
Attachment 4 – Land Use Appraisal, Atlas Urban Economics

Blackwattle Bay

Response to Submissions

June 2022



Blackwattle Bay SSP

Land Use Appraisal

Infrastructure NSW

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Executive Summary

BACKGROUND

Infrastructure NSW (INSW) exhibited the Blackwattle Bay (BWB) State Significant Precinct (SSP) Study and Precinct Plan in June 2021. The proposed Precinct Plan envisaged a broad mix of land uses and building typologies, including:

- 1,550 dwellings expected to accommodate some 2,800 residents;
- 110,000sqm of non-residential gross floor area (GFA).
- A publicly accessible foreshore promenade between Glebe Island Bridge and the new Sydney Fish Market;
- Some 3ha of public open space.

BWB forms part of the Eastern City's Innovation Corridor as defined in the Eastern City District Plan. BWB is also a Key Site in the Pyrmont Peninsula Place Strategy (PPPS) and forms part of the larger Blackwattle Bay sub-precinct.

The PPPS was publicly exhibited in 2020 and finalised in 2021. The PPPS was informed by the Pyrmont Peninsula Economic Development Strategy (EDS). The EDS forecast that there could be a need for ~320,000sqm of office NLA across the Pyrmont Peninsula by 2041, with a large proportion of demand anticipated post-2030 after completion of the Metro Station.

BWB SSP Precinct Plan

The exhibited BWB Precinct Plan envisaged circa. 234,000sqm of GFA. Approximately 48% of this floorspace is for employment and non-residential uses (110,000sqm GFA), with the remaining 52% (123,000sqm GFA) for residential uses.

The Precinct Plan proposed the distribution of floorspace across nine new buildings. Non-residential uses were proposed in up to eight-storeys in all buildings in Areas 2 and 3. No standalone commercial buildings were proposed.

The Precinct Plan received submissions from government agencies, private landowners and the broader community. The NSW Department of Planning and Environment (DPE) summarised a series of issues raised on the BWB SSP Study and Precinct Plan. The majority of these were focused on urban design, specifically building heights and the ability for the Precinct Plan to deliver a 'world class waterfront promenade'.

Based on feedback received, INSW are refining the Precinct Plan to address various issues raised in the submission process.

Land Use Appraisal and Scope

Atlas Urban Economics (Atlas) is engaged by INSW to prepare a Land Use Appraisal (the Study) to assist in addressing land use issues raised in submissions and to guide refinement of the Precinct Plan.

The key objective of the Study is to identify the quantum and type of land uses which could be viable and economically sustainable in the Study Area. The Study applies a 'top-down' and 'bottom-up' approach in carrying out this assessment:

- **Top-down** analysis identifies the demand for various land uses in the locality. This does not consider site characteristics.
- **Bottom-up** analysis considers the quantum of demand which could be accommodated at BWB given its site parameters and attributes (e.g. location and scale, ownership patterns, requirements for delivery of public domain, etc).

BWB is expected to deliver at least 3ha of public open space and a continuous world class waterfront promenade. A development completion date of 2034-2035 is targeted and the precinct is to deliver an optimised economic and financial return to NSW Government in line with the Blackwattle Bay Final Business Case.

The Study recognises that while there may be demand for certain land uses, the Study Area may not necessarily be suitable to meet demand for all uses given its site and locational characteristics. Furthermore, the Study is cognisant of the fact that not all uses co-exist sustainably; land use conflicts can undermine the viability of the precinct.

To consider the opportunity for BWB to address market demand, it is necessary for the Study to consider user requirements and expectations (workers and residents) to ensure the mix of uses within the Study Area will have market appeal and be sustainable. The foregoing parameters are influencing factors that shape the capacity of BWB to respond to market demand.

STRATEGIC CONTEXT

The EDS outlines a 20-year economic framework for the Pyrmont Peninsula and the strategies needed to ensure the Peninsula supports the strengthening of the Harbour CBD economy.

Floorspace Forecasts

The EDS forecasts demand for employment floorspace across the Peninsula to 2041 to accommodate 23,000 new jobs. The employment (job) forecasts for individual sectors were converted into equivalent floorspace requirements based on benchmark workspace ratios. The forecasts were demand-focused and did not specifically consider site characteristics.

The EDS concluded that over the 2017-2041 period the following floor areas could be required:

- Office, retail, educational, industrial and other employment - 590,000sqm to 823,000sqm net lettable area (NLA).
- Office NLA - 259,000sqm and 377,000sqm, equivalent to 305,000sqm to 444,000sqm GFA (based on 85% efficiency).
- Industrial and other services - 60,000sqm and 91,000sqm NLA.

The EDS anticipated that employment growth (and demand for office floorspace) would increase in the years to 2032 and peak in the 2032-2036 period. This aligns with the expected completion date of the Pyrmont Metro Station and Sydney Metro West in circa 2030. The forecast demand volumes are accordingly different over each five-year period (**Table ES.1**).

Table ES.1: Forecast Office Demand (2017-2041), Pyrmont Peninsula

Office Demand	2017-2021 (4-yrs)	2022-2026 (5-yrs)	2027-2031 (5-yrs)	2032-2036 (5-yrs)	2037-2041 (5-yrs)	2017-2041 (24-yrs)
Office NLA (sqm)	21,250	42,500	72,250	94,775	89,250	320,025
Office NLA (Avg. Annual, sqm)	5,313	8,500	14,450	18,955	17,850	13,334

Source: EDS (2020)

The PPPS envisaged the Blackwattle Bay sub-precinct (which includes BWB) could accommodate 5,770 new jobs and 2,055 new residents by 2041, accounting for 25% and 24% respectively of the yields for the broader Peninsula.

BWB as a Mixed Use Precinct

The capacity for the BWB Study Area to meet forecast office demand and successfully combine a mix of uses is subject to a number of considerations, including the distribution of uses horizontally (across the precinct) as well as vertically (within buildings). Locational characteristics underpin the potential as a mixed use precinct, in keeping with the mix of land uses in the broader Peninsula and forming an extension to the already established commercial office market. The Peninsula is home to TAMI (technology, advertising, media, information technology) occupiers, some of whom seek 'less-corporate' premises.

Mixed-use precincts are successful where land uses are spatially distributed in a configuration that:

- **Facilitates high quality retail and urban amenity**

In a post COVID-19 environment, the importance of amenity is paramount. Commercial occupiers are increasingly selective of location and value precincts with a higher quality retail offer. The concentration of workers within an area will ensure high levels of activation during the day. Residents and visitors play an important role in sustaining the activity outside of working hours.

A high-quality public realm is an essential component of urban amenity. Public spaces increase desirability of a precinct and provide incentive for residents, workers and visitors alike to spend greater amounts of time in a precinct.

- **Supports diversity of land uses and building typologies**

Successful mixed use precincts incorporate a broad range of land uses (e.g. short-term accommodation, community facilities, retail and non-retail uses including medical services, education facilities, etc.).

Equally important is a diversity of building typologies. Large floorplate commercial buildings enable pre-commitments to be secured in the early years and for large tenants to 'anchor' the precinct. Smaller floorplate commercial buildings that can accommodate a variety of different sized tenants are no less important. They additionally contribute to the diversity and character of a precinct.

- **Avoids/ mitigates land use conflicts**

Some uses can detract from the corporate or 'prestige' image of a precinct. Office buildings that overlook residential buildings with laundry on balconies are an example. Well-designed mixed-use precincts are able to mitigate these challenges through astute design and layout/ separation of uses within a precinct.

A 'tight' distribution of commercial occupiers is essential as businesses gravitate to areas of high activity. This will support a diverse mix of retailers and hospitality businesses - key for office workers who value high-quality retail and urban amenity.

By virtue of its existing commercial stock (e.g. warehouse conversions, campus-style office buildings), Pyrmont/Ultimo has historically catered to occupiers seeking larger floorplates (>1,500sqm NLA). These larger floorplates have proven popular among office landlords given their flexibility, as they can accommodate larger occupiers over 1-2 levels (often with internal staircases) whilst they are also able to be easily partitioned into smaller sized suites for smaller occupiers if needed.

For BWB to establish a market profile, larger floorplates (up to 2,500sqm NLA) should be provided in the early years to secure anchor occupiers. Smaller floorplates (starting from 1,000sqm NLA) should also be provided in order to attract the mix of industries and business sizes needed for an office precinct to be economically sustainable over the longer term.

Pyrmont/Ultimo's profile as a location for unique, 'less-corporate' type office accommodation should be leveraged upon. This will be important in a post-COVID-19 context, as occupiers seek unique, high quality space to attract and retain talent.

CONSIDERATIONS FOR DELIVERY AND SUSTAINABILITY

The quantum of commercial floorspace supportable on the Site, along with the distribution of this floorspace, are arguably the principal issues that need to be considered in the revised BWB Precinct Plan.

Market Expectations

While a number of structural trends were already at play prior to the COVID-19 pandemic, forced shutdowns over 2020-2021 have amplified the impact of these structural trends on how office is demanded and used.

While flexible working (including work-from-home, WFH) arrangements are expected to drag on future office demand, it is important to note that an increase in flexibility *does not* mean an equivalent decline in demand. Demand for office space is nuanced, driven by a complex blend of factors.

The impact of flexible work practices on office demand varies by industry and organisation. While the technology sectors are well-suited to flexible working, there is yet to be observable, major reduction in office footprints by these companies.

Notwithstanding, it is the Atlas house view that entrenched flexible working habits resulting from COVID-19 constitutes structural change. A conservative estimate of a -5% to -10% reduction in office demand over the long-term is conceivable. As leases expire, more market evidence will become available and enable meaningful observations into the impact of flexible working practices on demand for office floorspace, particularly how this varies by industry and sector.

Looking forward, the following factors are expected to influence demand for office floorspace which will have implications for future office demand:

- Occupiers in **vulnerable industries and sectors** hardest hit by the pandemic will reduce occupancy costs (through sub-lease of existing space, reduction of space or relocation out of the CBD entirely) due to economic hardship.
- Occupiers whose businesses were **not affected by the pandemic** or that are recovering well could retain their footprint amid increased expectations on quality and amenity. This could result in a re-negotiation of terms on lease expiry or relocation into better quality space at the earliest opportunity.
- Businesses which have successfully incorporated WFH practices over the past 24-months (particularly for functions that do not incorporate creative or collaborative activities) could reduce their floorspace requirements through desk sharing and/ or online booking systems. This is already observed in the financial and insurance services sectors.
- All office asset grades will need to '**work harder**' to:
 - Give employees a reason to return to the office; and
 - Convince business occupiers of its productivity returns.

- A shift in the type of activities undertaken in the office (to include more collaboration and meeting space, high quality amenity and recreation space). This is already being observed in the TAMI sector.
- Increase in tenant expectations on building quality and amenity resulting in more discerning and selective behaviour.
- A need for **flexibility** - for space to be adaptable for various activity types and for lease tenure to be more flexible.

While all office grades have experienced rising incentives and falling effective rents, **secondary grade buildings are most vulnerable** to value deterioration as tenant expectations increase. Secondary grade buildings unable to meet these expectations will be at risk of economic obsolescence, inevitably leading to withdrawal for redevelopment or re-purpose.

A withdrawal of secondary grade office buildings will further affirm the importance of contemporary and new office space in meeting tenant demand (notwithstanding a decline in overall demand).

Competitive Context

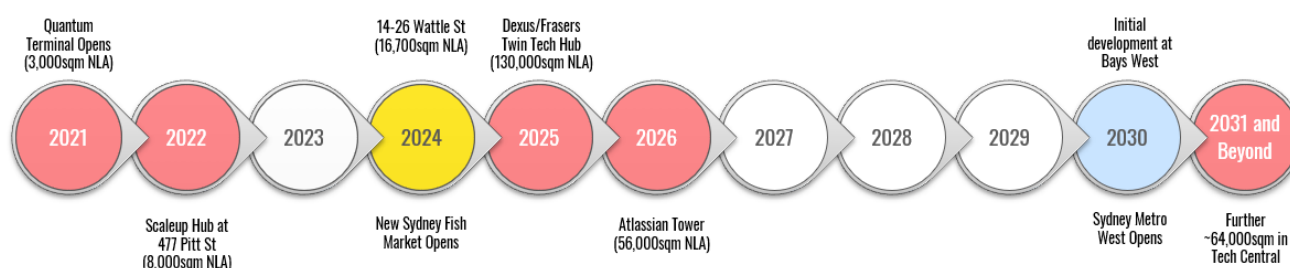
All property markets operate within a competitive context. The principle of substitutability reflects that where accommodation is unavailable in one market, occupiers will seek accommodation in the most comparable alternative.

Market investigations suggest that the primary office markets which will compete with future office development in BWB from a commercial occupier perspective include the Southern CBD, Tech Central and Bays West.

Understanding the likely timeframes new office supply is anticipated to be brought online in these competing precincts, particularly Tech Central and Bays West, will be critical to ensuring the success of future office development at BWB.

Figure ES.1 illustrates the competitive context timeline based on known and anticipated completion dates.

Figure ES.1: Competitive Context Timeline



Source: Atlas Economics

The Twin Tech Hub (Fraser's/ Dexus) is targeted for completion in 2025 while the Atlassian office tower is expected the following year in 2026. Allowing for rezonings and development applications, BWB could be in a position to commence pre-leasing/ pre-sales and development from 2024. Market interest is expected to accelerate in the second half of the decade and market momentum could peak in the years following Metro station completion in 2030.

Forecast Demand

The EDS forecasts that there will be demand for some ~320,000sqm of additional office NLA over the 2017-2041 period across the Peninsula. Whilst the PPPS identified the planning capacity for this projected demand, commercial realities associated with valuable existing uses and fragmented ownership patterns are issues for the deliverability of floorspace.

The PPPS identified the Blackwattle Bay sub-precinct could accommodate ~25% of new jobs in the PP by 2041. If a similar rate of 25% was applied to the office floorspace demand projections from the EDS (~320,000sqm of office NLA by 2041), the sub-precinct would accommodate some ~80,000sqm of office NLA (~94,000sqm GFA). If a higher target of 30% of projected office demand was accommodated, this would be equivalent to ~96,000sqm of NLA (~113,000sqm GFA).

The BWB Study Area forms a part of the larger Blackwattle Bay sub-precinct. Its scale and majority control (in NSW Government ownership) accords it the potential to play an important role in commercial floorspace demand.

The applied 'target rates' are notional; they reflect the significant role BWB could play in accommodating projected demand for office floorspace based on its key attributes (e.g. large size, majority government ownership). Take-up forecasts provide a more accurate gauge on the quantum of commercial floorspace which could be supportable at BWB given the target development completion horizon of 2034-2035.

Take-up Horizon

Research suggests the availability of public transport access is an important consideration for employees with bachelor degree qualifications or greater. Whilst this has historically been less important in suburban office markets where private vehicle has been the primary mode of transport, growing traffic congestion and work-life balance is making high-quality public transport options a key requirement for office workers.

The Pyrmont/Ultimo office market has historically faced some degrees of market resistance given it is not directly accessible by public transport and requires a mode change for most workers (at Town Hall or Central station).

Historical office consumption/ take-up in the Peninsula since 2012 has been suggested to be in the order of 17,000sqm NLA per annum (Arealytics, 2022). This reflects the constraints on demand by the lack of public transport connectivity. The opening of Metro services is expected to address some of the Peninsula's accessibility issues.

The development and absorption of office floorspace at BWB is an important consideration to an appropriate land use mix. The level of market interest generated could be enhanced through industry engagement and targeted initiatives, consistent with recommendations in the EDS to support the vision and growth of Peninsula.

Governments have a range of measures and policies that can be employed to drive economic development, including:

- Providing an **economic environment which supports and reduces costs** for industry (e.g. infrastructure, business regulation, access to a skilled workforce, etc).
- **Providing and subsidising information** to assist industry in making business decisions (e.g. through marketing strategies/campaigns, etc).
- Providing **selective assistance to industries**, including investment attraction, facilitation and direct financial assistance.

Investment attraction strategies can raise an awareness and generate a level of market interest that would otherwise not occur. In NSW and other jurisdictions, State and local governments have historically implemented a range of industry assistance policies to enhance economic performance and encourage employment growth and business investment.

A coordinated investment attraction strategy that identifies the competitive advantage of a BWB location and targets industries, businesses and occupiers would raise the profile of BWB as a business location. This would build on the completed development of the new Fish Markets and assist to mitigate competitive risks from other precincts.

Table ES.2 outlines potential take-up of office floorspace at BWB under various scenarios.

- In the Base Case, average annual take-up over the take-up horizon to 2036 ranges from 5,000sqm to 6,000sqm.
- If there was a coordinated investment attraction strategy to target and attract occupier interest, average annual take-up could be more rapid, potentially ranging from 6,000sqm to 10,000sqm.

Table ES.2: Potential Take-up of Office NLA (2017-2041), BWB (sqm)

Scenario	2024-2026 (2-yrs)	2026-2031 (5-yrs)	2031-2036 (5-yrs)	2024-2036 (12 years)	Post-2036
Base Case	12,000	30,000	25,000	67,000	20,000
With Investment Attraction Strategy (Low)	16,000	45,000	30,000	91,000	
With Investment Attraction Strategy (High)	17,000	49,000	31,000	97,000	
Average Annual Take-up (sqm)					
Base Case	6,000	6,000	5,000	5,583	
With Investment Attraction Strategy (Low)	8,000	9,000	6,000	7,583	
With Investment Attraction Strategy (High)	8,500	9,800	6,200	8,083	

Source: Atlas

Over the development horizon to 2034-2035, a higher absorption of office space could be achieved were there a considered and well-developed investment attraction strategy. This would assist with absorption of between 91,000sqm and 97,000sqm NLA by 2036. In a more 'laissez-faire' approach, a lower absorption of 67,000sqm is forecast by 2036.

Average annual absorption of 5,000sqm to 10,000sqm represents 30% to 60% of historical absorption. This is reasonable given the public transport challenges of the past are expected to be ameliorated when Metro services are operational.

CONCLUSION

BWB has a critical role in supporting the Eastern City's Innovation Corridor. Its site attributes make it an ideal candidate to support a large quantum of the commercial floorspace required over the coming decades to 2041 as projected in the EDS.

These strategic considerations must be considered together with the key parameters influencing the development of BWB. The Blackwattle Bay FBC was predicated on optimising State Government investment with a return that ensures key public benefits (i.e. delivery of 3ha public open space and world class waterfront promenade) are achieved. The adopted land use mix in the refined BWB Precinct Plan need therefore to be considered in the context of these objectives.

Development of BWB is targeted to be completed by 2034-35. The land use mix prescribed in the refined Precinct Plan will need to be cognisant of these timeframes. An investment attraction and marketing strategy could play an important role in ensuring a larger quantum of commercial floorspace is absorbed within this targeted timeframe.

Recommendations

The Study makes the following recommendations for consideration in the refined BWB Precinct Plan:

- **Quantum of Commercial Office Floorspace**

Based on the target development horizon to 2034-35, take-up forecasts suggest BWB could accommodate 67,000sqm of office NLA by 2036. If an investment attraction strategy was implemented to support BWB, more rapid take-up of commercial floorspace could be achieved - potentially between 91,000sqm and 97,000sqm NLA.

Market demand for office space is expected to accelerate and deepen as completion of the Metro station in 2030 approaches. Depending on the pace of take-up/ absorption, BWB could make a substantial contribution in the first decade (to 2036) to meeting projected demand for office floorspace in the broader Peninsula as projected in the EDS.

- **Distribution of Land Uses**

The Study recommends revisiting the distribution of land uses in the Precinct Plan. Commercial office uses should be tightly clustered together rather than spread across the precinct. This will focus commercial activity in a 'core' and avoid dilution of footfall and visitation. The existing SFM site is considered an ideal location for office uses given its scale and proximity to Harris Street and the future Pyrmont Metro Station (notwithstanding a need to improve the pedestrian experience between the SFM site and the future metro station).

The smaller sites along Bank Street lend themselves to retail and smaller scale commercial uses. Whilst these sites will have linkages to the Metro Station via Miller Street, these sites could face difficulty in securing and sustaining commercial occupier interest in a dispersed layout. It is recommended the quantum of commercial floorspace proposed be reduced, however ensuring activation at the ground plane and providing for small scale, boutique commercial.

Residential uses should be carefully separated from commercial land uses in order to avoid land use conflicts with future office accommodation. This can be done through astute design and built form controls. Enterprise uses could be considered in pockets of the Study Area where other land uses are not appropriate, subject to traffic, urban design and financial feasibility considerations.

- **Commercial Building Typologies**

In the early years, there should be provision of some larger floorplates (1,800sqm to 2,500sqm NLA) to attract pre-commitments by anchor occupiers that will enable 'bankability' and establish BWB's profile as a commercial precinct. Some smaller floorplates (800sqm to 1,200sqm NLA) should also be provided in order to attract the mix of industries and business sizes, however these will likely be taken-up in later years.

- **Inclusion of Affordable Workspaces**

The Sydney Startup Hub at 11 York Street is a successful initiative by Investment NSW, providing office floorspace for collaboration to support/ nurture the innovation ecosystem. Subject to site considerations, a similar initiative at BWB could provide for businesses that require enterprise floorspace, e.g. light industrial, R+D and office space.

While there is an opportunity to consider provision of affordable enterprise workspaces at BWB, there is not the policy/ governance framework in place. Issues about appropriate space design, tenant eligibility/ management and governance of the space are among the issues that would need to be addressed.

These recommendations should be considered in the context of the overall objectives of NSW Government.

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1. Introduction

1.1 Background

Blackwattle Bay (BWB) has been subject of urban renewal investigations for decades. In 2016, the then Minister for Planning declared the urban renewal of 'The Bays Precinct' a matter of state planning significance and determined that the Bays Precinct should be considered a State Significant Precinct (SSP). The Minister also identified BWB as one of two investigation areas for rezoning within The Bays Precinct, the other being White Bay (now part of Bays West).

Following extensive investigation and stakeholder and community consultation over the course of 2017-2020, Infrastructure NSW (INSW) exhibited the Blackwattle Bay SSP Study and Precinct Plan in June 2021. The proposed Precinct Plan envisaged a broad mix of land uses and building typologies, including:

- 1,550 dwellings expected to accommodate some 2,800 residents.
- 110,000sqm of non-residential gross floor area (GFA).
- A publicly accessible foreshore promenade between Glebe Island Bridge and the new Sydney Fish Market.
- Some 3ha of public open space.

Based on feedback received from a mix of government agencies, private landowners and the broader community, INSW are refining the proposed Precinct Plan to address various issues raised in the submission process.

Atlas Urban Economics (Atlas) is engaged by INSW to prepare a Land Use and Market Assessment (the Study) to guide the refinement of the BWB Precinct Plan and assist in addressing land use issues raised in submissions.

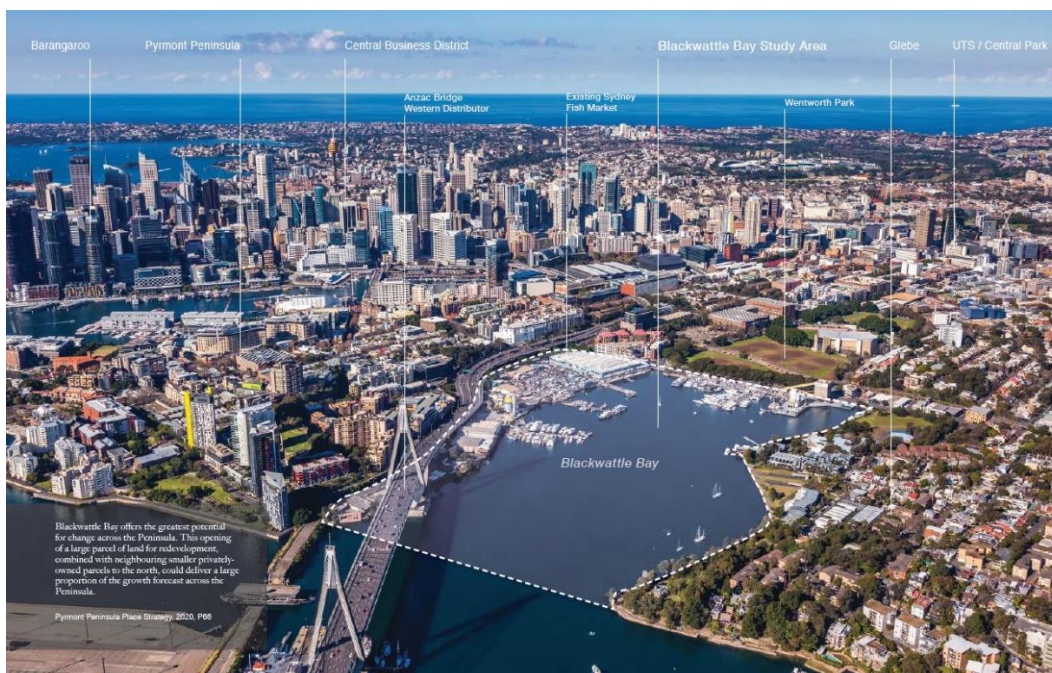
1.2 The Study Area

The BWB Study Area is located approximately 1.2km west of the Sydney CBD. Forming part of the City of Sydney local government area (LGA), it includes land on the western edge of the Pyrmont Peninsula and the water of Blackwattle Bay. It adjoins the foreshores of Glebe to the west and Pyrmont Bridge Road and Wentworth Park to the south.

The Study Area comprises ~10.4ha and encompasses a mix of land uses, including the existing Sydney Fish Market site, the new Sydney Fish Market site, the Hymix concrete batching plant and various industrial, commercial and marina uses.

Figure 1.1 illustrates the location of the Study Area in the context of the broader area.

Figure 1.1: Blackwattle Bay Study Area



Source: FJMT

1.3 Purpose and Scope

Atlas has been engaged by INSW to provide land use and market advice to inform the refinement of the BWB Precinct Plan.

The key objective of this advice is to identify the quantum and type of land uses which could be viable and economically sustainable in the Study Area. The Study applies a 'top-down' and 'bottom-up' approach in carrying out this assessment:

- **Top-down** analysis identifies the demand for various land uses in the locality. This does not consider site characteristics or constraints.
- **Bottom-up** analysis considers the quantum of demand which could be accommodated at BWB given its inherent attributes including constraints (e.g. site and location characteristics, ownership patterns, financial requirements, etc).

The top-down and bottom-up approaches are reconciled to arrive at recommendations for land uses and a mix in BWB.

Scope and Methodology

To meet the requirements of the brief, the Study carries out the following tasks:

- Review of the strategic role of BWB in the context of State strategic plans, including the Eastern City District Plan, the Pyrmont Peninsula Place Strategy (PPPS) and the Pyrmont Peninsula Economic Development Strategy (EDS).
- Review of the land use and market issues raised in submissions to the Blackwattle Bay SSP Study.
- Identification of key criteria for a sustainable office precinct from business, tenant and development perspectives.
- Market appraisal of the Pyrmont/Ultimo office market, including:
 - Profile of demand (key sectors, type of floorspace sought, impediments and weaknesses).
 - Historical consumption and supply.
 - Recent market and development activity.
- Appraisal of other land uses, including residential, enterprise and affordable workspaces.
- Assessment of potential role for Study Area to accommodate different land uses based on its inherent characteristics.
- Recommendations on land use, mix and delivery considerations.

1.4 Assumptions, Limitations and Study Parameters

Assumptions and Limitations

Atlas acknowledges several assumptions and limitations associated with this Study.

- Employment projections from third party sources are assumed to be correct and are not verified.
- Market research is carried out on a 'desktop' basis without the benefit of site surveys and internal inspections.
- Floorspace supply data is sourced from various third party databases and subscriptions and is not validated.

Notwithstanding the above, all due care, skill and diligence has been applied to this Study as is reasonably expected.

Study Parameters

The Study acknowledges the key parameters that influence the land uses and mixes adopted at BWB.

- Optimised economic and financial return to NSW Government based on Blackwattle Bay Final Business Case (FBC).
- Targeted development completion date of 2034/2035.
- Staged delivery of a continuous world class waterfront promenade.
- Delivery of a minimum 3ha of public open space.

These parameters are influencing factors that shape the capacity within which BWB can respond to market demand.

2. Strategic Context

This Chapter provides a high-level overview of BWB in the context of various strategic plans, including the Eastern City District Plan, the PPPS and the EDS. The Chapter also reviews the BWB SSP Study and summarises the key land use and market issues identified in various submissions on the SSP Study.

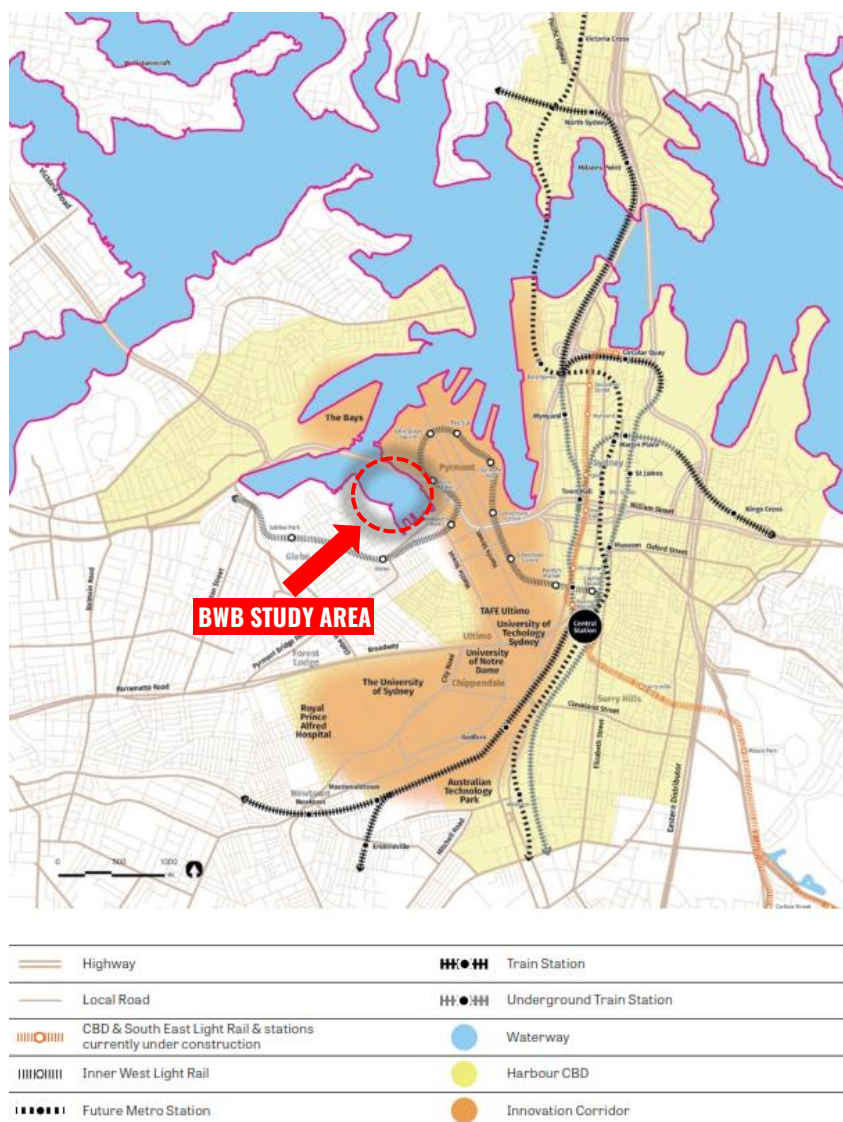
2.1 Eastern City District Plan

The Eastern City District Plan describes the Innovation Corridor in Planning Priority E7 and E8. The Innovation Corridor extends from the Bays Precinct (White Bay) through Pyrmont, Ultimo, Central Station, North Eveleigh, parts of Surry Hills and Camperdown. It includes several major institutional and economic anchors¹ and is characterised by a significant sectoral cluster of technology, health, education and other knowledge intensive industries.

The urban renewal of BWB is critical to the strengthening of the Innovation Corridor given its direct connection to the future Bays West precinct and proximity to the Sydney CBD.

Figure 2.1 illustrates the location of the BWB in the context of the Eastern City's Innovation Corridor.

Figure 2.1: Innovation Corridor, Eastern City District Plan



Source: GSC (2018)

¹ Including, *inter alia*, the University of Technology (Ultimo), University of Notre Dame (Chippendale), the University of Sydney (Camperdown) and the Royal Prince Alfred Hospital (Camperdown).

2.2 The Pyrmont Peninsula

The Pyrmont Peninsula (the Peninsula) has been subject to detailed strategic planning since 2019. The Peninsula comprises the suburb of Pyrmont and much of the neighbouring suburb of Ultimo and the western edge of Darling Harbour. The majority of the BWB Study Area falls within the defined boundaries of the Peninsula.

Figure 2.2 depicts the formal boundaries of the Pyrmont Peninsula in the context with the BWB Study Area.

Figure 2.2: The Pyrmont Peninsula



Source: Greater Sydney Commission (2019)

Detailed strategic planning for the Peninsula carried out over the 2019-2020 period culminated in the Pyrmont Peninsula Economic Development Strategy and Pyrmont Peninsula Place Strategy - both of which have been adopted by the NSW Government. The Pyrmont Peninsula Urban Design Report and Masterplans for each sub-precinct within the Peninsula were exhibited in November 2021 and remain under consideration.

This section provides an overview of these documents as relevant to the purposes of this Study.

2.2.1 Pyrmont Peninsula Economic Development Strategy

The EDS (NSW Treasury, 2020) outlines a 20-year economic framework for the Pyrmont Peninsula and the strategies needed to ensure the Peninsula supports the strengthening of the Harbour CBD economy.

Floorspace Forecasts

The EDS forecasted demand for employment floorspace across the Peninsula over the coming decades to 2041. These were based on employment (job) forecasts for individual sectors and converted into equivalent floorspace requirements based on benchmark workspace ratios. Forecasts was demand-focused and did not consider site characteristics of the Peninsula.

As shown in **Table 2.1**, the EDS concluded that over the 2017-2041 period:

- A total of 590,000sqm (Low Range) to 823,000sqm (High Range) of additional net lettable area (NLA) could be required. This includes office, retail, educational, industrial and other types of employment floorspace.
- Between 259,000sqm (Low Range) and 377,000sqm (High Range) of office NLA could be required. Based on an 85% efficiency ratio, this equated to between 305,000sqm to 444,000sqm of office gross floor area (GFA).
 - Assuming a mid-point between the Low and High Ranges, some ~320,000sqm of office NLA could be required across the Peninsula by 2041. This is equivalent to ~380,000sqm of office GFA.
 - Based on the 24-year forecast period (2017-2041), forecast demand for ~320,000sqm of additional office NLA is equivalent to an average annual need of ~13,300sqm of office NLA.
- Between 60,000sqm and 91,000sqm of industrial and other services² NLA could be needed.

Table 2.1 summarises the EDS floorspace forecasts by industry sector for the Pyrmont Peninsula over 2017-2041.

Table 2.1: Low and High Floorspace Forecasts by Industry Sector (2017-2041), Pyrmont Peninsula

Industry	Additional Floorspace Required (NLA, 000's sqm)				
	2017-2021	2017-2026	2017-2031	2017-2036	2017-2041
Tourism/Entertainment	(111) – 97	0 – 28	46 – 83	137 – 179	176 – 228
Media	(3) – 9	0 – 12	10 – 24	28 – 45	35 – 57
Professional Services	5 – 12	29 – 48	36 – 58	66 – 100	86 – 128
Education	(5) – 11	0 – 17	10 – 28	55 – 83	95 – 127
Information Technology	2 – 4	8 – 12	11 – 16	15 – 24	20 – 30
Healthcare	0 – 3	0 – 3	3 – 6	5 – 9	8 – 12
Other Knowledge Services	4 – 10	6 – 13	46 – 65	72 – 100	110 – 150
Industrial and Other Services	(12) – 0	(6) – 14	18 – 35	30 – 49	60 – 91
Total Floorspace Required (NLA)	(120) – (48)	37 – 147	180 – 315	408 – 589	590 – 823
Total Office Floorspace Required (NLA)	8 – 38	43 – 88	106 – 169	186 – 278	259 – 377
Total Office Floorspace Required (GFA)	9 – 45	51 – 104	125 – 199	219 – 327	305 – 444

Source: EDS (2020)

The EDS anticipates that employment growth (and demand for office floorspace) will gradually increase in the years to 2032 and peak in the 2032-2036 period. This aligns with the expected completion date of the Pyrmont Metro Station and Sydney Metro West in circa 2030. The forecast demand volumes are accordingly different over each five-year period (**Table 2.2**).

Table 2.2: Forecast Office Demand (2017-2041), Pyrmont Peninsula

Office Demand	2017-2021 (4-yrs)	2022-2026 (5-yrs)	2027-2031 (5-yrs)	2032-2036 (5-yrs)	2037-2041 (5-yrs)	2017-2041 (24-yrs)
Office NLA (sqm)	21,250	42,500	72,250	94,775	89,250	320,025
Office NLA (Avg. Annual)	5,313	8,500	14,450	18,955	17,850	13,334

Source: EDS (2020)

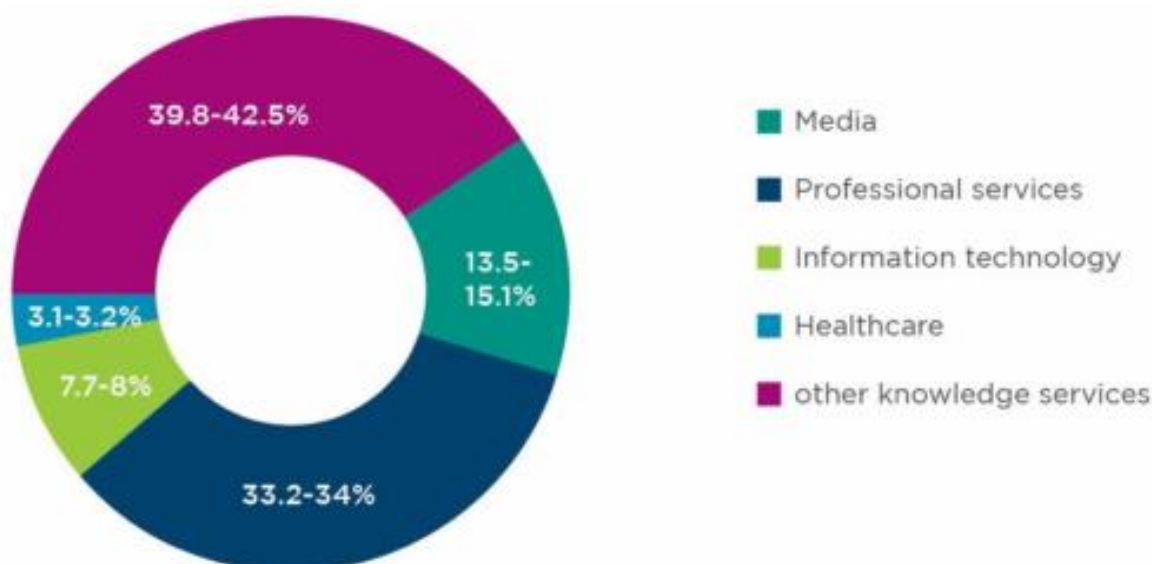
² 'Other Services' refers to the one of the 19-digit Australia New Zealand Standard Industry Classification (ANZSIC) categories.

Demand by Sector

The EDS anticipated the Professional, Scientific and Technical Services sector to be the largest single industry demanding office floorspace in the Peninsula over the coming decades to 2041, accounting for 33%-34% of total floorspace demand. Media (13%-15%) and Information Technology (~8%) were the other major industries expected to drive demand for office accommodation. Healthcare was expected to account for a small amount of overall office demand (in the order of 3%). Other knowledge services³ were expected to drive the remaining quantum of demand (40%-43%).

Figure 2.3 illustrates the quantum of additional office NLA required by 2041 across the Peninsula by key industry sectors.

Figure 2.3: Additional Office Floorspace (NLA) by Sector (2017-2041), Pyrmont Peninsula



Source: EDS (2020)

The EDS employment and floorspace forecasts were a critical input in the urban design and built form response developed in the PPPS.

Potential Mechanisms and Recommendations to Support Growth

The EDS acknowledged there are several key risks which could inhibit the PP in achieving its proposed vision and maximising its growth potential. These risks included competition from neighbouring precincts (including Tech Central and Bays West), escalating commercial rents, a loss in urban character, impacts from COVID-19 and further job automation.

Accordingly, the EDS outlined a series of mechanisms and recommendations to support the vision and growth of the PP. Many of these are actions relating to economic development, including “*engaging with anchor tenants to establish long-term collaboration with business and industry*”.

Several mechanisms identified in the EDS of relevance include:

- Tax incentives to encourage businesses to locate in Pyrmont, including tech start-ups, creative organisations.
- Provision of grants to targeted industries/businesses, or subsidised rents from government.
- Planning mechanisms such as Voluntary Planning Agreements to provide subsidised commercial floorspace for target industries.

In addition to the above mechanisms, a total of 10 recommendations were proposed to support the growth drivers of the PP. Several of these are also examples of economic development initiatives.

Table 2.3 summarises the 10 recommendations of the EDS.

³ Other Knowledge Services comprises the ANZSIC categories of Administrative and Support Services, Public Administration and Safety, Financial and Insurance Services and Rental, Hiring and Real Estate Services.

Table 2.3: Recommendations of the Pyrmont Peninsula Economic Development Strategy

Growth Driver	Recommendations
Industry Mix and Ability to Cluster	1. Foster a collaborative networking environment for companies and education institutions within the Innovation Corridor. This could include Government engaging with anchor tenants to establish long term collaboration with businesses and industry.
	2. Support local tertiary and vocational training institutions to offer courses that cater to the skills that the Innovation Corridor is likely to need (e.g. in media).
	3. Strengthen and communicate the unique proposition of the Peninsula 24-hour economy with globally significant events, art, entertainment and recreation, pop-ups and cultural events.
Cost of Commercial Floorspace	4. Support appropriate and sustainable developments that increase and re-purpose the supply of commercial floorspace to accommodate projected employment.
	5. Consider actions to enable ongoing availability of affordable space for small business, start-ups and creative industries.
Connectivity	6. Subject to completion of a final business case, invest in a Sydney Metro West Station to realise the full economic potential of the PP, driving economic growth, creating jobs and increasing visitation.
	7. Strengthen active transport connections with the PP including between open spaces and the foreshore and deliver missing regional and local cycle infrastructure.
Amenity	8. Establish a business improvement district to improve amenities and public domain.
	9. Rejuvenate Harris Street and renewal sites (including Blackwattle Bay, Darling Island and Tumbalong Park) through new hubs of activity and enhanced shopfronts, streetscapes and public spaces.
	10. Open up the foreshore and Wentworth Park for additional open space and improved waterfront access for recreational and cultural uses.

Source: EDS (2020)

2.2.2 Pyrmont Peninsula Place Strategy

The PPPS was finalised in December 2020 and outlines a unified planning framework centred around a vision of the Peninsula being a key attractor for global investment. This vision is itself supported by 10 Directions which address matters of strategic economic, social and environmental significance in the Peninsula. The urban renewal of BWB is identified as a crucial component of the PPPS given its scale and capacity to accommodate significant land use change.

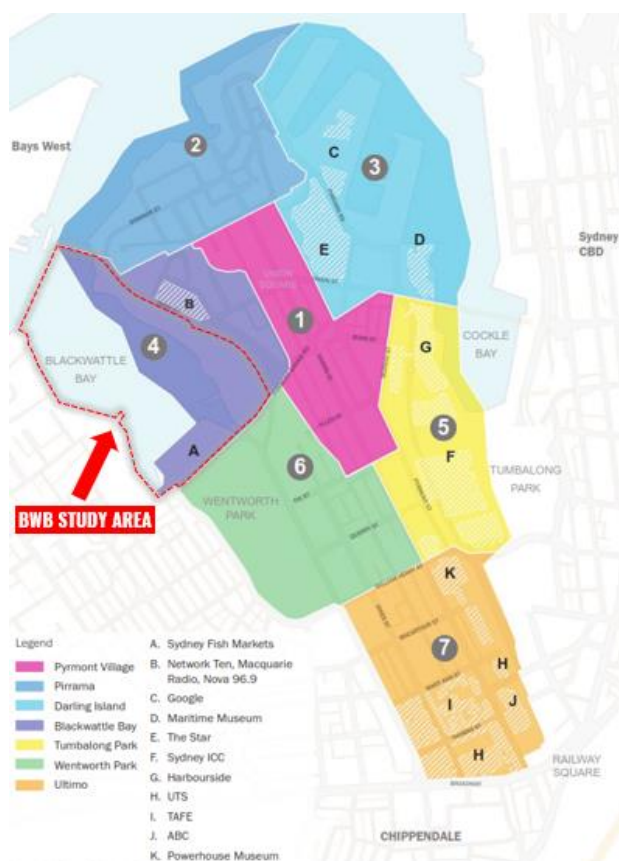
The PPPS also identifies 'Five Big Moves' for the Peninsula to guide the planning and urban design framework. The five moves include:

1. Build and link a world class foreshore.
2. Enhance the opportunity to provide a vibrant 24-hour cultural and entertainment destination.
3. Realise the benefits of a new Metro station by making Pyrmont a destination, rather than the point where journeys start.
4. Create a low carbon and high-performance precinct.
5. More, better and activated public spaces across the Peninsula.

The PPPS also identifies key sites, where development will accommodate new jobs while providing the impetus for the 'Big Moves' necessary to make the Peninsula a more connected and integrated part of the Sydney Harbour foreshore.

Figure 2.4 depicts the Peninsula's seven sub-precincts defined in the PPPS in the context of the BWB Study Area.

Figure 2.4: Pyrmont Peninsula Sub-Precincts



Source: PPPS (2020)

Distribution of Jobs and Residents

The PPPS does not identify floorspace targets for the seven sub-precincts or broader PP. Instead, the PPPS identifies the additional jobs and residents which could be accommodated within each sub-precinct by 2041. These additional jobs and residents were intended to be targets rather than maximum yields.

By 2041, the PPPS suggests the PP could accommodate an additional 23,000 jobs and 8,500 residents. The Blackwattle Bay sub-precinct is anticipated to play an important role in accommodating this growth, accounting for 5,770 new jobs (25% of total jobs) and 2,055 new residents (24% of total residents). Ultimo is anticipated to play the greatest role in accommodating new jobs and residents (38% and 28% respectively).

On a job to resident basis, the PP is anticipated to accommodate 2.7 new jobs for each new resident. The PPPS anticipated the Blackwattle Bay sub-precinct would accommodate a slightly higher ratio at 2.8 new jobs per new resident.

Table 2.4 summarises the distribution of additional non-residential floorspace by sub-precinct as per the PPPS.

Table 2.4: Distribution of New Jobs and Residents (2041) by Sub-Precinct, PPPS

Sub-Precinct	New Jobs (2041)		New Residents (2041)		Jobs/Residents
	No.	% of Total	No.	% of Total	
Pirrama	350	1.5%	190	2.2%	1.8
Darling Island	2,735	11.9%	600	7.1%	4.6
Pyrmont Village	1,380	6.0%	135	1.6%	10.2
Blackwattle Bay	5,770	25.1%	2,055	24.2%	2.8
Wentworth Park	1,200	5.2%	1,115	13.1%	1.1
Tumbalong Park	2,870	12.5%	2,055	24.2%	1.4
Ultimo	8,700	37.8%	2,350	27.6%	3.7
Total	23,005	100.0%	8,500	100.0%	2.7

Source: Hassell (2021a)

2.2.3 Blackwattle Bay Sub-Precinct Masterplan

Preliminary masterplans for each of the Peninsula's sub-precincts were exhibited in November 2021 as part of the PPPS Urban Design Report (Hassell, 2021). Feedback on the draft masterplans is currently being reviewed with finalised masterplans anticipated for release in Q2 2022.

The Blackwattle Bay sub-precinct masterplan identifies several key themes to enhance the connectivity and amenity offering of the precinct. These include:

- Delivery of new open spaces in key intersection areas and the future foreshore area;
- Create a new transport interchange immediately east of the existing SFM site linking the new metro station to surrounding public and active transport;
- Deliver a continuous connected foreshore that expands to facilitate gathering and recreation on the water's edge linking open space, local communities and regional destinations.

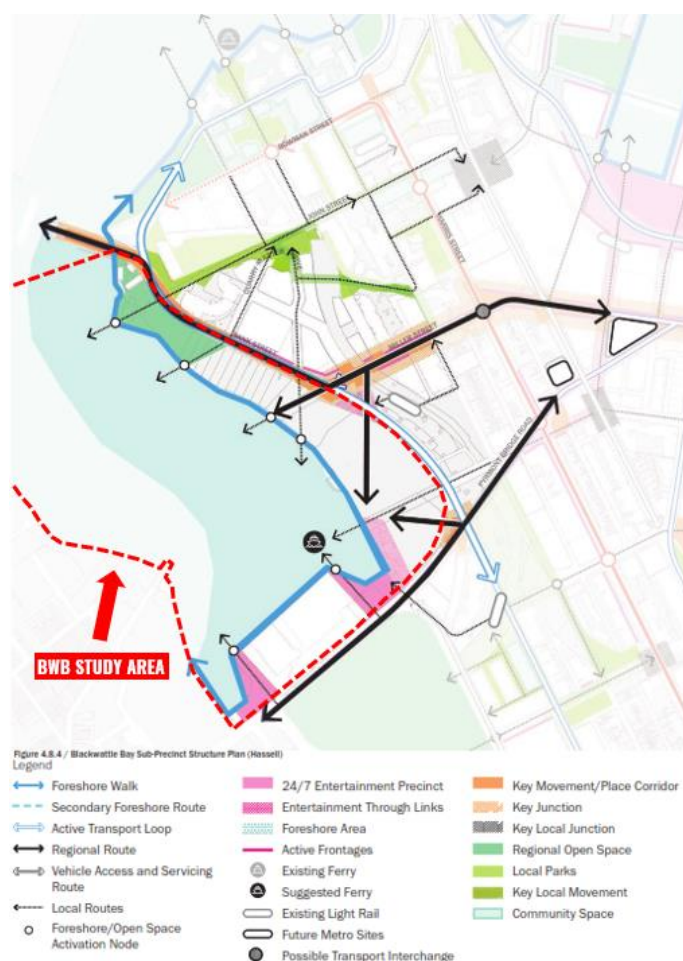
The masterplan also identifies several important character areas within the Blackwattle Bay sub-precinct, including Pyrmont Bridge Road, Carmichael Park and Bank Street.

Objectives for these character areas of relevance to the BWB Study Area include:

- Enhancing of the pedestrian environment that supports access between SFM, Blackwattle Bay and the Metro Station to support its important role as a primary pedestrian movement route through widened footpaths, increased tree canopy, greater amenity at intersections and a calmer traffic environment;
- Creating a new district park near Bank Street of approximately 1ha in size identified as Bank Street Open Space in the Blackwattle Bay SSP Study.

Figure 2.5 depicts the Blackwattle Bay sub-precinct masterplan in the context of the BWB Study Area.

Figure 2.5: Blackwattle Bay Sub-Precinct Structure Plan



Source: Hassell (2021b)

2.3 Blackwattle Bay SSP Precinct Plan

The Blackwattle Bay SSP Study, Precinct Plan and various supporting technical studies were exhibited in mid-2021. Submissions to the SSP Study and Precinct Plan were received over the July-August 2021 exhibition period.

A brief summary of the Precinct Plan, its supporting Economic Services, Local Retail and Services Study and the key issues identified in submissions is provided in turn.

2.3.1 Blackwattle Bay Precinct Plan

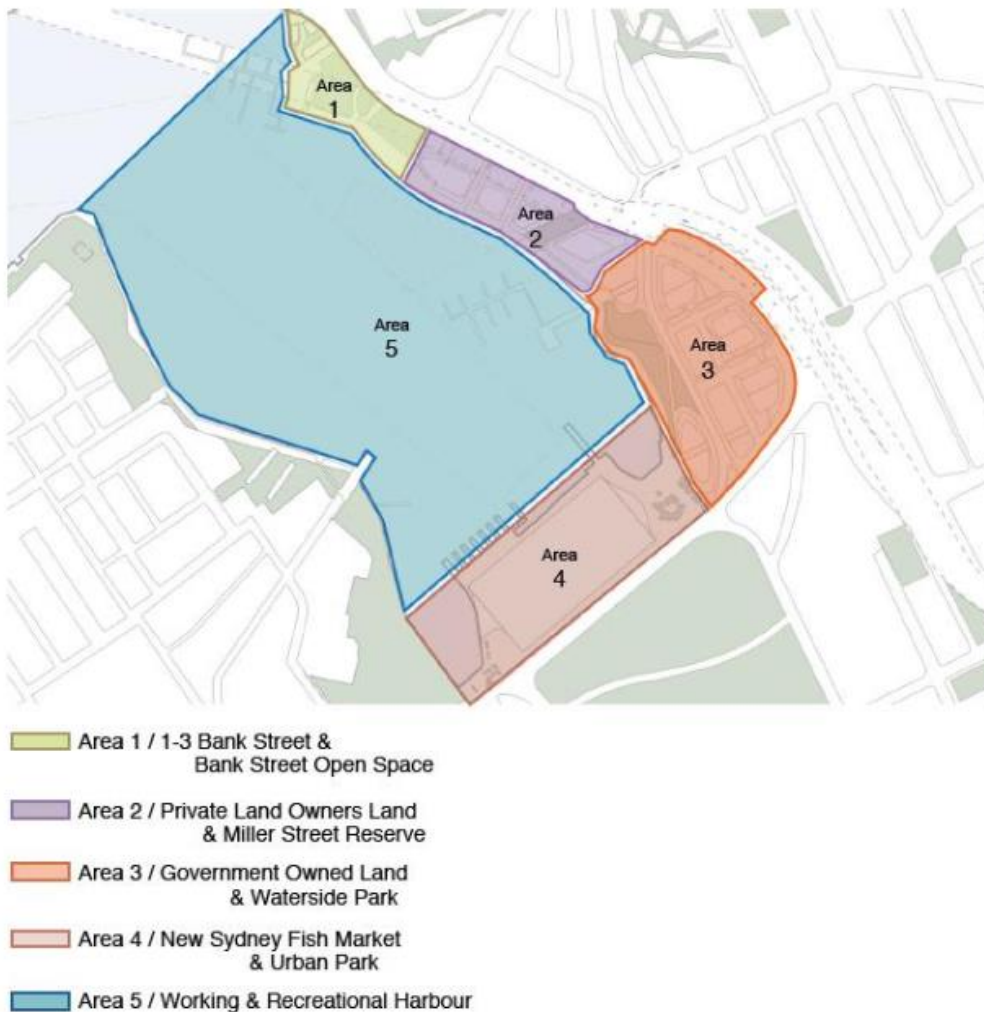
Key Areas

The Precinct Plan divided the SSP Study Area into five distinct areas, reflective of their locational attributes, ownership patterns (government and private ownership) and existing and future character.

Areas held in government ownership include Areas 3 and 4 which encompass the existing SFM and future SFM sites. Areas held in predominantly private ownership include Area 2 and include smaller landholdings along Bank Street. Government-owned sites are markedly larger and more centrally located compared to privately held sites. Sites in Area 2 are also subject to more amenity constraints given their proximity to the Western Distributor.

Figure 2.6 illustrates the key areas identified in the SPP Precinct Plan.

Figure 2.6: Key Areas, SSP Precinct Plan



Source: INSW (2021)

Planning Controls

The Precinct Plan proposes a mix of planning controls across the BWB Study Area. Relevant controls proposed include:

- **Land Use Zones**

The majority of the BWB Study Area is proposed as B4 Mixed Use. The future SFM is proposed as SP1 Sydney Fish Market with future public open space proposed as RE1 Public Recreation.

- **Maximum Building Heights and Floorspace (GFA)**

Maximum building heights are proposed to range from 21m to 156m, with the tallest buildings proposed on the existing SFM site.

Different maximum floorspace controls are intended to apply on a site-by-site basis and equate to densities from FSR 3.9:1 to FSR 5.4:1 (the future SFM site has a lower FSR of 0.7:1).

The majority of floorspace is proposed on the existing SFM site at ~161,000sqm GFA (62% of total floorspace proposed). This is reflective of the scale of this site within the SSP Study Area, accounting for ~44% of total site area.

- **Minimum Non-Residential Floorspace (GFA)**

The Precinct Plan proposes minimum non-residential floorspace controls on a site-by-site basis. The quantum of non-residential floorspace required ranges from 42% to 56% of total permitted floorspace per site.

Non-residential floorspace controls on privately-owned sites range from 44% to 56%. A non-residential floorspace control of 44% is proposed on the existing SFM site.

Land Use Mix and Building Typologies

The Precinct Plan envisages the delivery of approximately 234,000sqm of GFA across the BWB Study Area. Around 48% of this floorspace is for employment and non-residential uses (110,000sqm GFA), with the remaining 52% (123,000sqm GFA) for residential uses.

The Precinct Plan envisages this floorspace to be distributed across nine new buildings. Non-residential uses are proposed up to eight-storeys in all buildings in Areas 2 and 3. There are no standalone commercial office buildings proposed – office floorspace would be provided in podiums within mixed-use buildings with floorplates from ~800sqm NLA (on smaller, privately-owned sites) and up to ~3,000sqm NLA on the existing SFM site.

Figure 2.7 illustrates the proposed building massing envisaged in the BWB Precinct Plan.

Figure 2.7: Proposed Building Massing, BWB Precinct Plan



Source: INSW (2021)

Jobs and Residents

The land uses proposed in the SSP Precinct Plan would accommodate up to 2,850 new residents and 5,571 new workers⁴ upon buildout. Similar to the PPPS, the SSP Precinct Plan comprises a high job to resident worker ratio, with 1.95 new jobs for each new resident in the Study Area.

Notably, additional jobs accommodated on new floorspace in the SSP Precinct (i.e., 5,571 new jobs) accounts for ~97% of the additional jobs identified in the PPPS for the broader Blackwattle Bay sub-precinct (i.e., 5,770 new jobs).

The quantum, type and distribution of employment floorspace in the BWB Precinct Plan was informed by the Blackwattle Bay Economic Development, Local Retail and Services Study (Hill PDA, 2021). An overview of this Study is provided next.

2.3.2 Economic Development, Local Retail and Services Study

The Blackwattle Bay Economic Development, Local Retail and Services Study (the Economic and Retail Study) carried out market research and demand modelling to assess the quantum and mix of employment floorspace which could be provided in the BWB Study Area.

Demand for Commercial Uses

The Economic and Retail Study suggested demand for commercial floorspace at BWB would largely be driven by 'smaller boutique office tenancies' from the industries which have historically gravitated to the Pyrmont/Ultimo office market (e.g. technology companies, media, co-working providers, etc).

Floorspace Recommendations

Based on a high-level trends and market analysis, retail demand forecasts and employment projections (based on Transport for NSW's 2019 Travel Zone projections), the Economic and Retail Study found that the BWB could be able to support:

- 10,000sqm of leasable retail floorspace (excluding the new SFM) by 2036;
- 85,000sqm of 'intensive and office-based commercial' floorspace (excluding the new SFM) by 2041.
- Between 100 and 180 serviced apartments.

Take-up Expectations

The Economic and Retail Study quoted historical office absorption rates for Sydney's CBD Fringe office market (sourced from JLL) as 8,900sqm NLA per annum over the 2011-2021 period and 17,800sqm NLA per annum over the 2017-2021 period.

Over the longer-term (15 years), it was estimated average annual office absorption in the Sydney Fringe market is circa 13,500sqm NLA.

The Economic and Retail Study noted that if BWB accounted for 40% of this historical average annual absorption (5,400sqm NLA per annum), it would take some 16 years for 90,000sqm NLA to be absorbed. If BWB accounted for 30% of this historical average consumption rate, it would take some 21 years for 90,000sqm NLA to be absorbed.

2.3.3 Feedback to the SSP Study and Precinct Plan

Submissions on the BWB SSP Study, Precinct Plan and supporting technical documents were received over the July-August 2021 exhibition period. Over 2,400 submissions were received, with the majority of these from (or on behalf of) individual community members.

This section investigates relevant issues identified by NSW Department of Planning and Environment (DPE), the City of Sydney, and three private landowners within the SSP Study Area.

⁴ Economic Development, Local Retail and Services Study (2021)

NSW Department of Planning and Environment

The NSW DPE summarised a series of issues raised on the BWB SSP Study and Precinct Plan. The majority of these were focused on urban design, specifically building heights and the ability for the Precinct Plan to deliver a 'world class waterfront promenade'. Key issues raised by DPE of relevance to this Study included:

- The proposed land use mix at BWB, including the potential for 'major commercial towers', should be aligned to the EDS and further analysis on the demand for proposed commercial typologies should be carried out.
- Further analysis illustrating how residential uses proximate the Western Distributor align with the Apartment Design Guideline (ADG).
- Further justification for the proposed quantum of affordable housing (5% of residential floorspace) and an examination of whether the BWB precinct should dedicate land to a community housing provider.

City of Sydney

The City of Sydney (the City) identified a series of issues in their submission on the BWB SSP Study. Of relevance to this Study includes land use mix and affordable housing/workspaces. Specifically, the City noted:

- The Precinct Plan is inconsistent with Planning Priority E7 and E8 of the Eastern City District Plan given the amount of residential proposed undermines the potential of the precinct as the western extension of the Harbour CBD.
- The proposed quantum of commercial office floorspace (~100,000sqm) is insufficient to achieve a consolidated employment precinct and is not reflective of the importance of BWB as one of the Innovation Corridor's final undeveloped urban renewal precincts.
- There needs to be greater consideration on the floorspace and building typology requirements of target industries likely to demand commercial accommodation at BWB.
- The proposed affordable housing contribution of 5% is inadequate and does not align with the City of Sydney's *City Plan 2036* which requires government owned sites to deliver a minimum of 25% of residential floorspace as affordable housing upon redevelopment.
- There is no provision for 'affordable workspaces' for creative industries as envisaged for Key Sites within the PPPS.

Private Landowners

Submissions were received from all private landowners within the BWB Study Area. Issues raised by the landowners focused on the quantum of commercial floorspace required on each individual site, the distribution of land uses and feasibility of proposed planning controls. Issues identified included:

- The distribution of commercial floorspace across the BWB Study Area through a minimum non-residential floorspace control on each site is unlikely to be viable. Commercial uses should be 'clustered' in one area where amenity and proximity to public transport is greatest, such as the existing SFM site. Smaller, privately-owned sites in less accessible areas are ill-suited for office accommodation.
- The quantum of commercial floorspace proposed (~100,000sqm commercial GFA) is likely to require a significant absorption period (circa 25 years).
- The proposed planning controls are unlikely to facilitate feasible development outcomes.

2.4 Key Findings and Implications

Based on the review of relevant planning strategies, the BWB SSP Study and Precinct Plan, along with the issues identified by key stakeholders, the following key issues have been identified (as are relevant to the scope of the Study).

Pymont Peninsula Economic Development Strategy

- The EDS forecasts that there could be a need for ~320,000sqm of office NLA across the Peninsula by 2041. Over the 2017-2041 period, this equates to ~13,300sqm NLA per annum.
- Notably, the EDS expects almost 60% of this demand to occur post-2032 following the completion of the Pymont Metro Station. Over the 14-years to 2031, the EDS forecasts office demand of ~9,700sqm NLA per annum.
- This 'ramping up' of office floorspace demand has implications for BWB given the targeted completion date for the precinct is circa 2034-2035. Accordingly, the quantum of office floorspace provided at BWB will need to consider both the EDS demand forecasts and the market's capacity to absorb new floorspace in the coming decade to 2035.
- The EDS forecasts the Professional Services sector to drive demand for office floorspace moving forward, accounting for 33%-34% of demand. The Media (13%-15%) and Information Technology (~8%) sectors are also anticipated to be key sources of demand. Understanding the locational and floorspace requirements of these sectors will be critical to the successful absorption of office floorspace at BWB.
- In recognition of several risks to achieving its economic vision (including the risk from competing precincts like Tech Central), the EDS outlines a series of recommendations to support future growth.

Pymont Peninsula Place Strategy

- BWB forms part of the larger Blackwattle Bay sub-precinct within the PPPS, which includes existing commercial buildings to the north of the BWB Study Area.
- The PPPS envisaged the Blackwattle Bay sub-precinct could accommodate 5,770 new jobs and 2,055 new residents by 2041, accounting for 25% and 24% respectively of the yields identified for the broader PP.

Blackwattle Bay Precinct Plan and Economic and Retail Study

- The BWB Precinct Plan proposes ~100,000sqm office GFA across multiple sites, predominantly in podium form. This dispersion of commercial floorspace is likely to face difficulties in attracting anchor tenancies as commercial precincts function best when 'tightly clustered' around amenity and services.
- Certain areas within the BWB Study Area could face difficulty in providing the level of amenity required for office uses to have market appeal and be economically sustainable given their distance from the future Metro station and proximity and nature of the ground plane beneath the Western Distributor. This could be exacerbated if certain land uses (e.g. concrete batching plant) do not relocate in the medium to long-term.
- The Economic and Retail Study does not identify the commercial typologies or floorplate sizes which would be best suited to accommodate targeted industries.
- Historical office consumption/ take-up rates cited in the Economic and Retail Study are not reflective of the uptick in demand anticipated to be induced by the new Pymont Metro Station. It is widely accepted that office take-up in Pymont has traditionally been constrained by the lack of public transport connectivity. The opening of Metro services that connect directly to Greater Parramatta is expected to address some of Pymont's current accessibility issues.

Feedback on the BWB Precinct Plan

- Land use issues raised by key stakeholders regarding the quantum and distribution of commercial land uses are further analysed through an in-depth market appraisal and criteria assessment.
- The capacity of BWB to contribute to affordable workspaces is relevant, though needs to be considered in the context of development feasibility and other parameters influencing the delivery of BWB.

The next Chapter carries out a commercial land use appraisal of the Pymont/Ultimo office market.

3. Commercial Land Uses

This Chapter carries out a commercial market appraisal of the Pyrmont/Ultimo office market to guide the refinement of the BWB Precinct Plan. The chapter firstly considers the common requirements of a successful office precinct. Secondly, a review of commercial office trends is carried out. Lastly, an overview of market dynamics is provided, including historical consumption and supply, demand profile and recent market and development activity.

3.1 Successful Commercial Precincts

Office precincts require a multitude of factors in order to be successful. Very rarely will all these factors be met given their diversity of site characteristics. For instance, successful office precincts require investment to provide modern, quality accommodation. The rents or sale prices achievable for new office space will therefore need to be at a level to incentivise development. However, high office rents may result in limited opportunities for small or growing businesses to locate within a precinct and contribute to a diverse character.

Successful office precincts will therefore need to accommodate requirements from:

- **Businesses**, who value proximity to a skilled labour force and rent that is affordable;
- **Employees**, including proximity to public transport and surrounding amenity; and
- **Developers and investors** who will require economic rents or values to undertake viable development.

These various requirements are discussed in turn.

3.1.1 Business Requirements

The factors that attract businesses to any given location are underpinned by the strategic and operational requirements of that business. Whilst every business is unique, there are many location and site selection criteria that are common across different industries and sectors.

Office-based businesses are arguably most sensitive to location and amenity. Skilled labour is a valuable resource which businesses actively seek to attract and retain through their property decisions. Key location criteria for commercial occupiers include:

- **Critical Mass** – Businesses gravitate to where there is a critical mass of occupiers. A critical mass of employees, residents and/or visitors is needed to support the range of facilities considered 'essential' for office workers, including a mix of retail and hospitality operators and local services such as dry cleaning, shoe repairs, etc. Critical mass enables businesses the opportunity to locate proximate customers/suppliers and achieve agglomeration benefits.

Office precincts which lack critical mass are not typically able to sustain economic activity over the long-term. This can become a self-perpetuating cycle – a lack of critical mass and lack of tenant amenity result in occupier relocations, with the ability of the precinct to attract new occupiers compromised. This then negatively impacts the market profile of the precinct and market desirability falls. As more occupiers relocate from a precinct, local service businesses are unable to remain viable and workplace amenity continues to decline.

- **Public Transport** – Access to public transport is important for business as it connects the area to labour pools throughout Greater Sydney, providing greater access to skilled talent. Businesses recognise the importance of public transport to office workers who view locations with multiple public transport options as a key requirement.
- **Co-location with Other Uses** – Some businesses avoid precincts with uses that can detract from the corporate or 'prestige' image of a precinct. Office buildings that overlook residential buildings with laundry on balconies are a common example. Well-designed mixed-use precincts are able to mitigate these challenges through astute design and layout of uses within a precinct.
- **Affordability** – the cost of accommodation is a key consideration for all businesses. Some industries and/or businesses spend a large proportion of operating costs on accommodation to attract and retain staff. This 'prestige' requirement is commonly observed in top-tier law, accounting, and consultancy firms. Successful office markets have a sufficient diversity of stock to provide a range of spaces at various price points.

- **Proximity to Clientele** – Businesses will gravitate to locations proximate their key customer and supplier pools. Whilst this requirement has somewhat diminished in a post-COVID environment, the ability to physically meet with clients will remain a key requirement for office-based business.
- **Labour Force Pool** – Business who depend on skilled labour will expectedly select locations that enable them to recruit accordingly. Residents across Greater Sydney are becoming more educated and affluent, thereby forming a broad pool of workers for local businesses to recruit from.
- **Employee Amenity** – Employee amenity is a critical selection factor for many office-based businesses, particularly those in industries where they must compete for talent. Access to a variety of retail and hospitality uses, recreational facilities and other key services is a commonplace expectation of skilled employees. Businesses located in areas lacking in amenity can struggle to attract and retain skilled labour.
- **Short-Term Accommodation and Events Space** – larger businesses value locating within office precincts with hotels and function facilities that enable them to accommodate visiting clients, suppliers, visitors and employees.

Business and employee requirements have common threads, with businesses driven by their employee expectations. This is examined next.

3.1.2 Employee Requirements

The workspace expectations of office workers have been steadily rising over the past decade as technological, social and occupational changes have spurred demand for higher quality office space in well-located locations. These higher expectations have been well-documented by various workspace tenant surveys conducted across Australia, the UK and US.

A summary of recent office worker surveys (CBRE, 2019; Clutch; 2020; JLL; 2020; Savills; 2019; Staples; 2019) shows a number of common locational criteria is sought by office workers. Some of these include:

- **Public Transport Options** - Research suggests the availability of train station access can form a key job consideration for employees with bachelor degree qualifications or greater. Whilst this has historically been less important in suburban office markets where private vehicle has been the primary mode of transport, growing traffic congestion and work-life balance is making high-quality public transport options a key requirement for office workers.

Many office workers prefer locations accessible through a direct transport mode and do not require multi-trips or modal change. The preference for a direct transport mode has historically proven problematic for the Pyrmont/Ultimo office market, which is not directly accessible and requires a mode change for most workers (at Town Hall or Central station).

- **Proximity to Home** – all studies note the importance of working in close proximity to home or in areas where commute times can be minimised in order to achieve work-life balance.
- **Retail and Services Offering** - proximity to surrounding retail, hospitality and other services is critical to the desirability and sustainability of office precincts. This includes proximity to gyms, fitness studios and allied health services.
- **Modern Design and Tech Integration** – with most office workers intending on partly working from home on a permanent basis, the amenity offering of office buildings is even more important in a post-COVID environment. Offices are no longer just a workspace – those with high quality fitout, interior design and tech-integrated features are becoming increasingly important to office workers.
- **Parking** – the availability of carparking, either on-site or nearby, remains an important consideration for office workers, though the quantum of spaces offered can be heavily reduced if strong public transport connections are available.
- **Access to Green Spaces** – the availability of nearby green spaces such as parks or eating areas is an important drawcard for office precincts with desirable office precincts typically comprising multiple green spaces for workers to utilise.
- **Other Amenity Sources** – the importance of amenity-rich locations is paramount to the success of office precincts. Proximity to Sydney Harbour, entertainment venues, sports/recreation facilities and other 'drawcards' contribute to the popularity of an area as a place to work. These unique amenity sources are becoming even more important in a post COVID-19 market.

3.1.3 Development Requirements

In order for office precincts to be initially developed, or for redevelopment and revitalisation of existing precincts to occur, development must be a commercially viable proposition.

At its simplest, development is considered feasible where the potential revenues of the completed development exceed *all* development costs, including the cost of land and an allowance for profit and risk. The existing value of land or property is critical, as this represents the 'opportunity cost' which development must exceed in order to be considered viable.

In office markets, rental income is the primary revenue stream which drives capital value. A minimum level of rental income, known as '**economic rent**', is therefore required to offset total development costs and a profit/risk margin.

In many lower order suburban office markets across Greater Sydney, comprehensive redevelopment for commercial office buildings is not viable as the market rents do not represent the economic rents required for viable redevelopment. In Pyrmont/Ultimo, economic rents are generally sufficient enough to cover building costs, though the cost of land is a major variable (which is subject to fragmented landownership patterns and valuable existing uses) which limits the areas where commercial-only development is viable.

New Office Precincts

For a new office precinct to establish, it is critical that pre-commitments from large occupiers are able to be secured in order to establish market profile. These 'anchor' occupiers are typically large organisations which require floorspace over 2,000sqm NLA. In order to attract organisations of this size, new office precincts will be well placed if large floorplate buildings (e.g. 2,000sqm) are 'first movers' to secure pre-commitments and underpin the bankability of early development.

Whilst smaller floorplates (sub-1,000sqm) play a role in contributing to accommodating a diverse mix of occupiers within a precinct, occupiers seeking these sized premises rarely seek office accommodation years prior to construction. Without substantial pre-commitments, it is challenging for commercial developers to the secure funding needed to proceed with development.

Accordingly, ensuring new office precincts have provision for larger floorplates in the early years enables anchor occupiers to establish and for 'bankable' development to occur. Over time, a diversity of built forms and floorplates would be important to meet a diversity of occupier needs.

3.1.4 Mixed Use Precincts

There are a variety of mixed-use commercial precincts located throughout Greater Sydney. Mixed-use precincts are successful where astute planning policy distributes different land uses in a manner that does not compromise the viability of the other uses. It is about balancing the requirements of commercial occupiers and residents alike.

From a land use and economic viability perspective, some of the key criteria for successful mixed-use precincts include:

- **Critical Mass**

A critical population mass (residents, workers, visitors) is essential for successful mixed-use precincts, particularly retail and hospitality uses and local service businesses. Similarly, a critical mass of commercial occupiers is essential for successful commercial precincts as businesses gravitate to areas of high activity, providing opportunities to locate proximate customers, suppliers and retail amenity.

A critical mass of residents and visitors can support a diverse mix of retailers and hospitality businesses, which in turn are a key attractor for local office workers who value a high-quality retail and urban amenity offering.

- **Public and Active Transport**

Public transport is a critical requirement for commercial uses and high-density residential uses. Public transport options provide businesses access to the labour pool throughout Greater Sydney, in particular to skilled talent.

Businesses also recognise the importance of public transport to office workers who view locations with a range of public transport options as a key requirement.

- **Diversity of Land Uses**

Successful mixed-use precincts accommodate a broad variety of land uses. This diversity together provides a compelling offer to workers, residents and visitors. Short-term accommodation, community facilities, retail and non-retail uses (including medical) and education facilities, etc. collectively contribute to precinct identity and character.

- **Retail and Urban Amenity**

Retail and hospitality uses contribute to the vibrancy and long-term sustainability of mixed-use precincts. In a post COVID-19 environment, the importance of amenity has risen in bounds. Commercial occupiers in particular favour precincts with a high quality retail offer. Notwithstanding, local residents play a larger role in sustaining local retailers compared to office workers, particularly outside of standard working hours.

- **Diversity of Building Typologies**

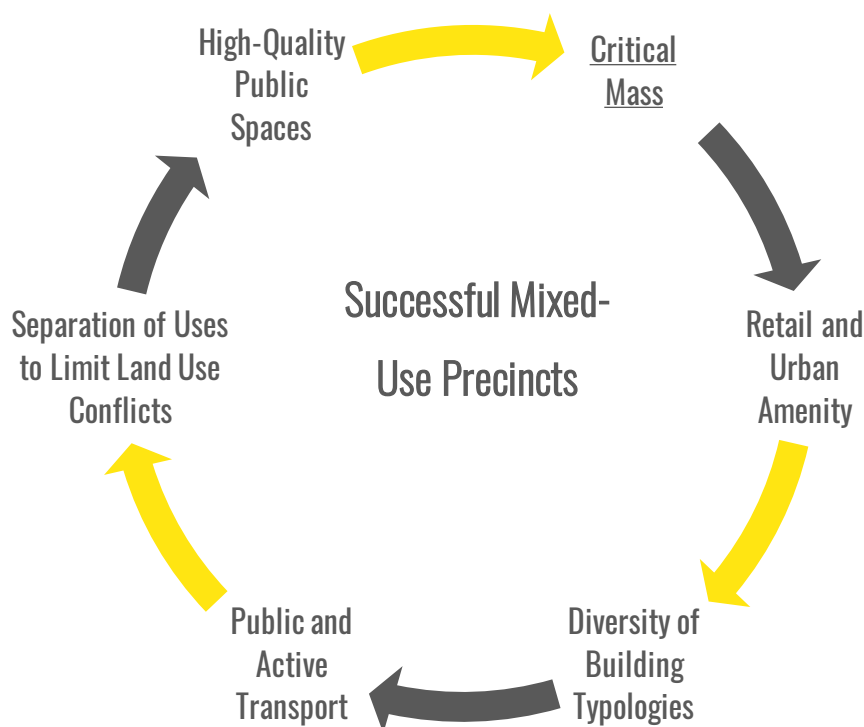
A diversity of building typologies is also critical to attract a broad variety of businesses, industries and residents. For instance, successful office precincts comprise a mix of office buildings with a variety of floorplates. Equally, ensuring a mixed retail offer (e.g. high street, enclosed centre, repurposed spaces, etc) allows for a unique and compelling proposition and contributes to the attractiveness of a precinct.

- **High Quality Public Spaces**

A high-quality and diverse public realm is an essential component of urban amenity. Public spaces provide incentive for residents, workers and visitors alike to spend greater amounts of time within a precinct.

Whilst not an exhaustive list, **Figure 3.1** illustrates some of the key factors in establishing successful mixed-use precincts.

Figure 3.1: Ingredients of Successful Mixed Use Precincts



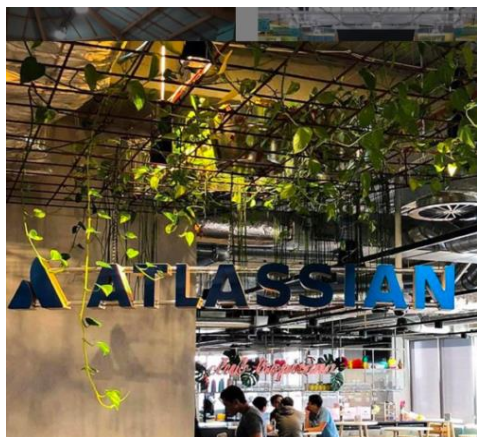
Source: Atlas Economics

BWB's locational characteristics make it a strong candidate for a mixed use precinct (with a significant commercial focus), in keeping with the mix of land uses observed through the broader Pyrmont Peninsula.

3.2 Commercial Office Trends and Drivers

Commercial office market trends in Greater Sydney have experienced rapid evolution over the last decade, driven by a series of structural changes. These structural change drivers have ranged from broad, global influences (e.g. growth and adoption of technology) to more local, micro influences (e.g. State Government shift to Western Sydney). These key trends and drivers which have and will continue to influence demand for office accommodation in Pyrmont are discussed below.

3.2.1 Employment and Occupational Change



Technological change over the last decade has revolutionised office markets. In 2009, only one of the top 10 largest companies was a technology company (i.e. Microsoft), with the largest firms within the energy and financial sectors. By 2019, seven of the top 10 were 'tech' companies (Visual Capitalist, 2019). In August 2020, Apple became the first company in the world to surpass US\$2 trillion in value.

Tech occupiers have been increasingly taking larger amounts of office space as compared to traditionally dominant corporate players like banks, consultancies and energy companies. Large tech companies have been extremely active in Sydney over the last few years. For example, Salesforce has more than doubled its existing footprint since 2019 when it committed to new space in Barangaroo.

The expansion of tech occupiers has changed the office market in two ways. Firstly, it has changed perspectives of office design and layout. Secondly, it has eroded the dominant market position of large corporate occupiers in favour of small and medium sized enterprises (SMEs), creating more demand for smaller tenancies compared to large tenancies. Whilst this has significantly changed the demand profile for commercial space, the commercial realities of development still necessitate office buildings securing larger pre-commitments before development funding can be secured.

The ever-growing need for occupiers to attract the 'best and brightest' talent in order to grow and outcompete rivals has meant that the office has evolved to focus on providing a best-in-class experience for workers. Offices are designed around satisfying employees with highly specified and amenable space.

Occupiers in all sectors have followed suit in providing this type of office space as they compete for the same talent. The net effect of this has been to change the purpose of the office from primarily functional workspaces towards an experiential environment to act as a recruitment tool and maximise worker choice.

3.2.2 Changing Commuter Preferences



Demographic change and changing patterns of consumer behaviour have altered preferred commuting patterns for office workers. Office workers increasingly value work/ life balance and are more reluctant to spend time and money commuting, especially by car.

Employee surveys suggest some 89% of office workers consider the length of their commute as an important factor in choosing their ideal workspace (Clutch, 2020). A separate survey indicated that half of office employees say that proximity to their home is the most important factor in an office location.

Preferences towards commuting by a single transport mode without a mode change (e.g. a train and then a bus), walking or cycling to work are growing. This increases the attractiveness of office markets which are accessible via a single transport mode, such as a rail station, have excellent cycle and walking access and are proximate residential areas.

The Pyrmont/Ultimo office market has historically faced some level of market resistance given it generally requires a mode change from either Central or Town Hall station (via bus or light rail).

3.2.3 Declining Work Space Ratios

The City of Sydney undertakes a Floor Space and Employment Survey (FES) every five years - the most recent FES undertaken in 2017. The FES is a census of all buildings, businesses, floor space and employment in the Sydney LGA.

The FES collects data for each of the Sydney LGA's 'villages', specifically how many workers there are by tenancy area which is then aggregated into building and street block, providing insight into the amount of floor area occupied by these workers and the types of business/ sectors they are within.

The FES allows observation of employment change (growth/ decline) by space use (e.g. office, hotel) and how intensely space is used (i.e. average floor area in square metres occupied by each worker).

The Harris Street village boundary broadly aligns with the formal boundary of the Pyrmont Peninsula and is accordingly an appropriate measure of office utilisation trends in the Pyrmont/Ultimo office market.

A clear declining trend of work space ratios (average office NLA per worker) is evident from 2012 to 2017, coinciding with a period of strong office employment growth but low increase in office floor area. This decline in work space ratios is reflective of a broader trend observed across the City of Sydney, with tenants utilising space more efficiently.

Table 3.1 shows Work Space ratios in the Harris Street Village over the 2007-2017 period.

Table 3.1: Historical Work Space Ratios (average sqm per worker), Harris Street Village

Office Space Use	2007	2012	2017	2007-12	2012-17
Partitioned Office	15.7	13.7	13.7	-12.6%	-
Open-plan Office	18.7	12.4	9.0	-33.9%	-27.3%
Total	17.9	12.7	9.9	-29.0%	-22.0%

Source: City of Sydney (2007, 2012, 2017)

Cost Savings and Implications for Demand

By utilising space more efficiently, tenants are able to mitigate the impact of rent increases because their floorspace requirements reduce proportionate to utilisation efficiency.

Table 3.2 illustrates an example of how more efficient use of space can reduce overall lease cost even at a higher rent.

The example shows that at a gross rent of \$700/sqm, a tenancy area of 750sqm would cost \$525,000 per annum. At a work space ratio of 15sqm, the tenancy area could accommodate 50 employees.

At a work space ratio of say 10sqm, a smaller tenancy area (500sqm) would be required for the same 50 employees. Even at a higher rent of \$850/sqm, the annual cost (\$425,000) would be cheaper than space that was less efficiently used.

Table 3.2: Hypothetical Example of Interaction between Work Space Ratios and Rental Cost

No. of Employees	Work Space Ratio	Floor Area	Prime Rent (\$/sqm)*	Annual Lease
(a)	(b)	(c) = (a x b)	(d)	(e) = (c x d)
50 workers	15sqm	750sqm	\$750	\$525,000
50 workers	10sqm	500sqm	\$850	\$425,000

*Gross rents assumed are hypothetical

The example shows that if a tenancy of 750sqm previously accommodated 50 employees (at a work space ratio of 15sqm), at a tighter work space ratio of 10sqm, that same tenancy area could now accommodate 75 employees.

This structural change has conceivably changed the way tenants use and are willing to pay for space.

In a 'new normal', tenants now seek space at more efficient ratios and therefore, all things being equal, more tenant demand is needed to absorb the same amount of space.

3.2.4 Flexible Workspace

The practice of using office space more flexibly to suit the needs of different businesses was a well-established workplace practice prior to the outbreak of COVID-19 in Q1 2020. Technology such as cloud computing, high speed internet and VPNs have allowed employees to redefine the workspace for 'office' work. Office work can now be done from a variety of locations other than the traditional office.

Following major advancements in information technology and software, the number of flex space operators operating across Australia has risen significantly and are increasingly becoming major sources of demand in CBD office markets. Flex space accounted for 109,000sqm of net absorption across Australia over 2018-2019, accounting for circa 31% of total net absorption over the period (CBRE, 2020a). Pyrmont is already a major hub for flexible workspace, with operators such as Wotso and WeWork well-established in the Peninsula.

Despite the strong growth in the sector over the past 3-5 years, flex space remains a relatively small component of the broader office market – reflecting between 1.8% or 2.8% of Australia's major CBD office markets. Comparatively, flexible workspace accounts for over 6% of total office floorspace in cities such as Shanghai, Denver and London (CBRE, 2020a).

Despite the significant growth of Australia's flex space market over the past five years, overall market penetration remains comparatively low globally (<3%), suggesting there is capacity for further take-up, particularly in a post-COVID-19 market.

3.2.5 Rise of Working from Home (WFH)

The popularity of working from home (WFH) has been increasing over the last decade.

Table 3.3 shows the proportion of workers who worked from home over the 2011-2016 census periods. This structural change was already at play prior to the onset of the COVID-19 pandemic in 2020.

Table 3.3: Proportion of Workers who Worked from Home (2011-2016), Australia

Broad Industry Category	2011		2016		Work from Home		
	WFH	Total	WFH	Total	2011	2016	Change (2011-16)
Population-serving	104,653	3,013,061	110,639	3,279,406	3.5%	3.4%	+5.7%
Knowledge-intensive	134,872	1,752,486	172,072	1,887,978	7.7%	9.1%	+27.6%
Health and Education	46,277	1,949,927	60,157	2,276,908	2.4%	2.6%	+30.0%
Industrial	135,765	2,289,047	120,622	2,051,259	5.9%	5.9%	-11.2%
Total	421,567	9,004,521	463,490	9,495,551	4.7%	4.9%	+9.9%

Source: ABS (2012, 2017)

In 2011, around 7.7% Australians employed in traditional office-based industries (i.e. Knowledge Intensive sectors) worked at home. By 2016, this had risen to 9.1%, representing an additional 37,000 workers and growth of almost 28% (ABS, 2017). The health and education sectors also experienced an increase in WFH practices, though coming off a lower base.

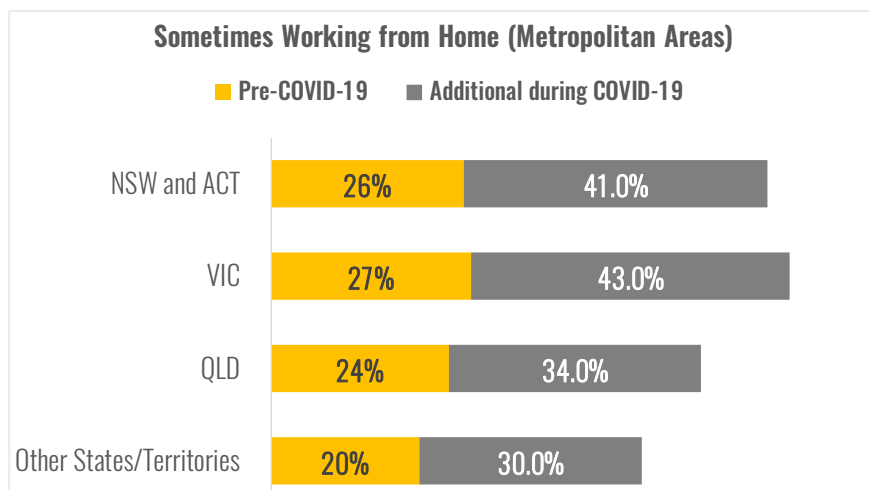
Forced WFH

The onset of the COVID-19 pandemic in March 2020 forced a rapid shift in how and where people work. Referred to as the greatest WFH experiment, the uptake of entire workforces moving from an office to home-based work environment proved that in many ways working in an office is a choice.

Technological advancements to video and shared meeting applications, improvements to bandwidth and secure access to files remotely cumulatively enabled the forced WFH response to the pandemic.

Prior to the pandemic, surveys have shown that 20%-27% of capital city workers occasionally worked from home. During the forced WFH period, up to 70% workers worked from home, as shown in **Figure 3.2**.

Figure 3.2: Proportion of Workers Sometimes Working from Home (pre- and during COVID-19), Greater Capital Cities



Source: HILDA (2020)

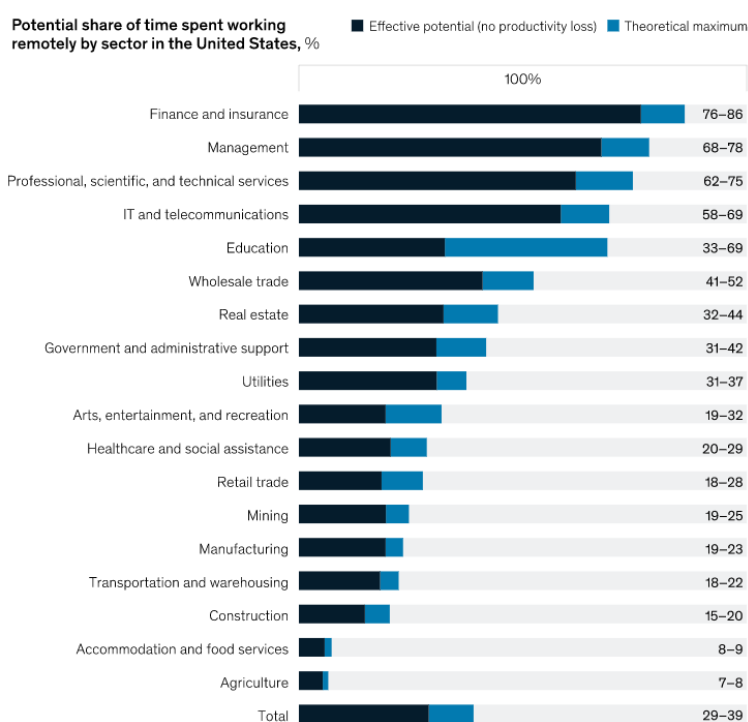
The forced WFH arrangements have resulted in a sudden and significant shift in how day-to-day tasks are undertaken, permanently changing how space is demanded and utilised. Looking forward, it is expected that WFH will become a feature for most office workers. A global occupier survey of 10,000 office workers concluded that around 82% of workers will opt to work from home for at least 2-3 days per week following the forced WFH practices imposed over 2020 (CBRE, 2020b). Research suggests some 70% of CBD workers want to continue working flexibly for part of the week (EY Sweeney, 2021).

Potential for Remote Working by Industry

It remains difficult to conclusively isolate the potential utilisation of remote working at an industry level as flexible working policies and daily tasks of workforces can differ markedly across organisation. However, a major survey in the United States (McKinsey and Company, 2020) identified the finance, professional services and information sectors have the highest potential for remote work. This was based on analysis of over 2,000 common tasks across 800 jobs.

Figure 3.3 illustrates the findings of the McKinsey and Company (2020) analysis by industry sector.

Figure 3.3: Potential Role of Remote Work in United States by Industry Sector



Note: The theoretical maximum includes all activities not requiring physical presence on-site; the effective potential includes only those activities that can be done remotely without losing effectiveness. Model based on more than 2,000 activities across more than 800 occupations.
Source: McKinsey Global Institute analysis

Source: McKinsey & Company (2020)

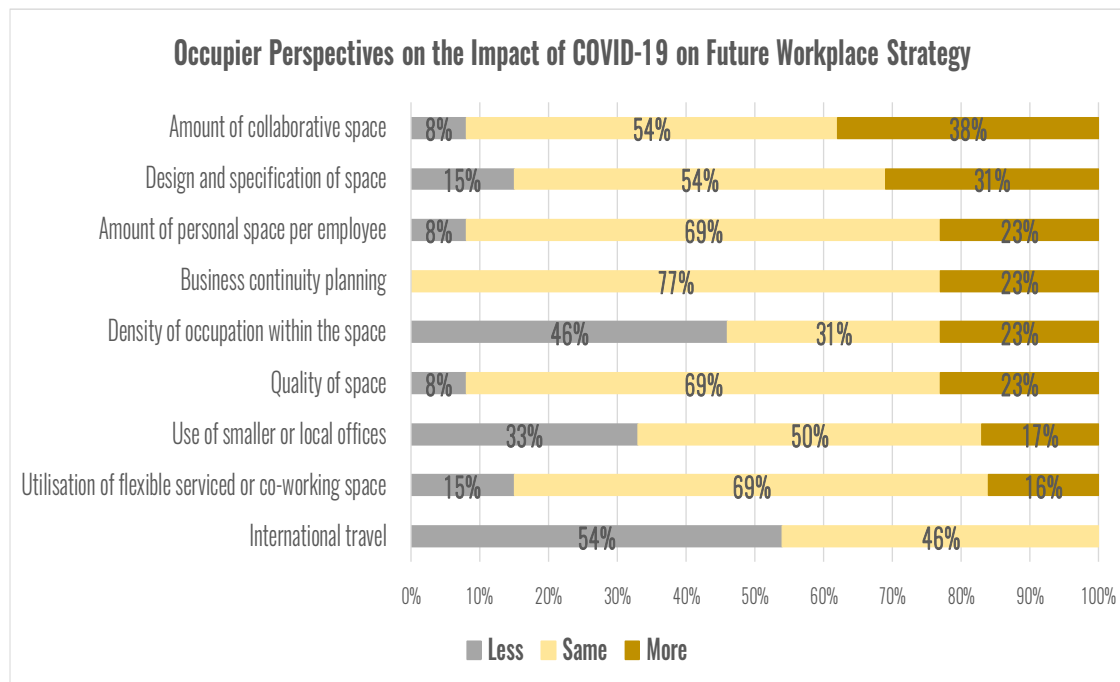
Embracing the Shift

Despite the challenges in WFH arrangements, flexible working will become a permanent feature of Australian corporate culture. Many office-based organisations are factoring in permanent WFH and other flexible working practices into their future corporate real estate strategies (EY Sweeney, 2021). This is expected to change the way space is demanded and configured.

An occupier survey by Knight Frank in early 2021 indicated that many respondents were considering their future workplace and real estate strategy.

Figure 3.4 shows the expectation for more collaborative space and that the design of space would be different, with a lower density of space occupied.

Figure 3.4: Occupier Survey Perspectives



Source: Knight Frank (2020)

Critically, respondents in the survey identified a desire for better quality of space. In any economic downturn, occupancy rates for secondary grade buildings are not only challenged by falling tenant demand but also by a 'flight to quality' by existing tenants upgrading to prime grade buildings. This puts secondary buildings at greater risk of economic obsolescence.

3.2.6 The Increasing Importance of Quality

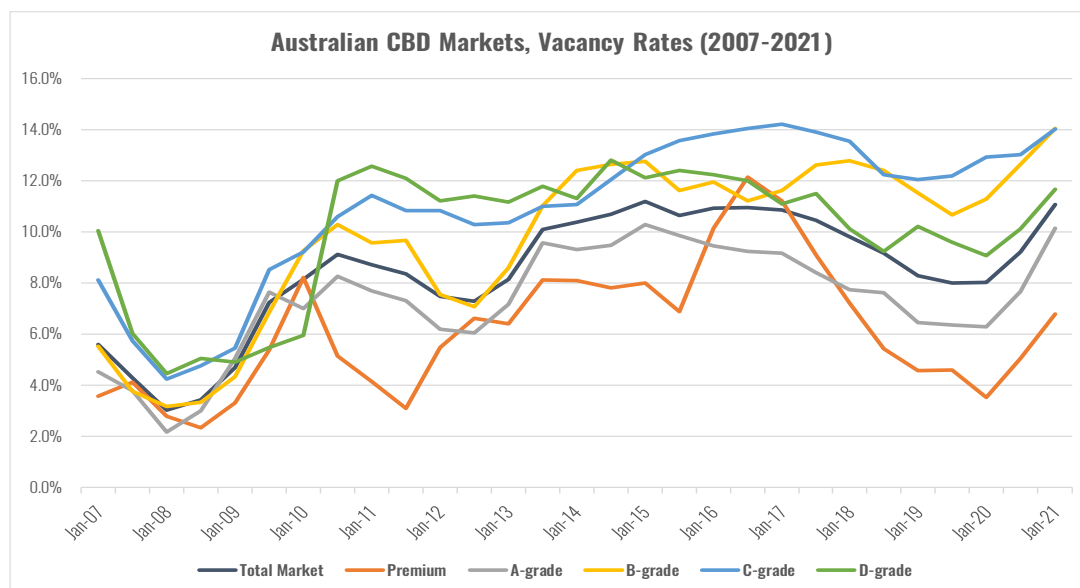
The expectations of tenants and workers has changed significantly over the past decade. This has meant that services or amenity that were once 'nice-to-haves' have over time become 'standard', thereby shifting employee expectations to require even greater levels of quality and amenity from their workspace accommodation.

Building amenity such as end-of-trip facilities are now expected in a contemporary building; many older buildings having to retrofit such facilities or risk being uncompetitive.

Any economic downturn is invariably accompanied by a rise in vacancy levels as occupiers reduce their occupied footprint or businesses exit their premises. When tenant demand falls on a large scale, pricing is inevitably affected - incentives rise and effective rents fall as landlords compete for a smaller pool of tenants. This often leads to a situation where tenants of secondary space leave for better quality space, obtaining better 'bang for buck'.

Figure 3.5 illustrates the vulnerability of secondary grade stock in Australian CBD markets to vacancy; this vulnerability is heightened in any economic downturn.

Figure 3.5: Vacancy Rates (2007-2021), Australian CBD Markets



Source: PCA (2021)

A 'flight to quality' is observed in all markets where secondary grade buildings (B, C and D-grade) have much higher vacancy rates compared to prime grade buildings (premium and A-grade).

Atlas engaged with several commercial interior architects to understand their perspectives on how occupiers are utilising office floorspace in a post-COVID-19 environment. Key takeaways from these discussions include:

- The importance of amenity has dramatically increased over the past 12-months as landlords and occupiers look to attract employees back to the office. There is a much stronger focus on building amenities and services. Forward-thinking landlords have benefitted from this trend with inclusions of 'wellness' features.
An example of this is observed at the new office development at 1 Denison Street, North Sydney which includes a dedicated wellness facility known as 'Nest'. The facility provides free wellbeing classes including reformer pilates, yoga and bootcamp, as well as gap-free massage and chiropractor services.
- Many occupiers are reducing the number of permanent workstations to reflect WfH practices and desk sharing arrangements. This is most prevalent in the financial and insurance services sector who have implemented automated booking systems and WfH policies.
- There is limited evidence of Technology, Advertising, Media and Information (TAMI) occupiers reducing their floorspace requirements thus far. These industries already incorporated WfH practices prior to the COVID-19 pandemic. Many TAMI occupiers are attempting to attract their workers into the office through inclusion of high-quality building amenities (e.g. auditoriums, collaboration spaces) and services. For instance, the future Atlassian Tower at Tech Central is anticipated to provide on-site day care services for pets.
- Secondary grade office buildings that do not lend themselves to new building amenities and services due to their age and design struggle to attract and retain tenants.

3.2.7 Implications for Office Demand

While a number of structural trends were already at play prior to the COVID-19 pandemic, forced shutdowns over 2020-2021 have amplified the impact of these structural trends on how office is demanded and used.

While WFH arrangements are expected to drag on future office demand, it is important to note that an increase in flexibility **does not** mean an equivalent decline in demand. Demand for office space is nuanced, driven by a complex blend of factors.

It is difficult to conclusively conclude the impact of WFH on office demand for certain industries given approaches continue to differ by organisation. For instance, the information and technology sectors are well-suited for WFH however there is yet to be any major reduction in office footprints by technology companies.

Atlassian has recently pre-committed to a ~56,000sqm office building in the Tech Central precinct (despite also establishing its 'Team Anywhere' policy which permits workers to permanently work from home). In the UK, Google recently agreed to purchase 33,000sqm of new office space in London for \$1.1 billion. This purchase has brought their total UK office hosting capacity to 10,000 workers despite only currently employing 6,400 workers (The Guardian, 2022).

Accordingly, it remains difficult to estimate with certainty the long-term implications of flexible working practices (including WFH) on demand for office floorspace.

That said, the Atlas house view is that entrenched flexible working habits resulting from COVID-19 constitutes long-term structural change. A conservative estimate of a **-5% to -10% reduction in office demand over the long-term is conceivable**. As leases expire, more market evidence will become available and enable meaningful observations. The reduction of 5%-10% estimate aligns with forecasts by the Queensland Investment Corporation (QIC) who predict demand for CBD office space across Australia will fall by 5%-10% (QIC, 2020).

Looking forward, the following factors are expected to influence demand for office floorspace which will have implications for future office demand:

- Occupiers in **vulnerable industries and sectors** hardest hit by the pandemic will continue to look to reduce occupancy costs (through sub-lease of existing space, reduction of space or relocation out of the CBD entirely). The motivations for these occupiers reducing their demand for office space will be due more to economic hardship.
- Occupiers whose businesses were **not affected by the pandemic** or that are recovering well could retain their floorspace requirements but increase their expectations on quality and amenity. This could result in a renegotiation of terms on lease expiry or relocation into better quality space at the earliest opportunity.
- Businesses which have successfully incorporated WFH practices over the past 24-months, particularly for office functions that do not incorporate creative or collaborative activities, could reduce their floorspace requirements through desk sharing and/ or online booking systems. This is already being observed in the financial and insurance services industries.
- All asset grades will need to **'work harder'** to:
 - Give employees a reason to return to the office; and
 - Convince business occupiers of its productivity returns.
- A **shift in the type of activities undertaken in the office** (to include more collaboration and meeting space, high quality amenity and recreation space). This is already being observed in the TAMI sector.
- **Increase in tenant expectations** on building quality and amenity resulting in more discerning and selective behaviour.
- A need for flexibility - for **space to be adaptable** for various activity types and for **lease tenure** to be more flexible.
- While all office grades have suffered from increasing incentives and falling effective rents (thereby affecting capital values), **secondary grade buildings will be most vulnerable** to value deterioration as tenant expectations increase amid a 'flight to quality'. Secondary grade buildings unable to meet tenant expectations will inevitably be at risk of economic obsolescence, leading to redevelopment or re-purpose.
- A withdrawal of secondary grade office buildings will further affirm the importance of contemporary and new office space in meeting tenant demand (notwithstanding a decline in overall demand).
- Some occupiers will be attracted to owner-occupy and move to purchase strata-titled office units, contributing to an increase in demand for small commercial strata suites.

Further market activity over the coming 12-18 months will provide further insight into the impact of flexible working practices on demand for office floorspace, particularly how this will vary by industry and sector.

3.3 Pyrmont/Ultimo Office Market

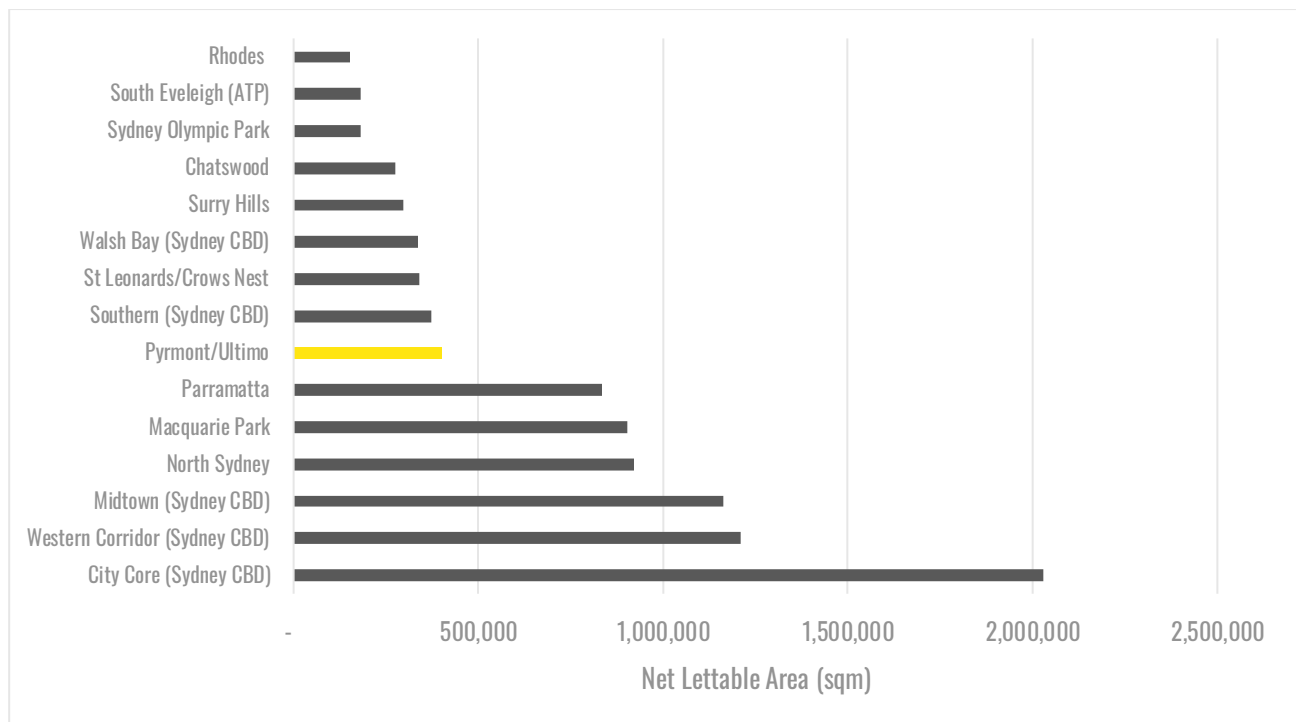
3.3.1 Existing Supply

Forming part of the broader Sydney CBD Fringe office market, Pyrmont/Ultimo is Greater Sydney's seventh largest office precinct and comprises ~400,000sqm office NLA. Approximately a third of this supply is considered 'A-Grade', with the majority of stock secondary grade in quality (Arealytics, 2022).

Pyrmont/Ultimo is the largest sub-market within the CBD Fringe office market, which includes other fringe localities such as Surry Hills, Darlinghurst, Redfern, Eveleigh and Chippendale.

Figure 3.6 illustrates the size of the Pyrmont/Ultimo in the context of the Greater Sydney's other key office markets.

Figure 3.6: Office Supply, Sydney's Major Office Markets



Source: Source: Atlas Economics /PCA (2021)

Existing office supply across Pyrmont/Ultimo is distinctly medium-rise (below 10-storeys) and generally lacks the traditional office typologies seen in the Sydney CBD and North Shore. Instead, it is characterised by a mix of older style office buildings, 'campus-style' office buildings and refurbished warehouses (including heritage-listed wool stores).

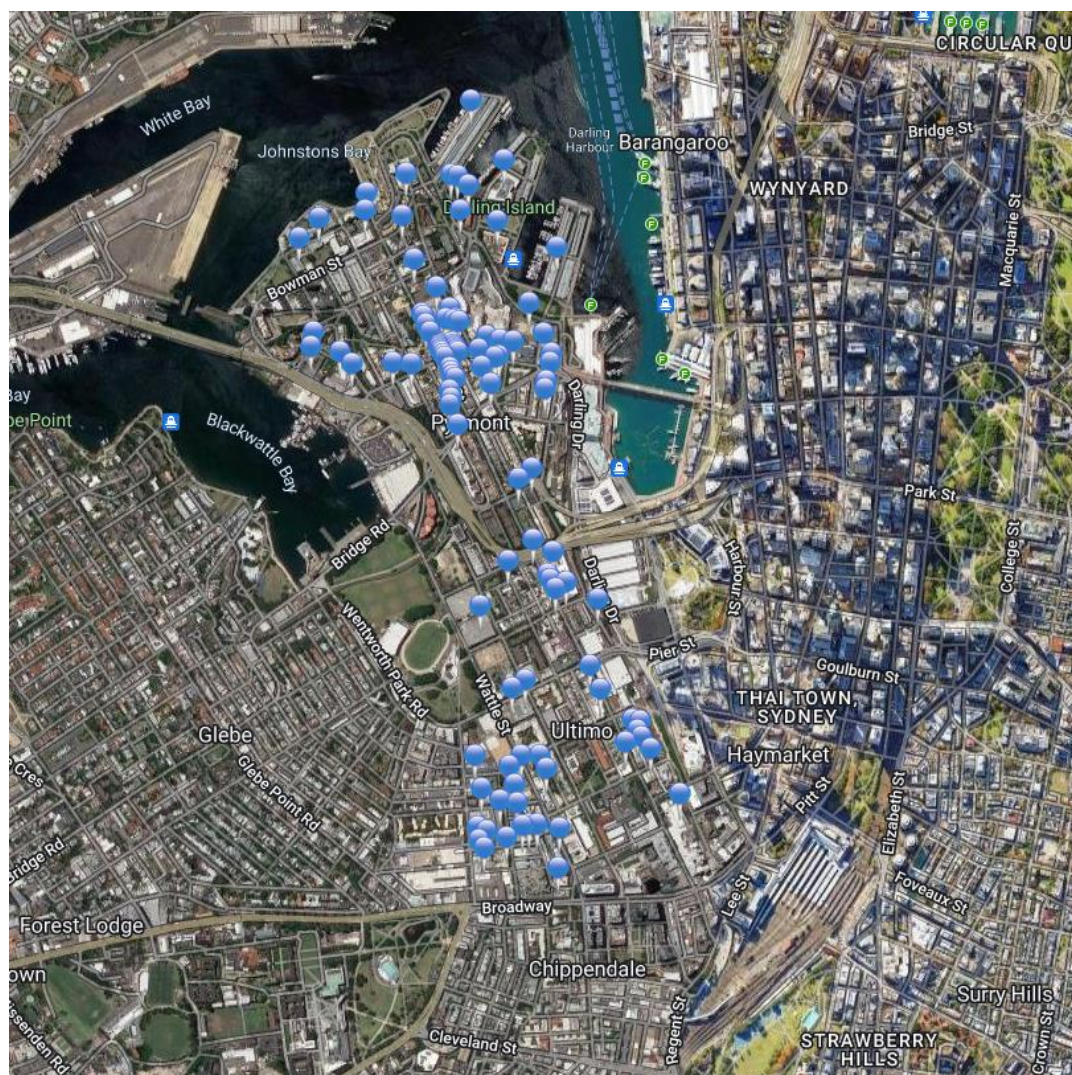
Office floorplates are typically large (>1,500sqm NLA) – a reflection of 'campus-style' office typologies and former warehouses which have been repurposed for commercial uses. That said, newer office developments appear to be continuing the trend of larger floorplates (as evidenced by 21 Harris Street).

There are only an estimated eight 'A-Grade' office assets in the Pyrmont/Ultimo market. Prominent examples include:

- **One Darling Island:** A-grade 'campus-style' office complex featuring 22,200sqm of NLA across six floors located close to the Darling Harbour waterfront. Developed by Mirvac in 2006, floorplates are more than 4,400sqm NLA and the building is occupied by Google Australia.
- **100-130 Harris Street:** formerly a woolstore, 100-130 Harris Street is an A-grade office building comprising 26,900sqm of NLA across six floors. Characterised by oversized ceiling heights, exposed beams and abundant natural light, the building features significant floorplates in excess of 5,000sqm NLA. Key occupants include WeWork and Domain Group.
- **City West Office Park, 33-35 Saunders Street:** a low-rise business park located directly north of the BWB Study Area. Comprising ~9,700sqm of NLA, the park is anchored by Network Ten, Nova 96.9, 9Radio and UNICEF.

Figure 3.7 illustrates the distribution of office buildings across Pyrmont and Ultimo.

Figure 3.7: Office Assets (February 2022), Pyrmont/Ultimo Office Market



Source: Arealytics

3.3.2 Demand Profile

Demand for office floorspace in Pyrmont/Ultimo has historically been from a mix of industries, including technology, advertising, media, information, education and some professional services. The technology, advertising, media and information (TAMI) sectors have been particularly drawn to Pyrmont/Ultimo over the past decade. This has in turn attracted other emerging sectors with a close relationship to TAMI industries, including flex/co-working providers.

This demand profile has been driven by a mix of factors:

- Unique nature of office buildings (e.g. warehouse conversions) which are attractive to creative and non-corporate occupiers.
- Pyrmont's eclectic mix of land uses and 'village feel' juxtaposed against its proximity to the Sydney CBD, further contributing to the unique locational appeal of the area.
- Existing cluster of large technology and media companies (e.g. Google, Channel 10, etc).
- Affordable rents compared to the Sydney CBD and other CBD Fringe sub-markets.

While Pyrmont has gained popularity in the last decade with TAMI, creative occupiers and professional services (as evidenced by growing employment numbers in FES data), there is still a degree of resistance by businesses to a Pyrmont location primarily due to the quality of public transport facilities. This effectively 'caps' Pyrmont's potential as a business destination.

The TAMI Sector

The TAMI sector is a key demand driver for office floorspace in Pyrmont/Ultimo. A review of commercial leases (Arealytics, 2022) indicates that these sectors occupy at least a third of total office floorspace in the Pyrmont/Ultimo market.

The overwhelming majority of TAMI occupiers identified in this analysis occupied over 800sqm of NLA, with numerous examples of single businesses occupying entire buildings (e.g. Seven Network, Network 10, Google).

Several TAMI occupants are identified with lease expiries over the 2022-2028 period, though most of these have option periods ranging from 2 to 10 years. Key occupants with upcoming lease expiries include:

- Network 10 (lease expiry in 2023 with 10-year option)
- Verizon Australia (lease expiry in 2023 with 10-year option)
- Foxtel Media (lease expiry in 2023 with no option period)
- Domain Group (lease expiry in 2023 with 2-year option)
- Nova 96.9 (lease expiry in 2024 with 3-year option)
- Warner Music (lease expiry in 2024 with 5-year option)

The distribution of TAMI occupants is more heavily concentrated in Pyrmont as compared to Ultimo, particularly within the Darling Island sub-precinct and proximate Harris Street.

3.3.3 Historical Consumption and Vacancy

Historical Consumption

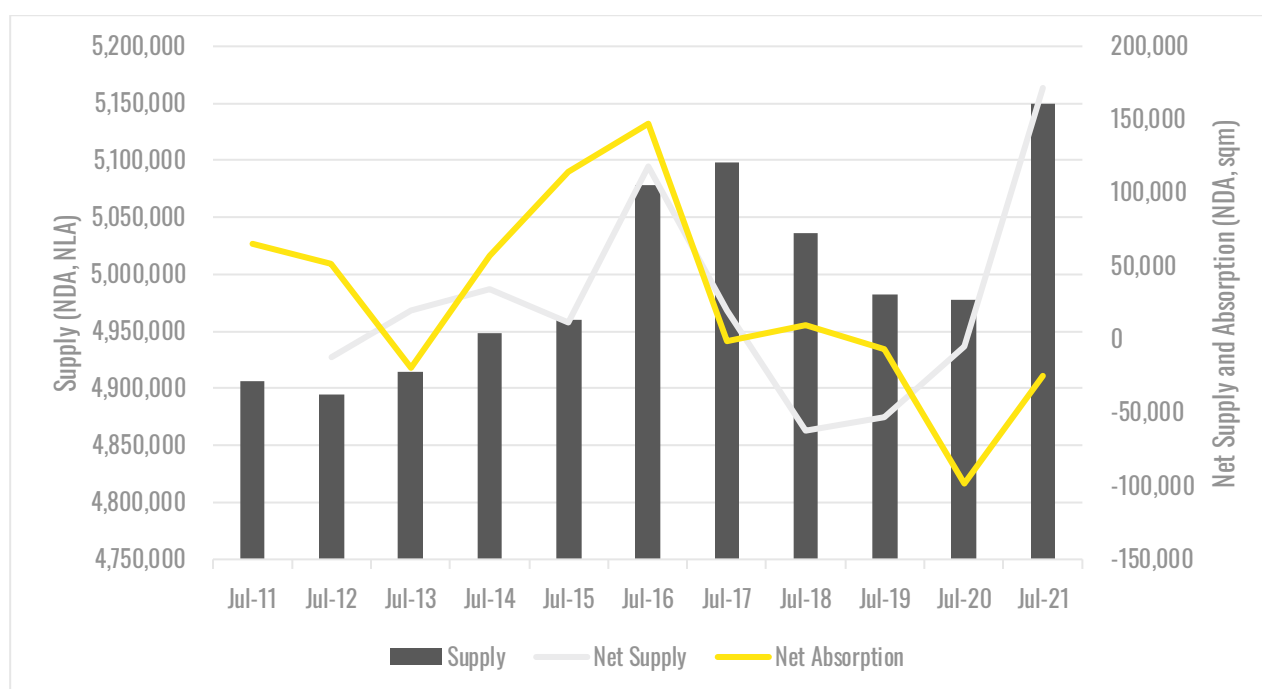
Consumption of office floorspace is typically expressed as a rate known as net absorption. Net absorption is the sum of NLA that became physically occupied, minus the sum of NLA that became physically vacant during a specific period.

Net absorption is tracked by the Property Council Australia (PCA) for all major office markets across Australia. The Sydney CBD Fringe, including the Pyrmont/Ultimo sub-market, is not tracked by PCA.

For context and given the importance of the Sydney CBD to the neighbouring Sydney CBD Fringe market, **Figure 3.8** illustrates historical net absorption in the CBD office market.

Over the 2011-2021 period, the Sydney CBD has on average developed some 25,000sqm NLA per annum with an average of 27,000sqm NLA over the 2016-2021 period. Unsurprisingly, net absorption fell markedly over the first half of 2020 during the height of COVID-19 lockdowns before recording a strong uptick in 2021.

Figure 3.8: Net Supply and Net Absorption (2011-2021), Sydney CBD



Source: PCA (2022)

The Blackwattle Bay Economic Development, Local Retail and Services Study (Hill PDA, 2021) notes that based on data received from JLL, the Sydney CBD Fringe market recorded net absorption of “8,900sqm per annum over the 10 years to 2021 and 17,800sqm per annum over the 5-years to 2021”. These quoted rates of net absorption are unable to be verified with any agency reports that are publicly available.

A review of historical leasing activity using international leasing database provider Arealytics provides insight into the quantum of office floorspace leased in Pyrmont/Ultimo since 2012. This indicates that over the 2012-2021 period, an average of ~16,900sqm of office floorspace was leased per annum in the Pyrmont/Ultimo office market.

Table 3.4: Leased Commercial Floorspace (2019-2021), Pyrmont/Ultimo Office Market*

Sub-Market	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	Avg. Annual
Pyrmont	19,578	903	7,458	10,855	18,670	14,367	24,499	19,416	12,757	24,468	152,971	15,297
Ultimo	646	2,191	2,372	1,661	1,366	-	600	2,975	1,169	3,409	16,389	1,821
Total	20,224	3,094	9,830	12,516	20,037	14,367	25,099	22,391	13,926	27,877	169,361	16,936

Source: Arealytics

*Annual vacancy levels from the Arealytics dataset are not available. Accordingly, **Table 3.4** reflects annual leasing activity as opposed to net absorption.

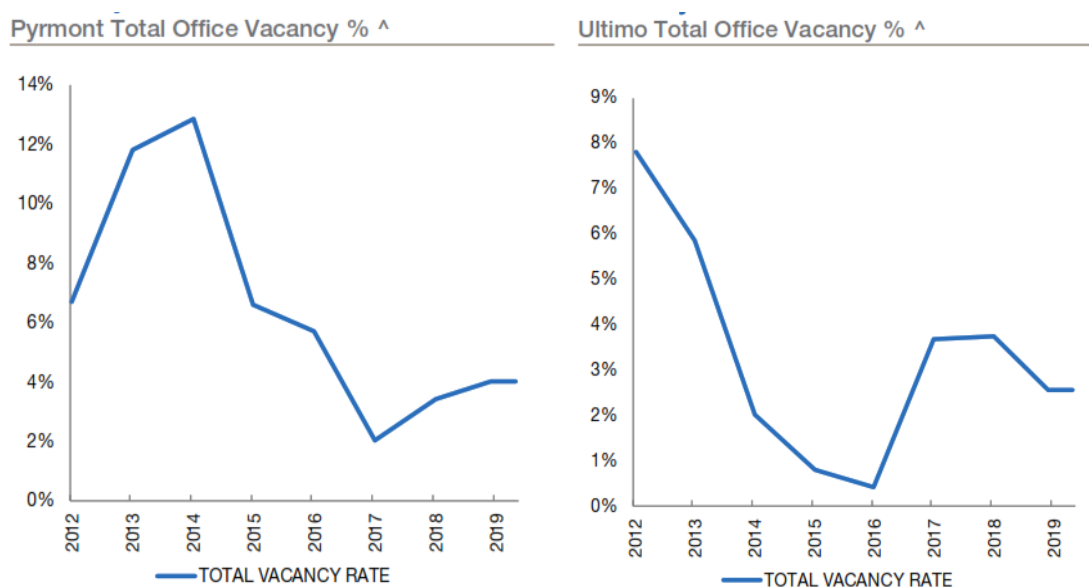
Furthermore, Arealytics only commenced fully tracking commercial leasing activity across Greater Sydney from 2019. Accordingly, leasing activity prior to 2019 is invariably an undercount of total leasing activity. This can be considered a ‘one (low) bookend’ of leasing activity.

Nevertheless, this data provides an insight into annual demand for office floorspace in the Pyrmont/Ultimo office market.

Historical Vacancy Rates

The Pyrmont/Ultimo office market has historically recorded relatively low vacancy levels of sub-4% since 2017. This correlates with a period of limited supply and low vacancy levels in the Sydney CBD which had flow-on impacts for the Sydney CBD Fringe office markets. **Figure 3.9** illustrates historical vacancy rates in Pyrmont/Ultimo over 2012-2019.

Figure 3.9: Historical Office Vacancy (2012-2019), Pyrmont/Ultimo Office Market



Source: Knight Frank (2019)

As at March 2022, the vacancy rate in the Pyrmont/Ultimo office market is approximately 6.9% (Arealytics, 2022). A lower vacancy level is observed in the A-Grade market (5.7%), testament to the ‘flight to quality’ trend currently observed in the broader office market.

3.3.4 Recent Market Activity

The Sydney CBD and CBD Fringe office markets have begun to stabilise following a period of significant flux over the 2020-2021 period. Structural changes in the office market resulting from the COVID-19 pandemic will persist. Larger businesses are still updating their Corporate Real Estate (CRE) strategies, though it is apparent that many organisations are looking to at least partially decrease their floorspace requirements where possible.

Recent data released by Cityscope shows a rise in commercial sales activity over the 12-months to January 2022, with an increase in overall sale values and the number of sales observed for both freehold and strata-titled commercial buildings. Two major office buildings are currently being marketed for sale, including 100 Harris Street and 19 Harris Street. It is understood that negotiations for 100 Harris Street are close to being finalised, with the building potentially being valued at approximately \$360m (\$12,500/sqm NLA).

The most recent pre-leasing activity observed in the Pyrmont/Ultimo office market has been that of 'The Workshop' at 21 Harris Street. The recently developed 6-storey office building comprises 16,000sqm NLA with approximately 15,500sqm NLA pre-leased to date since marketing commenced in early 2020. Net face rents have been circa \$1,000/sqm NLA.

Anecdotal evidence from active leasing agents indicates that current demand for office floorspace in Pyrmont/Ultimo is still largely being driven by TAMI and creative sectors (e.g. architects, interior designers). These occupiers are generally looking for a certain building aesthetic (e.g. converted warehouse) and a price point unavailable in the Sydney CBD.

Buildings with large floorplates (e.g. >1,500sqm NLA) are still proving popular given they provide sufficient flexibility for landlords to 'chop and change' configuration to meet demands from a mix of business sizes. The majority of recent enquiry has been for suites sub-1,000sqm. This is unsurprising as larger occupiers are still weighing up their floorspace needs and refining their CREs.

Unique spaces are proving most popular as businesses look for space that will attract employees back to work and assist in the ongoing 'war for talent' which has amplified in the post-COVID-19 environment.

3.3.5 Development Activity

Over the 2007-2017 period, the City of Sydney's *Floorspace and Employment Survey* has recorded a fall in the supply of office floorspace in the Harris Street Village (an area which broadly encompasses Pyrmont and Ultimo). In 2007, some ~428,000sqm of office floorspace was recorded. By 2017, this has subsequently fallen to ~414,000sqm.

Since 2017, approximately ~43,500sqm of commercial office NLA has been delivered across Pyrmont/Ultimo. This was largely attributed to the refurbishment of 100 Harris Street in 2016, which delivered in some ~26,800sqm of A-Grade office space (NLA). More recently, 21 Harris Street delivered ~16,000sqm of A-Grade NLA in 2020.

Looking forward, the commercial office pipeline in Pyrmont/Ultimo is relatively limited with some ~24,000sqm office NLA expected to be delivered over the coming years to 2026. This includes:

- The proposed mixed-use development of **14-26 Wattle Street** is set to comprise a 7-storey commercial building fronting Fig Street and could comprise 16,000sqm of NLA. Completion is estimated by 2024.
- A proposed 5-storey commercial building at **86-92 Harris Street** set to comprise ~5,500sqm office NLA was approved in October 2020. Estimated completion date is 2024-25.
- A proposal to redevelop an existing 3-storey warehouse at **38-44 Mountain Street** as a 6-storey office building comprising ~1,700sqm office NLA was approved in late-2021 with estimated completion date is 2025-26.
- A mixed-use development at **13A-29 Union Street** featuring 850sqm of office NLA is currently under review by the City of Sydney. Completion is not anticipated until circa 2025-26.

3.4 Competitive Context

All property markets operate within a competitive context. The principle of substitutability reflects that where accommodation is unavailable in one market, occupiers will seek accommodation in the most comparable alternative.

BWB is located approximately 1.2km west of the Sydney CBD. Market investigations suggest that the primary office markets which will compete with future office development in BWB from a commercial occupier perspective include the Southern CBD, Tech Central and Bays West.

- **Southern CBD**

The Southern CBD broadly comprises the area of the Sydney CBD south of Liverpool Street and comprises Chinatown, Central railway station and the University of Technology. Comprising ~380,000sqm of office floorspace, the Southern precinct comprises a mix A-Grade, B-Grade and tertiary office stock.

The Southern CBD is not considered to be a major office precinct within the Sydney CBD with only a small cluster of A-Grade buildings (mostly occupied by government agencies). This has historically been a function of limited retail amenity, poor quality stock and a large resident and student population, detracting from its corporate desirability.

The Southern CBD precinct has in recent years emerged as an alternative to the City Core and Midtown precincts of the Sydney CBD. As a consequence, professional services businesses who service clients in these precincts find Pyrmont a strategic and convenient location. The profile of the Southern CBD is shifting as the NSW Government's 'Tech Central' begins to progress, raising the desirability of the area surrounding Central Station.

- **Tech Central**

Tech Central is set to become Australia's largest purpose-built technology precinct. Forming part of ~34ha of State Government owned-land between Central and North Eveleigh, Tech Central is planned to comprise ~250,000sqm of commercial office floorspace by 2036. Tech Central is backed by the NSW Government with a sophisticated investment attraction strategy which was instrumental in securing pre-commitments from several anchor occupiers, including Atlassian, the National Space Industry Hub and Cicada.

The development of Tech Central is already underway – the Quantum Terminal (3,000sqm NLA) above Central Station opened in 2020 whilst the NSW Government established the 8,000sqm NLA 'Scaleup Hub' at 470 Pitt Street in 2021.

Looking forward, some 186,000sqm of office NLA is set for completion in Tech Central by 2026. This includes the joint Dexus/Frasers 'Twin Tech Hub' (130,000sqm NLA) featuring two office towers up to 39-storeys (due to complete in 2025), along with the 40-storey Atlassian Headquarters office tower (56,000sqm NLA) set for completion in 2026.

- **Bays West**

Bays West is located approximately just over 1km from the existing SFM site. Comprising some 77ha and designated as a State Significant Precinct, Bays West is planned to become a major mixed-use precinct centred around the future Bays West Metro Station.

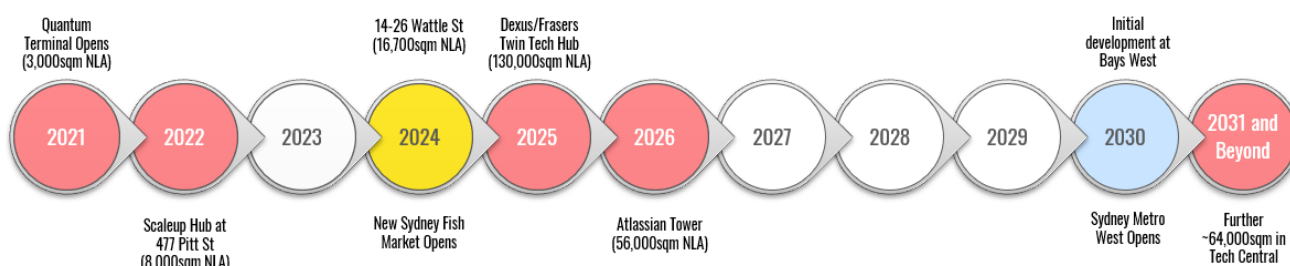
The recently exhibited Bays West Place Plan outlines the strategic land use vision for Bays West over the coming decades. Bays West is intended to be delivered in stages, with Stage 1 focusing on lands surrounding the future metro station and the existing White Bay Power Station.

Stage 1 is intended be developed by 2030 (aligning with the estimated completion date of Sydney Metro West), with later stages progressively developed to 2040 and beyond. The quantum of land uses proposed across the precinct is yet to be identified. It is anticipated that Stage 1 will encompass some commercial floorspace within the Sydney Metro Over Station Development (OSD) and Adjacent Station Development (ASD).

Understanding the likely timeframes new office supply is anticipated to be brought online in these competing precincts, particularly Tech Central and Bays West, will be critical to ensuring the success of future office development at BWB.

Figure 3.10 illustrates the competitive context timeline based on known and anticipated completion dates.

Figure 3.10: Competitive Context Timeline



Source: Atlas Economics

3.5 Demand induced by New SFM

To explore the potential impact the future SFM could have on demand for commercial uses within the BWB Study Area, a review of complementary commercial uses proximate to other fresh food markets was carried out.

Local commercial agents in Pyrmont noted that the existing SFM is an important retail 'drawcard' for surrounding commercial users, contributing to the overall amenity offer of the area. Whilst this contributes to the appeal of the Pyrmont office market, market investigations suggest that existing SFM has not attracted any commercial office users who have a direct organisational or economic relationship with operators at the SFM.

To understand if this relationship between the existing SFM and the Pyrmont commercial market could shift with the completion of the new SFM, a review of market activity surrounding the Queen Victoria Market and South Melbourne Market (both in Melbourne) was carried out.

The Queen Victoria Market (QVM) is a major fresh food and specialty goods market spanning some 7ha at the northern edge of the Melbourne CBD. It comprises over 600 individual traders and attracts some 9 million annual visitors (QVM, 2022). The smaller South Melbourne Market (SMM) is located in the CBD fringe locality of South Melbourne. A large fresh food market and encompassing over 150 traders, the SMM annually attracts some 5.5 million visitors (South Melbourne Market, 2021).

Both the QVM and SMM are located adjacent established commercial office precincts. Informal discussions with local commercial agents suggest that similar to the SFM, both markets play an important amenity role and contribute to the popularity of surrounding office precincts. There does not appear to be evidence of commercial occupiers seeking to co-locate with these fresh food markets to leverage synergistic values. Retail land uses such as hospitality and leisure have clearer co-location advantages in locating proximate to the markets in order to capitalise on the significant visitor footfall.

Based on the foregoing analysis, the new SFM is not anticipated to induce significant demand from commercial occupiers. Rather, the new SFM is likely to generate significant demand from occupiers who rely on passing trade (e.g. retail, food and hospitality, recreational users) who will be able to leverage the uptick in visitation levels to the area following completion of the improved and expanded facilities of the new SFM.

3.6 Implications for Study Area

This Chapter carried out a detailed review of the future drivers likely to influence demand for office floorspace over the coming decades, along with the historical market dynamics in the Pyrmont/Ultimo office market.

Based on this analysis, the following observations are considered relevant to the planning for commercial typologies at BWB.

Existing and Future Trends

Based on market research, a number of key factors are expected to influence future demand for office space at BWB:

- Demand for office space will remain resilient, as businesses and workers recognise the importance of office-working in performing higher order tasks, collaborating, mentoring/learning and building corporate culture.
- A permanent 'flight to quality' is expected as tenants demand more value from their office space. Accordingly, office buildings will need to 'work harder' to effectively compete with entrenched WFH habits. Services, end-of-trip facilities and other amenities that were once 'nice-to-haves' are now 'standard'. This has challenges for secondary buildings.
- Office buildings will need to include a greater mix of communal and recreation spaces.
- The decline in work space ratios will likely to be arrested by the requirement for more 'non-desk' space.
- Given the long-term structural shift toward flexible working (including WFH), the Atlas house view is that the rise of flexible working arrangements will result in a structural fall in office demand of 5%-10% over the long-term.
- A structural reduction in office demand will likely be borne out in the withdrawal of secondary grade buildings that are no longer competitive, with these buildings re-purposed for other uses or redeveloped.
- A withdrawal of economically obsolete secondary buildings will translate into a greater role by contemporary and new office space in meeting tenant demand (notwithstanding a decline in overall demand).

Future Tenant Profile

Pymont/Ultimo has historically proven popular amongst creative and TAMI industries seeking a less corporate environment and drawn to the areas unique mix of commercial office typologies.

The ability of Pymont/Ultimo to attract a broader mix of industries (e.g. professional services) has been effectively 'capped' due to its lack of a direct public transport connection. Following the completion of the Sydney Metro West metro line in 2030, Pymont will be directly accessible to much of Greater Sydney with a direct connection to Parramatta in ~30-minutes.

The future Pymont metro station is expected to be a game-changer for the Pymont/Ultimo office market, significantly broadening the mix of industries which would consider Pymont/Ultimo as a business location. Whilst those industries who require a 'CBD presence' (e.g. legal and financial services sector) will unlikely consider relocation, other industries commonly observed in the Sydney CBD (e.g. professional services) could be drawn to an amenity-rich precinct such as BWB. This accords with the employment projections carried out in the EDS in that:

- The Professional, Scientific and Technical Services sector was expected to be the largest single industry demanding office floorspace in the Peninsula by 2041; and
- The majority of office demand is anticipated post-2030 (i.e. following completion of Sydney Metro West).

This has implications for BWB given the targeted completion date of 2034-35. It is expected that office floorspace at BWB will likely draw demand predominantly from the historical TAMI target market, though as the future metro station nears completion a ramp-up in demand could be observed from a broader mix of professional services.

Office Typologies and Floorplates

By virtue of its existing commercial stock (e.g. warehouse conversions, campus-style office buildings), Pymont/Ultimo has historically catered to occupiers seeking larger floorplates (>1,500sqm NLA). These larger floorplates have proven popular among office landlords given their flexibility, as they can accommodate larger occupiers over 1-2 levels (often with internal staircases) whilst they are also able to be easily partitioned into smaller sized suites for smaller occupiers if needed.

In order for BWB to establish itself, market investigations suggest that some larger floorplates (1,800sqm to up to 2,500sqm NLA) be provided in the early years in order to attract anchor occupiers. Smaller floorplates (800sqm to 1,200sqm NLA) should also be provided in order to attract the mix of industries and business sizes needed for an office precinct to be economically sustainable over the longer term.

It is challenging to isolate the floorplate sizes required by different industries as this is more a function of organisation size rather than industry. Accordingly, providing a mix of office floorplates is appropriate.

Pymont/Ultimo's commercial profile as a well-known location for unique, 'less corporate' type office accommodation should be leveraged upon. This will be important in a post-COVID-19 context, as occupiers (both traditional corporates and creative occupiers) are increasingly looking for unique spaces/ environments in order to attract and retain talent.

Competitive Context

The Tech Central and Bays West office precincts will be the primary competitors to future commercial uses at BWB. That said, Pymont/Ultimo's strong existing market profile, waterside location, future public transport accessibility and high-quality urban amenity will position BWB as an extension of the existing Pymont/Ultimo office market.

The EDS identified a need for various actions and economic development initiatives to mitigate risks to the Pymont Peninsula achieving its economic vision and capitalising on its growth drivers. A co-ordinated investment attraction and marketing strategy would streamline these recommendations and differentiate BWB it from its competition and for a unique proposition to be offered to the market.

Tech Central has a well-funded and successful investment attraction strategy. An investment attraction strategy could enable BWB to achieve stronger market response in the context of these competing precincts and BWB's targeted development horizon of 2034-35. This is discussed in further detail in Chapter 5.

The next Chapter considers the role of BWB in supporting other land uses, including residential, enterprise and affordable workspaces.

4. Other Land Uses

This Chapter considers the role of BWB in accommodating non-commercial uses, including residential and enterprise uses. Consideration on the potential role and challenges for BWB in providing affordable workspaces is also provided.

4.1 Residential Land Uses

4.1.1 Local Market Conditions

In contrast to initial predictions at the start of the COVID-19 pandemic in March 2020, Greater Sydney's residential market has recorded significant growth over the past 18-months. Record low interest rates, marked increases in household savings rates, Commonwealth and State Government stimulus and high pent-up demand has driven a major rise in dwelling values.

A shifting preference towards detached housing product has emerged over the past 12-18 months, with sales volumes and price growth significantly higher for houses compared to townhouses and apartments. Coinciding with this shift in market preferences has been the cessation of internal migration and international education, historically key drivers of demand for new apartments (particularly in Pyrmont). This softening in demand in the off-the-plan apartment market has generally resulted in a decline in new apartment values across most markets in Greater Sydney (Knight Frank, 2021).

Notwithstanding this lull in the off-the-plan apartment market, escalating houses prices are not sustainable and will result in a market shift back towards smaller, more affordable housing typologies. The reopening of international borders and the return of overseas students in late-2021 also bodes well for Sydney's apartment market.

Pyrmont itself is one of Greater Sydney's most desirable inner city housing markets. Its proximity to the Sydney CBD, waterside locations/views and high level of amenity have made it highly popular to a mix of buyers, including wealthy retirees and downsizers, younger professionals, overseas investors and students.

Prestige apartment living in Pyrmont is generally focused around the harbour foreshore areas (i.e. Jacksons Landing, Darling Island). The most recent residential development completed in Pyrmont was 'the Revy' by Aqualand on Darling Island Drive. The 8-storey former Australian Royal Navy building was converted to a prestige apartment complex with 44 units.

The release of the Revy development was reportedly well received by the market with achieved sale prices analysing to between ~\$27,000/sqm and ~\$47,000/sqm of internal area. This is well-above values observed for older apartments in Pyrmont which typically sell between \$10,000/sqm to \$20,000/sqm of internal area depending on age, size and aspect.

Notwithstanding the unique design of the Revy, these achieved sale prices are considered a good indicator of the likely demand and pricing which could be achieved for new apartments at BWB.

4.1.2 Opportunity for Residential Uses

Population growth is one of the key drivers of demand for new housing. Official population projections in NSW are carried out by DPE's Demography and Research Unit. These projections of population growth are divided by projected household occupancy rates and adjusted for vacancy to arrive at the number of implied dwellings required to accommodate the projected population.

The BWB Study Area is located within the City of Sydney LGA in close proximity to the Inner West LGA. From a housing market perspective, BWB will likely influence market dynamics in both LGAs.

A review of DPE's population projections for the Sydney and Inner West LGAs indicate that over the coming decades to 2041, an additional ~70,000 dwellings will likely be required to accommodate future growth. This equates to almost 2,800 new dwellings per annum over the 2016-2041 period.

Table 4.1 summarises the implied dwelling projections for the Sydney and Inner West LGAs.

Table 4.1: Implied Dwelling Requirements (2016-2041), Sydney and Inner West LGAs

LGA	2016	2041	Change (2016-41)	Avg. Annual Dwelling Requirement	
				No.	%
Sydney	114,996	151,697	36,701	1,468	1.1%
Inner West	84,070	117,325	33,255	1,330	1.3%
Total	199,066	269,022	69,956	2,798	1.2%

Source: DPIE (2019)

The role for BWB in meeting some of this housing demand over the coming decades will be influenced by the level of expected supply across other areas of the Inner West and Sydney LGAs.

Supply forecasts in DPE's *Greater Sydney Housing Supply Forecasts* suggest that over the 2020-2025 period, between 15,100 and 18,150 dwellings could be delivered across both LGAs. Accordingly, there would remain a significant quantum of housing still required over the years to 2041 to meet projected demand. This is shown in **Table 4.2**.

Table 4.2: Housing Supply Forecasts (2020-2025), Inner West and Sydney LGAs

LGA	Supply Forecast Five Year Total			Remaining Supply Required to 2041		
	High Scenario	Central Scenario	Low Scenario	High Scenario	Central Scenario	Low Scenario
Sydney	14,200	13,100	12,100	22,501	23,601	24,601
Inner West	3,950	3,800	3,000	29,305	29,455	30,255
Total	18,150	16,900	15,100	51,806	53,056	54,856

Source: DPIE (2020)

The quantum of supply required to meet projected housing demand in the Inner West and Sydney LGA housing markets is ~51,000 to ~55,000 dwellings. Whilst the PPPS identifies capacity to unlock thousands of new dwellings, development feasibility in many areas of the Peninsula is challenging due to fine grain lot patterns, strata-titled buildings, heritage constraints and high existing use values. As a large site in consolidated ownership, BWB has an important role to play in meeting housing demand.

There will be minimal need to proactively attract demand for residential uses given the depth of demand for residential uses. Development feasibility and the quantum of other land uses provided will collectively influence the quantum of residential uses which could be provided at BWB.

4.2 Enterprises Uses

Enterprises uses is a broad term which refers to light industrial and business uses which require a **mix of industrial, warehouse, office and/or showroom space**. These uses can locate in a mix of land uses zones, including IN2 Light Industrial, B5 Business Development and B6 Enterprise Corridor.

The EDS identified demand for between 60,000sqm and 91,000sqm of industrial and other services NLA. "Other services" includes a broad range of personal services, religious, civic and select repair and maintenance activities.

4.2.1 Local Market Activity

Industrial land in Sydney's inner ring has become increasingly scarce over the past decade as a result of urban regeneration and conversion for alternate uses. Coinciding with this growing scarcity has been a rise in knowledge-intensive industries which require a mix of industrial, high-tech, storage showroom and commercial floorspace (i.e. enterprise uses).

These trends have seen the hybridisation of industrial and commercial floorspace in new industrial developments where sites are developed more intensely (i.e. more floorspace) with a greater proportion of office and/or showroom space. Developers are increasingly developing hybrid industrial typologies where industrial land is scarce and expensive.

Whilst not observed in Pyrmont or Ultimo, such forms of hybrid industrial development are prolific in South Sydney markets (Alexandria, Zetland, etc.). Through combining a mix of uses (warehouse, storage, office, showroom) over 2-3 levels, these developments can achieve densities exceeding FSR 1:1.

Figure 4.1 shows an example of these hybrid enterprise development typologies in Alexandria.

Figure 4.1: Hybrid Enterprise Typology (Enterprise Industrial Estate Model at 95 Burrows Road, Alexandria)



Source: Trumen Corp

Given the depth of demand for enterprise floorspace in Sydney's inner ring and the small nature of these suites, sale prices achieved in developments like that illustrated in **Figure 4.1** are strong. Prices for suites sub-200sqm in total floor area (GFA) which incorporate a mix of industrial, office and/or showroom space can achieve sale prices in excess of \$6,000/sqm of floor area. Smaller storage units (sub 20sqm GFA) frequently achieve sale rates of over \$10,000/sqm of floor area.

4.2.2 Opportunity for Enterprise Uses

The location of the BWB Study Area, its proximity to the Western Distributor and future SFM and the existing shortage of enterprise land uses in inner city locations make it well positioned to accommodate some forms of enterprise uses.

Notwithstanding robust market demand for enterprise uses (as evidenced by high rents and prices), these typologies do not have the capacity to 'stack', unlike commercial or residential towers. These uses could be considered in parts of the Study Area where, due to poor amenity, land uses such as commercial office and residential are ill-suited. This could include sites proximate the Western Distributor underpass.

That said, there are other considerations which would need to also be considered with regards to enterprise uses:

- Enterprise uses typically require easy and frequent access to arterial roads and the Sydney Orbital Network. The road network surrounding the BWB Study Area may be unable to accommodate such users without significant upgrades.
- There is potential for land use conflicts between enterprise uses and more sensitive uses such as commercial office and residential. Poor separation can result in restricted hours of operation for enterprise uses and negative amenity impacts for commercial and residential uses, detracting from their appeal and marketability.
- Enterprise uses function best in large scale with some level of critical mass. Sections in the BWB Study Area suited for enterprise uses (i.e. private landholdings proximate the underpass) may not be of a sufficient scale for such uses to be economically viable over the long-term.

- Enterprise uses proximate the foreshore could impact on the ability of BWB to deliver a “world class foreshore promenade”.
- Lastly, the provision of enterprise uses also presents an ‘opportunity cost’ as the opportunity to deliver other more intensive land uses (e.g. commercial office, residential) is foregone.

Accordingly, the provision of enterprise uses on the BWB Study Area would need to be considered in the context of land use, traffic, urban design and financial feasibility.

4.3 Affordable Workspaces and Policy

The PPPS identified the need for the provision of ‘affordable workspaces’ across the Peninsula and specified the ability for Key Sites (such as BWB) in delivering these workspaces.

Unlike affordable housing, which has a legislated policy framework and established industry structure (i.e. community housing providers), the need for affordable workspaces has only recently begun to be identified in strategic planning policy.

This section considers the approaches of other jurisdictions (Australian and international) to affordable workspaces policy.

4.3.1 Victoria, Australia

The need for affordable workspaces is recognised in Victoria’s key strategic plan, *Plan Melbourne 2017-2050*. Action 64 seeks to identify opportunities for creative industries to access affordable workspaces, though a detailed implementation framework is not identified.

The need for affordable workspaces is also identified in the **draft Arden Structure Plan**. The Arden Precinct is a major inner-city urban renewal area focused around the future Arden metro station. Similar to BWB, the Arden Precinct is held in predominantly State Government ownership. Two key strategies relating to affordable workspaces in the Structure Plan include:

- Strategy 1.2: Establish an innovation hub in the heart of Arden that includes affordable space for innovation and technology labs, artists’ and makers’ studios and co-working spaces, complemented by presentation and seminar spaces for sharing, exhibiting and commercialising work.
- Strategy 1.4: Explore private and public delivery models for affordable workspaces for arts, creative and innovation industries necessary for the desired economic activity. This includes delivering workshops and artists’ studios, presentation spaces and co-working and collaboration spaces available on a variety of tenures and price-points to support Arden’s future businesses.



The exhibited draft planning controls supporting the Structure Plan received submissions in late-2021. The planning controls did not include any specific requirements or incentives for the delivery of affordable workspaces through private development. This has been raised as an issue in several of the submissions on the Structure Plan. The Structure Plan is intended to be finalised over the course of 2022.

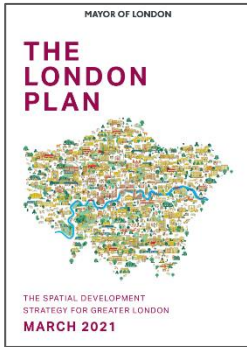


Similar to the draft Arden Structure Plan, strategic planning in the **Cremorne Enterprise Precinct** identifies the need for affordable workspaces.

Action 1.5 of the Cremorne Place Implementation Plan is to provide more affordable workspaces in Cremorne, with opportunities to deliver affordable commercial workspaces in any development on State Government-owned land to be investigated.

The Place Implementation Plan does not include any mechanisms which require or incentivise the delivery of affordable workspaces on privately-owned land.

4.3.2 London, United Kingdom



The United Kingdom (UK) has a much more established affordable workspace policy framework compared to Australia.

The requirement for development to provide affordable workspaces was initially identified by the Greater London Authority (GLA) in The London Plan in 2017.

Under the new London Plan 2021, Policy E3 (Affordable Workspace) allows planning obligations to be used to secure affordable workspace at rents maintained below market rate for that space for a specific social, cultural or economic development purpose.

Such circumstances could include:

- Dedicated for specific sectors that have social value such as charities or social enterprises.
- Dedicated for specific sectors that have cultural value such as artists' studios and designer- maker spaces.
- Dedicated for disadvantaged groups starting up in any sector.
- Providing educational outcomes through connections to schools, colleges or higher education.
- Supporting start-up businesses or regeneration.

Boroughs (in their Development Plans) are encouraged to consider more detailed affordable workspace policies considering local evidence of need and viability. These may include policies on site-specific locations or defining areas of need for certain kinds of affordable workspace.

Affordable workspace policies defined in Development Plans and section 106 agreements are directed to include ways of monitoring that the above objectives are met, including evidence that they will be managed by a workspace provider with a long-term commitment to maintaining the agreed social, cultural or economic impact. Applicants are encouraged to engage with workspace providers at an early stage to ensure the space is configured and managed efficiently.

Affordable workspaces can be provided and/or managed directly by a dedicated workspace provider, a public, private, charitable or other supporting body; through grant and management arrangements (for example through land trusts); and/or secured in perpetuity or for a period of at least 15 years by planning or other agreements.

Several local councils across London have already introduced some form of affordable workspace policy prior to the finalisation of Plan London 2021. These policies have predominantly sought to secure subsidised floorspace within major office developments.

Most of these policies identify a threshold for provision and a minimum percentage requirement based on planning uplift. For example, the London Borough of Hackney seeks 10% of gross new floorspace in defined commercial areas to be provided as affordable or low-cost workspace (Montagu Evans, 2020).

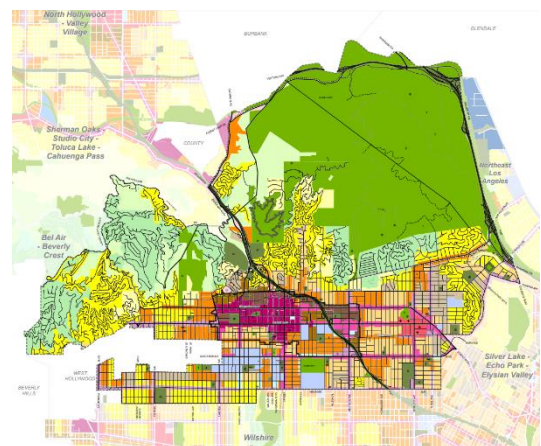
4.3.3 Los Angeles, United States

Los Angeles accommodates a significant film and TV cluster which has traditionally required access to affordable light industrial floorspace.

A key objective of the Hollywood Community Plan (2021) is to revitalise Hollywood's media and entertainment industries through the protection of existing light industrial areas which provide essential affordable workspaces.

Incentives are provided for mixed use development which incorporates and maintains targeted industrial uses in specific hybrid industrial zones and industrial opportunity areas.

The Plan also supports consideration of higher floor area for developments which provide floorspace for specific industries (e.g. media) which are heavily reliant on access to affordable workspaces.



4.4 Implications for Study Area

The type and quantum of other land uses delivered at BWB will largely be influenced by urban design and financial feasibility considerations. Key findings from this Chapter of relevance to the refinement of the BWB Precinct Plan are:

- BWB has an important role in providing additional housing to meet projected demand in the Sydney and Inner West LGAs.
- The quantum of housing provided will be influenced by the volume of non-residential uses provided, development feasibility and the ability for other key project parameters to be achieved.
- It is critical that the provision of housing is carefully separated from commercial land uses in order to avoid land use conflicts and to not detract from the corporate image of future office accommodation. This can be done through specification of built form controls.
- There is an opportunity for the provision of enterprise uses at BWB in areas where other land uses are not appropriate due to constraints on amenity. The appropriateness of enterprise uses would be subject to traffic, urban design and financial feasibility considerations.
- There is an opportunity to consider provision of affordable enterprise workspaces at BWB. The Sydney Startup Hub at 11 York Street is a successful initiative by Investment NSW, providing office floorspace and the opportunity for collaboration to support/ nurture the innovation ecosystem.

By virtue of its CBD location, the Sydney Startup Hub provides for office accommodation. It is less suitable for businesses with light industrial, warehouse, R+D floorspace needs. A similar initiative at BWB could provide for the needs of these business who require enterprise-type floorspace.

In the absence of a policy and legislative framework for the provision of affordable workspaces, these facilities will only likely be delivered on an ad-hoc basis where a council may seek such a facility in a planning agreement. Issues about appropriate space design, tenant eligibility/ management and governance of the space are among the issues for that particular council to address.

Affordable Housing dwellings are managed by community housing providers (registered and regulated in a national framework). There is certainly the need for a policy and legislative framework on affordable workspaces to, *inter alia*, require the expertise of a workspace provider to ensure the space is appropriated to area/ sector/ business of need.

The next Chapter considers delivery and viability issues which will need to be considered in the revised BWB Precinct Plan.

5. Delivery and Sustainability Considerations

This Chapter considers the likely land uses which could be delivered in the BWB Study Area based on its site characteristics and targeted development timeframes. This chapter undertakes the 'bottom-up' analysis of the Study. These inform a series of land use and delivery recommendations to inform the revised BWB Precinct Plan and ensure its long-term sustainability.

5.1 Study Area Characteristics

The Study Area's unique characteristics will influence the type and quantum of land uses it could accommodate. This section considers the impact land ownership, existing uses, site constraints and amenity could have on the distribution of land uses across the BWB Study Area.

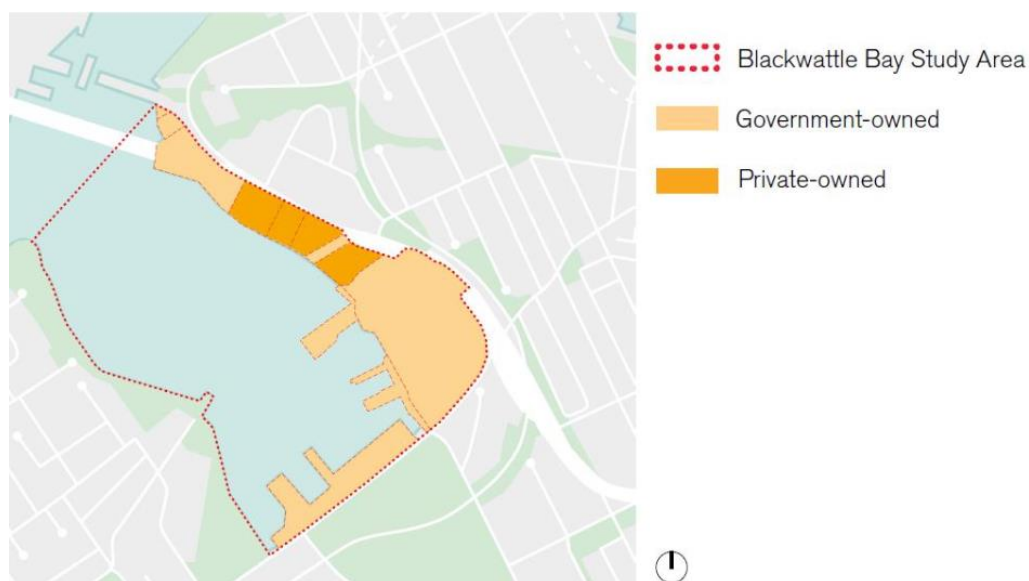
5.1.1 Land Ownership

Unlike much of the Pyrmont Peninsula which is characterised by fine grain lot patterns, fragmented land ownership and strata properties, BWB is held in majority ownership by the NSW Government. There are four sites controlled by three private landowners within the BWB Study Area, all located along Bank Street adjacent the Western Distributor:

- 21-29 Bank Street: owned by operated by seafood wholesaler Poulos Bros (legal entity is Australian Fishing Industries).
- 31-35 Bank Street: owned by local property developer Celestino (legal entity is EJC Pyrmont).
- 37-39 Bank Street and 45-51 Bank Street: owned and operated by construction group Hanson.

In total, these three private landowners control some 13,343sqm of site area, representing approximately 13% of the BWB Study Area. **Figure 5.1** illustrates the distribution of landownership across the BWB Study Area.

Figure 5.1: Land Ownership Patterns, BWB Study Area



Source: INSW (2021)

Land ownership patterns are unlikely to be a major impediment to redevelopment prospects in the BWB Study Area.

5.1.2 Existing Uses

A mix of land uses is currently observed at the BWB Study Area. The existing SFM is Sydney's largest wholesale and retail seafood market and a major source of visitation. The future SFM was a former concrete batching plant and is currently under development with completion of the new SFM expected by 2024. Other government-owned land at the northern end of the Study Area includes a vacant warehouse building and Transport for NSW compound.

The two sites owned by Hymix (~39 Bank Street and 45-51 Bank Street) are currently utilised as a concrete batching plant. Hymix also lease a parcel of land (identified as Miller Street Reserve in the Precinct Plan) to consolidate their operations.

Upon cessation of the lease and use of this parcel for recreational purposes, the two Hymix-owned sites will be not be contiguous. Hymix have indicated that this facility is of critical importance to their broader network.

The Celestino site (33-34 Bank Street) comprises a 3-level commercial warehouse comprising a mix of warehouse and office space. The site was purchased by Celestino in 2015 who are actively seeking to progress a mixed-use development upon completion of the SSP process.

The Poulos Bros site (21-29 Bank Street) is currently occupied by a 2-storey commercial building comprising a mix of warehouse and commercial space. The site is the primary headquarters of the Poulos Bros seafood distribution business. Poulos Bros have indicated they are willing to relocate to an alternate facility in closer proximity to the new SFM site, subject to commercial viability.

Based on the nature of existing land uses across the Study Area, redevelopment across much of the Study Area is considered likely. A potential exception to this is the Hymix concrete batching plant. Should Hymix remain on site over the medium to long-term stay for the medium to long term, there may be significant implications for the viability of future land uses along Bank Street, particularly sensitive uses such as residential and commercial who require a high level of amenity.

5.1.3 Site Constraints

There are several constraints which will influence the viability of different land uses across the Study Area. Most of these predominantly impact sites along Bank Street and include:

- Proximity to the Western Distributor overpass generating amenity issues (e.g. noise, air quality, etc).
- The Western Distributor overpass and Anzac Bridge pylons narrows the effective depth of the privately-owned sites to circa 50m (measured from the overpass to the foreshore). When factoring in the likely width of the future foreshore promenade, site depth will be further reduced.
- Potential for traffic and access issues (though this needs to be further examined).

Pedestrian connectivity activity along Pyrmont Bridge Road between the existing SFM and Metro station is challenging. Improvements will likely be required to improve this pedestrian route given its importance in linking with the future SFM.

Overall, these constraints are generally considered less conducive for residential and commercial office uses. The existing SFM site is considered a more appropriate location for commercial uses given its closer proximity to Harris Street and the future Pyrmont Metro Station along Pyrmont Bridge Road.

5.2 Considerations for Delivery and Sustainability

Strategic planning has identified the important role of BWB in accommodating commercial uses in support of the Harbour City's Innovation Corridor. As discussed earlier (section 3.1), the long-term viability of commercial precincts is influenced by many factors. Accordingly, the quantum and distribution of commercial floorspace supportable on the Site are arguably the principal issues that needs to be considered in the revised BWB Precinct Plan.

This section considers:

- The quantum of commercial floorspace which could be supported at BWB in the context of projected demand.
- The appropriate distribution of commercial floorspace within a mixed-use setting.

5.2.1 Indicative Role of BWB

Much of the Peninsula is subject to a variety of constraints (e.g. strata, heritage conservation controls, fragmented lot and ownership patterns) which will substantially impact the deliverability of the floorspace identified in the PPPS. In contrast, the BWB Study Area is largely held in single ownership.

Looking forward, the EDS forecasts that there will be demand for some ~320,000sqm of additional office NLA over the 2017-2041 period across the PP. Whilst the PPPS identified the planning capacity for this projected demand, commercial realities associated with valuable existing uses and fragmented ownership patterns are issues for deliverability.

Given its inherent site attributes, there is potential for the BWB Study Area to play a key role in accommodating future commercial floorspace demand.

The PPPS identified that the Blackwattle Bay sub-precinct could accommodate ~25% of new jobs in the PP by 2041. If a similar target rate of 25% was applied to the office floorspace demand projections from the EDS (~320,000sqm of office NLA by 2041), BWB could notionally accommodate some ~80,000sqm of office NLA.

If a higher target of 30% of projected office demand was accommodated at BWB, ~96,000sqm of NLA could be provided.

These 'target rates' are notional only; they reflect the significant role BWB could play in accommodating projected demand for office floorspace based on its key attributes (e.g. large size, majority government ownership). Take-up forecasts provide a more accurate gauge on the quantum of commercial floorspace which could be supportable at BWB.

5.2.2 Use of Investment Attraction Strategies

Governments have a range of measures and policies to drive economic development (AG Victoria, 2002), including:

- Providing an **economic environment which supports and reduces costs** for industry (e.g. infrastructure, business regulation, access to a skilled workforce, etc).
- **Providing and subsidising information** to assist industry in making business decisions (e.g. through marketing strategies/campaigns, etc).
- Providing **selective assistance to individual companies or industries**, including investment attraction, facilitation and direct financial assistance.

In NSW and other jurisdictions across Australia, State and local governments have historically implemented a range of industry assistance policies to enhance economic performance and encourage employment growth and business investment.

Several of the recommendations included in the EDS (earlier discussed in section 2.2.1) suggest actions relating to investment attraction and facilitation.

Whilst the level and type of Government support provided to industry through such policies is often a point of debate, there is little argument that local economies can gain from encouraging direct investment. Investment attraction and marketing strategies can often raise an awareness and generate a level of market interest which would otherwise not be achievable.

The following examples provide insight into the impact of Government-supported investment attraction and/or marketing strategies on market activity within key precincts.

Case Study: Tech Central

A Brief History

The conceptualisation of Tech Central has a long history. In 2015, the NSW Government commenced planning for the Central to Eveleigh Urban Renewal Corridor – a 50ha corridor of Government-owned land stretching from Central Station to Eveleigh. In 2016, this culminated in the *Central to Eveleigh Urban Transformation Strategy* (Urban Growth NSW, 2016).

In mid-2018, the NSW Government announced its commitment to create a globally competitive innovation and technology precinct. The Sydney Innovation and Technology Panel was established and included a mix of industry, institutional and government agency members, including Atlassian, Fishburners, Stone and Chalk and Tech Sydney. This work resulted in the Sydney Innovation and Technology Panel Report (December 2018) which recommended, *inter alia*:

- The Sydney Innovation and Technology Precinct should be located within the Central to Eveleigh Corridor.
- Delivery of an additional 250,000sqm of NLA for technology companies. This was to be 'galvanised initially by attracting a number of larger anchor tenants to lead the precinct and demonstrate momentum'.
- Establishment of a leadership body to actively attract companies and talent to the Precinct.

Coinciding with planning for the Sydney Innovation and Technology Precinct was planning for the Camperdown-Ultimo Collaboration Area, with the *Camperdown Ultimo Collaboration Area Place Strategy* (GSC, 2019) released in early 2019. The role of the Sydney Innovation and Technology Precinct as part of the Camperdown-Ultimo Collaboration Area was specifically identified in the Place Strategy. Recommendations from the Panel Report were also being adopted in planning for the Central Precinct State Significant Precinct (SSP).

In 2020, the Sydney Innovation and Technology Precinct was renamed as 'Tech Central'. The NSW Government committed \$48.2 million in June 2020 to provide up to 25,000sqm office NLA for start-ups and scale-ups in the Central Station railway building. Additionally, NSW Government committed to joint-funding the establishment of several industry hubs in Tech Central – the National Space Industry Hub, the Sydney Quantum Academy and a semi-conductor hub.

The NSW Government (via Investment NSW) established a dedicated website and marketing campaign for Tech Central. Investment NSW also established a concierge service for businesses seeking accommodation in Tech Central by providing a variety of facilitation services, including:

- Market intelligence and investment opportunities;
- Support for business case development;
- Identification of investment locations and partners and familiarisation visits to the precinct;
- Advice on government programs and approvals;
- Connections with local industry and government.

The NSW Government have been instrumental in securing several anchor tenants across Tech Central, notably through establishing memorandums of understanding (MOUs) with Atlassian, NEC Australia and NTT. More recently, the NSW Government successfully secured fintech group Afterpay as Tech Central's second major anchor tenant who are set to occupy ~3,300sqm office NLA at the redeveloped Brewery Yard in Chippendale.

Market Impact

To gauge the impact of Tech Central, recent leasing and development activity in the Southern CBD office market is reviewed.

• **Leasing Activity**

The Southern CBD has historically been the Sydney CBD's most affordable office sub-precinct. A lack of quality office accommodation and limited new development has resulted in more modest levels of demand compared to other areas of the CBD. Over the 2005-2021 period, the Southern CBD recorded net absorption of ~40,200sqm NLA. This equated to an annual net absorption rate of 2,366sqm NLA per annum.

A marked shift in leasing activity and interest has been observed more recently. Anecdotal evidence from local leasing agents indicates that the pre-commitment by Atlassian is having a gravitational impact as other technology-based companies are looking to relocate to the Southern CBD from other parts of the CBD and Surry Hills.

The precommitment of Atlassian to 56,000sqm NLA is a major step change for the Southern CBD. Upon completion of their new headquarters in 2025/26, net absorption in the Southern CBD will increase to historic highs. The NSW Government's involvement in Tech Central was critical in securing Atlassian as the precinct's anchor occupier.

• **Development Activity**

Lower commercial rents and limited development opportunities have seen the Southern CBD recording modest office development activity. Over the 2005-2021 period, approximately 109,000sqm of new office NLA has been delivered in the Southern CBD. As shown in **Table 5.1**, this is markedly lower than other areas of the CBD.

Table 5.1: Historical Gross Office Supply, Sydney CBD

Period	City Core	Midtown	Western Corridor	Walsh Bay (Barangaroo)	Southern
2005-2010	212,220	209,151	239,014	59,168	18,277
2010-2015	248,640	241,999	76,041	-	40,705
2015-2020	207,003	28,638	127,204	276,939	31,447
2020-2021	195,007	63,806	27,833	-	19,055
Total	862,870	543,594	470,092	336,107	109,484

Source: PCA (2021)

Since announcement of the Tech Central precinct and rezoning as part of the Central Precinct SSP, there has been a major uptick in the Southern CBD's office pipeline. Three projects (Atlassian Tower, Twin Tech Hubs, Toga Central) are collectively proposing to deliver some 211,000sqm office NLA over the next 4-5 years. This is almost double the quantum of office NLA delivered over the entire 2005-2021 period.

Impact of Tech Central Investment Attraction Strategy

The NSW Government's involvement in Tech Central has been critical to its success in generating market interest and securing major anchors thus far, including Atlassian, Afterpay, NEC Australia and NTT. Direct investment into industry hubs and affordable office accommodation, a dedicated marketing strategy and provision of business concierge services have provided confidence for occupiers and investors.

Whilst the rezonings facilitated through the Central Precinct SSP would have undoubtedly driven developer interest irrespective of Tech Central, it is arguable that the quantum of commercial floorspace being proposed across the Southern CBD would be as significant. The significant scale of the joint Frasers-Dexus 'Twin Tech Hub' – a \$2.5 billion, twin office building of 130,000sqm NLA - is testament to this.

The securing of anchor occupiers, particularly Atlassian, has been a major market signal and would have unlikely occurred without the intervention of Government implemented as part of Tech Central. Whilst it is difficult to state with definitive certainty, it is conceivable that historical net absorption and commercial development activity would have likely persisted in the Southern CBD sub-precinct without the establishment of Tech Central.

Case Study: Wollongong Office Market

A Brief History

Wollongong City Council has been one of NSW's most proactive municipalities in pursuing investment attraction initiatives.

In 2009, the *Advantage Wollongong* program was established as a partnership between Wollongong City Council, the University of Wollongong and NSW Government. The partnership has a long term, strategic approach to securing new employment and investment. Advantage Wollongong focusses on attracting new businesses and has developed a range of strategies for each of its seven target sectors (which include professional services, financial services and tech).

Recently rebranded as *Invest Wollongong*, this partnership provides comprehensive marketing and business facilitation services which include:

- Preparation of industry publications, including the Wollongong Investment Prospectus, Wollongong CBD Office Market Prospectus, industry directories, capability assessments and case study reports.
- Support for business case development.
- Connections with local industry and government.
- Familiarisation visits.
- Advice on local, State and Commonwealth government grants.

The Invest Wollongong partnership also provides connections between future businesses and graduate programs with the University of Wollongong.

Success to Date

The Wollongong office market has been a major beneficiary of the *Invest Wollongong* partnership. In 2017, the program was instrumental in attracting NEC Australia to establish an office (>4,000sqm NLA) for 130-staff in Wollongong.

More recently, global asset management company Mercer has committed to 5,000sqm NLA of new office accommodation to accommodate some 500 workers. Whilst previously located in neighbouring Coniston, it is understood that engagement with the *Invest Wollongong* program was a factor in their decision to remain in the Wollongong region.

The Invest Wollongong program has had significant success in ensuring that start-ups and small technology businesses which have graduated from the University of Wollongong's accelerator program have remained in the Wollongong area, with many of these securing accommodation in the Wollongong CBD.

5.2.3 Forecast Take-Up

Approach

This section forecasts the quantum of commercial office NLA which could be absorbed at BWB over the coming years. These forecast take-up rates have considered:

- Projected office demand as per the EDS (discussed in section 2.2.1).
- Historical absorption rates in the Sydney CBD Fringe markets (discussed in section 3.3.3).
- Historical leasing activity in Pyrmont/Ultimo (discussed in section 3.3.3).
- Competition from neighbouring precincts, principally Tech Central and Bays West.
- The BWB's targeted development horizon with completion envisaged by 2034-35.
- The 'ramping up' of demand induced by the Pyrmont Metro Station as it nears completion in 2030.

These considerations are relied upon to develop take-up forecasts for BWB.

We highlight that these forecasts are notional scenarios and have been prepared at a time of flux in commercial office markets. While entrenched WFH and flexible work practices are expected to result in structural decline in office demand, this will conceivably **not reduce** demand for new/ contemporary office buildings. The 'casualties' of any reduction in floorspace demand will likely be secondary buildings that are unable to meet increased tenant amenity expectations.

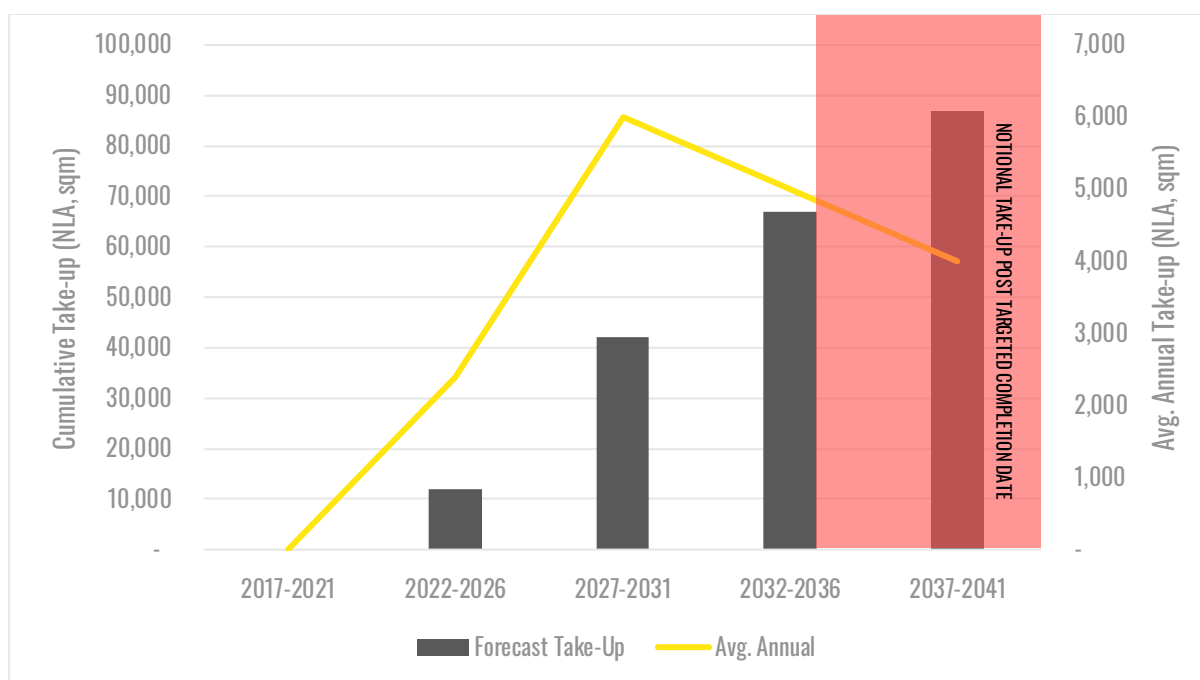
Forecast Absorption

Take-up forecasts for commercial floorspace are carried out over the 2017-2041 period to align with the projection horizon of the EDS. These forecasts are cognisant of the proposed completion date of the BWB SSP of 2034-35.

- Assuming average annual absorption rates of 2,400sqm to 6,000sqm NLA, it is anticipated that BWB could accommodate some 67,000sqm office NLA by 2036.
- If the development of BWB was extended *beyond* the targeted completion date of 2034-35 to 2041, an additional 20,000sqm could be accommodated by 2041.

Figure 5.2 illustrates forecast take-up of office NLA at BWB over the 2022-2041 period, noting that BWB is anticipated to be fully completed by 2034-35.

Figure 5.2: Forecast Take-Up of Office NLA (2017-2041), BWB Study Area



Source: Atlas Economics

Take-up with an Investment Attraction Strategy (IAS)

The capacity for BWB to absorb demand for commercial floorspace could be augmented by the role of NSW Government in developing a unique proposition for the precinct to differentiate itself from the market.

Precincts benefitting from a government-led, coordinated investment attraction strategy (IAS) can secure faster take-up of employment space (e.g. Tech Central, Western Sydney Aerotropolis). This is not only attributed to a well-researched marketing strategy; the perception of a Government-led precinct inspires confidence and can significantly increase the market profile of new precincts.

Accordingly, two additional forecast scenarios have been developed to illustrate the potential impact of an IAS on the take-up of commercial floorspace at BWB. These include a Low and High 'With IAS' scenario.

With an IAS, it is estimated that BWB could potentially accommodate between 91,000sqm and 97,000sqm office NLA by 2036. The inclusion of an IAS would enable this floorspace to be taken-up at a faster rate than if a 'laisse faire' approach was taken. The findings of the forecasts are summarised below.

- With IAS (Lower Take-up) Scenario**

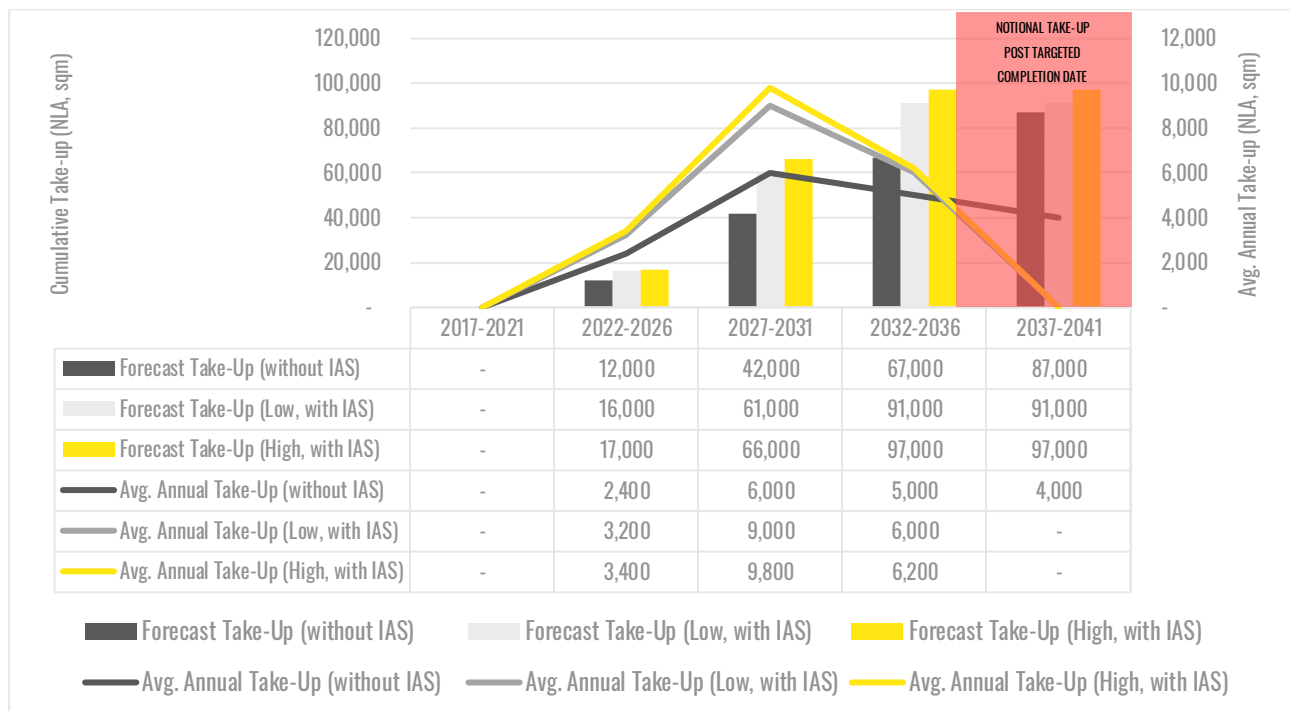
With the implementation of an IAS, the Lower Take-up Scenario could accommodate some ~91,000sqm of office NLA by 2036. This reflects an average annual take-up rate of between 3,200sqm NLA and 9,000sqm NLA.

- With IAS (Higher Take-up) Scenario**

Under the Higher Take-up Scenario, the implementation of an IAS could facilitate absorption ~97,000sqm of office NLA by 2036, reflecting marginally higher annual take-up rates of between 3,400sqm NLA and 9,800sqm NLA.

Figure 5.3 illustrates the three office forecast scenarios for BWB over the 2016-2041 period against the expected completion date of BWB of 2034-35. Take-up expectedly peaks around 2030 around Metro station completion.

Figure 5.3: Forecast Take-Up of Office NLA (2017-2041), BWB Study Area (Without and With IAS)



Source: Atlas Economics

5.2.4 BWB and EDS Demand

This section considers the take-up forecasts outlined in section 5.2.3 in the context of the EDS projections.

The EDS outlines demand projections in 5-year intervals over the 2017-2041 period. By comparing forecast take-up against these projections, the role of BWB in accommodating broader office demand in the Peninsula can be observed.

As shown in **Table 5.2**, the forecast take-up of office floorspace at BWB would account for a large component of Peninsula-wide office demand in the early years. By 2031, BWB could accommodate between 31% (Without IAS scenario) and 49% (With IAS scenario) of Peninsula-wide demand.

Over the longer term (2041), forecast take-up in all scenarios equates between 27% and 30% of total projected demand.

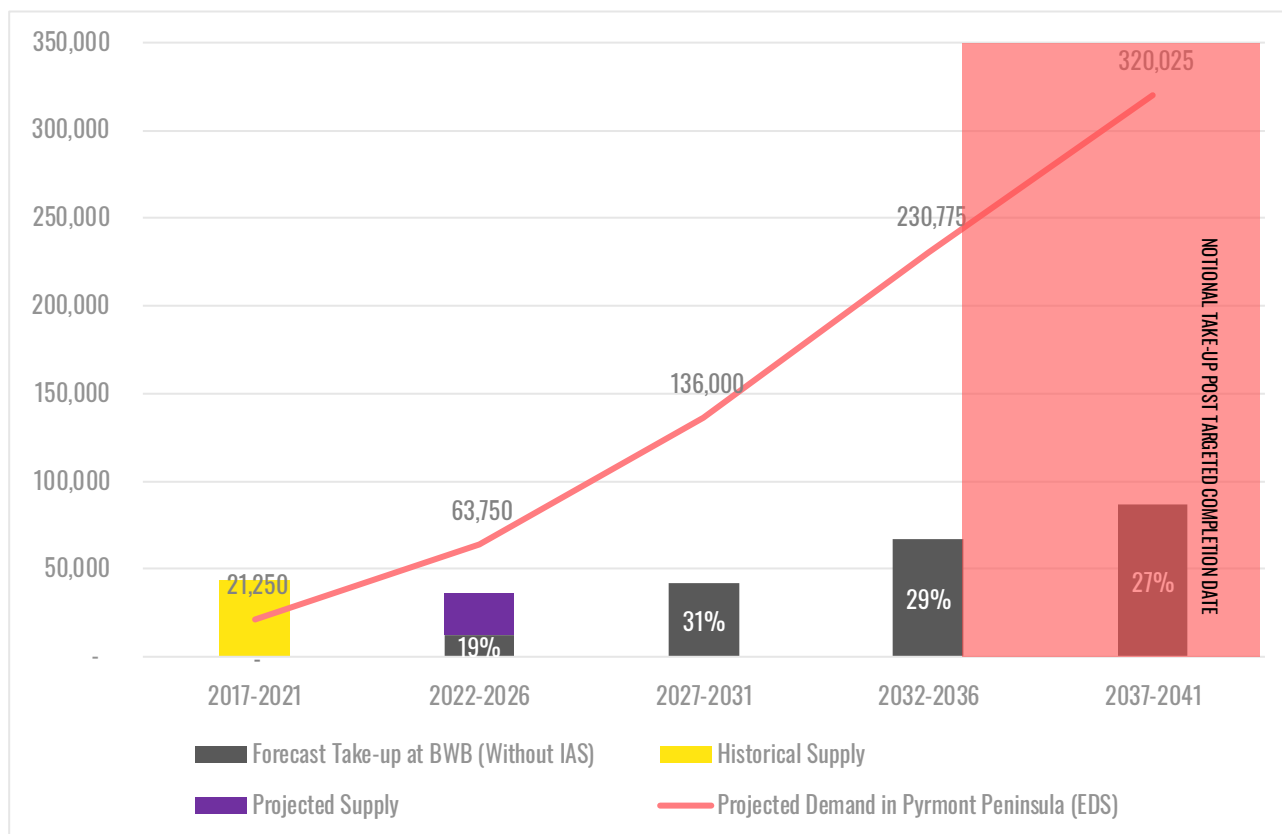
Table 5.2: Forecast Take-up at BWB as Proportion of EDS Demand

	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041
EDS Demand for Peninsula (sqm, NLA)	21,250	63,750	136,000	230,775	320,025
Forecast Take-up (without IAS) as % of EDS	0%	19%	31%	29%	27%
Forecast Take-up (Lower, with IAS) as % of EDS	0%	25%	45%	39%	28%
Forecast Take-up (Higher, with IAS) as % of EDS	0%	27%	49%	42%	30%

Source: Atlas Economics/EDS

To further understand the temporal role of BWB in accommodating Peninsula-wide demand for office floorspace over the coming years to 2041, **Figure 5.4**, **Figure 5.5** and **Figure 5.6** illustrate the three take-up scenarios in the context of EDS demand and historical and forecast supply in other areas of the Peninsula.

Figure 5.4: Forecast Take-Up at BWB (without IAS) and Projected EDS Demand



Source: Atlas Economics/EDS (2020)

Figure 5.5: Forecast Take-Up at BWB (Low, with IAS) and Projected EDS Demand

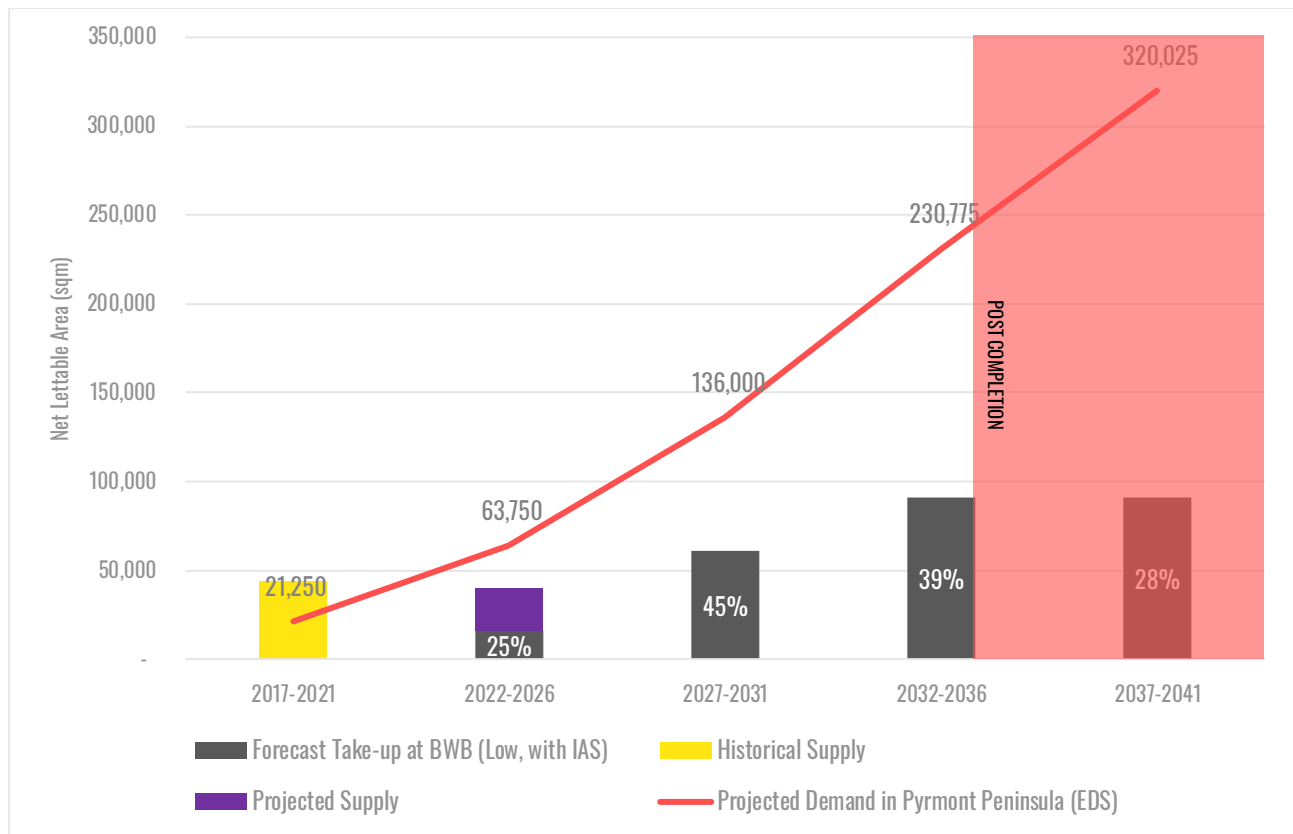
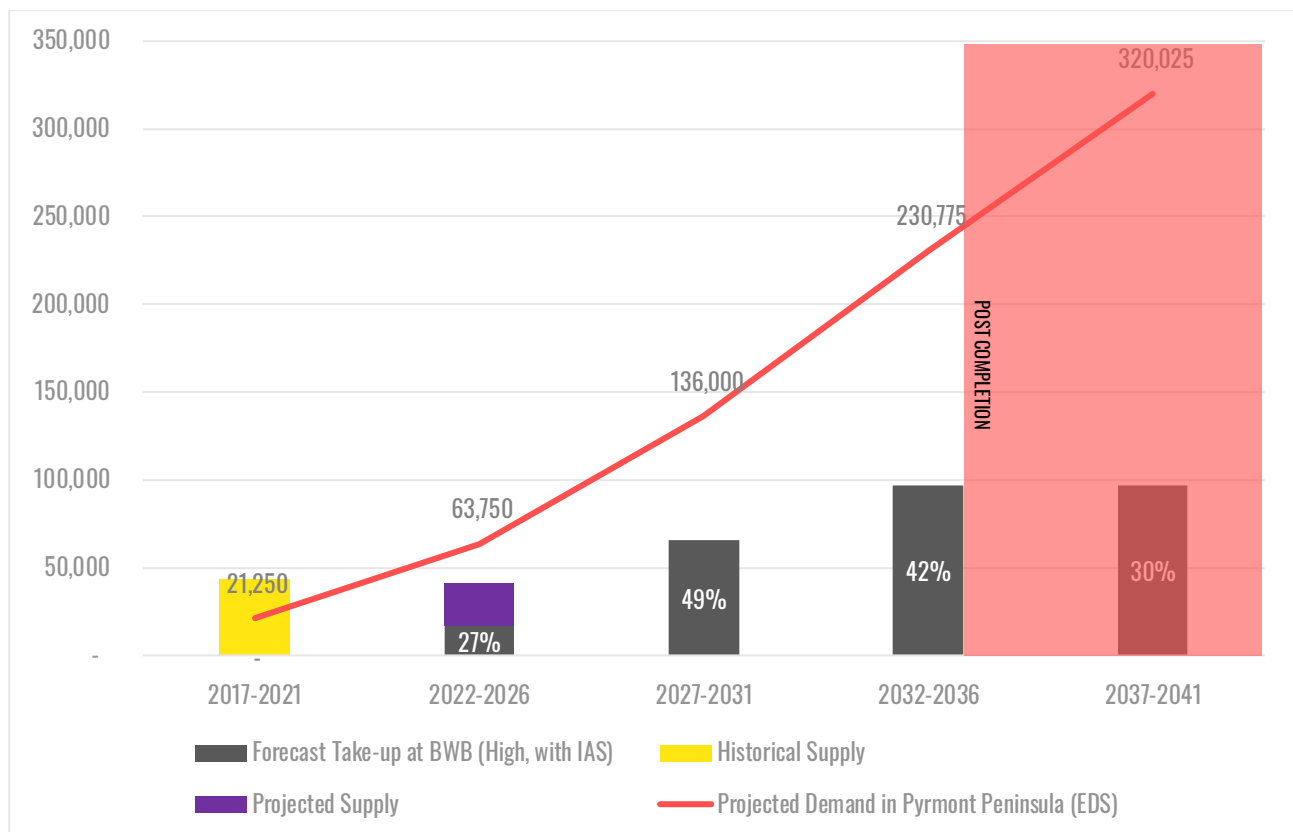


Figure 5.6: Forecast Take-Up at BWB (High, with IAS) and Projected EDS Demand



Source: Atlas Economics/EDS (2020)

Take-up forecasts show that at modest take-up rates, the BWB Study Area could deliver 67,000sqm NLA office floorspace by 2036. If an IAS was implemented, a greater quantum could be delivered by 2036 - 91,000sqm to 97,000sqm NLA.

5.2.5 Spatial Distribution of Land Uses

The preceding sections examined the quantum of office floorspace that could be accommodated in the BWB Study Area.

An equally important consideration is the spatial distribution of the office floorspace within the broader mixed-use setting of BWB. Office uses should be 'tightly clustered' rather than diluted within the Study Area to ensure a range of retail and commercial services can be supported within a 'core' precinct that is easily accessible by the worker population.

It will also be important to ensure adequate and appropriate separation between commercial and residential uses to avoid land use conflicts that could compromise the corporate prestige of the precinct.

Office precincts which have not effectively managed the co-location of mixed-use development have invariably detracted from commercial market appeal. Common examples include Chatswood and Southern CBD. Astute urban design, building separation and the screening of residential balconies can mitigate this risk and ensure the long-term sustainability of commercial uses within the BWB.

Other land uses (serviced apartments, hotels) do not generally have the same negative land use conflicts with office uses, though designating a certain area for commercial-only uses could be appropriate to ensuring long-term viability.

5.3 Matters for Consideration and Recommendations

5.3.1 Matters for Consideration

As one of the final major urban renewal precincts within Sydney's inner ring, BWB has the capacity to accommodate a broad mix of land uses. There is sufficient demand for some land uses which requires little intervention to ensure successful take-up (i.e. residential). Other land uses may require a more nuanced and interventionist approach.

BWB is recognised at a State and local government level as playing a critical role in the expansion of the Sydney CBD and supporting the Eastern City's Innovation Corridor. BWB's inherent site characteristics make it an ideal candidate to support a large quantum of the commercial floorspace required over the coming decades to 2041 as projected in the EDS.

These strategic considerations must be considered together with the key parameters influencing the development of BWB. The Blackwattle Bay FBC was predicated on optimising State Government investment with a return that ensures key public benefits (i.e. delivery of 3ha public open space and world class waterfront promenade) are achieved. The adopted land use mix in the refined BWB Precinct Plan need therefore to be considered in the context of these objectives.

Furthermore, development of BWB is targeted to be completed by 2034-35. The land use mix prescribed in the refined Precinct Plan will need to be cognisant of these timeframes. An investment attraction and marketing strategy could play an important role in ensuring a larger quantum of commercial floorspace is absorbed within this targeted timeframe.

5.3.2 Recommendations

The Study makes the following recommendations for consideration in the refined BWB Precinct Plan:

- **Quantum of Commercial Office Floorspace**

Based on the proposed development horizon to 2034-35, take-up forecasts suggest BWB could accommodate 67,000sqm of office NLA by 2036.

If a coordinated investment attraction strategy was implemented to support BWB, more rapid take-up of commercial floorspace could be achieved. By 2036, between 91,000sqm and 97,000sqm NLA could potentially be absorbed, approaching the quantum of commercial floorspace proposed in the exhibited Precinct Plan.

The commercial floorspace at BWB could accommodate the mix of industries identified in the EDS, including media, professional services, information technology and other knowledge-intensive sectors.

Market demand for office space is expected to accelerate and deepen as completion of the Metro station in 2030 approaches. Depending on the pace of take-up/ absorption, BWB could make a substantial contribution in the first decade (to 2036) to meeting projected demand for office floorspace in the broader Peninsula as projected in the EDS.

- **Role of an Investment Attraction Strategy**

Investment attraction could facilitate greater take-up of commercial floorspace at BWB into the compressed development timeframe where completion is targeted by 2034-35. A dedicated marketing strategy, led by a Government agency, would also assist in coordination to mitigate the competitive risks posed by other precincts such as Tech Central and Bays West.

The ongoing cost of such a programme should be incorporated into the financial feasibility assessment of the project.

- **Distribution of Land Uses**

To support the quantum of commercial floorspace proposed, the Study recommends revisiting the distribution of land uses proposed in the Precinct Plan.

Commercial office uses should be tightly clustered together rather than spread across the Study Area. This will focus commercial activity in a 'core' and avoid dilution of footfall and visitation. The existing SFM site is considered an ideal location for office uses given its scale and proximity to Harris Street and the future Pymont Metro Station (notwithstanding a need to improve the pedestrian experience between the SFM site and the future metro station).

The smaller sites along Bank Street lend themselves to retail and smaller scale commercial uses. Whilst these sites will have linkages to the future Pymont Metro Station via Miller Street, these sites could face difficulty in securing and sustaining commercial occupier interest in a dispersed layout. Furthermore, large volumes of office floorspace here would dilute activity and inadvertently undermine the viability of commercial office uses in the 'core' of the Precinct. Accordingly, it is recommended the quantum of commercial floorspace proposed on these sites be reduced compared to that proposed in the current Precinct Plan, however ensuring activation at the ground plane and providing for small scale, boutique commercial.

Residential uses should be carefully separated from commercial land uses in order to avoid land use conflicts with future office accommodation. This can be done through astute design and built form controls.

Enterprise uses could be considered in pockets of the Study Area where other land uses are not appropriate, subject to traffic, urban design and financial feasibility considerations.

- **Commercial Building Typologies**

In the early years, there should be provision of some larger floorplates (1,800sqm to 2,500sqm NLA) to attract pre-commitments by anchor occupiers that will enable 'bankability' and establish BWB's profile as a commercial precinct. Some smaller floorplates (800sqm to 1,200sqm NLA) should also be provided in order to attract the mix of industries and business sizes, however these will likely be taken-up in later years.

Pymont/ Ultimo's commercial profile as a well-known location for unique, 'less corporate' type office accommodation should be leveraged upon. This will be important in a post-COVID-19 context, as businesses are increasingly looking for good quality and unique space in order to attract and retain talent.

- **Inclusion of Affordable Workspaces**

The Sydney Startup Hub at 11 York Street is a successful initiative by Investment NSW, providing the office floorspace and opportunity for collaboration to support/ nurture the innovation ecosystem. Subject to site considerations, a similar initiative at BWB could consider providing for businesses that require enterprise floorspace, e.g. light industrial, R+D and office space.

While there is an opportunity to consider provision of affordable enterprise workspaces at BWB, there is not the policy/ governance framework in place. Issues about appropriate space design, tenant eligibility/ management and governance of the space are among the issues that would need to be addressed.

These recommendations should be considered in the context of development feasibility and overall objectives of NSW Government.

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