GLOBAL CITY FOCUS
SYDNEY

Sydney has a strong government with clear plans and the financing to achieve growth. Ciara Walker and Stephen Taylor of Arcadis explore Sydney's massive investment in infrastructure to reconnect and regenerate the city.

INTRODUCTION

Routinely high on liveability rankings (top 10 for both Mercer and the Economist) Sydney is blessed with climate, environment, geography and natural beauty. Boasting 7 of Australia's top 10 tourist attractions as well as mountains, beaches and harbors, Sydney is consistently voted a favorite travel destination.

Sydney has suffered from its own success, growing too quickly for its infrastructure to keep up and facing housing, and transport challenges. In a city 7 times the area of London, connectivity challenges have created a social divide. The vibrant, outdoorsy and sports loving 'Sydney-siders' are all about quality of life and planned investments will reconnect and regenerate quality of life in the areas left behind.

ECONOMICS AND POLITICS

In Australia there are three levels of government:

- Federal: high level policies such as health, defence and so on;
- State: services such as policing, hospitals and so on;
- Local Government Areas (LGAs): local services and facilities, such as libraries, schools and so on.

With 41 LGAs Sydney faced a major challenge in coordinating strategic projects which stretched across more than one. The Greater Sydney Commission (GSC) was created with the goal of facilitating the deliver large scale strategic projects across LGAs more easily through rezoning and strategic approvals.

City Indicator	Data (2015)
Arcadis Sustainable Cities Index	11th
Profit	
GDP £	£204bn
Year-on-year economic growth (%)	3%
Unemployment rate (%)	5.3%
People	
Urban Population	4.6m
Population growth rate (annual %)	1.8%
Overall crime rate per 100,000 population	114.5
Total number of tourists	9.2m
Year-on-year tourist growth	8.2%
Planet	
Greenhouse gas emissions (metric tons of CO2 equivalent)	5.05m

Sydney generates 70% of New South Wales (NSW) State's economic output, and 20% of Australia's. Sydney is also a major player internationally, with a larger economic output than many of its regional competitors, including Hong Kong and Singapore. However, Sydney has traded on its natural beauty for too long, suffering from under-investment in infrastructure for many years. As such Sydney did not develop as a traditional concentric city but instead stretches along the coast and inland in a network of poorly linked centres, and consequently fragmented governance and economies.

Sydney's growth is accelerating, with 1.2m more people expected in the city by 2031, and GDP expected to increase by 50%. To address connectivity challenges and prepare for this growth, the Plan for Growing Sydney outlines £35bn to spend over the next 4 years across health, education, roads, rail and ports. The Plan aims to maximize the benefits of infrastructure investment through urban renewal at transport nodes. Given the strategic nature and geographic spread of the projects, the GSC is charged with coordinating the investment under the Plan. In addition to setting out infrastructure and growth strategy for Sydney, the Plan will also guide land use planning decisions to 2030. It sets out the aim for Sydney to be:

- A competitive economy with world class services and transport
- A city of housing choice with homes that meet varying needs and lifestyles
- A great place to live with communities that are strong, healthy and well connected
- A sustainable and resilient city which protects the natural environment and has a balanced approach to land use and resources

More intensive housing development across the city will be matched with investment in infrastructure and services, culture and arts, a green grid of open spaces and renewed bushland to support healthy lifestyles and community life. Some of the urban renewal projects are staggering in size, for example the Bays Precinct, including 80 hectares of foreshore land, would be the largest urban renewal program since the Olympics in 2000.

The current government have strong plans for Sydney, however the certainty of their delivery depends on the upcoming federal elections. Polling shows a change of government is a strong possibility, which could put ambitious plans in jeopardy.

CONSTRUCTION AND REAL ESTATE MARKET

With £14.7bn of building work in NSW in 2015, the construction industry has recorded strong growth over the past 5 years as infrastructure investment and housing supply have driven increasing volumes of work. Though there are a limited supply of easy-to-develop sites on any scale, opportunities abound for organizations willing to undertake complex regeneration projects and those prepared to collaborate to consolidate land holdings into meaningful parcels.

Since Q2 2013, Sydney has seen the highest increase in crane activity, by 222% compared to the 145% Australian average. With a total of 288 cranes, Sydney remains the biggest construction market for residential, commercial and civic developments in the country. Sydney alone accounted for two thirds of the 114 new cranes rising across Australian skylines from mid-2015 according to the RLB crane survey.

The construction market is separated into infrastructure contractors and building contractors. The large volume of both infrastructure and building work is putting capacity pressures on both sectors, in particular infrastructure contractors. With so much activity in the market, there has been an uptick in European and Chinese companies entering the market, a trend likely to continue. Tier 2 infrastructure contractors are therefore becoming increasingly important, forging a link between the large international contractors and the local market. Given the volume of activity and tightening of capacity, we are observing pressures on construction prices, with 4% increases expected for 2016.

INFRASTRUCTURE

Project	Reservation (£bn)	Funding From
Sydney Rapid Transit	3.8	16-17
Sydney's Rail Future 2 Upgrades	0.5	15-16
Parramatta Light Rail	0.3	17-18
WestConnex, Western Harbor Tunnel	0.6	15-16

Table 1 Rebuilding NSW Infrastructure Projects

Sydney faces significant connectivity challenges. With a largely road driven transport network, the city suffers from congestion and public transport use has fallen to around 10% of journeys to work. Congestion is estimated to cost Sydney £2.7bn per annum, growing to £4.3bn per annum by 2020 unless something is done.

To address these challenges, the NSW government announced the Rebuilding NSW plan, to invest £11bn in productive infrastructure by 2020. A main aim is to connect some of Sydney's disenfranchized areas such as Western Sydney, where residents are more dependent on cars than other parts of the city. For example, average vehicle kilometres travelled per person in areas such as Cambelltown and Liverpool in Western Sydney are twice that of residents in Inner Sydney or eastern suburbs. The plan will:

- Create more than 100,000 jobs by 2035/36
- Boost the economy by almost £162bn over the next 20 years

Investment in road infrastructure includes the £6.5bn WestConnex motorway. The 33km project will bring together a number of Sydney's freeways which will form a vital link to the orbital network. A third harbor crossing, the Western Harbor Crossing is also mooted. Alongside the major projects planned, a total of £0.7bn has also been reserved for congestion busting through productivity improvements to Sydney's roads.

There is a massive investment in rail infrastructure, with £3.8bn reserved for Sydney Metro, due to complete in 2024. A second harbor rail crossing is planned, and Western Sydney will benefit from transit oriented development surrounding the Parramatta Light Rail. Additionally, when complete in 2019 the £1.1bn, 15km Sydney Light Rail city extension will transport 9,000 people every hour, bringing an estimated £2bn in economic benefits through development surrounding the transport nodes.

Additional airport capacity will add to Sydney's role as Australia's international gateway. When complete in 2025, Badgerys Creek will be a new 24 hour international airport, and an industrial economic area will be developed around it. Freight and intermodal facilities are also being invested in, including the Moorebank Intermodal Terminal Project starting construction in 2016 and expansion of the Intermodal Logistics Centre 18km west of Port Botany.

SOCIAL INFRASTRUCTURE

Investment in health infrastructure to keep up with the growing population and growing demand is ongoing and £0.54bn has been reserved for NSW hospitals, aiming for a mix of not-for-profit and private sector delivery. This includes the recent delivery of the Northern Beaches Hospital, providing health services to one of Sydney's fastest growing communities.

The hospitals growth program targets in particular Western Sydney, where the relative deprivation drives a higher need for facilities. In addition to this, the Care Co-location program (£54m) aims to deliver 19 one-stop-shop facilities in NSW. Services to be co-located include mental health, early childhood and youth, nursing and Aboriginal health services, with the aim of efficiency benefits from integration of services.

A further £0.54bn has been reserved for investment in NSW schools. Of this, £378m will be dedicated to the 10-year Future Focused schools program. The program aims to service growing student populations (23% growth expected, largely in Sydney, by 2031) and provide new and innovative school designs to rethink how schools work, how teachers teach and how students learn. In order to do this, the government is exploring public-private-partnership (PPP) opportunities in schools with non-governmental providers.

RESIDENTIAL

Table 2: Residential land pricernages 2015

Area	Rate per unit (£'000)
Sydney City	162-459
Inner East	149-189
Inner North	108-176
Inner South	95-162
Inner West	81-149

Facing both an affordability challenge for middle income residents, and a lack of affordable (social) housing for lower income residents, the development of an appropriate mix is a priority for the GSC. Ranked as the third least affordable housing worldwide by Demographia in 2015, median house prices hit £540,000 in mid-2015 and low income earners spend up to 70% of their income on rent.

The population is projected to grow by 1.6m people by 2031, of which 900,000 will occur in Western Sydney alone, an area which accounts for 47% of Sydney residents, but only 36% of jobs and 33% of GDP. In order to deliver the volume of affordable and private housing necessary, the government is partnering with the private sector and targeting areas for housing growth through planning legislation. In 2011 it was estimated that 664,300 additional dwellings needed to be added to the city by 2031, a 42% increase the stock of 1,556,450 dwellings. Given the connectivity led social divide, a priority is to not only connect up historically disenfranchized areas but also regenerate social housing areas, especially around new transport nodes.

Sydney's property market is internationally recognized as a luxury residential market and a safe haven for investment (in 2015 36% of home loans were for investment purposes). This, in conjunction with the depreciation of the Australian dollar, means offshore investment has driven price growth in the Sydney market. Recent government policies have also helped to drive an increase in demand by providing incentives for major projects and private investors.

Residential supply is booming, with approvals increasing by 38.2% in 2015, and as many as 45,000 units to be delivered by 2020. Despite strong supply figures, housing continues to experience the highest growth in prices across all the Australian State capitals, at 14.1% in the year to February 2016. Apartments also saw strong price growth of 10% in the same period. Total vacancy in the Greater Sydney residential market is only 2.1%, so prices are likely to remain high, despite growth of 14.6% in new dwelling construction in 2016. Rents on the other hand saw no growth in the last quarter of 2015, staying at a median of £351 a week.

Table 3: Residential developments

Development	Size (units)	Status
The Ponds	4,000	Complete
Macarthur Heights	900	2016
Newbrook Airds	2,104	2017
East Village at Spring Farm	1,400	2018

COMMERCIAL

Table 4: Key figures Sydney office marke

Area	Rental (gross face £/sq.m per annum)	Yield (%)
Sydney CBD	400-815	5-6.5
Parramatta	275-313	6.25-7

Table 5: Office and mixed use developments

Development	Size (m²)	Completion
T2 Barangaroo	400-815	5-6.5
200 George Street	275-313	6.25-7
Barangaroo T1	101,500	2016
1PSQ	26,000	2016
Paramatter Square stages 5 and 6	126,000	n/a

Home to the Australian stock Exchange (11th largest globally) and more than 75% of all foreign and domestic banks' Australian headquarters, Sydney is a 'City of Cities' with multiple Central Business Districts (CBDs) across different areas. The main CBDs, each with their own specializations, are Sydney, North Sydney and Parramatta. Parramatta (in Western Sydney) in particular is being developed, with transport infrastructure investment to support this. The transit oriented development will emphasize and grow these centres, with plans to develop further 'CBD' areas around transport nodes across the city.

Despite current high levels of office space supply, Sydney CBD has seen historically low vacancy rates, currently at 6.8% and dropping. The pending arrival of 240,000m² of new prime stock in 2016 will counteract this in the short run, but unwind quickly off the back of historically high withdrawal of space from the market. Tenant demand is at its highest level since 2005 as measured by net absorption figures, significantly outperforming other national markets. High demand and low vacancy has driven up rents, with rental growth of 5.5% (prime) and 7.5% (secondary). The Parramatta CBD market is similarly tight, with a very low vacancy rate of 2.4% in the prime market (though total vacancy is 7.4%) and rental growth of 3.8% (prime) and 5.3% (secondary). Stock withdrawals and relatively weak supply in suburban markets have added to the demand, drawing a steady flow of non-CBD tenants to the main CBDs. Examples include Unilever leaving suburban areas for Sydney CBD, and Reckitt Benckiser for Parramatta.

Withdrawals of stock are having a significant impact on stock levels, with large volumes of secondary office space being redeveloped or refurbished. For example, 150 tenants are being displaced from 19 office buildings in the CBD due to urban renewal. Regeneration in Parramatta is also having an impact, with 28,624m² (or 5.6% of current stock) across 11 assets to be potentially redeveloped into 2,520 residential apartments. With the expected continuation of favourable economic conditions, and continued withdrawal of stock (154,279m² over next 18 months) anticipated, conditions in the office market are likely to remain tights, and rents will be squeezed upwards.

RETAIL AND LEISURE

Sydney serves as a starting point for both leisure and business tourism in Australia. Business tourists are an important segment, often staying on after trips and visiting both Sydney and the rest of the country. The importance of Sydney's leisure and sporting infrastructure has been recognized in the Rebuilding NSW plan, with the Sports and Cultural Fund growing from £270m to £600m. Of this, £324m will be invested in Stadia upgrades within Sydney. The fund aims to capitalize on existing iconic assets and precincts, as well as increasing the presence of facilities in Western Sydney.

As part of the regeneration efforts under the Plan for Growing Sydney, Sydney Darling Harbor is being reshaped as Australia's largest convention, exhibition and entertainment destination. The National Convention and Exhibition centre due to open this year will providing 656 new rooms, an 8,000m² convention centre, a 40,000m² new exhibition space and an 8,000 person entertainment facility. Aside from this, the arts precinct in Parramatta will be strengthened and provided with venues befitting an up and coming CBD.

Driven by a lower Australian dollar, 2015 saw 30.6m visitor nights spent in Sydney, a 3.2% increase from the previous year. Current occupancy rates of 88.2% further highlight high demand for Sydney hotels, with some even achieving occupancy in the 90s. Taking into account off peak periods, this would indicate the city is currently trading at close to capacity. Average daily rates are £121.71 and have seen the strongest growth of any Australian city, at 4.7% y-o-y. With limited new supply, it is anticipated that high occupancy rates will continue, with the associated rate growth. There is a strong offshore presence in the Sydney hotel market, with 100% of CBD 4-5 star rooms sold since January 2010 going to offshore groups, and 88% of all 4-5 star stock owned by offshore groups.

Significant investment in retail is ongoing as transit oriented development regenerates areas across the city, and creates new retail centres. The city is increasingly attracting higher income knowledge workers, driving demand for higher value retail facilities. As such, international retailers continue to have a major bearing on the Sydney CBD retail market, with a clear preference for large, super prime space.

The retail vacancy rate in Sydney CBD has declined to 3.3% in 2015 where the next 2-3 years will be characterized by an influx of luxury retailers. Despite a lack of available leasing options, (H&M waited 4 years before securing 5,000m² at the Glasshouse Centre), there has only been moderate rental growth. However a number of lease deals in recent months will place further downward pressure on vacancy, and likely drive up rents, at least until forthcoming supply is added along George Street in conjunction with the completion of the light rail node.

SUSTAINABILITY AND RESILIENCE

Sydney has lofty ambitions for sustainability in 2030, including:

- 30% of water demand from recycled water
- 80% of trips to work by public transport
- 50% increased canopy cover
- Over 10,250 trees planted to reduce the urban heat island effective
- 100% renewable energy
- 70% reduction in CO2 emissions from 2006 levels

Between 2006 and 2014 Sydney's GDP grew 26% whilst the carbon footprint was reduced by 36%, proving that these lofty ambitions are deliverable, and that growth does not have to come at the exclusion of sustainability. Another ambitious aim is to create a network of interlinked, multipurpose open and green spaces across Sydney called the 'Green Grid'.

Rebuilding NSW has dedicated £0.54bn to responding their water challenges, including:

- Drinking water quality
- Capacity to meet water demand
- Drought security
- Dam safety
- Inadequate wastewater treatment

Many of the larger projects are regional, but with implications for Sydney, such as the Hawkesbury-Nepean Valley Floodplain Management Review.

The city is investing in resilience, and have just hired a chief resiliency officer. Sydney is investing in resilience, with infrastructure and housing to be prepared for the impacts of natural hazards such as flooding, droughts or heat waves through the Rockefeller Foundation 100 Resilient Cities program.

CONCLUSION

In addressing connectivity challenges and focusing on transit oriented development, Sydney is creating the pre-conditions to capitalize on its economic and population growth. By leveraging urban renewal around transport centres, Sydney is accessing untapped sources of growth and talent.

Sydney's position within the Asia Pacific region (and time zones) presents significant opportunities for Sydney to benefit from inflow investment and trade as the focus of the global economy continues to shift east. Ranked 11th in AT Kearney's Global Cities Outlook, there are high hopes for Sydney's continued growth as a global city.