

# SYDNEY OLYMPIC PARK OFFICE MARKET BRIEF

JUNE 2017



## Key Facts

**Sydney Olympic Park is currently home to around 18,200 jobs**, spread across a diverse range of sectors. Financial and Insurance Services account for 30% of jobs located in the precinct.

**Over the next 20 years, Sydney Olympic Park is forecast (BTS) to experience employment growth of at least 8,291 jobs**, 88% of which will be in industries which require office space.

Following the recent completion of NRMA's office facility at 9 Murray Rose Avenue, **office stock in Sydney Olympic Park currently totals 152,428m<sup>2</sup>**, up 26% since January 2012.

**The office vacancy rate in Sydney Olympic Park measures 2.9%**, well below the levels recorded for the two prior years.

**A lack of leasing options has resulted in net face rental growth of 4.6% over the year to January 2017**. In combination with a fall in incentive metrics to 23%, net effective rents have increased by 11.9% over the 12 month period.

Home to some of the nation's largest sporting and entertainment events, Sydney Olympic Park has emerged as one of Sydney's premier suburban office markets, enhanced by the area's strategic position within Sydney.

## Market in Context

Sydney Olympic Park is located 14km West of the Sydney CBD and is a pivotal centre within Sydney. The area has experienced a vast transformation since the Sydney 2000 Olympics from an underutilised industrial wasteland, to a mixed use precinct. Sydney Olympic Park is currently home to Sydney's major sporting, entertainment and business events, accommodating some 14 million visitors in 2016 alone. In addition, Sydney Olympic Park has become a key contributor towards the economic output of Sydney with analysis by PwC revealing the precinct was the seventh largest local economy in Sydney in 2015.

Identified by the NSW Government in the 2014 *A Plan for Growing Sydney* as a strategic centre, the area is set to become the focus of future investment, helping support future employment growth. Similarly, the Greater Sydney Commission's establishment of the Greater Parramatta to the Olympic Peninsula strategy (GPOP) in 2016 has identified Sydney Olympic Park as the Lifestyle Super Precinct. The vision is for Sydney Olympic Park to become the eastern anchor of GPOP, offering inner city style living in combination with mixed use employment and entertainment provisions.

Notably, future development within Sydney Olympic Park will be guided by the Sydney Olympic Park Authority's revised Master Plan 2030. The vision for the precinct is to accommodate a daily population of 62,000 persons by 2030, consisting of residents, workers and students, up from 21,000 people today. This growth will be facilitated by the release of suitable sites in conjunction with proposed changes to zoning controls, building heights and FSRs.

The backbone of Sydney Olympic Park's success has stemmed from the investment in infrastructure, brought about by the 2000 Olympics which ultimately improved the precinct's connectivity with other parts of Sydney. Looking ahead, a new wave of infrastructure projects will further strengthen Sydney Olympic Park's strategic position within Sydney. The three key infrastructure projects which will have the greatest impact on the precinct are the WestConnex road project, Sydney Metro West and the Parramatta Light Rail with stage two (Camellia to Strathfield via Sydney Olympic Park) currently in planning. These projects, coupled with population growth, will have several positive implications to the local economy, particularly the office market as additional businesses are drawn to the area's amenity and connectivity.

# OFFICE MARKET

The local employment market of Sydney Olympic Park (see back page Technical Note for definition) has experienced significant growth over the past two decades, transforming from a heavy industrial precinct into a diverse employment centre. As at 2017, there are 18,200 jobs within Sydney Olympic Park, 88% of which are within white collar industries (those who require office space). Underpinned by the presence of CBA and NRMA, Knight Frank Research estimates Financial and Insurance Services to account for 30% of all jobs in the area, while Recreation Services (event staff, etc.) accounts for 13% of all jobs within the precinct. Between 2011 and 2016, employment growth in Sydney Olympic Park measured 3.7% per annum, more than double the rate recorded for Greater Sydney over the same period (1.6% per annum).

## Local Business Profile

Sydney Olympic Park is characterised by a diverse range of business types and it is estimated that there are 230 businesses currently operating within the precinct. Notably, the area acts as the headquarters to a number of national based occupiers including Samsung, NRMA and Lion Group while Sydney Olympic Park is currently home to CBA's administrative functions. Other major tenants located in the precinct include ACPE, Sydney Olympic Park Authority, Thales Group and UBT.

Financial and Insurance businesses (CBA, etc.) accounts for the largest proportion of businesses by office NLA at 43%. IT & Communication represents the next largest share at 15%, mainly represented by Samsung and Fujitsu. Following this, Government & Community tenants account for 9% of occupied office NLA, resulting from the Justice Health & Forensic Mental Health Network, Government Property NSW and NSW Office of Sport being located in Sydney Olympic Park. This tenancy mix is likely to change, following CBA's forthcoming relocation from Sydney Olympic Park (c.55,000m<sup>2</sup>) to ATP from late 2017 onwards. However, this backfill space will act as quasi supply for Sydney Olympic Park and will allow the precinct to capture

tenant demand that it otherwise would have lost given the lack of current leasing options.

## Demand Projections

Sydney Olympic Park is expected to experience significant employment growth over the next 20 years. Over the 20 years to 2036, an additional 8,291 jobs (source, BTS) are expected to be created (415 per annum). Industries which are forecast to experience the largest growth are Financial and Insurance Services (+2,447 jobs) and Professional, Scientific and Technical Services (+1,244 jobs).

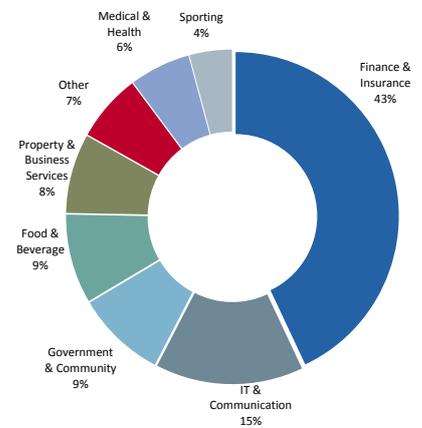
From a white collar perspective, 88% (in line with current estimates) of the expected employment growth over the next 20 years is anticipated to stem from jobs which utilise office space. Notably, the annual growth rate for white collar employment growth in Sydney Olympic Park is expected to total 2.2% per annum over the next 20 years, well above the 1.5% expected for Greater Sydney over the same period. Based on these projections and an office density ratio of 15m<sup>2</sup> per worker, office demand in Sydney Olympic Park is expected to total approximately 109,445m<sup>2</sup> over the next 20 years.

We note however, these projections were modelled prior to the planning of stage two of the Parramatta Light Rail which will include a stop at Sydney Olympic Park, Sydney Metro West and revision of the Master Plan 2030. Once complete, these projects will significantly add to the appeal for additional businesses to be located in Sydney Olympic Park, thereby increasing employment growth in the area. In this case, Knight Frank Research anticipates a 10-25% increase to the baseline employment numbers could occur.

## Office Market Fundamentals

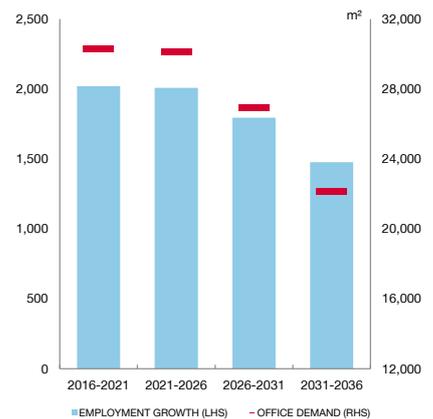
As per Knight Frank Research's suburban stock count, office space in Sydney Olympic Park currently totals 152,428m<sup>2</sup>, 90% of which is A-grade office space. This represents 4.8% of Knight Frank Research's suburban stock count.

FIGURE 1  
Sydney Olympic Park Tenancy Mix  
Office NLA by Business Type



Source: Knight Frank Research

FIGURE 2  
Sydney Olympic Park Jobs Growth & Office Demand  
White Collar Industries (2016-2036)



Source: Knight Frank Research, BTS

Following the addition of several office buildings over recent years, the Sydney Olympic Park office market has grown by 26% since January 2012, reflecting strong demand from tenants to be located in A-grade suburban office buildings.

Following the recent completion of NRMA's purpose built office facility at 9 Murray Rose Avenue, new office supply in the precinct totalled 5,921m<sup>2</sup> over the past 12 months. Prior to this, new office developments in recent years has included GPT's 3 Murray Rose Avenue, where 12,900m<sup>2</sup> was built (100% leased to Samsung) and 5 Murray Rose Avenue (12,400m<sup>2</sup>) which is now home to Lion Group. Looking ahead, future supply in Sydney Olympic Park is constrained to GPT's 4 Murray Rose Avenue (15,680m<sup>2</sup>) which is already 60% pre-committed to the NSW Rural Fire Service and 5,326m<sup>2</sup> at Fitzpatrick's 11

Murray Rose Avenue. Through the release of new sites, there is potential for additional new supply to be added. Given the lack of immediate development opportunities in Sydney Olympic Park, CBA's departure between late 2017 and 2019 will add much needed supply to the Sydney Olympic Park market, allowing displaced tenants from other markets to secure office space in the precinct. This trend has become pronounced over the past 12 months, highlighted by the Rural Fire Service relocating from Lidcombe and UBT from Meadowbank due to the conversion of their previous premises.

In line with other Sydney suburban markets, where 177,000m<sup>2</sup> has been permanently withdrawn from the market over the past three years, residential development activity continues to play a role in Sydney Olympic Park office stock levels, with a select number of buildings being withdrawn for residential development. More recently, withdrawals for residential conversion in Sydney Olympic Park have included 100 Bennelong Parkway, withdrawn in 2015 for the construction of 331 apartments (Botania—Meriton). In addition, 2 Figtree Drive has recently been withdrawn and is currently being marketed by Mirvac (Pavilions) for the construction of a mixed use residential tower. Notably, these withdrawals have occurred at a time when new supply has been limited and subsequently has placed additional pressure on the local office market.

As at January 2017, the vacancy rate in Sydney Olympic Park measured 2.9%,

significantly down from the rates recorded for the two prior years and below the broader Sydney suburban office vacancy rate of 6.2%. Historically, the vacancy rate in Sydney Olympic Park averaged 2.2% (prior to 2015), however Samsung's backfill space at 8 Parkview Drive (Quad 4) following their relocation to the nearby 3 Murray Rose Avenue, coupled with the speculative development of 10 Herb Elliot Avenue led to a sharp rise in the vacancy rate in 2015 and 2016, peaking at 8.3%. The leasing of Samsung's backfill space to ACPE in combination with net absorption of 7,179m<sup>2</sup> across the broader market in the year to January 2017 has caused the vacancy rate to return to historical levels.

Furthermore, the Sydney Olympic Park office vacancy rate has tightened off the back of shrinking office markets in neighbouring suburban locations, including Ashfield, Burwood and Strathfield which have seen extensive stock withdrawals for residential conversions. With Rhodes almost at full capacity, currently recording a vacancy rate of 1.9%, in conjunction with no available prime office space in Parramatta, tenants from these markets are increasingly turning to locations like Sydney Olympic Park to secure office space.

Solid tenant demand over the past 12 months resulted in strong leasing activity at 10 Herb Elliot Avenue, which has seen UBT (3,583m<sup>2</sup>) and Justice Health & Forensic Mental Health Network (2,200m<sup>2</sup>) leasing space, in addition to Western Sydney University taking up 2,438m<sup>2</sup> at 8 Australia Avenue for educational use.

## Rents and Incentives

A lack of available leasing options, in conjunction with the pick up in tenant demand, has resulted in relatively strong rental growth over the past 12 months within the Sydney Olympic Park precinct. As at January 2017, prime net face rents averaged \$395/m<sup>2</sup> (ranging from \$370-\$420/m<sup>2</sup>), equating to annual growth of 4.6% over the 12 month period.

Although being very asset and owner specific, incentive levels have declined across the board within Sydney Olympic Park to currently average 23% for prime space, down from 28% a year prior. As a result, effective net rents increased by 11.9% over the 12 month period to currently average \$306/m<sup>2</sup>. This growth rate is well above the 6.7% recorded for the broader suburban market over the same period.

## Sales and Investment Activity

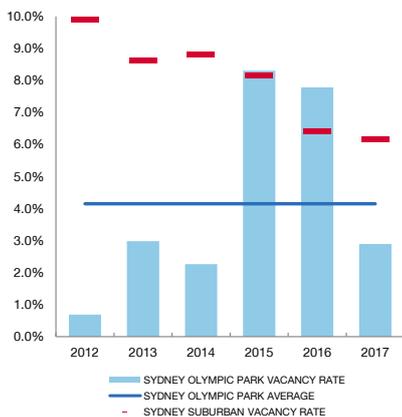
The flow of investment activity to Sydney suburban office markets has remained high with 2016 representing one of the strongest years since the GFC. In 2016, office sales in Sydney non-CBD office markets totalled \$4.18 billion, a 15% increase YoY.

For Sydney Olympic Park, office investment activity has been limited with only a select number of assets being brought to market in recent years, reflecting the tightly held nature of assets within the precinct. The last major office sale to occur in the precinct was the leasehold interest of 10 Dawn Fraser Avenue (May 2016) for \$80.15 million. Completed in 2007, the 23,390m<sup>2</sup> A-grade office building was acquired by private property group Sandran. The property was sold on a WALE of 3.5 years, fully leased to CBA with an expiry in August 2019.

The purchase reflects the investor demand and confidence in the Sydney Olympic Park office market, albeit with CBA announcing they will exit the building on expiry (possibly in 2020 to align with completion of ATP), with the new owner willing to purchase with the leasing risk attached.

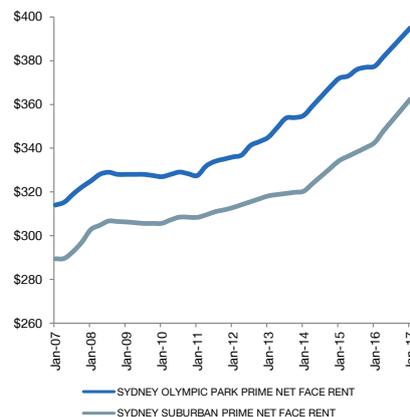
Despite a lack of sales evidence within Sydney Olympic Park, average core market yields have firmed. As at January 2017, average core market yields are expected to trade between 6.50% and 7.25%, indicating firming of 20 bps over the past 12 months.

FIGURE 3  
**Sydney Olympic Park Vacancy Rate**  
Office, Jan 2012 - Jan 2017



Source: Knight Frank Research

FIGURE 4  
**Avg Prime Net Face Rents**  
By Market (\$/m<sup>2</sup>)



Source: Knight Frank Research

# OUTLOOK

- A lack of new supply within the Sydney Olympic Park precinct is expected to lead to favourable office market conditions over the next two years. With the competing office markets of Rhodes and Parramatta at or close to capacity, we expect demand for office space in Sydney Olympic Park to rise.
- Demand from tenants seeking quality office space is expected to be exacerbated by continued stock withdrawals in other suburban markets.
- From late 2017, CBA are expected to exit their tenancy at 2 Dawn Fraser Avenue (circa 18,800m<sup>2</sup>) and not exercise their option to renew, while they will depart from their other premises at 4 and 10 Dawn Fraser Avenue (circa 13,515m<sup>2</sup> and 22,800m<sup>2</sup> respectively) on expiry in 2019 (possibly 2020 to align with completion of ATP). This departure is expected to lead to a short term spike in the vacancy rate. However, given the lack of quality A-grade assets across the Sydney suburban market, we anticipate this backfill space to lease relatively quickly, particularly as there are currently a number of large tenant briefs for suburban office space being circulated including Westpac (circa 6,000m<sup>2</sup>) and Nokia (circa 5,000m<sup>2</sup>).
- In regards to rents, rental growth is expected to ease from their current levels over the next two years, weighed down by the pending exodus of CBA in 2017 and 2019.
- Investor demand for suburban assets is expected to remain strong, attracted by the elevated yield metrics on offer when compared to the Sydney CBD and other major Sydney office markets.
- With an increasing pipeline of future developments within the Sydney Olympic Park precinct, including the earmarked retail provisions at Figtree Drive by GPT, there will be significant positive impacts on local amenity. The recently announced Sydney Metro West underground rail project connecting the Sydney CBD to Parramatta, via the Sydney Olympic Park and The Bays Precinct, anticipated to be operational in the second half of the 2020s, will also provide stimulus to new developments and will underwrite future office demand as businesses are drawn to the improved amenity and connectivity.

## TECHNICAL NOTE

Sydney Olympic Park has been defined by the Bureau of Transport Statistics (BTS) Travel Zone of 1326.

For the purpose of this report, we have chosen to use BTS employment data as opposed to the employment visions set out in the Sydney Olympic Park 2030 Master Plan. Notably, the Master Plan 2030 envisages a daily worker population of 34,000 people.

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