EVOLVING URBAN DESTINATIONS

How the blending of work and travel is reshaping cities in Asia-Pacific for the better

CITY APPENDIX

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SYDNEY

1. UNDERSTANDING THE TRENDS

The social and economic structure of Sydney has shifted dramatically as a result of Covid-19. In this post-pandemic world, activity remains redistributed across Sydney's network of centres. Understanding the trends in how people live, work and play in a post-pandemic world will dictate how Sydney evolves and what the next chapter will look like.

1.1. COVID-19

Over the course of much of the pandemic, the NSW Government's response to Covid-19 in the form of lockdown restrictions and social distancing resulted in 43% of work undertaken remotely across NSW and AU$3 billion per week produced remotely.[1]

As a result, office floorspace vacancy rate continued to increase from 3.9% (January 2020), to 5.6% (July 2020), 8.6% (January 2021), reaching 10.1% at July 2022.[2] Yet, the CBD has not yet recovered, with hospitality shortages and inconsistent trips to the CBD making the bounce back difficult for non-office-based industries.

1.2. SUSTAINABILITY

Recent flood, fire and heat events have challenged Sydney's resilience, causing disruptions to transport infrastructure and human health. Bushfires across NSW affected more than 5 million hectares in 2019, destroying 2,000 houses and placing thousands of people into shelter.[3]

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[1] NSW Remote Working Insights, Investment NSW, 2021
[2] 2023 Sydney CBD Office Market Report, Knight Frank, 2022
[3] Australian Fires: A visual guide to the bushfire crisis, BBC, 2020

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1.3. OTHER TRENDS

Covid-19 accelerated existing trends around digital transformation. Digital connectivity will remain critical in attracting investment and talent in Sydney, particularly the CBD.

The City of Sydney released its Digital Strategy in 2020 outlining five goals for the city, including supporting connected communities, fueling global competitiveness, futureproofing the environment with useful data, cultivating vibrant places and providing customer-centric services to understand community needs. This supports the NSW Government's policy direction for innovation precincts and economic growth of NSW economy as the powerhouse of Australia's economy.

The departure of workers from the CBD has restructured Sydney and re-distributed activity to local neighbourhood centres. This has impacted the night-time economy of Sydney CBD and nearby Oxford Street. With Sydney hosting World Pride in early 2023, the high vacancy rate along Oxford Street and the diminished night-time identity will be a challenge facing the city, particularly the ability to fully realise the economic benefits of hosting events of global significance.

2. FUTURE WORK & TRAVEL

Changes to the way we now work, and travel are influencing how we interact with Sydney and what the urban structure of the city looks like. There is an opportunity to leverage these trends and create a sustainable narrative for the future of work and travel in Sydney.

2.1. THE NEW NORMAL OF WORK

Pre-pandemic, the proportion of work done remotely in NSW was 18%. During the 2021 lockdown in NSW, remote working reached 43% and, in this post-pandemic world, 30% of work is done remotely in NSW.[1] A 12% increase from pre-pandemic has been catalytic in reshaping how and where people work, defining the new normal and the following drivers that are likely to influence the new normal of work for Sydney.

[1] NSW Remote Working Insights, Investment NSW, 2021

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- **Evolution of six cities:** In December 2021, the Greater Cities Commission built on the concept of Greater Sydney as three cities, establishing a new vision for a six cities region. This vision brings together the cities of the Lower Hunter and Greater Newcastle, Central Coast, Greater Sydney and Illawarra-Shoalhaven to create a globally competitive six cities region. The intent is to enable more people to work within 30 minutes of where they live, access homes they can afford and create equal access to higher education and training opportunities. This presents an opportunity to shift the economic structure of Sydney, enabling more people to have greater choices in where they live and work. However, without a commitment to faster transport, the benefits of being able to live in commuter locations such as Newcastle or the Illawarra-Shoalhaven may not be realised.

- **Employees and employers see hybrid working as a win-win:** Of the population with high capability to work from home, fast-tracked innovation and technology development has seen the success of hybrid ways of working generate a 1.9% boost to NSW productivity.[1] Productivity growth is expected to average 1.2% each year over the next 40 years.[1] Employers have seen productivity and efficiencies maintained and have now normalised hybrid ways of working. They also see the economic benefits in supporting employees be flexible with the value of human health much widely recognised. In turn, hybrid working allows employees to work flexibly around commitments, contributing to an improved sense of wellbeing. It also reduces commuting time each day of the week.

- **Redesign how we use office space:** Finance, professional services and information sectors have the highest potential to work remotely and take up a large proportion of floorspace in Sydney CBD.[2] This is creating opportunities to use office space more effectively with trends such as condensed floorspace and the rise of co-working space emerging. More elaborate moves such as the conversion of commercial floorspace to residential are not yet apparent in the Sydney market, however, the co-location of non-commercial uses with office floorspace requires intelligent planning and design to ensure the city remains a critical engine to the nation's economy.

TOTAL WORK DONE REMOTELY IN NSW

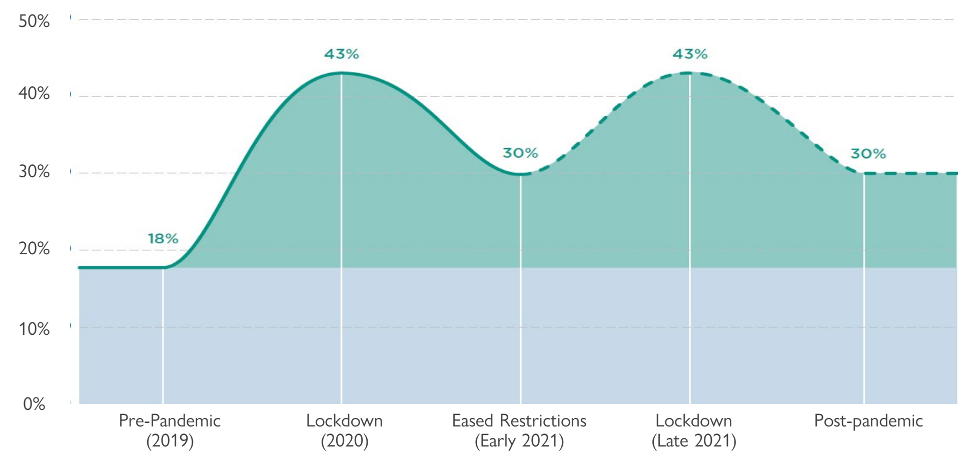

Figure 1: Proportion of work done remotely remained higher than pre-pandemic levels when restrictions eased[1]

[1] NSW Remote Working Insights, Investment NSW, 2021
[2] Changing Places: how hybrid working is reinviting the Australian CBD, PwC, 2021

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Visitation to Sydney has shifted in the last few years with the rise of domestic travel trips to Sydney. In the 12 months to March 2022, visitation was predominately domestic day trip travel (70%), followed by domestic overnight travel (29%) and international travel (1%).[1]

For domestic overnight travel, visitors staying for more than one purpose made up 40%, followed by holiday (29%) and business (24%). The average length of stay was 3.1 nights with average spend at $251 per night. Prior to Covid-19, this was 2.7 nights and $293, respectively. Top 3 accommodation types per night included friends or relatives (48%), standard hotel (15%) and luxury hotel (13%),[2] meaning a staggering 24% of stays occurred in other forms of private accommodation, such as short-term rentals. As domestic travel continues to grow, use of short-term rental accommodation can address any accommodation supply constraints in the city.

- **Rise of local centres:** The departure of workers from Sydney CBD has led to the redistribution of activity to local centres. People now expect more from their local centres, making way for the rise of neighbourhoods and changing the economic structure of Sydney's network of centres in terms of where people live, work and play.

2.2. THE NEW NORMAL OF TOURISM

Research on the new normal of tourism following Covid-19 reports 58% of Australians are interested in travelling domestically. The data found that of this proportion, most (60%) will travel for leisure whilst 40% will travel to visit friends and relatives.[3] These findings may be reflective of short-term trends coming out of two years of tight lockdown measures, however, there are a combination of wider macro trends influencing what the new normal of tourism looks like.

The rise of visitors staying for more than one purpose (40% of visitors)[1] may reflect the short-term demand to visit friends and family post-pandemic, as aligned with the top accommodation type. However, people visiting Sydney for more than one trip is a trend that can be leveraged to support the new normal of tourism if current barriers to a more sustainable future are addressed such as the availability of labour to backfill jobs in the tourism economy, including hospitality, short-term accommodation, cleaning, airport operations and ground staff.

[1] Travel to Sydney, Destination NSW, 2022
[2] Sydney visitor profile Year ending March 2019, Destination NSW, 2019
[3] Good times ahead for Australia's Tourism Industry, Queensland University, 2021

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2.3. THE GREAT MERGING – NEW LIFESTYLES

The rise of internal migration has resulted in NSW experiencing a net loss of 54,466 people during the Covid-19 years (2020 and 2021). This is compared to a loss of 44,344 in 2018 and 2019. Notably, this is the greatest net population loss NSW has experienced in three decades. Looking at Sydney specifically, the city experienced a net loss of 9,200 people in March 2021. A large proportion of this population movement was gained in regional NSW with the Hunter Valley (31%), Tweed (20%) and Southern Highlands (21%) experiencing net population growth. Centres within a 3-hour drive of Sydney, both inland and along the coast, experienced significant population growth during Covid-19, with lifestyles and affordability being key pull factors driving growth.[1]

The ability to maintain a city-based salary and relocate to regional NSW has allowed many households to access greater choices in housing options and experience a better quality of life. However, during the same period, there was heightened demand for domestic tourism in regional NSW as international borders were closed which created competition between the availability of short-term accommodation and rental supply.

As international borders open, relieving pressure on demand for local domestic accommodation, the new normal of lifestyle trend remains. The mass migration to regional NSW and growth of "commuter centres" within a 3-hour drive of Sydney, particularly the Southern Highlands and Hunter Valley, has cemented a new normal with the importance of lifestyle outweighing the city pressures for a proportion of the population. Supporting this new normal will be at the forefront of the Greater Cities Commission's planning for a city of six cities, a critical agenda for sustainable population and economic growth.

[1] Internal Migration, ABS, 2021

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3. A NEW WAY FORWARD

Sydney is in a critical position to take advantage of the new way forward. This analysis frames several opportunities for Sydney to realise the future of travel and work and accelerate sustainable population and economic growth as a global city.

Implementing the opportunities relies on collaboration and partnerships between policymakers, private investors and key city thinkers including economics, strategic planning, urban design and tourism.

3.1. OPPORTUNITIES

Recent trends have created a unique moment in time to leverage opportunities to address the social and economic challenges that may have otherwise prevented the city from evolving on the global stage, celebrated as a place for business and leisure.

- **Faster transport:** Investment in transport infrastructure to make travelling regionally faster and more reliable is an opportunity that will support people working where and how they want in the future. If people can access Sydney via public transport modes which don't exist today, opportunities for a short-term sea change or tree change will become more available, relieving pressure from city life.
- **Rejuvenate night-time economy:** Iconic night-time destinations such as Kings Cross and Oxford Street have lost some of their soul and vibrancy following Sydney's lock-out laws. There is an opportunity to introduce initiatives such as subsidised rent agreements or uses to accommodate creative industries or pop-up exhibitions to better connect with the street, attract people back and rejuvenate the vibrant identity.
- **Sustainable infrastructure:** Transport, health and other people-focused infrastructure that hosts workers, residents and visitors should be tied to a clear policy that promotes sustainable built-form outcomes to ensure Sydney is resilient to urban heat and flooding. Solutions will ensure the city remains operational and is resilient to future severe weather events and increased capacity.
- **Branding:** Sydney needs to continue building its powerful and effective global brand to further differentiate itself from other Australian destinations. Sydney should continue to sell its diverse neighbourhoods and cultural attractions to reduce the reliance on natural assets that serve as the typical drawcard. To achieve a stronger, more diverse city, the richness of Sydney's culture and drive for innovation has the opportunity to be elevated in both the local and global markets.

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- **Mixed use done well:** As the role of local centres changes and people are spending more time in local neighbourhoods, there is an opportunity to reshape how land uses co-locate. Density done well in quality urban environments will create tourism opportunities for neighbourhoods and respond to housing pressure locally.

3.2. CHALLENGES

There are a number of challenges Sydney faces that need to be overcome to successfully drive a new way forward. Some challenges require attention now to facilitate the future of work and travel in preparation for the long-term, such as city resilience to climate change, poor infrastructure connections and growing city pressures.

- **Growing city pressures:** Rising cost of living, house price growth and availability of rentals are placing households under stress. Sydney experienced a mass migration to regional NSW and South East Queensland during the Covid-19 years as more people realised they can live and work from any location.

- **Access to the labour force:** Despite borders opening, the hospitality and accommodation and food services industries are facing significant labour shortages and as a result, not keeping up with the level of demand in high-activity places such as the Sydney CBD. These industries are at the forefront of the tourism industry and with a shortage of labour, the future growth of these industries and their ability to respond to demand will be a significant challenge.

- **Branding:** Attracting visitors to Sydney has historically relied on natural assets, lifestyle and weather. Currently, Destination NSW data shows most trips to Sydney are for leisure (60%). Attracting people to visit Sydney to work and stay for travel needs support from the Government's marketing and branding of Sydney as a place of innovation and the country's powerhouse. Addressing this challenge will be critical in supporting trips to Sydney for more than one trip (business and leisure) and digital nomads visiting Sydney.

- **Night-time economy:** Sydney's night-time economy has suffered since lockdown laws were introduced in 2014. The repercussions of this have negatively impacted Sydney's night-time global reputation with iconic places suffering from high vacancy rates and a loss of identity. This is a challenge for global events such as World Pride and Vivid which attract international tourism.

- **Sustainable infrastructure:** Recent flood, fire and heat events have challenged Sydney's resilience, causing disruptions to transport infrastructure and human health. As Sydney gets hotter and weather patterns continue to become more volatile and intense, the resilience of Sydney's infrastructure will be tested and create challenges for how people move, where they live and how they work.

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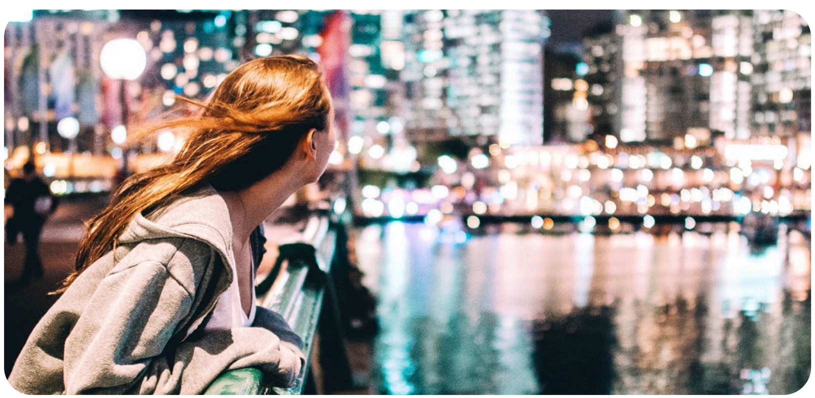
3.3. KEY ACTIONS TO BE TAKEN

As the economic powerhouse of Australia, Sydney has long been the place of international investment, research and innovation and diverse job growth. The city also benefits from natural assets with its iconic harbour and beaches attracting international tourism.

The future of travel and work has the potential to reshape the economic structure of Sydney, allowing more people to live and work where and how they want. There is a unique opportunity for Sydney to address the current challenges and expand its brand to sustain current trends in ways of working and support tourism to evolve.

The key success factors to facilitate the future of work falls within the agenda of local and state government policymakers, tourism and office-based industries and expert city thinkers including architects, economists and strategic planners.



BY POLICYMAKERS

- **Support mixed centres:** Review Local Environmental Plans and other relevant controls to ensure they respond to the socio-economic needs of today. Take advantage of the rise of local centres and be flexible in permitting a mix of uses that create vibrancy and attract visitors.

- **Rejuvenate Sydney's nightlife:** Work with the City of Sydney and NSW State Government to revive iconic nightlife destinations that have lost their cultural identity (such as Oxford Street and Kings Cross) permitting meanwhile uses (e.g., pop-up exhibitions, creative uses) in empty shop fronts in the interim of DA approval or the next tenancy.

- **Expand Sydney's brand:** Work with Tourism Australia and Destination NSW to continue building the brand and the marketing material that attracts people to travel and work in Sydney. Further develop a more nuanced, powerful and effective global brand for Sydney, extending beyond natural assets and selling its diverse neighbourhoods in both the local and global market.

- **Address key worker shortage:** Advocate and work with the Federal Government through the Employment White Paper to introduce incentives such as subsidised visa costs to boost the supply of key workers, including hospitality workers in the tourism industry, to enable industries serving the visitor economy to respond to future visitor demand and grow sustainably.

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BY INDUSTRY

- **Innovative housing typologies:** Map the centre hierarchy in Sydney and consider innovative typologies that co-locate different-sized housing in the neighbourhood and local centres (i.e., where the variety should be) close to high amenity areas to balance the neighbourhood with local residents and transient population (i.e. visitors).

- **Advocate for faster transport:** Acknowledging the planning underway for major transport infrastructure such as faster rail, advocacy will be critical in facilitating the future of travel and work for Sydney and realising the six cities' vision, each dependent on faster transport connections.

- **Connect with local neighbourhoods to promote tourism:** Identify cultural identity and assets as pull factors to increase visitation to local centres, beyond the traditional tourist places in Sydney (e.g., Cabramatta Moon Festival or Ramadan night markets in Lakemba).

- **Re-think office floorspace:** Re-imagine office floorspace in Sydney CBD to support more collaborative, mixed-use and flexible environments, particularly focusing on older stock (i.e. southern part of the CBD). Without resulting in a long-term undersupply of commercial floorspace, reimagine buildings to reflect how and where we work.