

# **SYDNEY METRO MARTIN PLACE STATION**

## **STAGE 1 SSDA COMMERCIAL & RETAIL REPORT**

**MAY 2017**

## **Contents**

### **1.0 Sydney commercial real estate market**

#### 1.1 Real estate market overview

### **2.0 Sydney CBD office market**

#### 2.1 Macro view

#### 2.2 Commercial Opportunity Overview

### **3.0 Sydney CBD retail**

#### 3.1 Macro view

#### 3.2 Retail Opportunity

#### 3.3 Retail Customers

#### 3.4 Retail Opportunity Overview

# 1.0 Sydney commercial real estate market

## 1.1 Real estate market overview

This section outlines the real estate market overview for the Sydney Central Business District (CBD) market, with a focus on the office and retail segments associated with Project Martin Place Metro.

The key points of this market outlook can be summarised as follows:

- The Sydney CBD office market continues in a cyclical upswing.
  - Tenant demand is below recent peak levels but remains in a firm cyclical upswing.
  - Supply net additions are muted to 2021, partly held in check by continued withdrawals.
  - Face and effective rents continue to accelerate as leasing incentives fall from peak levels.
  - Prime yields have tightened on the back of robust global and domestic investor demand.
  - Significant global capital pools are chasing limited product opportunities.
- Sydney CBD retail pricing is tight with rents gradually lifting, near-term spending patterns are easing.
  - NSW retail spending growth has moderated, though the trend is above the national average.
  - CBD vacancy rate firmed in the second half of 2016, CBD retail rents are gradually lifting.
  - Yields are cyclically tight as prime retail assets remain highly sought and well contested.

**Table 1:** Sydney CBD office and retail real estate market summary

	2016 (12 months)
<b>Sydney CBD office</b>	
Net absorption premium grade ('000m2)	166
Net additions premium grade ('000m2)	219
Vacancy – total CBD (%)	7.7%
Vacancy – core precinct (%)	5.5%
Net face rents – prime grade (\$/m2)	962
Rental growth – prime net effective (% p.a.)	22.5%
Yields – upper prime net (%)	4.9%
<b>Sydney CBD retail</b>	
Net supply ('000m2)	0
Vacancies, specialty shops (%)	3.9%
Net face rents – overall (\$/m2)	3,680
Rental growth – prime (% p.a.)	1.0%
Yields – upper prime net (%)	4.5%

Source: Macquarie Capital, JLL, PCA

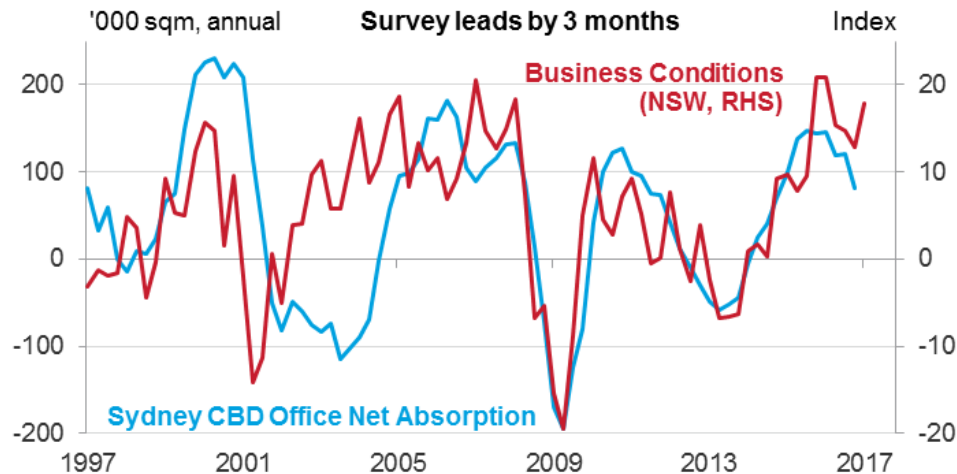
## 2.0 Sydney CBD office market

### 2.1 Macro view

Sydney CBD office market is in a typical cyclical upswing phase, effective rent growth is accelerating

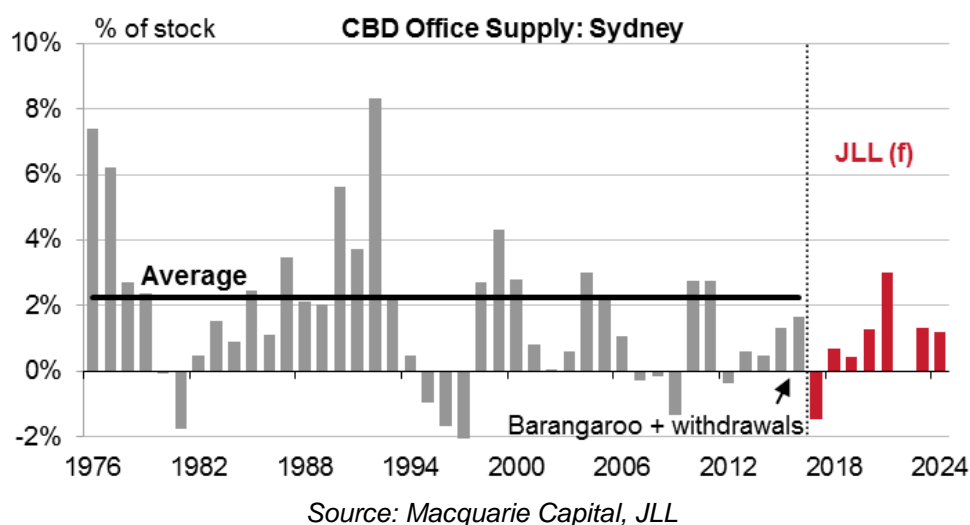
- Sydney initially led the upswing in tenant demand, rents and pricing across major Australian CBD office markets, with Melbourne now well into the upturn and other major office markets trailing to various degrees.
- The relatively stronger Sydney office rental upswing reflects heightened exposure to the better-performing business, financial and information technology services sectors, as well as the extent of building withdrawals.
- Centralisation and expansion are dominant take-up themes this cycle, as tenants consider the positive impact of new infrastructure and the stronger NSW economy on the CBD office market.
- In terms of supply, there were initial concerns from some about the completion of the Barangaroo precinct last year, however an imbalance has been avoided by expanding tenant demand and the highest level of stock withdrawals in 19 years.
- Looking forward, net completions projections in the Sydney CBD are relatively muted out to 2021.
- High withdrawals will continue to have a positive impact on CBD vacancies and rents over the next two to three years, with an additional 19 buildings slated for redevelopment or alternative use. This includes withdrawal activity related to the Sydney Metro project.

**Fig 1:** Leading indicators for Sydney CBD office still point to firm tenant demand



Source: Macquarie Capital, JLL, NAB

**Fig 2:** Net supply projections are muted to 2021, withdrawals activity expected to continue



## 2.5 Commercial Opportunity Overview

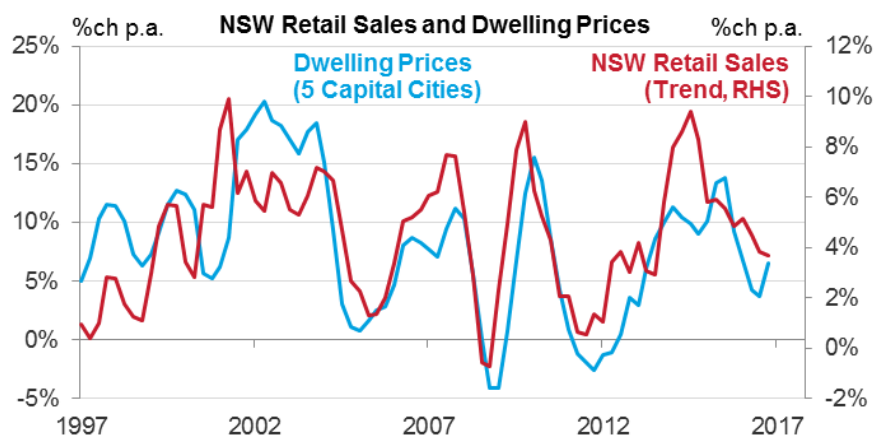
Of the total 100,000m<sup>2</sup> to be delivered as part of the Metro Martin Place Station – OSD (excluding 50 martin Place). Macquarie would be the anchor occupier of the majority of the commercial floor space pending organisational requirements at the time of completion in 2024. The remainder of the commercial office space would be offered to the leasing market.

## 3.0 Sydney CBD retail

### 3.1 Macro view

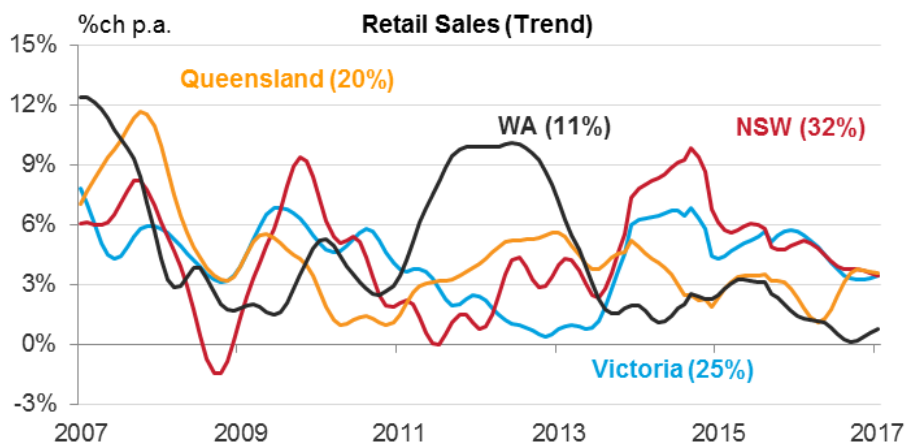
- Australian retail sales growth has broadly moderated over the last two years, though spending patterns are highly varied by state and region. Sales turnover has been strongest in states experiencing a strong housing cycle with a flow on to jobs and state economic growth.
- As such, the retail sector in New South Wales (particularly Sydney) is outperforming the national average. Improving inbound tourism market into NSW is also having a positive impact. Trend retail sales in NSW grew at 3.7% p.a. to December 2016.
- In the context of a moderate retail sales growth cycle, key vacancy and rental indicators are relatively stable, with pricing tight given strong investor demand for stable cash flow assets.
- The Sydney CBD vacancy rate for specialty shops improved to 3.9% in the second half of 2016, specialty rents have grown a moderate +1.0% p.a. over the last two years and the average prime CBD yield remains firm at 4.9% (4.5% for upper prime assets).

**Fig 11:** National and NSW retail sales growth is moderating, a strong link to the housing cycle



Source: Macquarie Capital, ABS

**Fig 12:** NSW retail sales turnover and state economy continues to outperform national average



Source: Macquarie Capital, ABS

## 3.6 Retail Opportunity

Macquarie's Unsolicited Proposal provides an opportunity to incorporate an exciting, dynamic retail experience into Martin Place Station that will rival Wynyard and Circular Quay.

The Macquarie Proposal offers a unique opportunity to deliver an integrated solution for the NSW Government. The retail experience is a key element of the opportunity to create a globally leading transport interchange development for the city of Sydney. This report outlines the Retail context and strategy as part of the Macquarie unsolicited proposal for the Martin Place Station precinct.

According to projections by TfNSW, the traffic through Martin Place Station in 2026 will exceed 30,500 per hour during the morning peak hours and grow to exceed 34,000 in 2036.

Arup projects estimates foot traffic generated by the Eastern Suburbs line could peak at approximately 10,000 per hour in the morning peak. Concurrently, foot traffic generated by the Metro line is projected to peak at approximately 30,000 per hour in the morning peak 2024. That puts the projected foot traffic through Martin Place Station at a combined total of 40,000 per hour in the morning peak by 2024.

Furthermore, the total weekday pedestrian movements over a year is estimated at over 30 million based on a 220 day work year, excluding weekend customer traffic. This number of potential customers excludes the potential pedestrian Airport Link connection, which could add a further 8.5 million passengers per annum.

## 3.7 Retail Customers

Customer segments served by the retail experience include:

- Commuters at the train station.
- CBD workers.
- Tourists.
- Local residents and residents within the broader Sydney market.

The most important customer segments to the site in the immediate term will include commuters, CBD workers and tourists.

In its Assessment of Retail Market Report dated June 2016, Location IQ defined the potential trade area for the local worker market. The local worker trade area has a defined, primary sector, which comprises two to three blocks around the site, contains over 60,000 workers and is projected to increase to over 80,000 by 2036. This catchment includes some of the most affluent people within the Sydney CBD.

Location IQ estimates commuter numbers to the train station are projected to be approximately 150,000 per day on opening, increasing to 200,000 per day by 2036. These commuter numbers will make Martin Place Station one of the busiest train stations in the Sydney CBD. The station services the northern office precinct of the CBD, the Martin Place civic precinct as well as the Pitt Street retail zone. Consequently, residents from the broader Sydney area will access the precinct on a regular basis.

The existing and projected resident population levels within the defined local market are not going to be a major source of custom relative to the workers. There are some 21,110 persons in the local resident market currently, projected to increase to over 30,000 persons by 2036.

Tourists are an important part of the Sydney CBD retail market. There are more than six hotels in the area directly adjacent to Martin Place Station.

## 3.8 The Competitive Retail Environment

The Pitt Street precinct is currently the primary retail destination in the Sydney CBD. Larger competitors include Westfield Sydney and a number of arcades such as Mid City, Stockland Piccadilly and Strand Arcade. These retail facilities serve the broader Sydney residential market as well as the entire Sydney CBD commercial market.

Immediately around the subject site the retail centres are smaller, typically at less than 7,000 m<sup>2</sup>, comprising food courts and retail service facilities. These include MLC Centre, Chifley Plaza, Wintergarden and Australia Square.

Future competitors include retail developments proposed for Darling Harbour, Barangaroo, Harbourside, Darling Live and Darling Park. Immediate CBD-based future competition is limited to three proposed retail redevelopments. These are the redevelopment of The Gateway building at the northern end of the CBD, a proposal by AMP to redevelop its office-building precinct along Bridge Street/Pitt Street and a development by Brookfield at Wynyard Place. However all of these centres would primarily serve their immediate areas and have limited impact on the potential for retail around Martin Place Metro Station.

### 3.5 Retail Opportunity Overview

Macquarie has engaged Titanium Property Investment (“Titanium”), Location IQ and Savills Valuation (“Savills”) as specialist retail advisors to provide independent advice in relation to the development of the retail scheme, competitive landscape, mix, strategy and the commercial assessment. Titanium and Savills have explored the Sydney Metro Martin Place Station – Retail Experience (“SMMPsRE”). The SMMPsRE is largely a specialty retail offering anchored by the Sydney Metro and Eastern Suburbs Line stations. The proposed SMMPsRE is a mid-range retail centre in the Sydney CBD. The retail mix will encompass fashion, food and beverage and mixed retail services. Key to the retail offering will be the activation of the Martin Place through a carefully considered food and beverage offering.