

Response to North Sydney Council's submission objecting to SSD 82599709: 153–157 Walker Street, North Sydney mixed use development (economic matters)

This response addresses the key points raised in the submission made by North Sydney Council, dated 27 October 2025, on the Environmental Impact Statement (EIS) for the State Significant Development (SSD) application for 153–157 Walker Street, North Sydney mixed use development (SSD-82599709), related to the economic analysis provided in support of the EIS. It addresses the requirements outlined in the Planning Secretary's Environmental Assessment Requirements (SEARs), dated 15 May 2025, to:

Consider any economic impacts, including employment, on the North Sydney CBD that may be caused by the use of the development site moving from Commercial Premises to Residential Accommodation/Hotel uses.

North Sydney Council's submission on the exhibited EIS for the proposed mixed-use development at 153–157 Walker Street highlighted concerns over potential impacts the proposed change of land-use can have on economic and employment outcomes in North Sydney. This letter provides a response to the following specific matters that were raised in North Sydney Council's objection:

- The importance of retaining commercial uses on Walker Street
- Impact of Sydney Metro has yet to be fully realised
- Permanent loss of employment capacity on the subject site
- Cumulative adverse impacts of rezoning commercial land on the North Sydney CBD
- Review of the proponent's Economic Impact Assessment

The importance of retaining commercial uses on Walker Street

The site's location at 153–157 Walker Street on the eastern fringe of the North Sydney CBD is already characterised by a mix of commercial and residential uses, where the traditional commercial role of the North Sydney CBD transitions into a more diverse urban environment. The site is located immediately opposite from 146 Arthur Street, a site that was recently approved as a build-to-rent residential redevelopment and is two doors down from a residential tower at 171 Walker Street. In this context, the proposal strengthens the precinct by introducing ground-floor retail activation, short-term hotel accommodation, improved pedestrian conditions, and both resident and transient populations that increases local spending and supports surrounding business.

Market evidence supplied by Knight Frank (May 2025) demonstrates that North Sydney has a significant oversupply of secondary commercial floorspace, with vacancy rates at 23.7% overall and 28% for secondary stock, indicating that retaining ageing commercial floorspace on this site would not respond to market demand or contribute to economic vitality. This dynamic presents further challenges to North Sydney CBD, considering secondary stock accounts for around 58% of all commercial floorspace in North Sydney, a far higher share than in Parramatta, Macquarie Park and Sydney CBD, increasing the risk of long-term obsolescence. These conditions confirm that retaining outdated commercial floor space does not meaningfully contribute to employment supply or the achievement of job targets.

Council's own *Economic Development Strategy* emphasises the need to grow North Sydney's amenity, night-time economy and attractiveness to workers and visitors, noting that traditional office-only patterns do not provide sufficient activity outside business hours. By increasing the resident and visitor population within walking distance of the North Sydney CBD, and by delivering active retail frontages, the proposal strengthens rather than weakens the economic function of the CBD fringe.

The site's repurposing as a mixed-use residential, hotel and retail development delivers a more appropriate and sustainable land-use outcome given these conditions.

Impact of Sydney Metro has yet to be fully realised

North Sydney Council's submission contends that the Metro's delivery will create a strong, deferred wave of commercial demand; this assertion is not supported by existing evidence. Knight Frank's analysis show North Sydney has had the weakest tenant demand among Sydney's suburban markets, with net absorption of ~53,399 sqm since 2021, even as Victoria Cross over-station development (OSD) approaches completion. Premium developments close to the Metro, including Victoria Cross OSD, have only achieved very modest pre-commitments despite superior transport connectivity and amenity, reflecting structural changes in office occupation rather than a temporary lag. While the longer-term impact of the Metro is yet to be determined, in over a year since having opened, the Metro has not unlocked a new wave of office tenants in North Sydney and there is no evidence to support reliance on speculative future commercial demand.

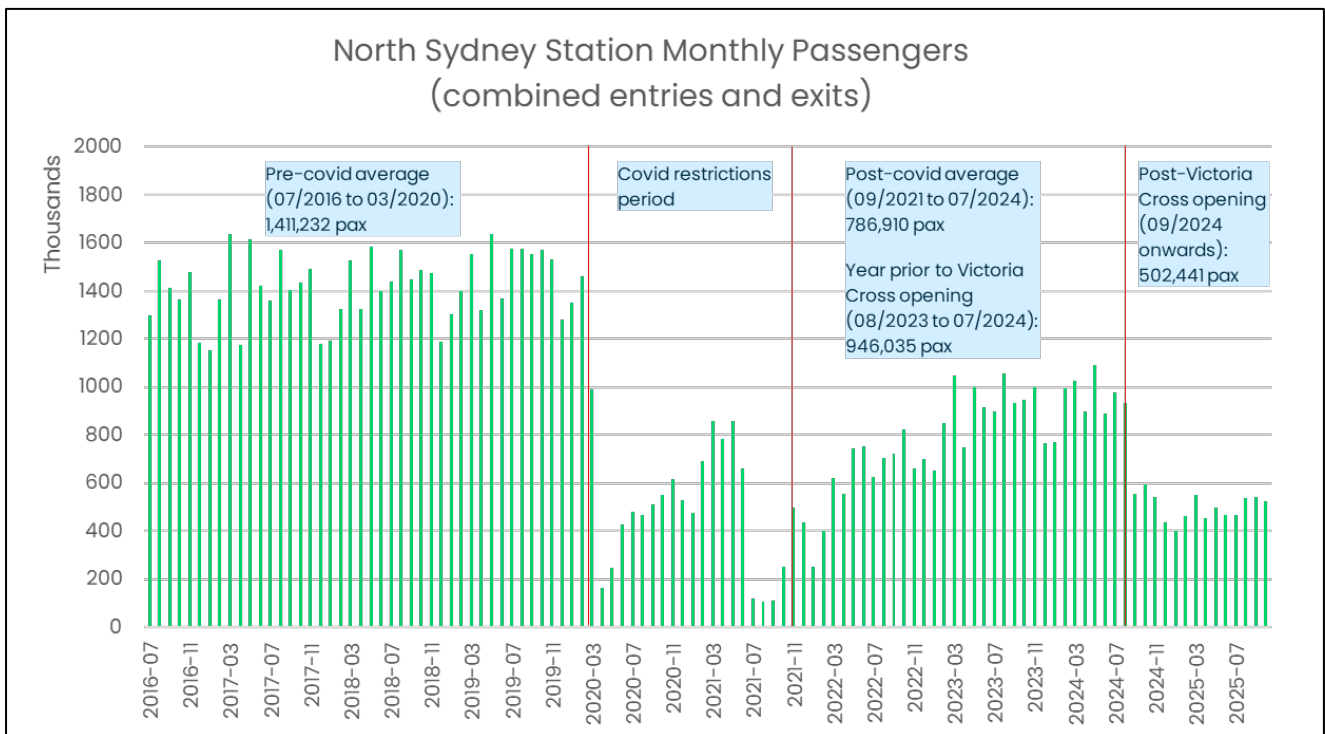
Residential development, by contrast, directly leverages the accessibility benefits of the Metro by providing well-located housing within walking distance of high-capacity public transport, supporting State housing objectives and maximising the site's strategic location. The availability of high-frequency public transport access strongly supports residential density, creating walkable access to jobs and services, and contributes positively to the public interest and housing supply targets.

NSW Government policy under the National Housing Accord and NSW Housing Targets is explicitly to deliver "well-located homes" near existing infrastructure and high-capacity public transport, with a target of 377,000 new homes across NSW by 2029. Delivering 296 dwellings (plus hotel rooms) on this Metro-adjacent site aligns directly with that policy intent, ensuring the substantial public investment in Sydney Metro is matched by increased residential capacity and mode shift away from car-based commuting.

North Sydney Council's submission also cites patronage figures attributed to Transport for NSW that indicate Victoria Cross Metro Station's usage is 15% higher than the average for other stations in E2 Commercial Centre zones. This does not however consider the fact that the uplift in patronage for Victoria Cross Metro Station has come at the expense of train patronage at the nearby North Sydney Station. The average monthly count of combined entries and exits indicates passenger movements at North Sydney Station have almost halved from 946,035 average monthly passengers in the twelve months prior to the opening of Victoria Cross, compared to 502,441 average monthly passengers since its opening¹. This suggests the high usage trends for Victoria Cross are primarily a result of transport mode diversion from heavy rail to Metro trains, rather than an uplift in the number of public transport users visiting North Sydney CBD. The chart below shows the long-term declining trend in passengers entering and exiting North Sydney Train Station, from July 2016 to present day.

¹ Source: Transport Open Data (sourced on 24 November 2025): <https://opendata.transport.nsw.gov.au/dataset/train-station-entries-and-exits-data>

The trend is consistent with the observed long-term decline of North Sydney as a commercial centre, with the average number of passengers using North Sydney Station every month having dropped significantly from over 1.4 million persons in the pre-Covid period.



Source: Transport Open Data, NSW Government (2025)

Permanent loss of employment capacity on the subject site

The Economic Impact Assessment submitted with the EIS demonstrated that, even after accounting for proposed office withdrawals (including this site), North Sydney would still have:

- Around 1.04 million sq. m. of office floorspace in total,
- An implied employment capacity of ~104,185 jobs at a density of 10 sq. m. per job,
- Which is ~22,121 jobs above the North District Plan target of 81,500 jobs by 2036.

In other words, North Sydney can comfortably meet (and exceed) its employment targets without this site remaining or being redeveloped as commercial.

The real constraint is not floor space capacity, but lack of demand for additional offices, as evidenced by Knight Frank:

- North Sydney's office vacancy has risen above 20%, with secondary vacancy at around 28% and forecast to rise towards 40% in B-grade stock.
- Secondary net effective rents have fallen by around 23% since 2019, and incentives have climbed to 39%+, with many deals above 50%, signalling a tenant's market and pressure on asset viability.

- Under these conditions, retaining or rebuilding commercial floorspace on this site would not translate into real jobs; it would likely add to long-term vacancy.

The Economic Impact Assessment shows that the project will support ~837 FTE jobs during construction, generate around 126 direct and indirect ongoing FTE jobs, and deliver an estimated \$27 million per annum in local retail and visitor expenditure from residents and hotel guests. These are actual, realisable employment and economic outcomes, rather than hypothetical jobs based on unproven demand for future office space.

Cumulative adverse impacts of rezoning commercial land on the North Sydney CBD

Across NSW, suburban office markets have experienced the largest falls in capital values and reduced investment activity since 2022, reflecting investor concerns about demand and income security in secondary locations.

As reported by Knight Frank, within North Sydney specifically:

- The market is heavily weighted to aging secondary stock (58% of total),
- Secondary vacancy is already high and forecast to remain near current levels,
- Tenant activity remains highly localised, with new commercial developments heavily reliant on new tenants relocating from within North Sydney,
- New premium supply (e.g. Victoria Cross) is putting additional competitive pressure on older buildings,.

In this environment, a planning approach that selectively repurposes underperforming secondary assets on the CBD fringe actually protects the CBD's long-term economic health by reducing structural vacancy, bringing residents and visitors closer to jobs and services, and by supporting local retailers and the night-time economy.

Furthermore, while the proposal may not be consistent with North Sydney Council's strategic direction to retain only commercial land-uses within the North Sydney CBD, it is consistent with other Council strategic goals. Council's Local Housing Strategy seeks to provide a diversity of housing, including smaller dwellings that better match the area's smaller household sizes and support liveability in centres. The proposal also supports Council's Economic Development Strategy, which emphasises:

- Growing activity and amenity in the CBD,
- Supporting small businesses and those working from home, and
- Enhancing the public domain and night-time activation.

The proposal directly addresses these aims by introducing new residents, hotel guests, retail activity and activated edges in a location that is currently quiet outside office hours.

Because North Sydney's commercial capacity still significantly exceeds employment targets, and because commercial floorspace remains the dominant land use in the CBD core, the conversion of this fringe site to a mixed-use, residential-led building cannot plausibly create a cumulative shortage of employment land. What it does do is set a high-quality benchmark for reinvigorating obsolete office stock in a way that supports, rather than undermines, the CBD's economic role.

Review of the proponent's Economic Impact Assessment

The key propositions in the Economic Impact Assessment are that:

1. There is no shortage of commercial floorspace in North Sydney relative to realistic demand;
2. The office market is experiencing structural, not cyclical, change;
3. A mixed-use, residential-led scheme is the highest and best use of this site given market conditions.

Each of these is supported by independent data from the Property Council and Knight Frank, who report elevated vacancy and "flight to quality" across Sydney's office markets, with suburban and secondary stock most affected. Knight Frank's analysis also confirms negative net absorption over many years for secondary stock, record high incentives, declining effective rents, and the decoupling of employment and floorspace demand.

These sources strongly validate the EIA's assessment that a commercial redevelopment here is unlikely to be feasible or occupied in the medium term.

The EIA appropriately weighs housing and economic benefits, and its conclusions are also consistent with wider evidence:

- Under the National Housing Accord, NSW must deliver 377,000 well-located homes by 2029, yet state-wide and Sydney-wide analysis (UDIA NSW, Master Builders, Urban Taskforce) shows approvals and completions are tracking well below target, with North Sydney identified as one of the poorest performers on new housing approvals to date.
- The project contributes 296 dwellings towards North Sydney's 5-year housing target and helps address an implied local Accord shortfall of over 3,000 dwellings.

In this context, the EIA's conclusion that the proposal delivers a net public benefit—through jobs, housing supply, activation and local spending—is not only reasonable but well aligned with current State and Commonwealth housing policy settings.

Attachment:

North Sydney Commercial Market Analysis, Knight Frank (May 2025)



North Sydney Market Analysis

May 2025

Contents

1. North Sydney office leasing market conditions
2. Office space and employment analysis
3. Capital market conditions

National office vacancy the highest since early 90s



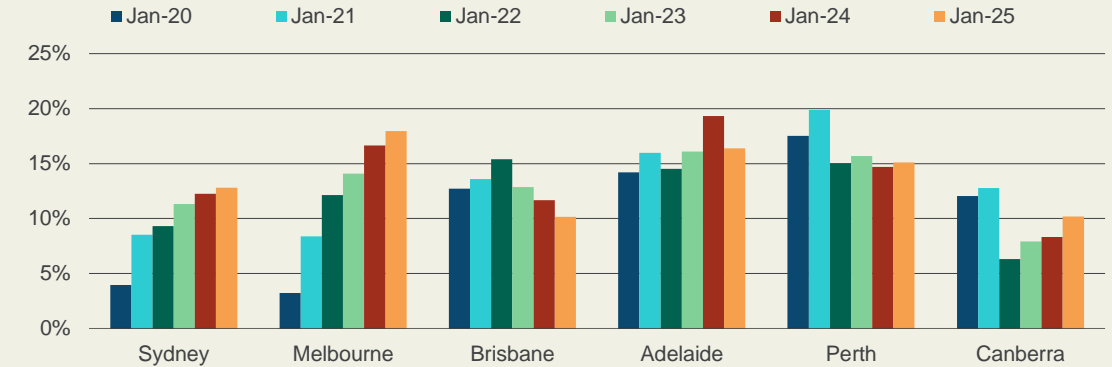
The combination of weak absorption and rising office supply has lifted national office vacancy to 14.7%, the highest level since 1994. Vacancy is particularly high outside the major CBDs in metropolitan office markets, where the current vacancy rate stands at 17.2% on average.

Reflecting significant divergence in the strength of office demand, the trajectory of vacancy rates has also differed substantially. Sydney and Melbourne have seen the biggest shift in market conditions coming off very low levels of vacancy immediately before the pandemic in 2019, with CBD office vacancy rising to 12.8% in Sydney and 18.0% in Melbourne.

Vacancy across all other Sydney markets has risen even more substantially since 2020. In North Sydney, overall vacancy has risen from 7.6% to 23.7%, whilst secondary vacancy (for B-, C- and D-Grade assets) is ever higher at 28%, with current leasing trends suggesting that vacancy will remain high for the foreseeable future.

Vacancies in major CBDs

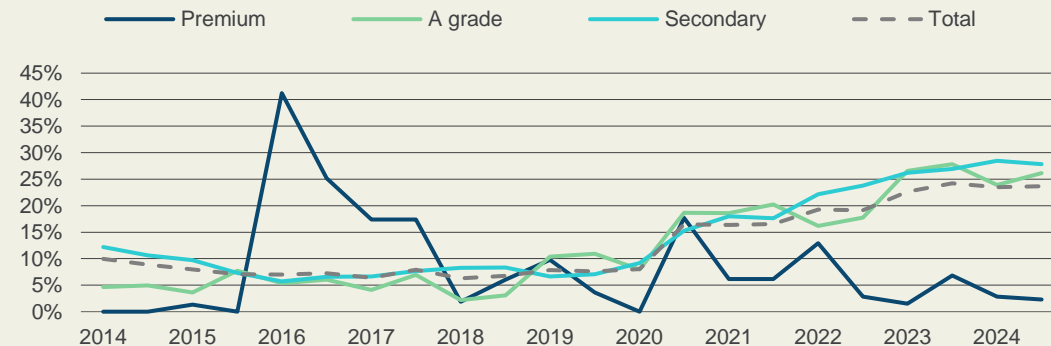
Shift in vacancy from January 2020, major CBDs, %



Source: Knight Frank Research, PCA

North Sydney office vacancy rate

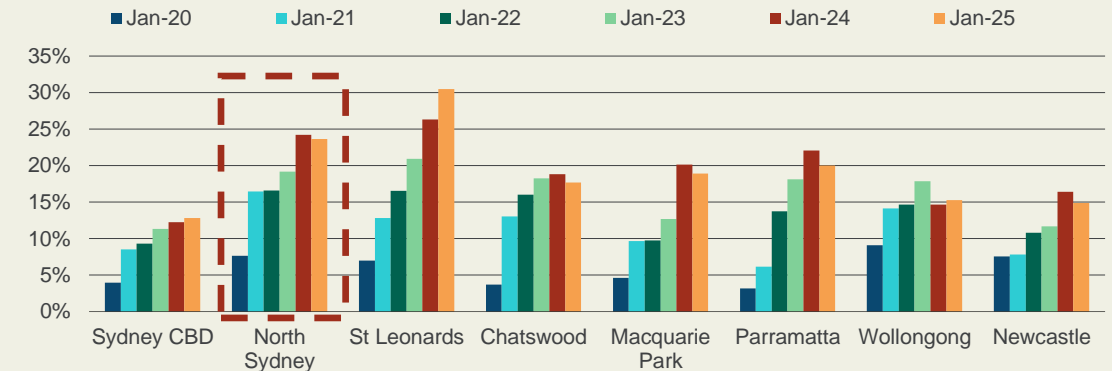
By grade, %



Source: Knight Frank Research, PCA

Vacancies across Sydney major markets

Shift in vacancy from January 2020



Source: Knight Frank Research, PCA

Office demand has been weak since the pandemic



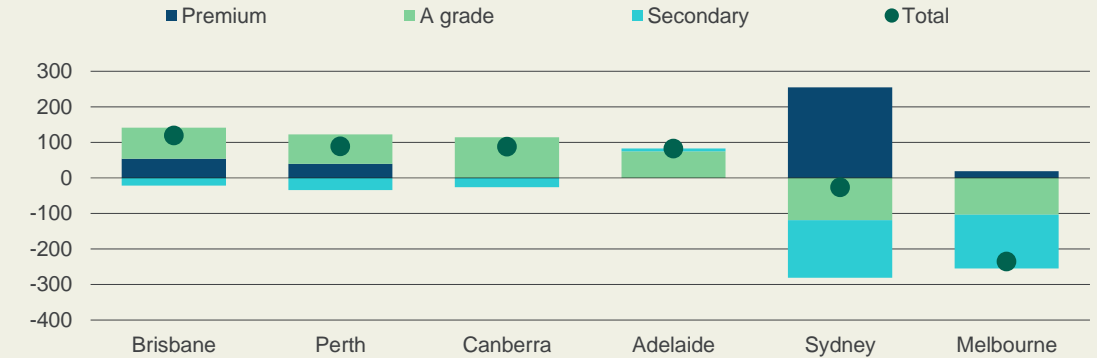
Office demand nationally – as measured by net absorption levels – has trended below the historical average since 2013. In the aftermath of the pandemic, demand has weakened further, with many large office tenants choosing to downsize their space requirements in response to changing working practices.

While absorption levels are weak overall, there is a divergent performance across different cities, with more significant declines in Sydney and Melbourne compared to other cities. Suburban markets in Sydney and Melbourne have lagged behind the CBDs, particularly for secondary assets which have experienced an ongoing contraction in demand resulting in steadily rising vacancy.

Total absorption across Sydney's major office markets since 2021 has totalled -170,168 sqm. Over the period, North Sydney has experienced the weakest tenant demand among the suburban markets with -53,399 sqm.

Office demand in major CBDs

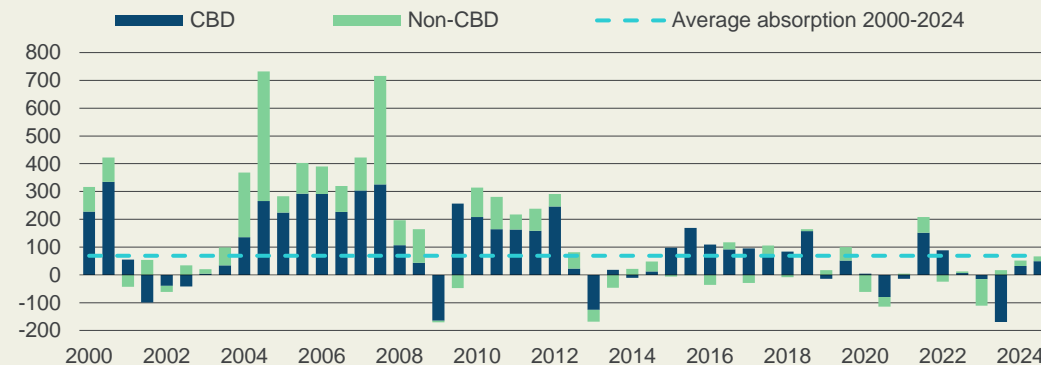
'000 sqm absorption in 2021-2024, by grade



Source: Knight Frank Research, PCA

Net absorption - Australian office market

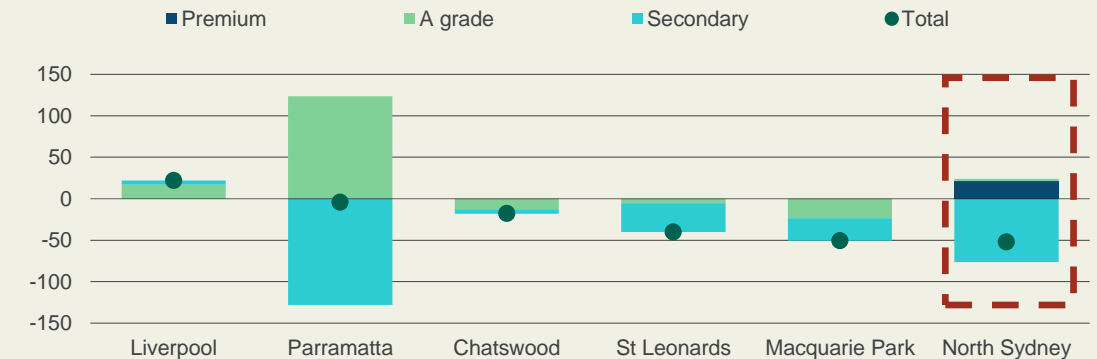
6 months absorption in CBD vs non-CBD markets, '000 sqm



Source: Knight Frank Research, PCA

Office demand in Sydney

'000 sqm absorption in 2021-2024, by grade



Source: Knight Frank Research, PCA

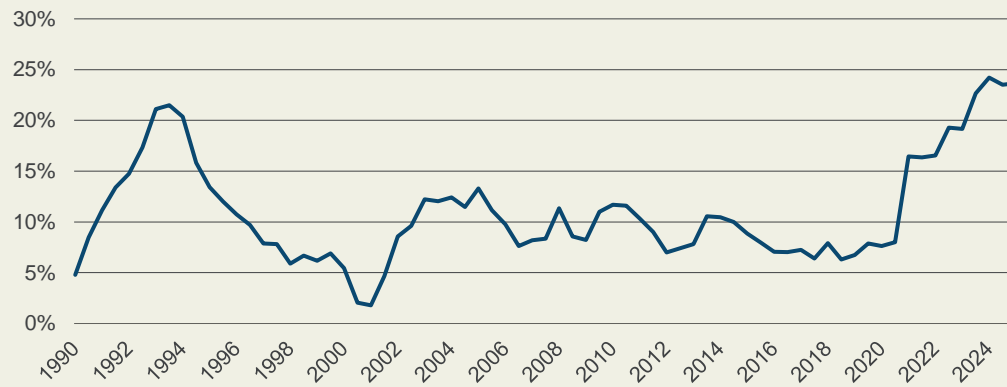
Highest vacancy on record in North Sydney

There is a distinct divergence in demand by grade, with relatively strong demand for premium office assets and much weaker demand for lower grade assets. This is true nationally and in North Sydney, with premium-grade vacancy by far the lowest of the grades. This reflects a clear preference among occupiers for high-quality modern office buildings that offer extensive amenities and excellent transport connectivity. Leading assets such as 100 Mount Street, 1 Denison Street and 118 Mount Street have high occupancy levels and are clearly outperforming the broader market.

Conversely, demand for secondary-grade assets has remained subdued over several years, as evidenced by increasing vacancy rates and sustained negative net absorption. Many secondary buildings have struggled to find tenants for many years, as demonstrated by negative absorption levels between 2010-2020 when the broader market was experiencing a period of strong demand. This has then been amplified in the post-pandemic period, and a growing disparity underscores the risk that owners of underperforming secondary stock may face obsolescence unless these assets are repositioned or repurposed for alternative uses.

North Sydney office vacancy

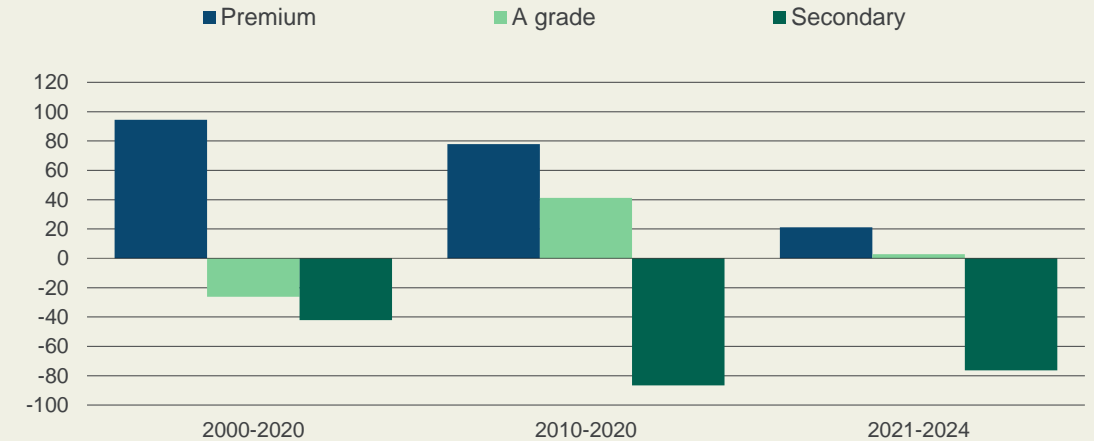
% , overall vacancy



Source: Knight Frank Research, PCA

North Sydney office demand

Total absorption across different periods '000sqm



Source: Knight Frank Research, PCA

Effective rents down by 23% since 2019

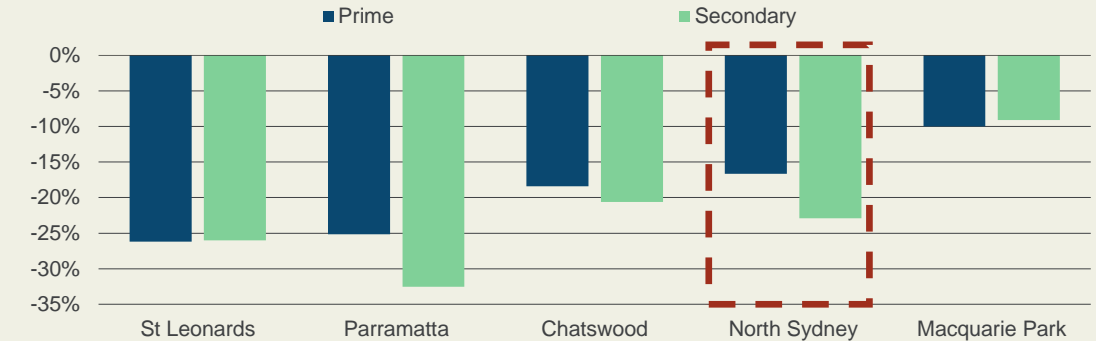
Reflecting weak demand and rising vacancy, net effective rents for secondary office assets have fallen significantly since 2020, with St Leonards -26% down, Parramatta -32%, Chatswood -20%, North Sydney -23% and Macquarie Park -9%.

Prime rents in Sydney's suburban markets currently range from \$470/sqm to \$950/sqm, with the average incentive above 39%. Rents have continued to trend down over the past 12 months, with owners needing to offer large incentive packages to tenants to attract interest.

Whilst North Sydney rents are considered competitive to the Sydney CBD, they are a significant premium to other metropolitan markets which can hinder tenant demand with occupiers able to seek similar accommodation in competing markets across the North Shore. On a prime net basis North Sydney rents are at a 39% premium to St Leonards, 44% to Chatswood, 62% to Parramatta and near double the rents in Macquarie Park.

Sydney office net effective rental change

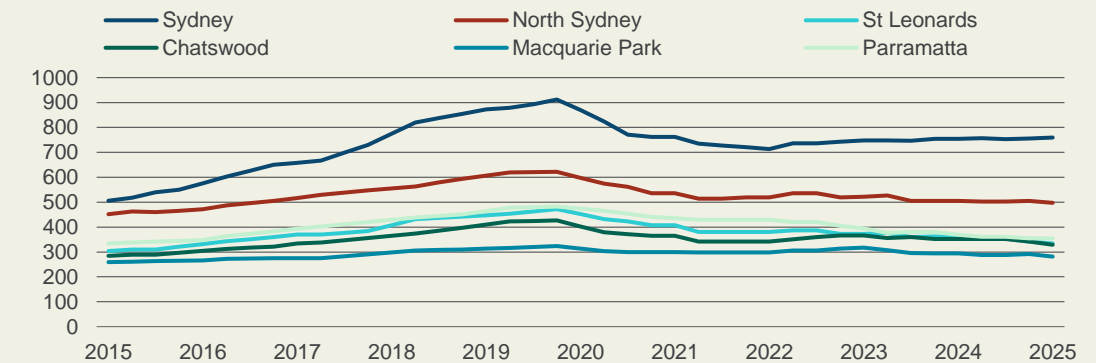
% change in 5 years, Apr 2020 - Apr 2025



Source: Knight Frank Research

Sydney office net effective rents

By markets, prime rents, \$/sqm



Source: Knight Frank Research

Prime rental performance in Sydney (as at April 2025)

	Prime rent (\$/sqm)	Growth (y/y)	Incentive (%)	Net effective rent (\$/sqm)	Growth (y/y)
Sydney	1,325	2.7%	36.1%	760	0.8%
North Sydney	930	4.0%	39.5%	498	-1.4%
St Leonards	669	1.5%	41.0%	333	-8.0%
Chatswood	647	2.5%	40.0%	329	-6.8%
Macquarie Park	470	2.2%	40.0%	282	-4.2%
Parramatta	575	-2.3%	38.4%	355	-3.7%

Incentives will remain elevated putting further pressure on asset owners



Incentives in North Sydney across all grades are at their highest level on record averaging over 39%. This is double the level owners were paying at the peak of the market in 2019 and well above the 20-year average of 27%. Many lease deals are being executed with above 50% incentive levels on a gross basis.

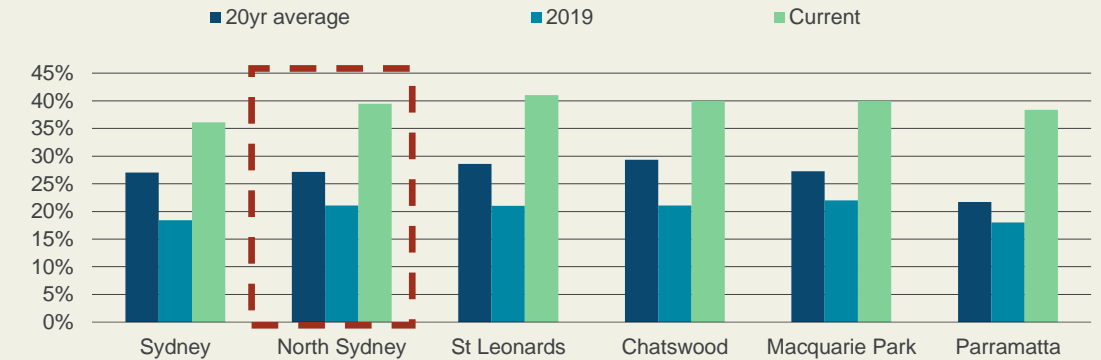
The significant rise in incentives over the last five years has had a profound impact on net effective rents. Elevated incentive levels are being mirrored across all Sydney markets with majority of deals being executed at similar levels. We expect incentive levels to remain at these elevated levels over the medium term which will put further pressure on asset owners.

These incentives are typically offered in the form of rent-free periods, rental abatements, fit-out contributions, early access or a combination. They are especially prevalent in secondary-grade buildings and new developments that are still working to secure pre-commitments.

A high level of incentives can still be obtained on lease renewals, making staying put more attractive, while steep rises in material and construction costs have driven up the cost of new fit-outs. Also, some owners are limiting the extent to which incentives can be taken as up-front capital contributions versus rent abatement, which also tends to reduce the appeal of moving.

Incentives across Sydney major markets

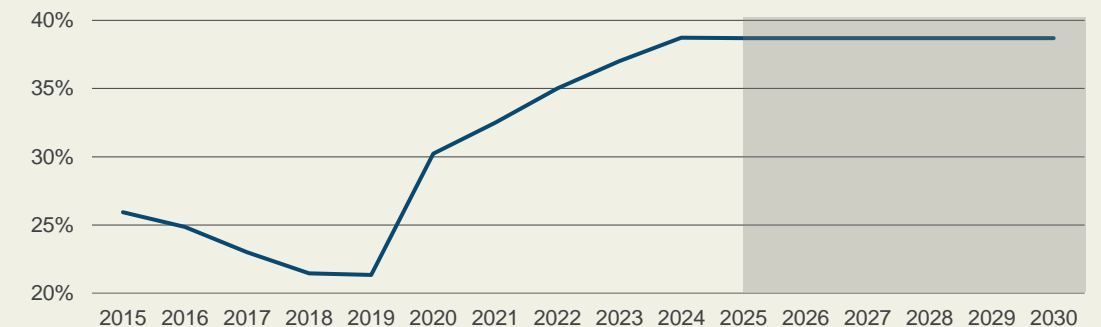
%, average incentives



Source: Knight Frank Research

North Sydney office incentives

%



Source: Knight Frank Research

North Sydney struggling under the weight of ageing secondary stock



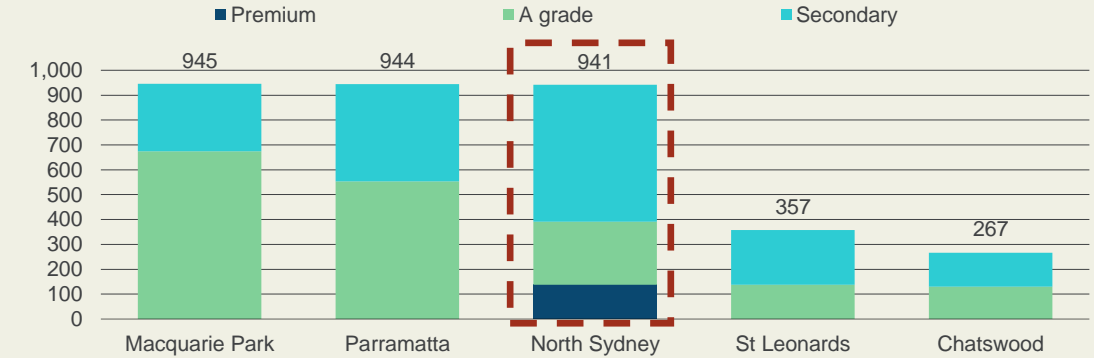
As the third largest metropolitan office market in NSW, the current office stock in North Sydney sits at 941,214 sqm, following closely behind Macquarie Park and Parramatta.

North Sydney's office market is notably weighted towards secondary-grade stock, currently accounting for 58% of total stock. This proportion is significantly higher than that observed in other major office markets, including Parramatta (41%), the Sydney CBD (34%), and Macquarie Park (29%).

This elevated exposure to lower-quality, less desirable office assets has contributed to elevated vacancy pressures across the precinct, in particular secondary grade vacancy sitting at 28%. This divergence underscores the ongoing flight to quality and the relative underperformance of older, non-refurbished assets in meeting evolving tenant expectations.

Sydney office stock size

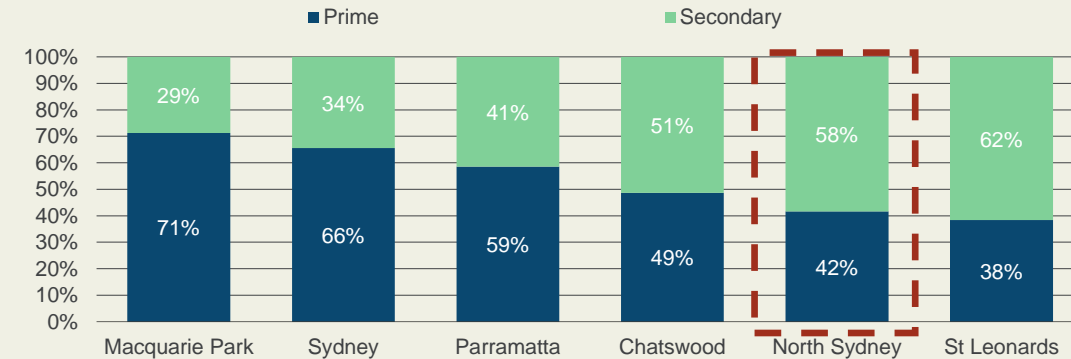
'000 sqm, office stock as at January 2025



Source: Knight Frank Research, PCA

Sydney office stock split

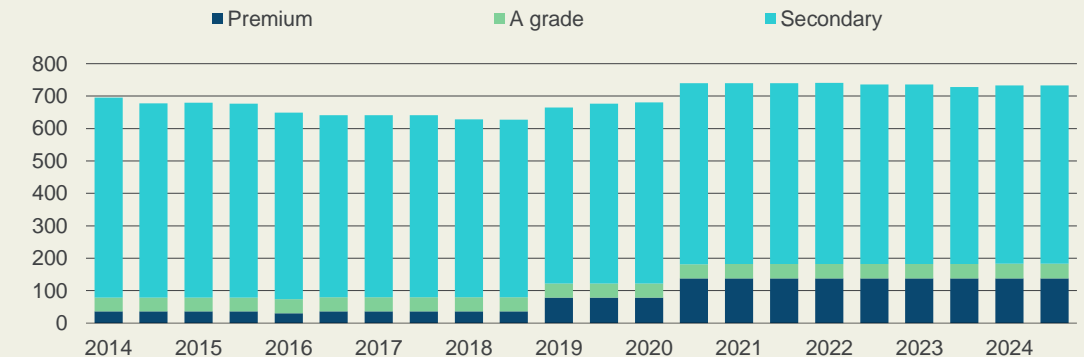
By grade, % share of total office stock



Source: Knight Frank Research, PCA

North Sydney office stock size

'000 sqm, by grade, 2014-2024



Source: Knight Frank Research, PCA

Secondary vacancy forecast to rise further, amplifying pressure on assets owners

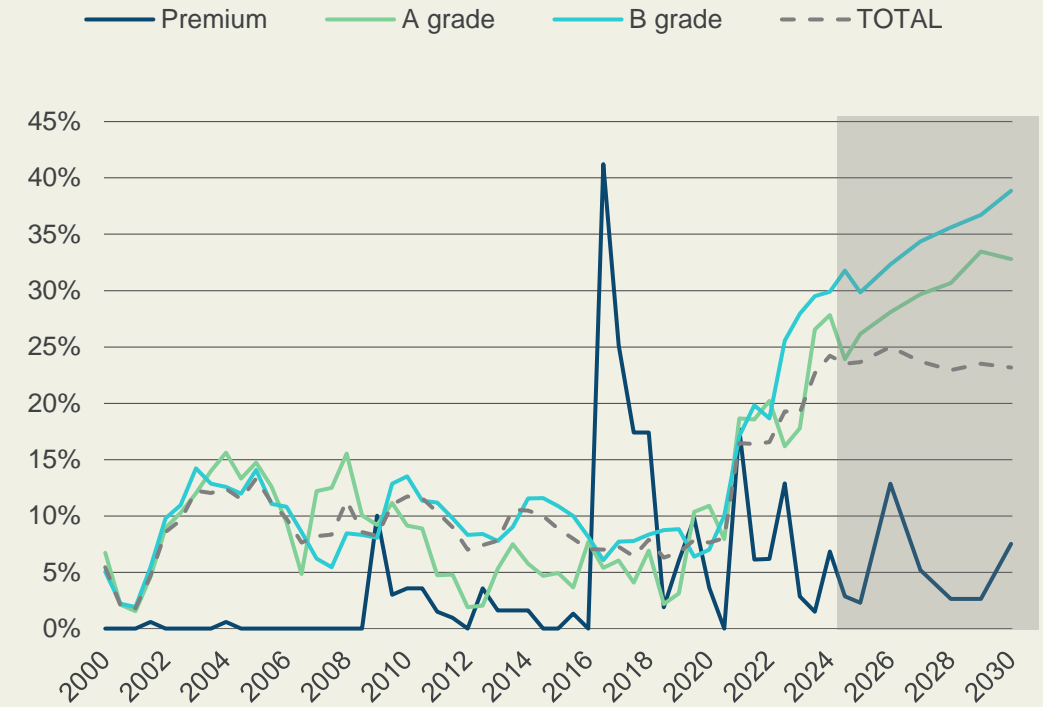


North Sydney's development pipeline has all but stalled, with the Victoria Cross over-station-development (OSD) the only project currently under construction. Beyond this, no new developments are likely to proceed for the foreseeable future. Several projects are either DA-approved or in early-stage planning, but their progression will require substantial pre-commitment.

Even without more development, our forecasts indicate that overall vacancy levels in North Sydney will remain at high levels for at least the next five years. This will reflect an ongoing divergence in performance by grade, with premium assets performing well but secondary assets struggling with much higher vacancy. The addition of Victoria Cross OSD will add a further 5% to the total office stock base and this will put more pressure on the secondary market. B grade vacancy is forecast to rise to near 40%. This is likely to result in some secondary buildings becoming obsolete, with owners likely to consider re-purposing the sites.

North Sydney vacancy

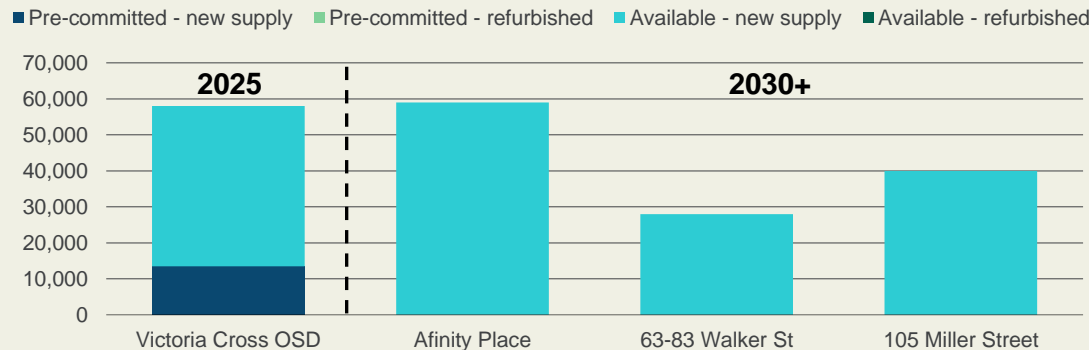
By grade, %



Source: Knight Frank Research, PCA

North Sydney development pipeline

By letting status, sqm



Source: Knight Frank Research

Tenant activity remains localised and new buildings have not attracted tenants from outside the area



A "flight to quality" has been a persistent trend in office markets nationally and helps to explain the persistent negative net absorption in North Sydney's secondary office market. Tenants are predominantly upgrading to newer, higher-quality buildings within North Sydney or renewing leases in existing assets, often incentivised by attractive renewal terms.







New buildings delivered in North Sydney in recent years have successfully attracted tenants. However, these tenants have not been the result of employment growth or of new businesses moving into North Sydney. Instead, in most cases they have moved from older buildings in North Sydney. This pattern has been consistent over time and is not solely a result of the COVID-19 period.

The leasing experience of 100 Mount Street illustrates this, with over 80% of the tenants for this new development coming from within North Sydney.

For the more recent Victoria Cross development, the two committed tenants — Ventia and NBN — were also already based in North Sydney prior to their commitments. Despite its premium positioning, the building has achieved only around 30% pre-commitment ahead of its scheduled completion this year, underscoring the subdued tenant demand in the market — even for best-in-class assets.

Case Study – 100 Mount St

With the case study of the tenant profile of 100 Mount Street upon completion, **over 80% of the tenants within this development came from within North Sydney.**

Tenant	Floors	NLA (Sqm)	Tenant previous location
Hollard 	L2-7	7,096	Relocated from Chatswood
NBN 	L8-18	13,297	Upgrade within North Sydney
Laing O'Rourke 	L19-22	4,955	Upgrade from 100 Arthur St
Citrix 	L23	1,238	Relocation from Macq Park
Servcorp 	L23	1,205	Expansion space within North Sydney
Olbia	L26	1,205	Upgrade from 141 Walker St
Palo Alto 	L28	1,300	Upgrade from 5 Blue St
Chanel 	L31-32	2,600	Upgrade from 153 Walker St
Nextgen 	L33-25	2,715	Upgrade within North Sydney

Tenant demand weighted towards professional and financial services



The North Sydney office market is distinguished by its concentration of competitive, knowledge-based industry clusters, notably within the finance and insurance, professional services, and technology, media, and telecommunications (TMT) sectors.

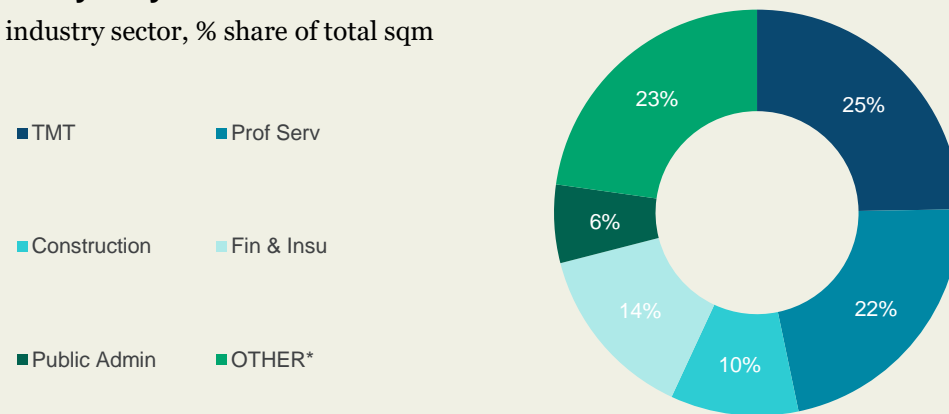
Since 2019, professional and financial services occupiers have accounted for nearly 40% of leasing activity. The TMT industry has accounted for 22% of deals in the same period, however more recently demand from this sector has slowed. The area is supported by a highly educated workforce, with 67% of resident workers holding a bachelor's degree or higher—underscoring the precinct's strong alignment with the needs of high-skill employers.

Recent lease deal evidence in North Sydney

Occupier	Property	Size (sqm)	Net Face Rent (\$/sqm)	Incentive	Term (yrs)	Report Date
PepsiCo	117 Pacific Hwy	2,860	950	55%	5	Q2-25
Oztam	111 Pacific Hwy	456	830	40%	5	Q2-25
Daesang	111 Pacific Hwy	210	800	48%	5	Q2-25
Strata Insurance	118 Mount St	737	915	55%	5	Q2-25
Fleet Partners	101 Miller St	1,380	1,010	40%	5	Q2-25
McGrath Foundation	76 Berry St	1,428	740	55%	5	Q2-25
Ventia	Victoria Cross	3,413	1,150	45%	7	Q4-24
BBC Worldwide	2 Blue St	1,788	1,020	39%	7	Q4-24
Secure Parking	99 Mount St	564	988	45%	4	Q4-24
Arthur AJ Gallagher	100 Arthur St	2,746	890	43%	7	Q3-24
Human Synergistics	2 Blue St	690	855	42%	5	Q2-24
Eftsure	177 Pacific Hwy	1,400	925	55%	5	Q1-24

North Sydney office lease deals

By industry sector, % share of total sqm



Source: Knight Frank Research

Office space and employment analysis

Disconnect between jobs and office demand exposes structural weakness



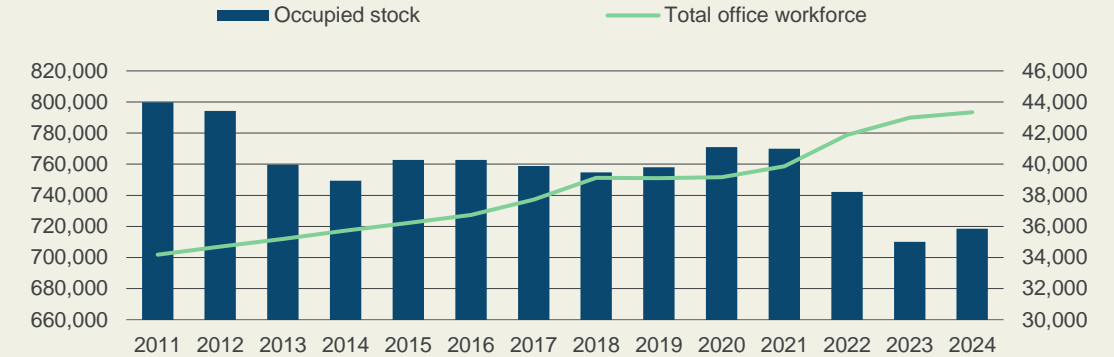
North Sydney's employment growth has not translated into a proportional increase in occupied office stock, underscoring a growing disconnect between job numbers and physical space demand.

While there has been steady growth in white-collar employment, this has not been matched by a corresponding uplift in occupied commercial floor space. The level of occupied floor space since 2012 has declined on average by 0.8% y/y. This trend was evident before the pandemic, with the post-2020 experience only serving to amplify the issue.

This reflects broader shifts in workplace behaviour and tenant strategy—most notably the widespread adoption of hybrid working models, increased desk-sharing ratios, and more efficient space utilisation. While we do not expect ongoing decline in aggregate office demand, nor do we expect a strong uplift as recent experience has shown that employers are generally able to grow their workforce headcount without triggering a proportionate increase in floorspace demand.

Comparing occupied stock vs total office workforce

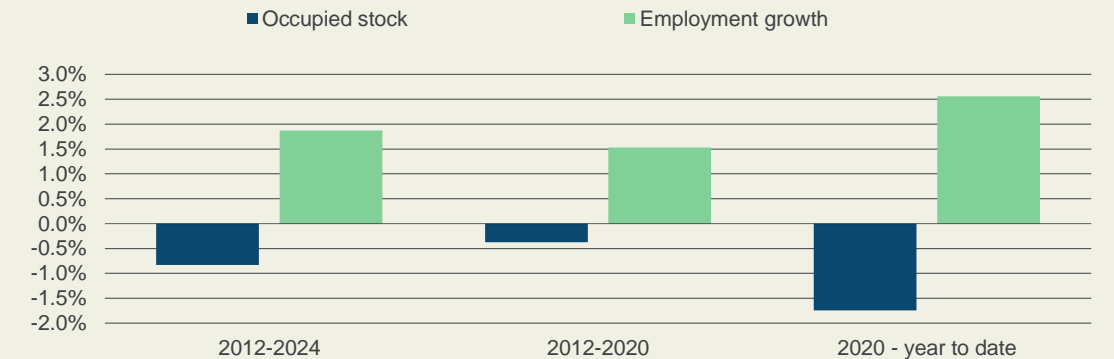
North Sydney occupied stock (LHS, sqm) and total office workforce (RHS, number of people)



Source: Knight Frank Research, PCA, Oxford Economics




Change in employment and occupied stock

% CAGR



Source: Knight Frank Research, PCA, Oxford Economics

Office space per worker benchmarks

	Pre 2000s:	20 – 25 per sqm
	2000 – 2010:	15 – 20 per sqm
	Current:	8 – 14 per sqm

What explains the weakness in North Sydney office demand?



Shift to hybrid and remote work models

As large corporates and professional services firms adopt more flexible workplace models, the need for expansive office footprints has diminished. This has led to consolidation of office space, downsizing, and in some cases, relocation to more cost-effective suburban hubs. North Sydney, which traditionally catered to high-density office-based employment, has struggled to adapt quickly to these evolving workplace norms.

Weak demand for secondary office stock

North Sydney's office market is heavily weighted toward secondary-grade buildings — approximately 58% of its total supply as of 2024. These older assets often lack the cutting-edge modern amenities, energy efficiency, and flexible floorplates that modern tenants demand.

Lack of new tenant-driven development

With the only major development currently under construction—Victoria Cross Over Station Development (OSD)—showing a modest pre-commitment rate of around 30%, developer confidence in future projects remains low. Without strong demand signals, particularly from large occupiers, speculative development is unlikely in the short to medium term. This restricts the inflow of new employers into North Sydney, limiting the potential for employment growth.

Intensifying competition from other office markets

North Sydney is competing with other Sydney office markets that offer more new office stock and amenity integration. Parramatta, Macquarie Park, and the Sydney CBD have all benefitted from improving infrastructure links and widespread urban renewal, making them attractive to employers. This has diverted both tenant demand and employment opportunities away from North Sydney.

Rising vacancy and limited industry diversification

Persistently high vacancy rates, especially in B-grade stock (forecast to rise to nearly 40%), are symptomatic of a market that is not aligned with tenant needs. The local employment base is concentrated in professional and financial services sectors particularly impacted by remote work trends — so the lack of industry diversification makes North Sydney more vulnerable to shifts in white-collar employment dynamics.

Evolving workplace trends: the flight to quality



What does the flight to quality signify?

While the term "flight to quality" is often used, it encompasses more than just a shift toward higher-grade office space. It reflects a broader strategy by tenants to enhance and future-proof their workplace experience across four key dimensions.

Flight to Flexibility

With 65% of Australian businesses expecting to adopt long-term hybrid work models, flexibility has become a core requirement. Companies are increasingly incorporating flexible space into their portfolios to accommodate peak occupancy days, events, and collaborative work. This trend, once limited to large corporates, is now expanding, with one-third of respondents planning to increase their use of flex space, including third-party venues.

Flight to Amenity

Amenity continues to be a critical factor in tenant decision-making. All survey respondents indicated they intend to maintain or improve amenity levels in their portfolios. This includes not only physical features but also services that support mental wellbeing—an area of growing importance since the last (Y)our Space survey.

Flight to Location

As market conditions offer tenants more choice, location has regained prominence. Well-designed precincts with strong connectivity and access to retail, entertainment, and outdoor spaces are increasingly attractive. Buildings can benefit from the surrounding environment, drawing tenants even if all amenities are not located within the asset itself.

Flight to ESG

Environmental, Social, and Governance (ESG) considerations are becoming a decisive factor in real estate decisions. Poor sustainability credentials are a leading cause of asset obsolescence. According to the (Y)our Space survey, 79% of respondents expect their company's ESG commitments to significantly influence their property strategies over the next three years, with a strong focus on improving sustainability accreditations.

Capital market conditions

Metropolitan office markets have suffered largest falls during the recent downturn

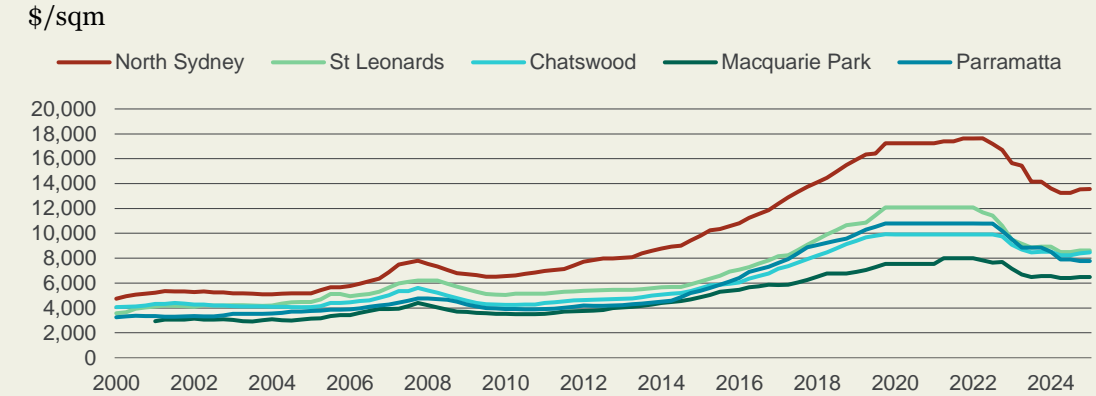


In response to higher interest rates, most commercial property markets around the country have endured a downturn since early 2022. The degree of divergence in performance has been striking, however, and marks a sharp contrast with the experience of the GFC in 2008-09 when the market downturn was much shorter and more uniform.

At that time, most cities and sectors saw values fall by around 15%, with relatively little variation. However, this time the experience has been much more varied, with suburban office markets bearing the brunt of the correction with values falling by around 25-30% to date, more than CBD markets which have generally experienced declines closer to 20%.

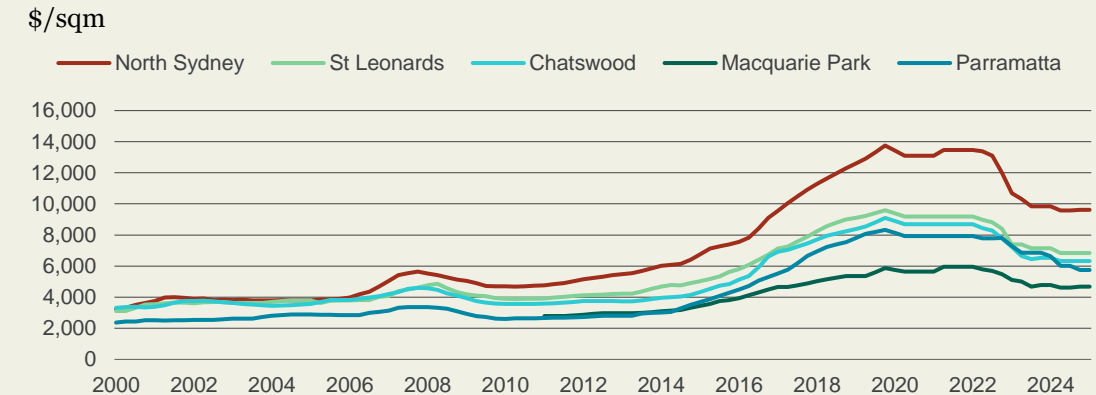
While all markets have been impacted by re-pricing and the need for higher income yields in the face of higher borrowing costs and strong returns on fixed income investments, the divergence speaks to influence of other factors, notably the changing perception of income security, shifts in the pattern of demand by location and grade, and the related outlook for rental growth.

Prime office capital values across Sydney



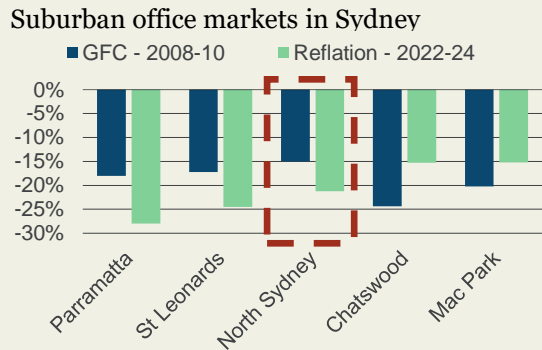
Source: Knight Frank Research

Secondary office capital values across Sydney



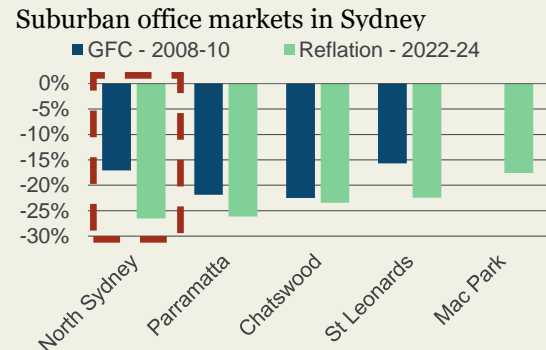
Source: Knight Frank Research

Prime office capital value change



Source: Knight Frank Research

Secondary office capital value change



Source: Knight Frank Research

Significant decline in metropolitan office market investment activity



In response to the behavioural change playing out in workplaces around the world, office markets locally and globally have been experiencing an extended period of reduced liquidity, with investment activity well down on normal levels. Many investors now prefer to invest in other sectors and those seeking office assets are predominately seeking good quality assets in core locations within CBDs.

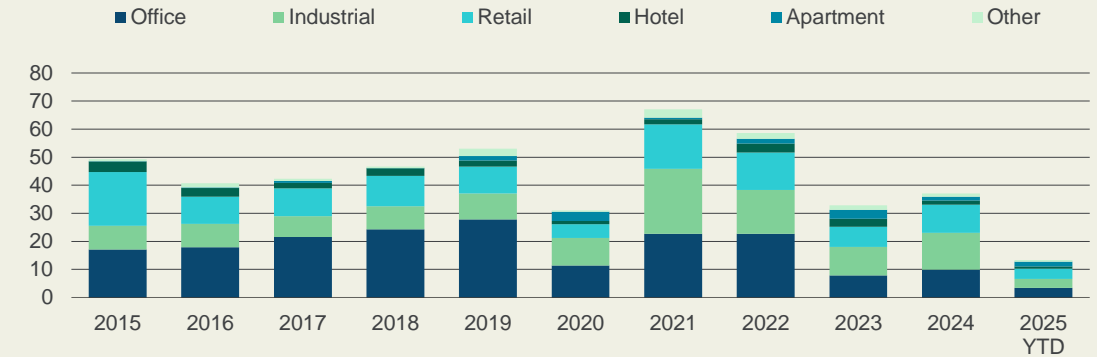
In keeping with the national trend, investment activity in Sydney office markets has been limited, with only \$383 million traded across the major suburban market in 2023 and \$791 million in 2024, compared with over \$2 billion in 2021-22 and even higher levels in 2018-19.

The high level of activity from 2016-2019 reflected the broad-based confidence in the outlook for office leasing markets at that time, as reflected in low vacancy rates and strong rental growth that were driving a prolonged upswing in asset values. Capital growth plateaued in 2020, but strong activity persisted in 2021-22 before the impact of higher interest rates and high vacancy rates took effect.

Whilst investor activity has picked up in the Sydney CBD over the last 12 months, this has not followed into the suburban markets and investor demand remains subdued.

Australian commercial real estate investment volumes

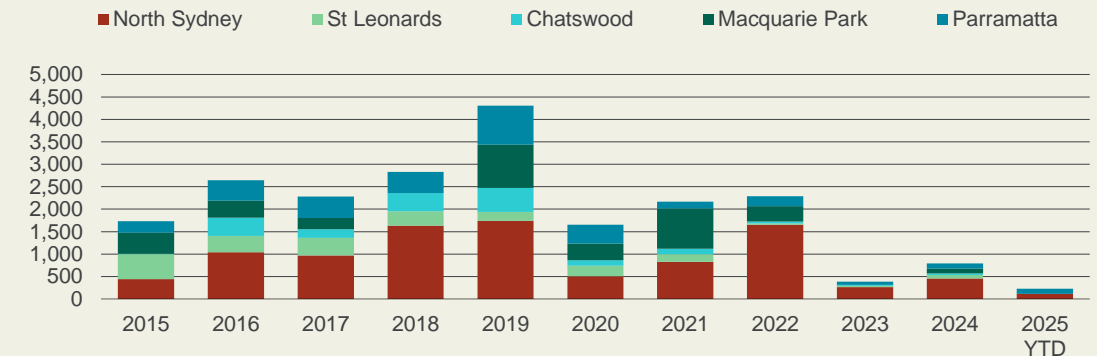
Total investment volume across Australia (A\$ billions)



Source: Knight Frank Research, RCA

Sydney suburban office investment volumes

A\$ millions



Source: Knight Frank Research

Outlook for asset values

The outlook for office asset values in North Sydney remains challenging, with limited signs of near-term recovery. Despite broader market stabilisation in some core Sydney precincts, North Sydney continues to face structural headwinds that are weighing heavily on investor sentiment and asset performance.

While premium-grade buildings are expected to return to growth as lower interest rates take effect, even these assets are not immune to the soft leasing environment. The reliance on existing tenants relocating within the precinct, rather than new entrants, has resulted in subdued demand, limiting rental growth and placing pressure on effective rents.

The ongoing "flight to quality" trend is exacerbating this divide, creating a two-tiered market where only the best-located, ESG-compliant buildings are attracting attention. Investors are increasingly selective, and capital is flowing away from underperforming stock.

As a result, secondary-grade assets are in a far more precarious position. With high vacancy and limited tenant interest, these buildings face a real risk of obsolescence. Without substantial capital investment to reposition or repurpose, many of these assets may experience further value erosion.