

# Sydney City Fringe Office Market



July 2024

- Solid economic drivers in the Fringe
- Under-supply of prime stock
- Vacancy tracks below major CBD markets

[knightfrank.com.au/research](https://knightfrank.com.au/research)





# Key Insights

City Fringe a destination of choice for occupiers and investors



Marco Mascitelli  
Associate Director, RESEARCH & CONSULTING

**3.4%**

Overall vacancy across fringe markets as at Jul-24

**40%**

Of stock in the fringe is prime grade

**38%**

Net face rental discount between Surry Hills and CBD

- The favourable demographic profile offers ready access to talent, and the appeal of co-locating alongside like minded businesses in close proximity to major health and education precincts are compelling for many occupiers.
- Prime grade space on average accounts for under 40% of total fringe stock, compared to 64% in the CBD. Surry Hills the largest fringe market which has a prime composition of just 12%, whilst Eveleigh has a prime composition of 95%.
- Development pipeline in the fringe remains limited with only boutique size projects on the horizon along with Mirvac's two staged harbourside development due in 2026 and 2027.
- Occupier demand and limited new supply over the past decade has led to overall vacancy in all the major fringe markets tracking below the Sydney CBD and major metro markets.
- The resilience in the fringe market after the pandemic has partly closed the rental gap with CBD precincts. The current rental discount between Surry Hills and the CBD is 38%.
- Whilst transactional evidence has been limited, yields for the best quality assets in the core fringe locations are trading at a small spread to CBD assets.

## City Fringe office market indicators – July 2024

Market	Total Stock sqm	Total Vacancy Rate %	Prime Vacancy Rate %	Average Prime Net Face Rent Range \$/sqm	Incentive % <sup>^</sup>	Core Market Yield % <sup>*</sup>
Surry Hills	472,419	2.7	2.7	750-1,000	25-35	6.00-6.50
Pyrmont	304,345	5.4	6.6	750-950	30-40	6.75-7.25
Eveleigh	203,118	2.8	3.0	750-900	30-40	6.25-6.75
Ultimo	126,527	3.7	0.0	600-750	30-40	7.25-7.75
Redfern	111,474	1.3	0.0	550-750	30-40	6.75-7.25
Darlinghurst	62,328	5.9	11.9	750-1,000	25-35	6.00-6.50
Chippendale	51,423	1.4	0.0	750-1,000	25-35	6.00-6.50
<b>Total</b>	<b>1,331,634</b>	<b>3.4</b>	<b>3.8</b>			

Source: Knight Frank Research/Arealytics <sup>\*</sup>assuming WALE 5.0 years <sup>^</sup>Incentives are on a Gross basis

# Positive economic drivers

## STRONG AND RESILIENT LOCAL ECONOMY

Sydney's CBD and inner fringe have enjoyed particularly strong economic growth in recent decades. Gross regional product in the City of Sydney local government area (including the CBD and surrounding suburbs such as Darlinghurst, Surry Hills, Pyrmont, Ultimo, Chippendale, and Redfern) totalled \$141.7 billion in 2023, recording its strongest level of annual growth and has more than doubled over the past two decades (growing at an average rate of 3.4% per annum). Economic growth in inner Sydney has significantly outpaced that of Greater Sydney, which has grown by 60% (or 2.3% per annum) over the same period. Reflecting this stronger growth, the City of Sydney's share of total Greater Sydney output rose from 22% in 2002 to 28% in 2023.

## POPULATION GROWTH HAS LED TO EXPANSION OF EMPLOYMENT AND LOCAL ECONOMY

The high long-term growth rate of Australia and its major cities can be partly attributed to strong population growth, which has underpinned a sustained rise in employment and economic output. Over the past 20 years, Australia's population has grown by 35%, well in excess of the growth experienced by other major economies including the US (17%), UK (14%), France (9%), Germany (2%) and Japan (-3%).

Strong population growth has led to the rapid expansion of major cities led by Sydney and Melbourne, which have seen significantly faster economic and employment growth than other Australian cities. While global migration flows were disrupted by the pandemic, they have now improved with no more restrictions, in particular a major influx of overseas students this year which has had a profound impact on the fringe given the location of universities in the precinct.

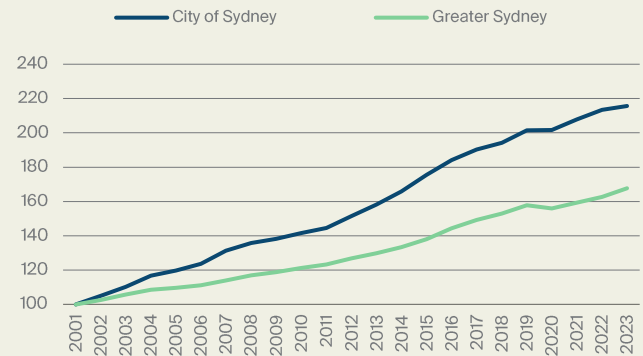
Sydney's CBD and inner fringe have enjoyed particularly strong population growth (53%) over the past two decades compared with 29% growth rate for Greater Sydney, with most inner city suburbs recording significantly stronger population growth than the Sydney average.

## HIGHLY SKILLED AND SERVICE-ORIENTATED ECONOMY TO DRIVE DEMAND FOR OFFICE SPACE

In line with national trends, Sydney's economy has become more weighted towards skilled services industries. Financial and Professional services accounted for 28.2% of gross value added (GVA) in 2023, compared with 22% in 2003. By contrast, the share of manufacturing output has declined significantly. Along with sustained long-term population growth, the relatively strong growth of highly skilled service industries will facilitate white-collar employment growth and demand for office space.

## SYDNEY CITY FRINGE OFFICE MARKET

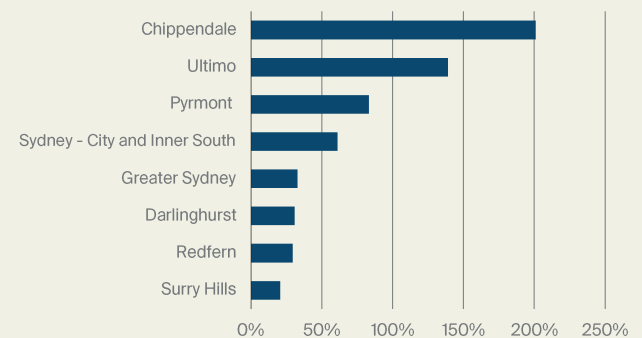
### Gross regional product Index, 2001 = 100



Source: Knight Frank Research, .id

### Population growth, 2001-2023

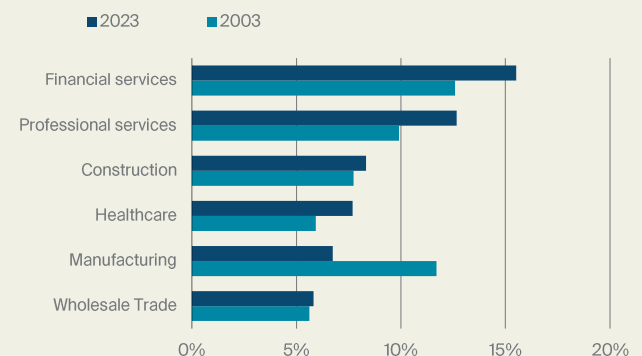
Per cent



Source: Knight Frank Research, ABS

### Sydney industry structure

Share of GVA



Source: Knight Frank Research

# Favourable demographics in the fringe

## YOUNG AND HIGHLY SKILLED WORKFORCE ACROSS THE CBD AND FRINGE

Inner city Sydney has a relatively young adult population. Over 42% of Sydney's CBD and city fringe population were between 20 and 34 years of age as at the 2021 Census, nearly double the 22% share for Greater Sydney. The CBD, Pyrmont-Ultimo, and Redfern-Chippendale have a particularly high share of people within this age cohort, ranging between 38% and 50%. Surry Hills and Darlinghurst have relatively higher shares of 25-34-year-olds at 33% and 31% respectively.

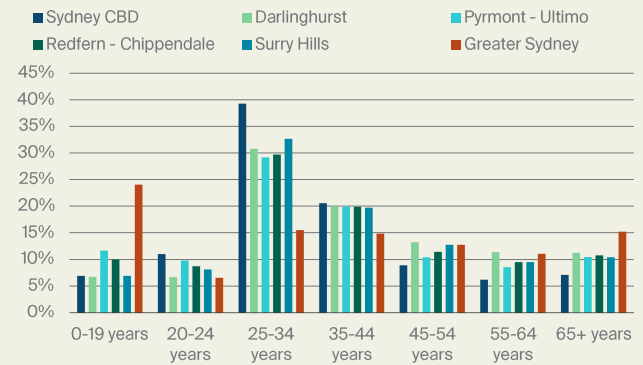
Sydney's inner-city population is relatively highly educated. Around half of the resident population of the Sydney CBD and city fringe hold a bachelor's degree compared to 44% for Greater Sydney. Rates of tertiary educational attainment are evenly spread across the city fringe suburbs with between 47% and 51% of the population of Darlinghurst, Pyrmont-Ultimo, Redfern-Chippendale, and Surry Hills holding a bachelor's degree. Similarly, nearly a quarter of inner-city Sydney residents hold postgraduate qualifications compared with 19% for Greater Sydney.

## HIGH INCOME EARNING POPULATION HIGHLIGHT THE FRINGE'S APPEAL AS AN AREA TO LIVE AND WORK

Reflecting the relatively highly skilled and educated population as well as the area's enduring appeal, Sydney's city fringe suburbs have a larger proportion of high-income earners compared to the Greater Sydney average. This is particularly true in Darlinghurst and Surry Hills where 20% and 17.6% of residents respectively have a total weekly income of \$3,000 or more, more than double the 7.5% average for Greater Sydney. Pyrmont-Ultimo and Redfern-Chippendale also have a greater than average share of high-income earners but less than Darlinghurst and Surry Hills at 12.7% and 10.6% respectively.

### Age distribution

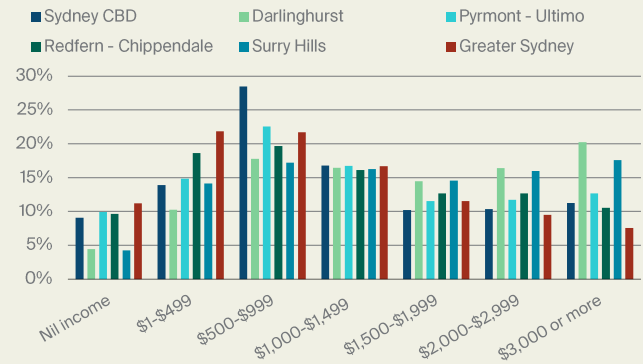
Proportion of resident population by age



Source: Knight Frank Research, ABS

### Income distribution

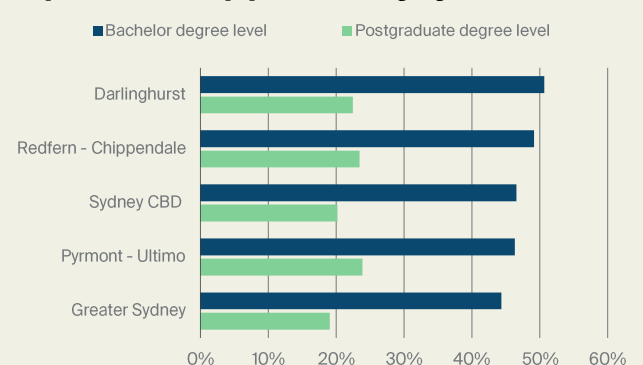
Total personal weekly income



Source: Knight Frank Research, ABS

### Educational attainment

Proportion of resident population holding degree



Source: Knight Frank Research, ABS

# Undersupply of prime quality stock

## LIMITED PRIME GRADE OFFICE STOCK

There is a clear undersupply of prime stock across the city fringe, in a market that is increasingly demanding high quality office accommodation. Prime grade space on average accounts for under 40% of total fringe stock, compared to 64% in the CBD. Surry Hills the largest fringe market which has a prime composition of just 12%, with Ultimo also very low at 19%, followed by Darlinghurst and Chippendale at 30%.

## SHORT TERM PIPELINE REMAINS LIMITED TO BOUTIQUE SIZE DEVELOPMENTS AND HARBOURSIDE

New developments in the fringe markets have historically performed very well. The most recent developments, The Brewery Yard development is sustainably pre-committed to Afterpay, whilst the Oxford & Foley development in Darlinghurst has achieved high commitments to Sony and Dovetail on its commercial component. Additionally; 29-41 Hutchinson Street, Surry Hills has gained strong interest from a broad set of occupiers. Beyond these developments the pipeline in the fringe remains limited with only boutique size projects on the horizon along with Mirvac's two staged harbourside development which will encompass 27,000sqm of premium office space along with 7,000sqm of retail space. Stage 1 is due for completion in 2026 and stage 2 in 2027.

The limited pipeline presents opportunity for potential developers to enter the market given the limited competition for new space and would be well received by the market.

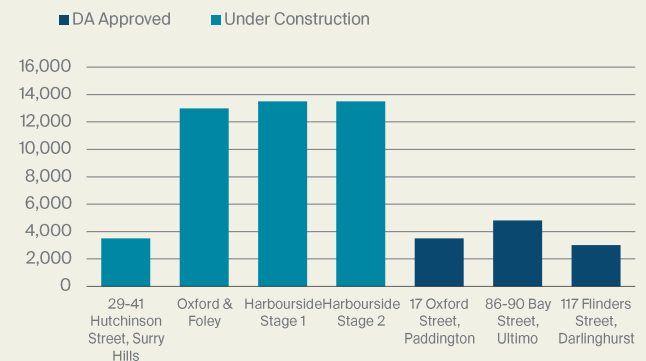
## REFURBISHMENTS AND CONVERSION PROVIDE DEVELOPMENT OPPORTUNITY FOR LANDLORDS

An entrenched lack of supply and a desire to tap into the cultural and heritage features of buildings within the fringe has led to increased focus on refurbishing and upgrading existing stock. For instance, 29-43 Balfour Street, Chippendale, was successfully converted from a warehouse to A grade office accommodation, this is similar to the Brewery Yard development and 29-41 Hutchinson Street, Surry Hills. Examples like this demonstrate that 'flight to quality' continues to reward owners who upgrade to meet the evolving needs and expectations of occupiers.

Looking ahead, with few opportunities for large-scale development outside of the Central precinct, the fringe is likely to remain under-supplied relative to the growth of the underlying occupier base seeking prime grade space. In this environment, more owners are likely to seek to upgrade existing assets and rental performance relative to other Sydney markets will continue to grow.

## Development pipeline

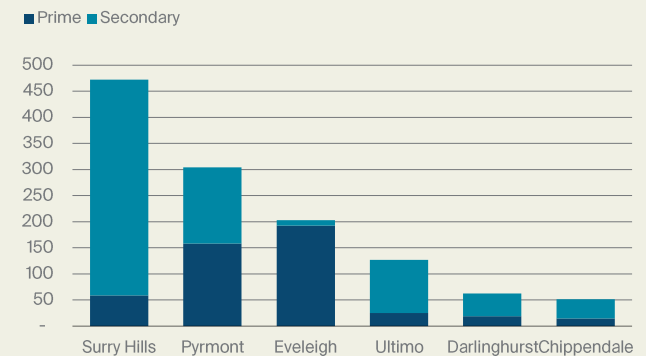
By status, Sqm



Source: Knight Frank Research

## Office stock size

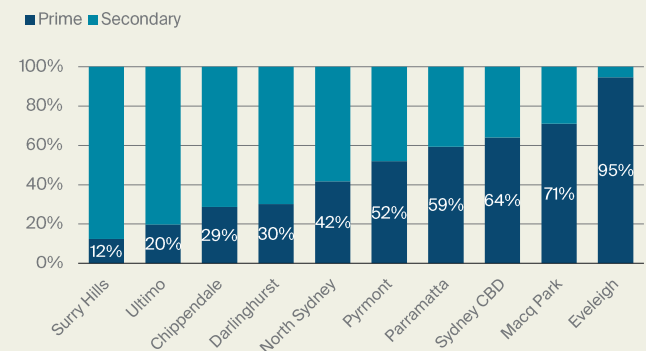
By market, '000 sqm



Source: Knight Frank Research

## Composition of office stock

By Market, %



Source: Knight Frank Research/Arealytics

# Appealing occupier destination

## DEMOGRAPHIC PROFILE AND AMENITY RICH DESTINATION ATTRACTING ARRAY OF OCCUPIERS

Businesses in the technology sector and wider creative industries have been at the forefront of the fringe markets rapid expansion and revitalisation as an office market of choice. The favourable demographic profile offers ready access to talent, and the appeal of co-locating alongside like minded businesses in close proximity to major health and education precincts are compelling for many occupiers.

In addition, fringe workspaces offers more of a unique experience compared to the traditional CBD and this appeals to many occupiers looking to use their workplace to help position their brand and appeal to potential new hires. With rich amenity on the doorstep, the requisite ingredients are in place for occupiers to thrive.

Tech and creative industries have seen the city fringe as a destination of choice over the last five years as evident in take-up levels, with tech occupiers accounting for an average 38% of deal activity each year, much higher than in the CBD (20% on average). Examples of recent deals include Netflix (1,150sqm) and Airwallex (1,400sqm) into Chippendale, Droneshield (1,835sqm) into Pymont and Morse Mirco (2,127sqm) into Surry Hills.

As the fringe markets develop and mature, we are now seeing the markets evolve organically to accommodate specific business clusters, and over time this will segment the markets more clearly.

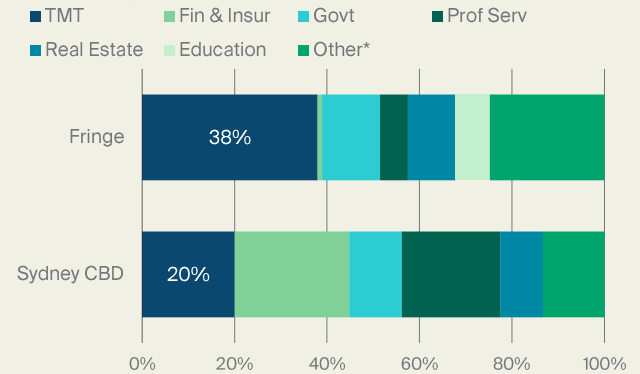
For example, Chippendale and Ultimo generally have a high proportion of education and tech occupiers, while Pymont hosts an established digital cluster and Real Estate occupiers. Surry Hills is a larger market with a more diverse occupier mix. Whilst in Eveleigh there has become a strong presence of tech and R&D occupiers.

## VACANCY TRACKS WELL BELOW OTHER SYDNEY OFFICE MARKETS

Occupier demand and limited new supply over the past decade has led to overall vacancy in all the major fringe markets tracking below the Sydney CBD and major metro markets. There is an acute lack of availability in the prime market, given the flight to quality and amenity trend playing out and a very limited amount of prime stock in these markets. In particular, tenants seeking prime space in Eveleigh, Surry Hills and Chippendale there are very few options as evidenced by sub 3% vacancy.

## Lease deals by Industry Sector

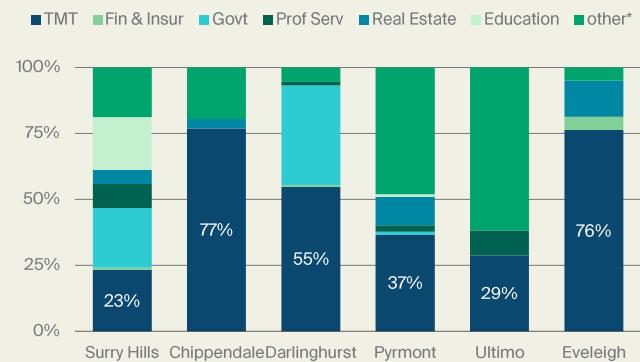
5 year average by market



Source: Knight Frank Research

## Sector demand, by market

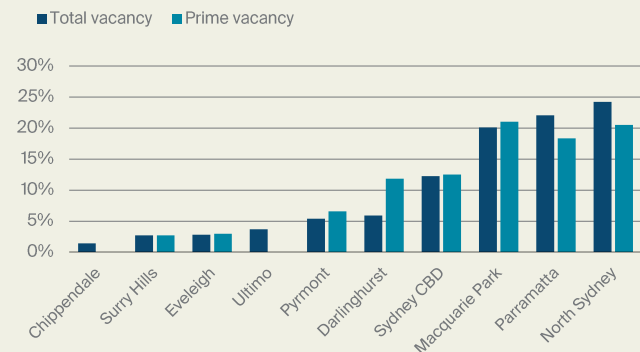
5 year average, %



Source: Knight Frank Research

## Vacancy by market

Total vs prime, %, as at July-24



Source: Knight Frank Research

# Rents narrowing the gap on CBD

## MARKET RESILIENCE HAS TIGHTENED THE RENTAL GAP WITH CBD

Positive net face rental growth has been experienced across all fringe locations over the year to July 2024, with average net face rents ranging between \$700-\$1,000/sqm across the board for prime space. Location specific and best in class assets are regularly achieving net rents in excess of \$1,000/sqm. Surry Hills outperformed other fringe submarkets by achieving 4.5% net face growth over the year, followed by Chippendale and Darlinghurst at over 3%. Meanwhile, incentives have edged slightly higher to average between 30-40%.

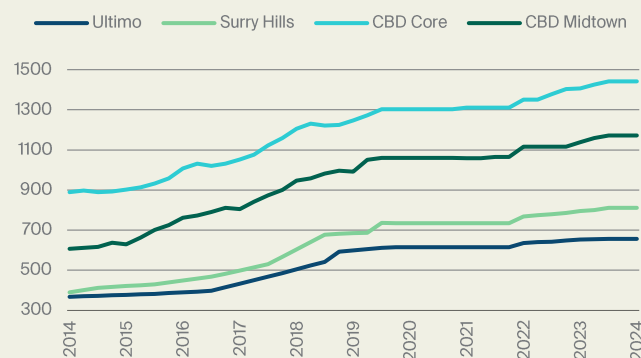
The resilience and strength of the fringe market has partly closed the rental gap with the CBD. The current rental discount between Surry Hills and the CBD is 38%, well down on 50% in 2017. The rental gap is anticipated to become tighter in the future on the back of stronger rental growth and increased demand with a market constrained for new quality stock.

## POSITIVE RENTAL OUTLOOK

Looking ahead, further rental growth is forecast as occupier demand keeps vacancy for prime stock low amidst limited new supply. While Tech Central will bring significant supply over the next decade, the surrounding fringe precincts will remain tight taking into consideration of the experience of other global markets such as London indicating significant long-term growth potential as the fringe markets mature.

## Average prime net face rents

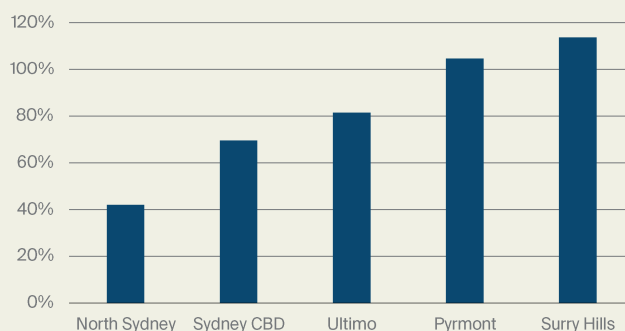
By market, \$/sqm, Jul-24



Source: Knight Frank Research

## 10 year net face growth rate

By market, %



Source: Knight Frank Research

## Recent significant tenant commitments

Occupier	Property	Size sqm	Gross Face Rent \$/sqm	Term yrs	Start Date
Transport NSW ~	8 Central Ave., Eveleigh	3,009	890	7	Q3 24
Droneshield ~	235 Pyrmont St, Pyrmont	1,835	855	5	Q2 24
SpeeDX	619 Elizabeth Street, Redfern	1,100	850	5	Q2 24
Netflix~	1-7 Wellington Street, Chippendale	1,150	1,150	5	Q1 24
Airwallex ~	29 Balfour St, Chippendale	1400	1,150	5	Q1 24
Sparro ~	35 Tumbalong Boulevard, Haymarket	1,000	1,170	5	Q1 24

# Pre-commitment ^ Sublease ~ Direct \* Renewal  
Source: Knight Frank Research



# Strong investor confidence

## INVESTMENT ACTIVITY TO PICK UP

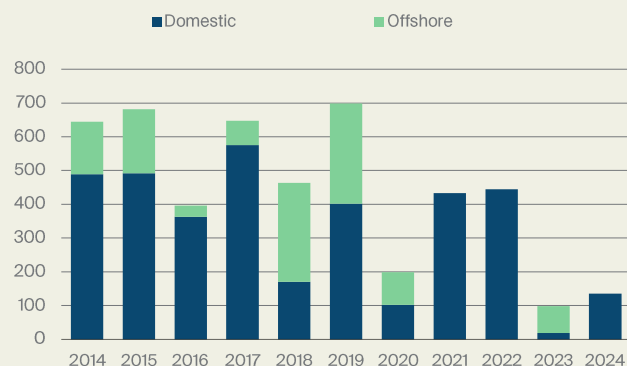
The last two years the investment market has been characterised by uncertainty and elevated funding costs which has led to investors sitting on the sidelines and waiting for sentiment to improve. As a result, investment volumes were subdued in 2023 to a decade low of \$98.3 million, with only two assets transacting.

The major transaction in 2023 was Charter Hall selling 221-227 Anzac Parade, Kensington for \$80 million. Centuria Capital divested the Belltower office building at 6 Cornwallis St, South Eveleigh for \$18.25 million.

Transactional activity has already improved in 2024 with the sale of two assets totally \$135 million. 63 Ann Street in Surry Hills traded at the beginning of the year for \$32.2 million on a sub 6% yield whilst 1 Central Eveleigh recently sold for \$103m on a 5.9% yield. Transactions are expected to pick up over the second half of the year on the back of investor confidence for fringe assets and a clearer market outlook.

### Sydney fringe office sales \$10m+

By purchaser (\$m), domestic v offshore



Source: Knight Frank Research, RCA

## YIELD VARIANCE BY GRADE AND LOCATION

The yield softening trend that has played out since mid 2022 has now slowed over the last quarter. Prime office yields have softened between 125-200bps across the various fringe submarkets since their tightest levels in early 2022.

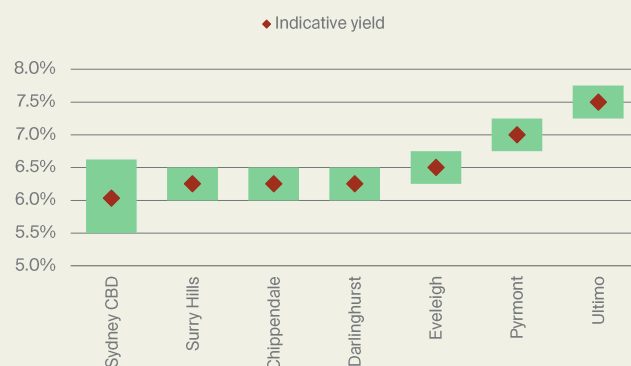
The average prime yields in the fringe markets currently range between 6.00% and 7.50%.

Prime office yields in Surry Hills, Darlinghurst, Eveleigh and Chippendale remain relatively low, with buildings in these suburbs particularly sought after by investors. Whilst transactional evidence has been limited, yields for the best quality assets in sought after locations are likely to trade at a small spread of 20-50bps to CBD assets, arguably in Surry Hills assets could trade on par to the CBD given the tightly held nature and lower leasing risk.

On the other hand, there is a larger variation in yields among assets in Ultimo and Pymont, which will likely trade at a larger discount to other fringe submarkets.

### Sydney fringe prime office yields

%



Source: Knight Frank Research

## Recent significant sales

Property	Price \$ m	Core Market Yield %	NLA sqm	\$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
1 Central Ave, South Eveleigh	103.00	5.88%	7,716	13,349	6.6	Private	Centuria ATP Fund	May-24
63 Ann St, Surry Hills	32.25	5.94%	2,361	13,659	2.8	Private	Abacus Property Group	Feb-24
221-227 Anzac Parade, Kensington	80.00	5.59%	10,685	7,487	8.5	Keppel REIT	Charter Hall Direct PFA Fund	Jul-23
6 Cornwallis St, Eveleigh	18.25	5.37%	1,148	15,897	VP	Private	Centuria Capital	May-23



# Revitalisation of Central Precinct

## Central precinct to benefit from large-scale urban regeneration over the next decade

### EXPANSION OF THE CBD TO AMENITY RICH SOUTHERN BOUNDARY AND FRINGES

Historically the city fringe and its Southern boundaries have been underutilised as an office market destination and regarded as a sub prime office market compared to the core CBD. However, over the past decade the market has outperformed and demonstrated its potential to catch up with more established precincts.

This outperformance can be attributed to demand and supply side factors. On the demand side, the growth of the technology sector and wider creative industries has been a key driver, because these businesses tend to seek a less traditional office environment. They are often location-agnostic or with a preference for the city fringe, linked to its vibrant amenity, ability to help shape brand identity and appeal to potential new hires.

On the supply side, the geographical boundaries of the CBD and height restrictions within the CBD core have always meant that over time, the traditional core would spill-over to expand into the fringe due to capacity constraints. Reflecting this, the growth of total stock in the core markets has slowed down, with new markets in the fringe and separately in Parramatta now playing a greater role in the overall Sydney landscape.

These constraints have heightened the demand for fringe locations from developers recognising the market's long-term potential both as a natural extension to the CBD, and as a market growing organically in its own right with a distinctly different feel. A notable example is Eveleigh, which has undergone extensive development over the last five years with the activation of ATP and CBAs 100,000sqm office footprint in the precinct, which would have been more difficult to achieve within the core CBD.

### VISION FOR TECH CENTRAL TO BECOME GLOBAL LEADER FOR INNOVATION AND TECHNOLOGY

Aligned with these trends, the Government's vision is to establish Central Precinct as an innovation cluster driven by knowledge-sharing industries and supported by adjacent health and education corridors. The area is designated as a state-significant precinct covering 24 hectares bounded by Pitt Street to the west, Cleveland Street to the south, Eddy Avenue to the north and Elizabeth Street to the west.

At the forefront of the vision is Tech Central, which is earmarked for up to 250,000sqm of commercial space with the aim to house start-ups, scale ups and innovation ecosystem partners, aspiring to host 25,000 employees by 2036. Already within the orbit of Tech Central are large health and education institutions including the University of Sydney, University of Technology Sydney, Royal Prince Alfred Hospital and CSIRO's Data61, which will enhance research and collaboration across industries.

Atlassian has committed to establish its new HQ in a new 75,000 sqm tower at the heart of the precinct. The tower will be developed by Dexus and aims to achieve 6 Star NABERS rating, with completion scheduled for 2027. In addition, Dexus and Frasers plan to deliver a further twin-tower development totalling c133,000 sqm, completion of the towers will be staged by 2029 and 2031.



Artist impression: Tech Central

---

## DATA DIGEST

**City Fringe Stock Definition:** Includes suburbs in Surry Hills, Pyrmont, Darlinghurst, Ultimo, Chippendale, Redfern, Eveleigh. Office stock generally above 1,500sqm

**Prime Grade:** asset with modern design and/or recent development, good condition & amenity. Rents achieved in these assets are generally upper end range of the average band

**WALE:** Weighted Average Lease Expiry

Charts and data reflected in report are as at July 2024

---

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



**Research & Consulting**  
Marco Mascitelli  
+61 2 9036 6656  
Marco.Mascitelli@au.knightfrank.com



**Office Leasing**  
Al Dunlop  
+61 2 9036 6765  
Al.Dunlop@au.knightfrank.com



**Capital Markets**  
Jonathan Vaughan  
+61 2 9036 6729  
Jonathan.vaughan@au.knightfrank.com



**Research & Consulting**  
Ben Burston  
+61 2 9036 6756  
Ben.Burston@au.knightfrank.com



**Office Leasing**  
Andrea Roberts  
+61 2 9036 6703  
Andrea.Roberts@au.knightfrank.com



**Capital Markets**  
Ben Schubert  
+61 2 9036 6870  
Ben.Schubert@au.knightfrank.com



**Research & Consulting**  
Naki Dai  
+61 2 9036 6673  
Naki.Dai@au.knightfrank.com



**Office Leasing**  
Nick Sinclair  
+61 2 9036 6810  
Nick.Sinclair@au.knightfrank.com



**Valuations & Advisory**  
James Marks  
+61 2 9036 6684  
James.Marks@au.knightfrank.com

---

## Recent Research



Australian Horizon 2024



Australian Industrial Review | Q1 2024



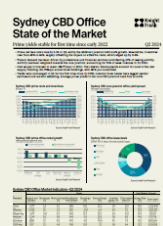
North Shore Office Market Report | March 2024



Sydney CBD Office Market Report | February 2024



Breaking the shackles: the rise of BTR



Sydney CBD Office State of the Market snapshot - Q2 2024



Important Notice © Knight Frank Australia Pty Ltd 2024 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.