Location requirements of office occupiers

Demand for office space in suburban centres in Sydney and location requirements of office occupiers in the Western Parkland City

June 2021

Contents

1. Introduction

1.1. Report purpose

The Western City Parkland Authority (WCPA) engaged Savills to prepare a report on the location requirements of office occupiers in the Western Parkland City.

The WCPA advised the report was to:

- Identify the factors which influence the decisions of businesses to locate in the Western Parkland City
- Identify trends in the factors which influence location decisions – including whether there is any change in the relative importance of different location requirements or emerging location requirements

1.2. Office market report

This report presents information on the location requirements of office occupiers in the Western Parkland City.

In preparing this report Savills has:

- Reviewed the demand drivers and amount of space in major office centres in Metropolitan Sydney (Section 2)
- Reviewed the location requirements for major office occupiers / demand drivers in suburban centres (Section 3)
- Briefly reviewed the role of speculative office development in the growth of selected office centres (Section 4);
- Reviewed the historic amount of office development and pipeline of office activity in the Western Parkland City
- Completed a high level assessment the performance of major locations of office space in the Western Parkland City against the location requirements of office occupiers.

2. Demand drivers for large office space in Sydney

The two main drivers of demand for large office space (5,000 m2+) in Sydney—both in the CBD and across the broader metropolitan market—are:

- macroeconomic factors of national economic and ‘white collar’ employment growth and
- ‘organic’ local growth within the Sydney Metropolitan Area.

These sources of demand can also be influenced by the global and national economy, particularly in relation to business confidence and work practices – such as hybrid working and working from home.

At the national level, Sydney competes against other Australian cities, in particular Melbourne as well as international centres in the Asia Pacific while ‘organic growth’ within the metropolitan area can see the CBD compete with suburban office markets and suburban markets compete against each other.

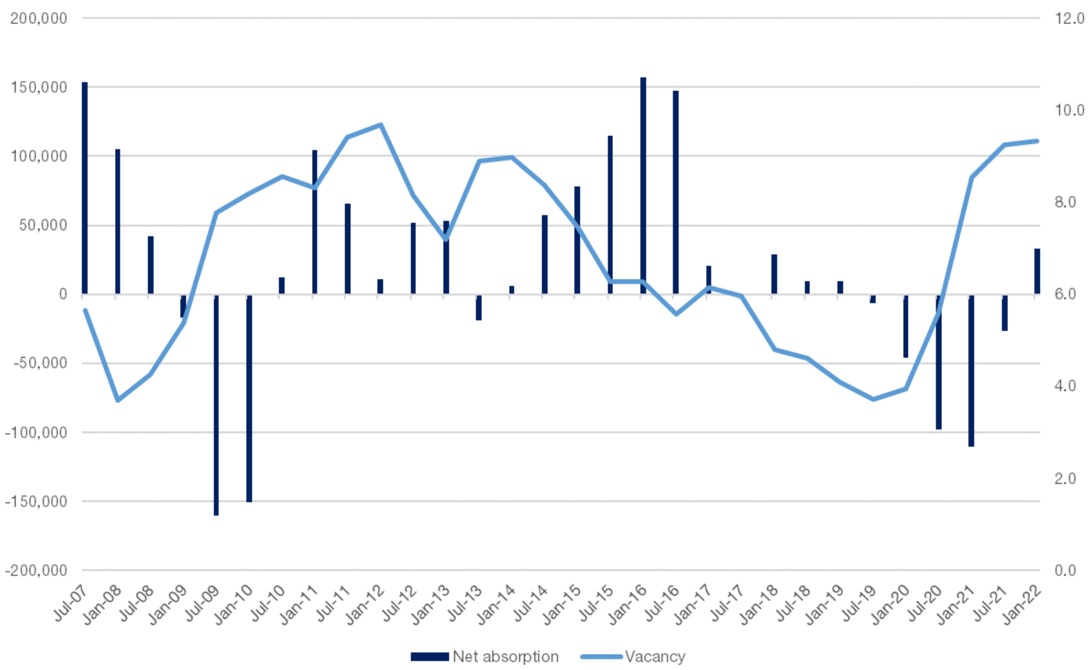
The longer-term hierarchy of office demand and relative cost of office accommodation is well established across metropolitan Sydney’s office centres. However, cyclical factors such as growth in the economy and the office development/investment/property cycle, as well as rent levels significantly influence the strength of office demand in different sub-markets at any given point in time. While changes in employment growth typically affect all sub-markets, swings in the cost of accommodation result in movements between office centres.

Sydney’s office market hierarchy is based on occupiers’ locational preferences and historic/current development controls. Traditionally, the CBD has been the top of the hierarchy and remains by far the largest office market, followed by the major suburban centres—North Sydney, St Leonards, Chatswood, Macquarie Park, and Parramatta—significant centres and remaining centres. The degree to which the centres fulfil key location preferences generally declines when moving down the order, with most large office-based businesses preferring to be in the best office locations that their budget permits. While office centre hierarchies are a long-term phenomenon with supply generally being demand-led, there have been some successful and some unsuccessful attempts to create new centres – with some experiencing little growth in office supply when CBD rents fall, other centres emerge, or residential values increase, and the logic for further development in the centre diminishes. For example, the amount of office development in Ashfield, Hurstville, Crows Nest, Sutherland, and Bondi Junction has largely remained the same or declined over the past 10 years. Conversely, Macquarie Park has experienced strong growth and Rhodes and Sydney Olympic Park have grown as office locations in the past 10-15 years, while Strathfield and Burwood, which are centres in the same region, have largely the same amount of office space. Even in these markets there are variations with the first A Grade office in over a decade built in Hurstville in 2019 and increasing vacancy rates in Rhodes but reportedly declining to less than two percent in Sydney Olympic Park during COVID.

The Sydney office market effectively operates as an overflow market, with flows between Sydney CBD and non-CBD centres strongly influenced by rental relativities. When there is a shortage of available space and rents surge in the CBD, those tenants who don’t need to be located in the CBD will move out or choose a cheaper location that is suitable for their business requirements. An example of the impact of low vacancy rates and increasing rents in the CBD was in the period after January 2008 when the vacancy rate fell to 3.7% (Figure 1) and rents surged. This resulted in a range of companies moving to reduce occupancy costs. Additionally, the State Government was strongly encouraging departments to move out of the CBD. As such between 2007 and 2009, a number of businesses including the RTA, Commonwealth Bank, Fairfax, and the Attorney General’s office relocated their CBD office functions to Pyrmont, Parramatta, North Sydney, or Sydney Olympic Park. Conversely, some companies will centralise when CBD rents are lower/leasing incentives are high. Examples include TAL, AAMI, and Symantec. Similar low vacancy rates (3.7%) were experienced in July 2019, however the COVID pandemic and other factors have arguably been more influential than relocations in the following period of negative net absorption.

In saying this some large businesses seeking office space will not be interested in locating in the CBD due to factors including where their employees live, where their customers or suppliers are based or where they can find a building to meet their needs.

Figure 1 - Sydney CBD Office Vacancy Rate and Net Absorption



Source: Savills, using Property Council of Australia, Office Market Report, January 2022, data.

In addition, constraints on the availability of sites for new office buildings in the CBD can cause demand to leak into non-CBD markets, as can the cost of such development which needs higher rents than achievable in some of the outer suburban markets to make financial feasibilities stack up.

2.1. Overflow Demand to and Between Suburban Office Centres in Sydney

Table 1 shows the amount of office stock in Sydney's major office markets. It shows the amount of office development has particularly grown in the CBD, Macquarie Park, and Parramatta, while in other centres there has been medium growth in North Sydney and a reduction or very small increase in the amount of office stock in St Leonards / Crows Nest and Chatswood.

Table 1 – Sydney's Major Office Markets Growth 2000-2022

	2002	2012	2022	Change	
				2000-2010	2010-2020
Sydney CBD	4,461,358	4,927,786	5,162,626	466,428	234,840
Macquarie Park	527,920	810,021	909,469	282,101	99,448
North Sydney	801,689	859,885	922,793	58,196	62,908
Parramatta	563,540	684,689	887,268	121,149	202,579
St Leonards/ Crows Nest	337,598	357,651	340,886	20,053	-16,765
Chatswood	286,637	266,417	273,454	-20,220	7,037

Source: Savills, using Property Council of Australia, Office Market Report, January 2022 data. Note PCA started monitoring Macquarie Park in 2005

Table 2 shows the estimated amount of office stock in Sydney's other office centres. It shows the establishment and significant growth of Norwest, Rhodes, and Sydney Olympic Park since the year 2000.

Table 2 – Sydney's Suburban Office Markets Indicative Stand Alone Office Growth 2005-2020

	2010	2015	2020
Norwest	207,000	241,400	259,500
Pyrmont	241,500	240,000	246,000
Central / Eveleigh	136,500	139,500	144,000
Sydney Airport	112,500	121,500	132,000
Sydney Olympic Park	85,000	85,000	123,000
Rhodes	112,500	118,500	121,500
Liverpool	87,000	88,500	103,500
Penrith	90,000	91,500	94,500
Burwood	88,500	91,500	93,000
Bondi	82,500	87,000	88,500
Hurstville	70,500	73,500	75,000
Gordon / Pymble	60,000	63,000	66,000
Bankstown	60,000	63,000	66,000
Brookvale	37,500	39,000	40,500
Hornsby	34,500	39,000	40,500
Frenchs Forest	33,000	34,500	39,000
Campbelltown	37,500	37,500	39,000
Castle Hill	34,500	36,000	37,500
Kogarah	34,500	36,000	37,500
Blacktown	30,000	34,500	34,500
Port Botany	27,000	28,500	28,500
Sutherland	25,500	25,500	27,000
Randwick	13,500	15,000	15,000
Ashfield	20,000	20,000	10,000
Westmead	6,000	6,000	6,000

Source: Savills, BIS Oxford Economics, Knight Frank, Urbis, Colliers.

In establishing the potential locations of overflow office demand from the CBD it is relevant to review the alternatives considered by tenants and capacity to accommodate additional office stock in these centres. In 2015 BIS Oxford Economics1forecast that by the late 2020's / early 2030s that North Sydney, Chatswood, and Rhodes would be at or close to capacity. As such, they forecast developers will go to the next most attractive location for tenants once financial feasibilities work for developers. They expected this was likely to include Parramatta, Green Square/Mascot and Pyrmont/Ultimo which still had a reasonable degree of expansion potential and Macquarie Park, Norwest, and Olympic Park. Looking further ahead, BIS Oxford Economics forecast that by 2035, other things being equal, opportunities for office development will have more or less dried up in Parramatta, Norwest, and St Leonards. However, Savills view is the Parramatta CBD Planning Proposal, Central Sydney Planning Strategy and North Sydney LEP changes, which have been approved since the BIS Shrapnel study will facilitate continued office development in these centres.

It is well known that COVID significantly slowed office leasing activity and some commentators believe it will accelerate movement of firms out of the CBD[2]. Various surveys[3] have found most firms are expecting the use of remote working

[1] BIS Shrapnel, 2015, Forecasting the Distribution of Stand-Alone Office Employment across Sydney to 2035

[2] https://www.raywhitecommercial.com/news/hub-and-spoke-the-likely-office-model-for-the-australian-workforce/
[3] https://www2.deloitte.com/content/dam/Deloitte/sk/Documents/human-capital/Brochure_Hybrid_work_survey.pdf

arrangements to remain higher than prior to COVID over the long term and this will continue to weigh on demand for office space. While some firms are asking all employees to work full time from the office the majority of surveys indicate most firms are adopting a 'hybrid' model for their office staff, where employees have the option of working remotely for part of each week. As a result of these changes a survey by the Reserve Bank of Australia (RBA)[4] found around a quarter of large firms had decided to reduce their floor space by an average of 25 per cent in response to these changes in work patterns although the RBA notes this may overstate the impact on the office market as a whole given that the sample of liaison firms is biased towards larger firms, which have embraced remote working arrangements the most. Research undertaken by Investa found increased working from home could see a reduction in commercial office space by up to 15%. This estimate is based on the prospect of staff working from home between two and two and half days a week. Despite most large firms planning to adopt a hybrid model of work, around half firms surveyed by the RBA have no intention of changing the amount of office space they lease. One reason for this is that the amount of office space required depends on 'peak' usage, rather than average usage across the week. Other reasons noted by firms include the need to accommodate larger collaborative work spaces, social distancing, and future growth in headcount. The remaining quarter of firms surveyed in liaison remain undecided on their long-term work arrangements and office space requirements. The decisions of these firms will have a large bearing on the extent of the negative effect of COVID on office demand in the long term. The long length of many existing office leases also means that the full impact of these decisions will likely take a number of years to resolve. A survey undertaken for Infrastructure Australia into COVID-19 impacts found that the proportion of respondents who wish to work from home once per week or more has grown from 27% prior to COVID-19 to 42% post-COVID-19 and around 15% of employees surveyed would like to increase their level of working from home post-COVID-19 compared with pre-COVID-19 levels. While some large firms are moving forward with relocations, generally within 5 km of their current location, other large firms are taking a 'wait and see approach' and not relocating until future work patterns are determined or their current lease expires. There are mixed views on whether hybrid working will result in a greater shift of office jobs from the CBD to suburban office markets. Several real estate agents interviewed by the REINSW[5] did not believe there would be a notable shift in the share of office jobs in the CBD and non-CBD centres, while others believe firms will move their business or parts of their business such as shared services, back-office finance, and call centres to alternative locations[6]. Savills view is the CBD, is and will continue to be, the dominant office market. However, hybrid working could encourage more firms to consider non-CBD locations more intently and reduce office space in the CBD. This could potentially mean the CBD only maintain its share of metropolitan office space, rather than increasing its share as it has done in the past 20 years. However, given the facilities and amenities, existing concentration of large businesses, and public transport in the CBD Savills doesn't anticipate a substantial structural change in office demand moving from the CBD to the suburban markets.

Savills expects in the medium term there will also be pressure to rezone of some sites in suburban centres to allow residential development. As such, once the currently vacant and underutilised sites are gone – the only way to develop a new office building is to redevelop strata buildings and older office buildings. This is generally only feasible near the peak in the cycle. Some Councils including the City of Sydney have moved to protect the commercial core from residential development through the CBD Planning Strategy, while North Sydney has had a resurgence of interest in office space due to the metro and changes to the LEP and Willoughby Council has been progressing plans to bolster the commercial core in Chatswood.

While there are new large (5,000 m2+) office buildings underway or planned soon in several Outer Western Sydney Centres, including Liverpool and Penrith, Savills view is it is unlikely that there will be significant overflow demand of office tenants from the CBD to Outer Western Sydney centres for some time, unless State or Federal Government directs a department to locate to one of the centres. This being said, not all office demand is overflow demand. There will always be both business generated demand and local population growth generating demand for office development. Likewise, an office centre can develop quickly to a critical mass where several factors combine at a particular point in time – with the development of Rhodes, Norwest and Sydney Olympic Park being a case in point. For example, the introduction of a metro line at Sydney Olympic Park by 2026 has generated new interest in the centre, with the lack of a direct train previously an issue for some firms. The future metro train line and changes to the Local Environmental Plan have been catalysts for increased office demand in North Sydney, while the Draft Place Infrastructure Compact for the Greater Parramatta and Olympic Peninsula notes that over the next 20 years, and with the right city-shaping infrastructure, could potentially generate around 100,000 extra jobs. Further, under the Master Plan for Sydney Olympic Park, approved in 2018, it is forecast the suburb will have a daily workforce of 34,000 people by 2030.

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https://www.gallup.com/workplace/390632/future-hybrid-work-key-questions-answered-data.aspx; https://www.swinburne.edu.au/research/centres-groups-clinics/centre-for-the-new-workforce/our-research/hybrid-working-australia/; https://www.investment.nsw.gov.au/assets/Uploads/files/IPC/2857779350/NSW-Remote-Working-Insights-November-2021-report.pdf

[4] https://www.rba.gov.au/publications/smp/2021/aug/pdf/box-b-covid-19-and-commercial-property-in-australia.pdf

[5] https://www.reinsw.com.au/Web/News/Latest_News/2021/12_December/The_future_of_office_space.aspx

[6] https://www.raywhitecommercial.com/news/hub-and-spoke-the-likely-office-model-for-the-australian-workforce/

3. Location requirements of major office occupiers in suburban centres

There are several location requirements for major office occupiers in suburban centres:

- **Access to 'white collar' and executive workforce** – major office occupiers require a location with good access, often by public transport, to a large pool of 'white collar' workers. The choice of location is also often influenced by the personal preference of owners/senior executives and where existing staff live. The proximity to the 'executive housing belt' is reported to be a key reason why many businesses have chosen to locate on the North Shore and at Macquarie Park. The appeal of office locations such as Parramatta and Norwest (closer to the executive belt than other areas in Western Sydney) is due to accessibility to the large workforce in Western Sydney.
- **Reasonable rent**— in relocating most major office occupiers require a location that delivers rent savings or that delivers a boost in workplace experience sufficient to justify an increase. Currently, the gap between rents for B-Grade and C-Grade office space (circa $350 m2 - $400 m2) and new A-Grade space ($550m2+) in the Western Parkland City is too great for many local firms to justify a move to a better-quality building. There are only a few tenants that are large enough and willing to pay rents high enough for a developer to build a high-rise A-Grade office. The rent levels will be set by the development costs – noting construction costs for a similar multi-storey office building will be similar regardless of the location. However, land values will be lower in the Western Parkland City and larger sites may be available. This could mean construction costs could be lower if more-grade parking could be provided and less basement parking was required, and lower rise office buildings could be considered.
- **Critical mass and amenity**—major occupiers require a location with other similar businesses and the amenity and facilities that are attractive to staff (food, coffee, shopping, public transport, childcare, doctors etc). Savills view is a centre needs around 100,000 m2 of stand-alone office space in close proximity to achieve a 'critical mass' as an office precinct and to attract the necessary secondary services such as food outlets and general retailing. Development scattered around a suburb or isolated from major service locations may contain large amounts of space, but is unlikely to reach a critical, self-sustaining mass. In Savills experience some major occupiers will trade off the amenity / facilities of a centre and seek to provide their own facilities in a campus style environment. This is the case for major office occupiers at Mascot, where the location close to the Airport is more important and occurred earlier than the establishment of the Mascot Train Station or Mascot Town Centre. It is also prevalent in business parks in Macquarie Park.
- **Ability to meet property requirements** – major office occupiers require a building that meets their property requirements. This means the success in attracting major office occupiers is influenced by the availability of sites / buildings and willing developers. The Property Council lists the features of A-Grade and B-Grade office buildings, but typically the size of the floorplate (1200 m2+), efficiency of the floorplate (Gross Floor Area to Net Lettable Area); the availability of parking (at least for fleet and the executive) and ancillary offer (gym. wellness, concierge, café, shared meeting etc) and location within a centre are the most important factors. The rezoning of sites and controls to allow office development and higher car parking provision rates at North Ryde, Macquarie Park and Rhodes are part of the reason for office development in these centres. Planning policy also influences the availability of options in out-of-centre office locations with looser policies allowing more office development out of centre generally reducing the amount of office development in centres.
- **Government support**—few private sector occupiers report Government support is a requirement to relocate, however Government support can underpin office development a number of ways, including:
  - **Relocation of government employees** – Government has relocated a range of agencies to Parramatta and numerous buildings have been developed to accommodate state government departments, including Sydney Water, Attorney Generals Department, Environment Protection Agency, Office of State Revenue, Department of Planning and the Department of Education. Other office buildings underwritten as the result of government policy include the Australian Taxation Office (ATO) building at Penrith; Family and Community Services at Liverpool and the National Information and Communications Technology Australia (NICTA) at the Australian Technology Park in Eveleigh.
  - **Investment and partnership in industry/infrastructure** – government can support and partner with industry and invest in key infrastructure including roads, energy distribution, rail, airports, etc. The development of the Western Sydney Airport is expected to generate significant economic growth in the region and accelerate the development of offices.
  - **Development of transport infrastructure to allow employee/employer access**—as stated early office occupiers require a location that is well serviced by mass transport—rail and/or road based—allowing for easy access for staff and their clients.

- **Improvements of the public domain and amenities** –improving the public domain can assist in attracting office development. For example, Table 3 shows the results of a tenant and worker survey in North Sydney which identified that image and presentation of the local area is one of the top five reasons for choosing an office location

Table 3 – Location criteria identified by organisations and workers in North Sydney

TENANTS (DECISION MAKERS)	WORKERS
Availability of public transport	Where employer is based
Proximity to CBD	Immediate access to amenities and facilities (retail, childcare, services, recreation, and fitness)
Proximity to clients and customers	Fitting with professional image
Desirable location for attracting staff	Proximity to recreation / fitness
Fitting with corporate image (amenities, streetscape, public domain, building)	Great atmosphere

Source: North Sydney Commercial Centre Study, 2015, Urbis.

- Savills notes that office development can occur in locations that have no history of attracting office users and/or do not have the infrastructure typically expected/required by prospective occupiers. The main raison for such development is a particular set of user preferences, as shown by examples including IBM's campus at West Pennant Hills or the McDonald's national head office at Thornleigh.

4. Suburban office centres – the role of speculative development

Typically, new office buildings require a lease-precommitment before commencing construction, however this section provides examples of the role of speculative office development in the development of Rhodes, Sydney Olympic Park, Norwest, Macquarie Park and Parramatta. These have been the areas in metropolitan Sydney (outside the CBD) where there has been an increase in office stock over the past 10 – 20 years.

4.1. Rhodes

Rhodes emerged relatively quickly from being an industrial precinct to its current size at around 200,000 square metres. The Rhodes office market is well located on one of the main north-south road thoroughfares as well as the Northern Line of the Sydney Trains network. It has benefited from the ease of access, as well as the availability of attractive buildings, affordable rents, and a high car parking ratio. Office development at the site kicked off in 2001 with the completion of a 10,800 square metre building which the developer (Australand, now Frasers) occupied itself. Australand executives believe the development is unlikely to have commenced without this[7]. Almost every other building was speculatively built. Three more buildings were completed by 2004, of which only the Unisys building was pre-committed, with the other two were subsequently leased to Nestle and NAB. Subsequent buildings included office towers on the western side of the railway at Walker's 'Rhodes Waterside', which were underwritten by partial pre-commitments. Building F at Rhodes Corporate Park was completed in 2013, which was 16,900 square metres, and was speculatively built. In June 2021 there was a high level of office vacancies at circa 30% and vacancies in A Grade Buildings in June 2022 were reported to be around 30%.

Figure 2 - Building F, Rhodes Corporate Park

Source: www.richardcrookes.com.au

[7] Personal communications with former Australand CEO.

4.2. Sydney Olympic Park

The first pure office building, The Quad stage 1 (5,000 square metres), was completed in 2000. Initially, much of the pure office space proved slow to lease and considerable incentives were required to attract tenants. However, in recent years, almost all of the office space that has been constructed has been taken up, reflecting the area's growing attraction as an office centre. The most significant office development in Olympic Park was completed in 2007 and 2008 when the Commonwealth Bank more than doubled the size of the office stock by pre-committing to around 57,000 square metres of space. This project was established to accommodate numerous back-office operations for the bank. Apart from its size, the Commonwealth Bank lease also stands out because it is one of the few pre-committed office buildings developed at Olympic Park. Almost all the other dedicated office buildings have commenced on a speculative basis and subsequently leased up.

Over the last 10 years, office development has also been facilitated by an increase in floor space ratios from the original maximum of 1:1. However, CBA decided to move out of Sydney Olympic Park to the Australian Technology Park around four years ago. Some reports cited the ongoing costs of transporting staff to the site and increasing parking costs. However, publicly the bank reported it had decided to consolidate tenancies in Parramatta, SOP and Lidcombe, with CBA reporting "moving to the transformed Australian Technology Park will put 10,000 of our people in the heart of a growing technology hub, providing us with a significant opportunity to partner and collaborate with universities, start-ups and other innovative companies."

In June 2022 office vacancy rates at Sydney Olympic Park were reported to be below two percent, and Savills is aware of several companies investigating projects due to the planned metro station in 2026. As noted earlier the future metro train line and changes to the Local Environmental Plan have been catalysts for increased office demand in North Sydney, while the Draft Place Infrastructure Compact for the Greater Parramatta and Olympic Peninsula (GPOP) notes that over the next 20 years, and with the right city-shaping infrastructure, GPOP could potentially attract around 100,000 extra jobs. Further, under the Master Plan for Sydney Olympic Park, approved in 2018, it is forecast the suburb will have a daily workforce of 34,000 people by 2030.

Figure 3 - Quad 1, Sydney Olympic Park

Source: www.realcommercial.com.au

4.3. Norwest

Norwest was initially dominated by purpose-built high-tech and mixed-use developments, but the introduction of flexible zoning encouraged the subsequent development of pure office buildings. The first 100% office buildings were developed in 2000. Although many of the early buildings housed back-office and call centre tenants, one of the first projects was a pre-committed headquarters building (9,200 square metres) for Wyeth in 2000. In essence, Wyeth was the seed occupant for office development at Norwest. After that, it took several years for the next wave of office development to come on stream as demand languished during the post 2001 economic recovery. It was not until 2005 that the next round of buildings was completed, including notably the 50,700 square metre Woolworths headquarters. Other developers, such as Presida (12,730 m2) and Capital Corporation developed office buildings speculatively.

4.4. Macquarie Park and Parramatta

Similarly at Macquarie Park and Parramatta, some offices have been developed speculatively including the 10,000 m2 Array on Eden Park Drive. In Parramatta, the following recent developments were partially pre-committed and partially speculative 6 Hassall Street (28,000m2) and 32 Smith Street (26,000m2 – 50% pre-leased to QBE). However, typically office buildings require a lease-precommitment before commencing construction

Figure 4 – The Array, Macquarie Park.

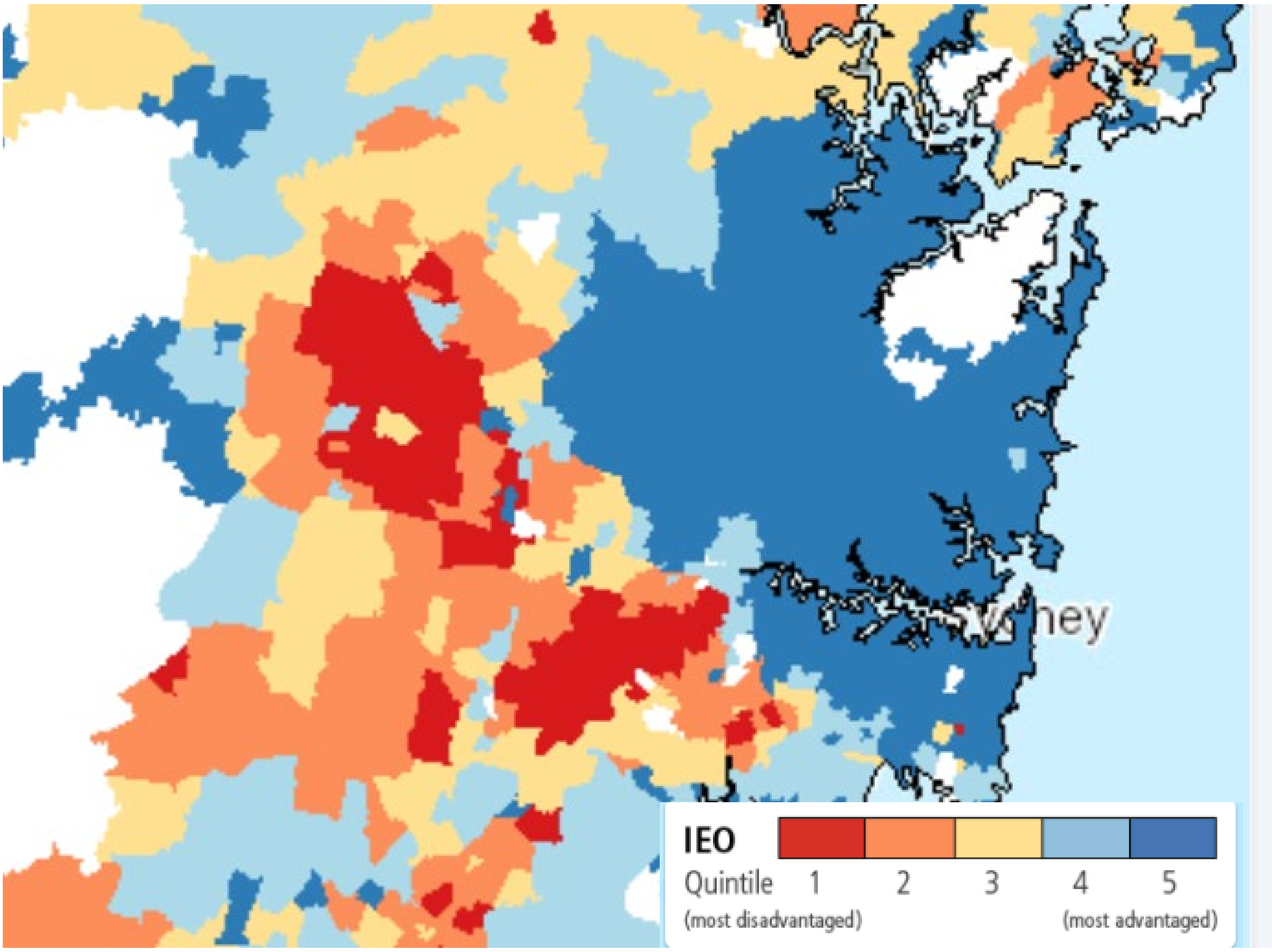
Figure 5 - 32 Smith Street, Parramatta

Source: https://array1epd.com.au/ &
www.realcommerical.com.au

5. Location requirements for office occupiers and the Western Parkland City

5.1. Access to white collar workforce

Map 1 shows where areas rank on the ABS Index of Education and Occupation[8]. This highlights that only parts of the Blue Mountains and some new housing estates are areas with higher than average levels of education and skilled workers. While sections of Penrith LGA, Blacktown LGA and Fairfield LGA have scores of one (around Mount Druitt, Austral and Cabramatta) and scores of two and three – which means residents have average or below average levels of educational attainment and work in lower skilled occupations. While this is changing with an increasing proportion of residents obtaining post school qualifications and most LGAs attracting a higher proportion of residents who are 'professionals' and 'managers' the access to the 'white collar' workforce has traditionally been a challenge in developing stand-alone office stock at scale in many parts of the Western City Parkland.



[8] The Index of Education and Occupation (IEO) is designed to reflect the educational and occupational level of communities. The education variables in this index show either the level of qualification achieved or whether further education is being undertaken. The occupation variables classify the workforce into the major groups and skill levels of the Australian and New Zealand Standard Classification of Occupations (ANZSCO) and the unemployed. A **low** score indicates relatively lower education and occupation status of people in the area in general. For example, an area could have a low score if there are a high proportion of people without qualifications, or many people in low skilled occupations or many people unemployed, and few people with a high level of qualifications or in highly skilled occupations.

5.2. Reasonable rents

While most centres in the Western Parkland City have much lower average office rents than the CBD, Parramatta and other major office markets, the majority of stock is B Grade or C Grade stock. There is generally very limited A Grade stock and when built new the A-Grade stock can be more expensive than new campus style development in Macquarie Park or B-Grade office stock in Parramatta CBD.

Table 4 – Average new build office rents in selected centres

	New A-grade office space	B+ grade office space
Liverpool	\$520 - \$550 m2	\$320 m2
Penrith	\$520 - \$550 m2	\$320 - \$350 m2
Campbelltown	\$520 - \$550 m2	\$300 - \$320 m2
Blacktown	\$520 - \$550 m2	\$250 - \$350 m2
Parramatta	\$650 m2	\$500 m2
CBD	\$1000 + m2	\$650 - \$750 m2
Macquarie Park	\$500 m2+	\$340 - \$450 m2

5.3. Critical mass and amenity

Savills view is a centre needs at least 100,000 m2 of geographically concentrated standalone office space to create a critical mass to support the retail and other ancillary services that are present in a vibrant office market. At the moment there are few locations in Western Sydney with this level of office stock (Table 5). Table 6 shows there is additional office space in centres and around centres however it is not stand-alone office space (i.e., it is shop top office suites and office space associated with retail or industrial uses). Further, although it difficult to measure this is type of space, it is clear there is significantly more B Grade and C Grade office space, than A Grade space, in many centres in Western Sydney.

Table 5 – Estimated standalone office space in selected centres

	2010	2015	2020
Norwest	207,000	241,400	259,500
Liverpool	87,000	88,500	103,500
Penrith	90,000	91,500	94,500
Bankstown	60,000	63,000	66,000
Campbelltown	37,500	37,500	39,000
Castle Hill	34,500	36,000	37,500
Blacktown	30,000	34,500	34,500
Westmead	6,000	6,000	6,000**

Table 6 – Estimated total office space in selected centres and suburbs

	A Grade	B Grade	C Grade
Norwest / Bella Vista / Castle Hill	203,152	294,111	22,217
Liverpool	51,691	71,237	122,645
Penrith	64,321	67,309	26,724
Bankstown	60,756	87,342	14,524
Campbelltown	0	131,735	44,103
Castle Hill	0	59,973	9,456
Blacktown	14,729	222,268	18,814
Westmead	3,276	20,210	145

Table 7 shows the value of office projects that have been approved in each LGA between 2015 and 2020. Assuming the construction cost of a multi-storey office building in suburban centre is around $3,000 m2 - $5,000 m2 the table suggest a modest level of office approvals in these years.

Table 7 – value of 'office' development approved 2015 – 2020 by Local Government Area

	Blue Mountains	Camden	Campbelltown	Fairfield	Hawkesbury	Liverpool	Penrith	Wollondilly
Offices	$1,429,000	$5,766,000	$14,391,000	$21,885,000	$2,819,000	$66,235,000	$107,793,000	$4,692,000

Source: ABS Building Approvals, 2015 – 2020.

Table 8 shows a pipeline of possible, firm and committed projects listed as office developments on Cordell Connect[9]. It is important to note that some of these projects are only in the early planning stage; some have a combination of office, retail and residential and not all projects may be tracked. This shows there are a range of office projects in progress in major centres in the Western City Parklands. Major projects include:

- Camden
  - Gledswood Hills Business Park $84 million
  - Gregory Hills Business Park at $11 million
  - Oran Park Podium (mixed use residential, retail and office) $145 million
  - South West Business Centre, Gregory Hills, $12 million

- Campbelltown LGA
  - Campbelltown RSL, hotel, club and offices $50 million.
  - Lang Walker Medical Research Building Macarthur $47.5 million

- Liverpool LGA
  - Liverpool Civic Place at $121 million
  - Western Sydney Airport Business Park at $100 million;
  - 277 Bigge Street, Liverpool at $106 million
  - The Advanced Manufacturing Research Facility, Bringelly at $36 million
  - An office and entertainment development by Westfield in Liverpool at $93 million
  - Macquarie Street Mixed Use Development – office, residential/retail at $126 million
  - Liverpool Plaza Mixed Use Tower, $50 million
  - Castlereagh Street Mixed Use Development $75 million

- Penrith LGA
  - 50 Belmore Street, Penrith $50 million
  - 84 Henry Street, Penrith, $7 million
  - 304 – 306 High Street, Penrith $16 million
  - 129 – 133 Henry Street $60 million
  - Soper Place, Penrith $106 million, part office, part public car park and part public recreation space
  - Sydney Science Park, Luddenham, $80,000,000

Table 8 – Pipeline of proposed and potential office development by Local Government Area

	2021	2022	2023	2024	2025+
Blue Mountains	$0	$0	$0	$0	$0
Camden	$12,000,000	$97,000,000	$14,000,000	$0	$156,000,000
Campbelltown	$0	$0	$0	$47,500,000	$50,000,000
Fairfield	$0	$0	$0	$0	$0
Hawkesbury	$0	$0	$0	$0	$0
Liverpool	$0	$0	$36,000,000	$0	$422,000,000
Penrith	$0	$50,000,000	$27,000,000	$19,900,000	$65,500,500
Wollondilly	$0	$0	$0	$0	$0

Source: Cordells Construction Database. Projects classified as offices and/or with commercial /office

[9] Cordell Connect is an online database of researched building and construction project information for the Australian and New Zealand markets

5.4. Government support

A number of initiatives from the federal, state and local governments have / are expected to have a positive impact on demand for office space, including:

- Development of the Western Sydney Airport (WSA) – This development is expected to generate increased population and employment in the region and contribute to the creation of over 200,000 jobs including higher order jobs at Bradfield.
- Major Government projects including the establishment of a carbon neutral CSIRO facility of up to 18,000 m2[10] and the Aerotropolis Advanced Manufacturing and Research Precinct
- Development of the Western Sydney Airport Link – The NSW and Federal Governments have committed to funding the first stage of the new rail line, between St Marys and the Western Sydney Airport
- Public domain improvements – most local governments in the Western Parkland City are investing in town centre and public domain improvements.
- Relocation of government employees – as noted earlier the relocation of Government agencies has supported office development in several centres in Western Sydney – particularly Parramatta. Other Government agencies relocated to the Western City Parkland include the Australian Tax Office and NDIA (Penrith) and the NSW Department of Family and Community Services and Centrelink (Liverpool).

5.5. Population and economic growth

Population and employment growth particularly white-collar employment growth will be important drivers of demand for office space. However, past experience suggests population growth will only underpin a modest amount of office demand. Table 8 shows the results of applying the results of regression analysis used by SGS Economics and Planning to estimate the amount of office floorspace demand generated by population growth.

Table 9: Indicative demand for office floorspace 2021-2041 generated by population growth (square metres)

Blue Mountains	Camden	Campbelltown	Fairfield	Hawkesbury	Liverpool	Penrith	Wollondilly
700	13,600	8,300	5,600	1,500	12,500	8,200	5,400

Source: Using regression co-efficients developed by SGS Economics and Planning

[10] https://www.csiro.au/en/news/news-releases/2020/csiro-sets-sights-on-aerotropolis-as-new-sydney-research-hub

5.6. Summary

There are currently some challenges to the development of large stand-alone office space in existing centres in the Western Parkland City. While office rents for new A Grade office space in these centres are generally lower than in Parramatta CBD, the rent for a new A-Grade office space is generally higher than for campus style office space in Norwest or Macquarie Park and B Grade space in Parramatta CBD and these A Grade rents are more than some medium and large sized occupiers are willing to pay. Much of the recent office investment in the CBDs outside Parramatta has been associated with health and education users and the relocation of Government occupiers. However, the launch of new office projects including at Penrith, Bradfield and Liverpool are encouraging and there is growing momentum in the Western Parkland City.

Table 10 shows the major location requirements and drivers of office demand and Savills summary assessment of the current position of the major centres against each.

	Penrith CBD	Liverpool CBD	Campbelltown CBD	Blacktown CBD	Parramatta CBD
Access to white collar workforce	Negative	Neutral	Negative	Neutral	Very positive
Developer / investor office development activity	Average	Average/Positive	Neutral / Average	Neutral / Average	Very positive
Critical mass & amenity	Neutral	Neutral	Neutral	Neutral	Positive
Population growth	Average	Average/Positive	Average	Positive	Positive
Availability of sites and suitable office space	Neutral	Average	Neutral	Neutral	Positive
Supportive state government projects	Positive	Positive	Average / Positive	Neutral	Positive
Planning policy and controls	Average	Average	Average	Average	Positive
Rents and relativities	Neutral	Neutral	Neutral	Neutral	Negative
Supportive local government projects	Positive	Positive	Positive	Positive	Positive

Savills agrees with the finding by Atlas Urban Economics for the Western Sydney Planning Partnership that "*there will also be challenges to the initial take-up of commercial and business park development opportunities in the Aerotropolis. Competition from neighbouring centres, commercial office market dynamics in Western Sydney and a lack of established amenity and critical mass will collectively make the viability of large scale office development challenging in the short / medium term*" Table 11 is an extract from the Atlas report which argues that mid to high rise of office buildings are unlikely to be feasible at the opening the Airport (2026) and may take up to 15 years for office development to be delivered at scale.

Land Use	Potential Development Typology	FSR	Feasible on Opening?*	Commencing Delivery Horizon^
Commercial				
Low rise	Commercial/ warehouses	1.0:1 to 1.3:1	Y*	0-5 years
Low to mid rise	Commercial buildings	1.3:1 to 1.5:1	Y*	0-5 years
	Commercial buildings	2.0:1 to 2.5:1	Y*	5-10 years
Mid to high rise	Office buildings	2.5:1 to 3.6:1	N	15 years+

Source: Atlas Urban Economics, 2021