

# 35 WATERLOO ROAD MACQUARIE PARK

## MARKET UPDATE

Commercial and Residential



## 1. Introduction

Goodman is a significant long-term investor in the Macquarie Park and North Ryde precincts.

Goodman owns approximately 22% of the floorspace in the precincts and have developed 35% of all office floor space since 2009.

In the period since 2009 approximately 215,000sqm has been added to the commercial building inventory in Macquarie Park and North Ryde, equating to approximately 15,500sqm per annum.

With an office located at 12-24 Talavera Road, Macquarie Park, their understanding of the market is accurate and in real time.

The generational impact of COVID-19 has resulted in significant challenges and opportunities for the housing market and commercial office market.

Challenges	Opportunities
Reduced demand for commercial space	Introduce true mix of use to the precinct – maintaining commercial focus, but with some residential to drive an 18-hour economy
Significant supply pipeline for at least the next decade	Additional housing - alleviate chronic housing shortage and provide housing to people who work in the area
Identity - characterised by large homogenous land use and presentation, has a lack of identity	New development to stimulate break up of large sites – enhance permeability, walkability and reduced car dependence with compliance with or better than the Innovation Place Strategy
Large format impermeable sites - not of human scale, fine grain, reduces walkability	Developer contributions through new development – fund infrastructure improvements and provide public benefits
Activation - lacks 'activating' amenity and night-time economy i.e. entertainment, food and beverage, community services	Will create ~ 25,000sqm of new tenancy demand from displaced customers

The Goodman proposals address each of these challenges and opportunities via two new BTR developments located at 35 Waterloo Road and the other at 85 – 97 Waterloo Road.

## 2. Context and Proposed Development

### 2.1. Subject Site & Context –

#### 35 Waterloo Road

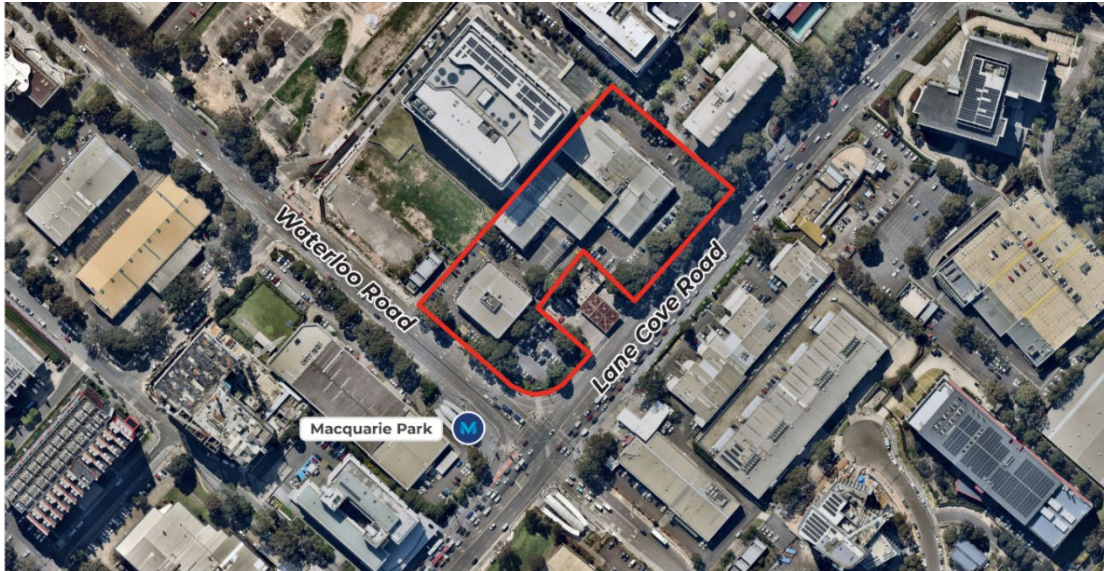
35 Waterloo Road (Lot 5 in DP 1249920) has a total area of approximately 15,910sqm and is located within the City of Ryde Local Government Area. The site is owned and managed by Goodman and comprises the Waterloo Business Park. The site is located across the road from the Macquarie Park metro station.

Neighbours to the site include:

- + **North-east:** Immediately to the north-east is the Marriott Hotel. Further north-east is access to the M2 on-ramp and the Lane Cove National Park.
- + **South-east:** The site is bounded by Lane Cove Road to the south-east, however the site wraps around a 7/11 petrol station. Beyond that is a range of commercial and light industrial uses for a range of tenants.

- + **North-west:** The new Macquarie Square precinct by John Holland Development is located directly to the north-west of the site, which once complete, will comprise 5 commercial buildings, retail and restaurant spaces, and public open space. Further north-west, is the Macquarie Centre, Macquarie University Campus and Metro Station.
- + **South-west:** The site is bounded by Waterloo Road to the south-west. Directly adjacent to the road and opposite the site is the Macquarie Park Metro Station.

The below provides an aerial context map of the site.



 Site Boundaries



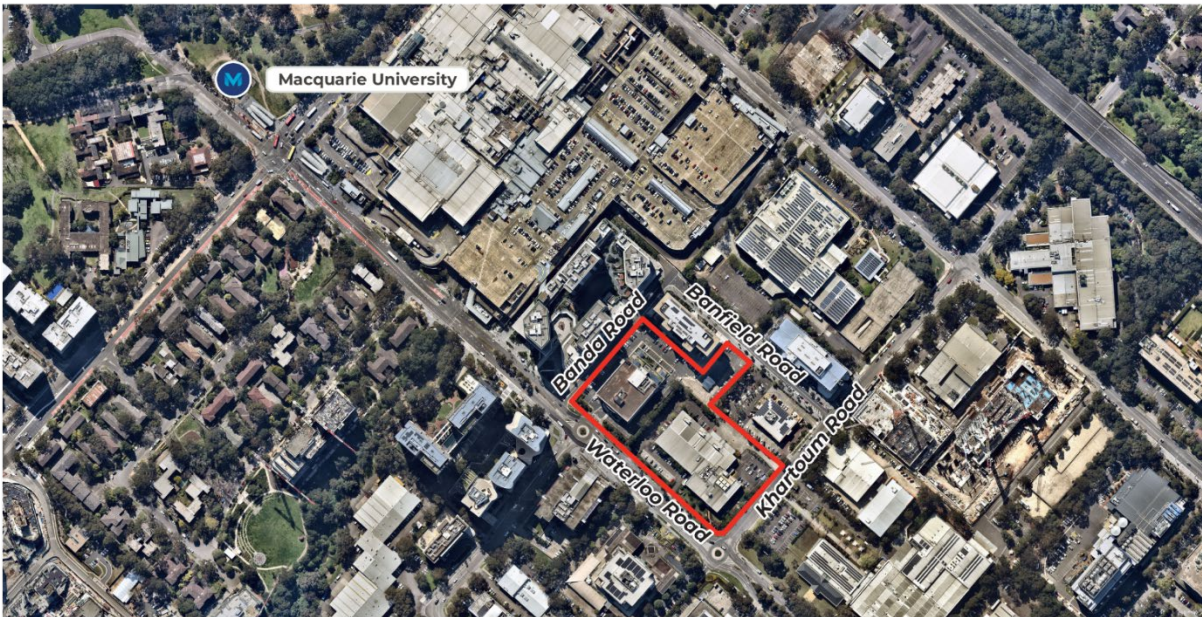
### 85 – 97 Waterloo Road

85 – 97 Waterloo Road (Lot 1 in DP 1259121 and Lot 2 in DP 1249920) has a total area of approximately 21,730sqm and is located within the City of Ryde Local Government Area. The site is owned and managed by Goodman and comprises the Macquarie Corporate Centre. It is located approximately 350m south of the Macquarie University Station and 750m north-west of the Macquarie Park Metro Station.

Neighbours to the site include:

- + **North-east:** The site is bounded by Banfield Road to the immediate north-east. Generally, the development to the north-east comprises commercial, light industrial and business park uses.
- + **South-east:** The site is bounded by Khartoum Road to the south-east. Beyond that is a range of commercial and light industrial uses for a range of tenants. Further and approximately 750m south-east is the Macquarie Park Metro Station.
- + **North-west:** The site is bounded by Banda Road to the north-west. Immediately across from the site is a high-density residential development. Further north-west is the Macquarie Centre, and Macquarie University Metro Station and Campus (350m).
- + **South-west:** The site is bounded by Waterloo Road to the south-west. Directly adjacent to the road and opposite the site are a range of development uses, including residential, commercial, retail, and light industrial.

The below provides an aerial context map of the site.



 Site Boundaries



## 2.2. Development Overview

### 35 Waterloo Road

- 4,361m<sup>2</sup> of non-residential floor area at ground level, including commercial and retail uses,
- 39,216 m<sup>2</sup> of build-to-rent housing
- 513 no. dwellings/apartments
- 2,447 m<sup>2</sup> of communal residential amenity facilities located throughout the building.
- 417 no. car parking spaces
- 60 no. bicycle spaces
- 0 no. motorcycle spaces (not required under DCP)

### 85 – 97 Waterloo Road

- 3,491m<sup>2</sup> of non-residential floor area at ground level, including commercial and retail uses,
- 59,222m<sup>2</sup> of build-to-rent housing
- 736 no. dwellings/apartments
- 4,142m<sup>2</sup> of communal residential amenity facilities located throughout the building.
- 671 no. car parking spaces
- 65 no. bicycle spaces
- 0 no. motorcycle spaces (not required under DCP)

## 3. Economic Context

### 3.1. Census

The following demographics of Macquarie Park is from the 2021 Census data.

	Macquarie Park	New South Wales
Average age	13.5% between 20 – 24 years 15.5% between 25 – 29 years 17.3% between 30 – 34 years 12% between of 25 – 39 years	6.1% between 20 – 24 years 6.9% between 25 – 29 years 7.3% between 30 – 34 years 7.2% between of 25 – 39 years
Education	60.5% are tertiary educated	23.8% are tertiary educated
Employment	58.4% work full time 43.6% are professionals	55.2% work full time 25.8% are professionals
Household Median Weekly Income	\$1,886	\$1,829
Families	54.1% couple without children 30.5% couple with children	37.9% couple without children 44.7% couple with children
Dwellings	89.5% flat or apartment	21.7% flat or apartment
No. of Bedrooms	33.6% 1 bedroom 54.5% 2 bedrooms 8.6% 3 bedrooms	6.6% 1 bedroom 22.7% 2 bedrooms 34.7% 3 bedrooms
Tenure Type (Rented)	65.8%	32.6%
Average no. of people per household	1.8	3.1

The demographic of Macquarie Park can be described as young, student, professionals and health care workers, live in smaller households, live in apartments with a high proportion of renters.

#### 4. Commercial Office Market Outlook

##### Feasibility of commercial development

Commercial development in Macquarie Park is presently not feasible.

Since the peak of the market in 2019-2020 every development input has moved the wrong way and as a result commercial development land has no value.

The table below indicates each of the negative movements:

Development input	Movement
Construction costs	Increased by 30% since 2019
Leasing downtime	Increased
Rents	Face rents stable but incentives increased to 40%-50% for new developments
End value of project	Capitalisation rates have increased from ~ 5% to 6%+ which negatively impacts end value
Demand	Tenancy demand for relocation is at historical lows

Colliers International Valuations were instructed to undertake an independent commercial development feasibility of 35 Waterloo Road. The development was assumed to be built in 3 stages to its maximum allowed GFA under the Ryde LEP. The output is shown in the summary below:

### Summary of Findings

Should a commercial office development proceed at 35 Waterloo Road, Macquarie Park NSW, the 'As Is' Residual Land Value Analysis results in a **negative** land value. A summary of the value outcomes are detailed as follows:

Approach	Target	Land Value Outcome	Implied Land Value to Achieve Target Margin (-)
Static Approach	Development Margin - 20%	Negative Value	(\$27,736,342)
NPV/ DCF Approach	Project Internal Rate of Return -15.00%	Negative Value	(\$9,502,661)

Based upon the calculations detailed, the findings imply that a commercial office scheme at 35 Waterloo Road, Macquarie Park is **not the 'highest and best use' of the property**. As such, an alternate use should be explored for the site.

The valuation is commercial in confidence. Should the consent authority have any queries on the outputs, Goodman can discuss this further.

The Property Council of Australia's July 2023 Office Market Report recorded Macquarie Park's net demand in 6 months to July 2023 lower than any other fringe market in the country (graph is in the Demand section below).

### Supply

As previously stated since the conclusion of the GFC in 2009-11 there has been approximately 215,000sqm of office development and 40,000sqm of data centre development. This provides for an annual average provision of office development of 15,500sqm over the 14 years. For accuracy, the 45,000sqm of new projects in Eden Park Drive, Khartoum Road and Coolinga Street have been included in the provision rate.

Macquarie Park has significant office development capacity within the existing FSR and height planning controls. After allowing for the potential GFA allocated for housing, the Place Strategy has identified in excess of 2,200,000sqm of floorspace capacity for employment generating land uses.

This can be shown in the following table:

Place Strategy 2022		Floor space allocation by Precinct							
		GFA low	GFA high	Mid	Homes		Avg	GFA homes	Balance floor space
1	North Park <i>Ngalawala (Reciprocity)</i>	450,000	500,000	475,000	-		-		475,000
2	Waterloo Park <i>Butbut (Heart)</i>	300,000	400,000	350,000	-		-		350,000
3	Shrimptons Quarter <i>Waragal Birrung (Evening Star)</i>	600,000	650,000	625,000	2,100	2,600	2,350	188,000	437,000
4	Macquarie Living Station <i>Gari Nawi (Saltwater Canoe)</i>	500,000	550,000	525,000	350	450	400	32,000	493,000
5	Porters Creek <i>Burbigal (Morning)</i>	80,000	100,000	90,000	400	600	500	40,000	50,000
6	Wicks Road South <i>Garungul (Unbreakable)</i>	250,000	300,000	275,000	1,500	2,000	1,750	140,000	135,000
7	North Ryde Riverside <i>Narrami Badu-Gumada (Connecting Water Spirit)</i>	400,000	500,000	450,000	1,500	2,000	1,750	140,000	310,000
		2,580,000	3,000,000	2,790,000	5,850	7,650	6,750	540,000	2,250,000

**This is 145 years supply** at the average annual take up rate of 15,500sqm.

If we reduce the supply side by only focussing on the existing approvals in the hands of well capitalised and capable developers there is 580,000sqm of space identified.

	Project	Developer	Commenced	Total	Remaining
1	MQX	Winten Frasers	17,743	83,368	65,625
2	Mac Square	John Holland		117,017	117,017
3	Central House	John Holland			-
4	M Park	Stockland	26,000	55,000	29,000
5	1-5 Khartoum	Stockland		115,000	115,000
6	63-71 Waterloo	UT65/Cessleigh		62,400	62,400
7	40-52 Talavera	LaSalle		37,542	37,542
8	1 Eden Park Drive	Kador	10,000	10,000	-
9	45-47 Epping Road	Total Forms/Cessleigh		11,000	11,000
10	Mac Uni	Macq Uni		25,000	25,000
11	City Views	Goodman		35,000	35,000
12	Eden Gardens	Ainsworth		25,000	25,000
13	68 Waterloo Road	Teoh		54,138	54,138
			53,743	630,465	576,722

At the annual take up rate of 18,500sqm this is still approximately **37 years supply**.

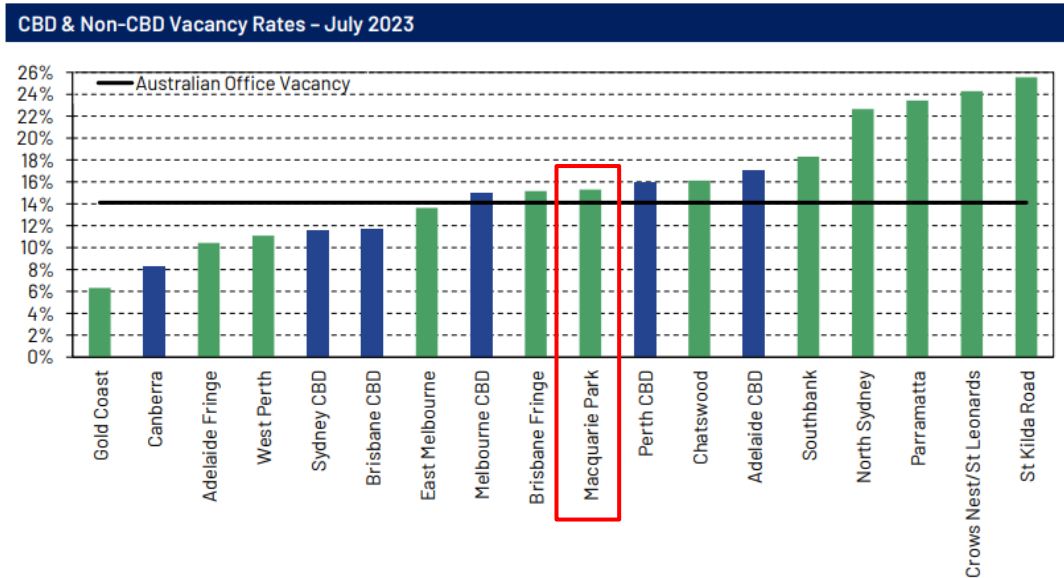
### Vacancy

This actual and latent supply comes at a time when vacancy is the highest in Macquarie Park it has been since the bursting of the dot.com bubble in 2000. For additional context, in the GFC the vacancy rate only increased to 11%.

The current vacancy rate is ~ 15% and forecast to increase to 20% as the buildings under construction stabilise and are included in the figures. This provides no impetus to support commercial development.

All non-CBD markets are suffering and will continue to do so until there is a turnaround in the vacancy rates in the major CBD markets.

The vacancy rate and market conditions in the non-CBD markets is shown in the PCA Office Market Report chart from July 2023.



Three of the four markets with the highest vacancy were in NSW

For reference, the vacancy rate at 35 Waterloo Road, 85 Waterloo Road and 97 Waterloo Road is 11%, 100% and 18% respectively.

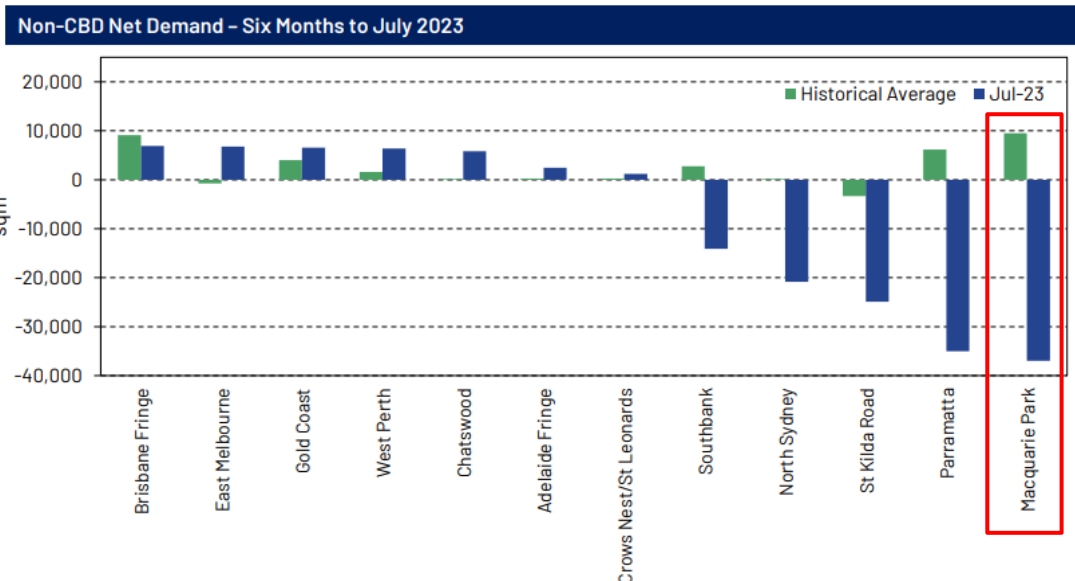
**Demand**

Worryingly, at a time when vacancy is high and still increasing, tenant demand is softening. Tenants of all sizes are surrendering space at the end of lease terms, or even earlier by sub leasing.

Out of 7 recent lease renewals in the Goodman Macquarie Park portfolio, tenants downsized the amount of space they occupied in the previous lease to the amount of space they have signed a new lease over by 45%.

Area Occupied under previous lease	Area occupied under new lease when renewed	Area Change (Reduction)
24,271 sqm	13,303 sqm	45%

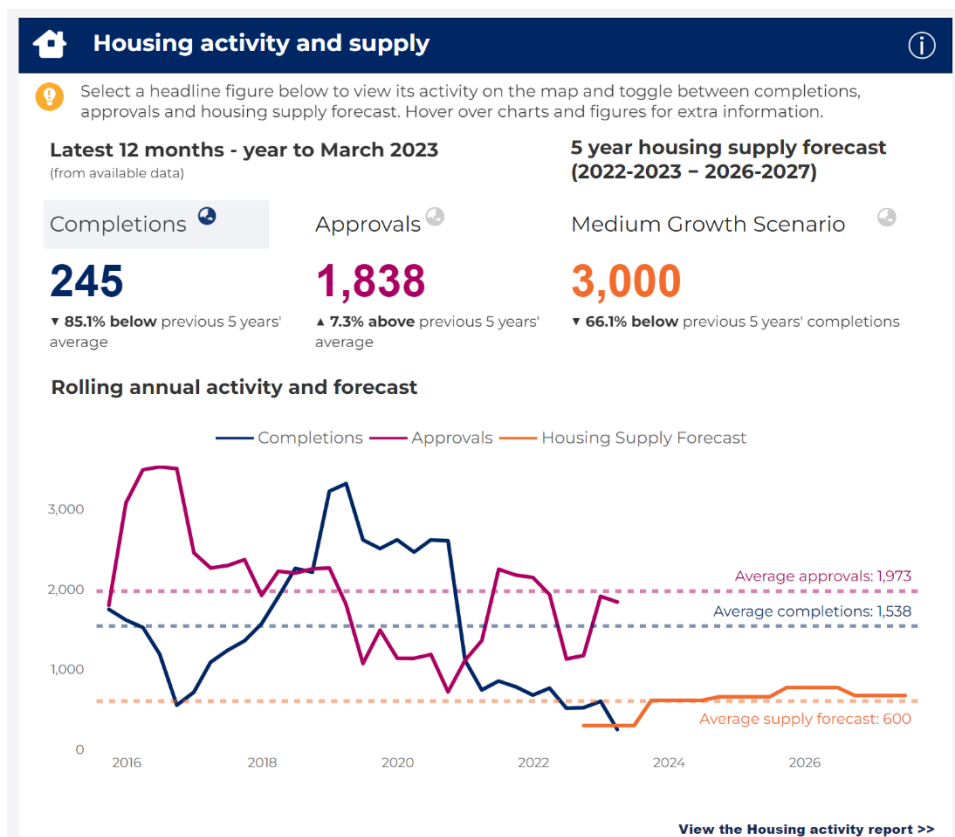
This will further impact vacancy and this trend is illustrated in the PCA chart below:



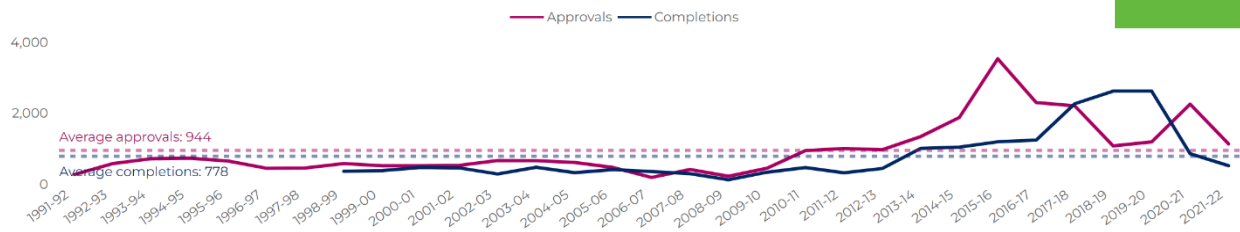
Three out of the four Non-CBD markets with the lowest demand were in NSW

## 5. Residential Market Outlook

A review of the Greater Sydney Urban Development Program Dashboard demonstrates the rolling annual activity and forecast is severely below the previous 5 years average. This does not align with the growth in population as according to the ABS, the overseas migration grew to 304,000 over the year to September 2022, which was the largest inflow of overseas migrants since March 2009. The data from Ryde LGA is below:



Total approvals vs total completions



With housing unaffordability at the highest it has been in 30 years, there is a chronic undersupply of rental housing in NSW.

## 6. Conclusion and Benefits of the Proposed Development

In summary, the impact of COVID-19 on the Macquarie Park commercial market has led to a high vacancy rate, lack of rental growth and low institutional investment. This sentiment is expected to continue as a large amount of new supply will come to market in the next 2 – 4 years.

On the other hand, demand for residential dwellings is increasing. The growth in population through net migration and cost to construct new dwellings has led to a significant undersupply. In a market like Macquarie Park where the majority of the population rents, lives in apartments and works as a professional, BTR developments can provide a solution by transforming under utilised commercial sites in to mixed-use precincts.

The location of the sites being in close proximity to Metro stations means existing infrastructure can be leveraged, and the lack of activity on the ground plane can be converted by the addition of retail and food and beverage outlets BTR uses deliver.