertainty about the long-term impacts of these trends on the demand for and viability of commercial floorspace.

In recent times post-COVID fringe markets have generally seen reduced demand to a larger extent than in the core CBD. This is influenced by the generally lower-grade stock available in fringe markets compared to the core CBD which has more premium spaces. There has been a noted ‘flight to quality’ element in the market, where tenants are taking advantage of overall lower rents to occupy more premium spaces than would have been possible pre-COVID. This indicates that there is still strong demand for high quality modern office spaces which offer enhanced amenity – which the Blackwattle Bay precinct is likely to offer, though this will be realised only over the long term.

There has also been substantial recent emphasis in State Government policy to target the supply of new housing in NSW to address housing affordability issues. This lends support to the inclusion of a larger share of housing over commercial floorspace in the precinct.

Potential for competition

The Blackwattle Bay precinct is seen as having strong site and locational advantages compared to other precincts. It has the opportunity to offer high amenity for both residential and commercial space being at the gateway to the CBD with public transport, water views/ water frontage and co-location with a significant tourist attraction. The location and destination status of the precinct (anchored around the presence of the Fish Market) means it is likely to see a larger share of spending drawn from surrounding areas and broader afield than other fringe commercial precincts.

Because of its potentially higher amenity it is likely to have competition from other precincts in the CBD delivering prime commercial space, including very large projects such as the Tech Central precinct, as well as from fringe areas like Surry Hills, Darlinghurst, Pyrmont, and Eveleigh (ATP).

Comparison to high level demand

Employment and population in the City of Sydney LGA is projected to continue to increase in the coming decades, with continued demand for office floorspace given the predominant employing industries.

A review of substantial commercial floorspace currently in the pipeline for the LGA was conducted to understand broadly the future supply in comparison to the future demand based on projected employment. The potential quantum of commercial floorspace expected across these projects, combined with the 80,000 square metres suggested at Blackwattle Bay, is estimated to account for close to 60 per cent of the LGA's total demand for commercial floorspace to 2041. This suggests a limited need to include a higher minimum floorspace requirement in the precinct, particularly as employment projections do not necessarily account for the recent shifts in remote working. The proposed reduction in commercial floorspace (approximately 25,500 square metres) is also minimal, reflecting around two per cent of the estimated demand.

5.2 Conclusions for land use

The proposed development has the potential to create a high quality, high amenity mixed use precinct at the gateway to the Sydney CBD that is in line with metropolitan strategic policy. However, commercial fringe markets have taken longer to recover after the pandemic.

The market for commercial floorspace in general has also changed significantly following the pandemic, and it is unlikely that conditions will return to what they were before. The long-term implications of increased working from home patterns are yet to be seen, which has created substantial uncertainties in the market, evident in the fluctuations seen in prices, rents, and vacancies.

The benefits of Blackwattle Bay as a location for office space are clear, however, it will still be subject to the issues affecting the broader market, that may affect its viability – particularly with ongoing uncertainty following the pandemic and whether rates of working from home will change over time. The uncertainty factor suggests there is a need for flexibility in how much commercial floorspace is provided, to allow for adaptation and be able to respond to trends as they emerge, rather than over-committing based on pre-COVID ways of working.

As such, a minimum non-residential floorspace requirement is not recommended to be included for the precinct.

Removing the minimum non-residential floorspace requirement will allow for appropriate flexibility in the supply of new commercial floorspace as well as supporting the delivery of additional diverse, well-located housing supply, catering to the significant projected population growth identified for the City of Sydney LGA in a location which has significant amenity. This increase in housing supply directly supports the strategic objectives of the NSW Government as part of its commitment under the National Housing Accord and does not compromise the ability of the site to deliver employment in line with local and state strategy.



SGS
Economics
& Planning

[Canberra] Level 2, 28-36 Ainslie Place, Canberra ACT 2601

[Sydney] Studio 2.01, 50 Holt Street, Surry Hills NSW 2010

[Melbourne] L 14, 222 Exhibition Street, Melbourne VIC 3000

[Hobart] PO Box 123, Franklin TAS 7113