



*Reimagine Urban Life*

*June 2021*

# Australian Cities: A runway for outperformance

South Eveleigh, Sydney

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### Welcome to Country

Mirvac acknowledges Aboriginal and Torres Strait Islander peoples as the traditional owners of the lands and waters of Australia. We recognise that we all live, work and play on the traditional lands of Aboriginal and Torres Strait Islander peoples and we pay our respect to Elders past and present



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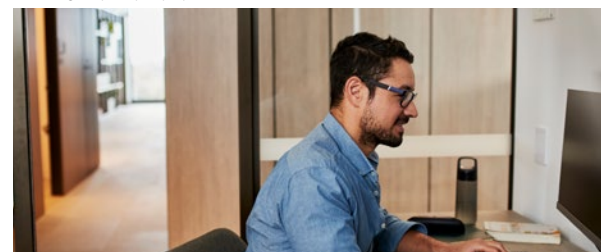
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LIV Indigo, Sydney Olympic Park



## Foreword by Susan Lloyd-Hurwitz

Mirvac CEO & Managing Director



The great architect Lord Richard Rogers said in 2007: 'Cities are the heart of our culture, the engines of our economy and the birthplace of our civilisation. Cities do not happen, they are made'.

Which raises the question: "Are they now being 'un-made' in some way?" Have the forces turbo-charged by COVID-19 (work-from-anywhere, digital social and cultural events and mass on-line shopping to name but a few) shifted our cities into reverse?

We all know the 'pre-pandemic' dynamics.

Agglomeration benefits have been demonstrated for millennia in the economic outperformance of cities, and this economic dynamism has drawn people inward. As a recent Property Council of Australia/EY Report noted "Big benefits have been extracted when infrastructure costs, talent pools, knowledge and ideas are shared".<sup>a</sup>

In 2018-19, the CBDs of Sydney and Melbourne alone represented over 43% of Australia's gross domestic product.<sup>b</sup> And data clearly shows the divergence in economic performance between CBDs, cities and regional areas widened considerably over the last decade. Moreover, Australia is a highly urbanised nation with around 70% of the population living in capital cities – over 40% in Sydney and Melbourne alone.<sup>c</sup>

Global gateway cities such as New York, San Francisco and London have recorded population outflows, particularly from the inner city cores, since the onset of the pandemic. In 2020, Australia's dense cities, with their global interconnectedness, experienced a bigger hit from the virus and subsequent economic shock than occurred in less dense areas of Australia.

In Australia's better connected regional areas, residential prices rose steeply and vacancy rates plummeted. Is this the result of a significant cohort of people deciding cities are no longer attractive places to live and voting for a sea or tree-change? Available office sub-lease space has increased, and even when people are working in the CBD, they are noticeably less present on Mondays and Fridays.

Could it be true that we have reached the end of urban outperformance in Australia?

We wanted to explore whether cities are indeed being 'un-made', or rather is it a case of cities being 're-made'?

Following on from our paper on the Rise of the Omni-Channel Worker, we offer this piece from our Group Research team in order to contribute to the discussion as companies and investors grapple with identifying structural shifts amongst cyclical haze.

We'd love to hear what you think.

*Susan Lloyd-Hurwitz*

a. Reimagining our economic powerhouses: How to turn CBDs into central experience districts, Property Council of Australia and EY, 2021

b. Economic performance of Australia's cities & regions, SGS Economics & Planning, 2018-2019

c. ABS, Regional Population, 2019-20, abs.gov.au

## EXECUTIVE SUMMARY

Real estate investors globally have benefited from the mega-trend of urbanisation over the past two decades. Since the onset of the pandemic, shifts in population movements, consumption and working arrangements have raised the question – is this the tipping point in urbanisation?

While countries are still at initial stages of combating the pandemic and recovery, behaviours continue to evolve. In addition, the strength of the cyclical rebound will make deciphering the depth of structural change challenging.

However, drivers for liveability and urbanisation are more multifarious than are often understood. The data shows strong gravitational forces of Australia's cities remain intact and underpin a long future runway of outperformance. These include:

**Quality of life in our cities:** Measures of safety, social cohesion & tolerance show attitudes to living in cities are at the most favourable levels on record. Urban locations score highest for measures of liveability including varied social infrastructure and walkability.

**Unique demographic make-up:** The large volumes of overseas migrants arriving over past decades have overwhelmingly taken residence in the largest cities with now two in five residents in Sydney and Melbourne being foreign-born and a third of all households speaking a language other than English at home. A likely resumption in overseas migration presents a strong tailwind with the average age of people in our cities forecast to remain relatively young over the next decade.

**CBDs will continue to generate economic outperformance:** Australia has few alternative cities of scale with the hubs of commerce, innovation, culture and public administration concentrated in just a few large cities. Longer-term disruption from flexible working arrangements may not be as large as surmised given:

- > close to a third of the Australian workforce regularly worked from home pre-pandemic;
- > the majority of the CBD office workforce lives within close proximity (two in three professionals or three in four senior executives live within 15km of the CBD workplace); and
- > CBD locations provide firms with the highest access to talent via largely radial mass transportation systems.

**Cities will continue to attract highly skilled workforce:** Australia's highly urbanised geography results in deep concentrations of knowledge jobs in the major cities. Assuming ongoing flexible working for largely white-collar roles, considerations for moves out of cities include lengthy commuting times, shallower employment markets, lower earnings and limited career opportunities for growing cohorts of highly skilled, young workers.

While the future of Australian cities remains strong, accelerated trends have laid the groundwork for faster obsolescence in real estate. Australia is a young country, but parts of our cities are aging and will not be fit for purpose in future.

Quantum leaps in customer expectation of technology, well-being, inclusion and the push for net-zero will result in a gravitational shift towards locations and spaces that can acutely meet these needs.

This Report was developed by Mirvac Research



**INTRODUCTION:**

# The tipping point in urbanisation?

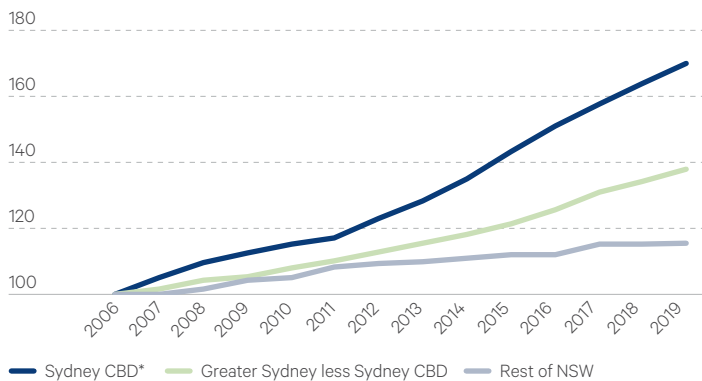
Like many countries around the world, real estate investors in Australia's major cities have benefited from two decades of urbanisation. The agglomeration benefits are demonstrated in the economic outperformance of capital cities. This economic dynamism, strongest in the CBD locations, acts as a gravitational pull of people inwards. Data from the National Institute of Economic & Industry Research shows the widening divergence in economic outperformance of CBD locations and cities compared to regional areas widened extensively over the past decade.<sup>1</sup>



The divergence in economic outperformance of CBD locations and capital cities compared to regional areas widened extensively over the past decade.

## NSW – INDEX OF GROSS REGIONAL PRODUCT

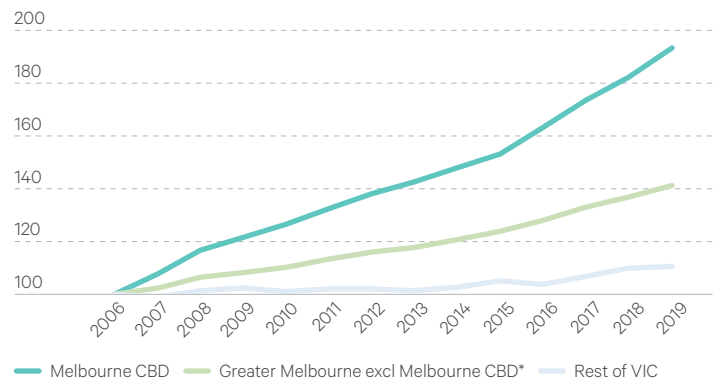
2006=100



\*CBD Office Precinct includes SA2s of Melbourne CBD, Docklands & Southbank  
Source: NIEIR, Mirvac Research

## VICTORIA – INDEX OF GROSS REGIONAL PRODUCT

2006=100



\*CBD includes SA2s of Melbourne CBD, Docklands & Southbank  
Source: NIEIR, Mirvac Research

With the onset of a global pandemic, the future of urban life and Australia's large cities has been called into question. A combination of factors such as the density of Australia's large cities, their dominant service-sector economies, and their interconnectedness with global markets, contributed to a bigger hit from both the virus and subsequent economic shock, than occurred in less dense areas of Australia.<sup>2</sup>

Today, the world is in the initial stages of a recovery, though still fighting the pandemic. Countries have varying levels of restrictions and weakened but broadly improving economies. Optimism abounds that both shocks continue to resolve and improve, aided by scientific breakthroughs, vaccine delivery and unprecedented stimulus. Global gateway cities have seen some population outflows, step-changes in digital consumption of goods and greater acceptance of flexible working for white-collar industries. The findings of this paper show these trends vary significantly around the world.

Currently in Australia, mobility patterns slowly edge higher but are highly responsive to transmission risk and step-changes in restrictions. Behaviours are also influenced by tremendous stimulus support. House prices are rising quickly,<sup>3</sup> retail sales growth is generally strong<sup>4</sup> and job ads in major cities have returned to pre-pandemic levels, while at elevated, but lower levels outside of cities.<sup>5</sup> The strength of the cyclical rebound will make deciphering the depth of structural change challenging. As such, we look into some of the gravitational forces of the major cities that will underpin a long future runway of outperformance.

The strength of the cyclical rebound will make deciphering the depth of structural change challenging.

## VICTORIAN JOB ADS – GREATER MELBOURNE VS REST OF STATE



Source: Internet Vacancy Index (IVI), National Skills Commission, Australian Government

# Factors affecting urbanisation

The state economies of New South Wales and Victoria have the largest share of knowledge-based industries, located in the capital cities of Sydney and Melbourne.<sup>6</sup> Over the past three decades these large professional, financial and communications services industries have grown in their share of contribution to economic activity or gross state product (GSP). Today these industries combined contribute more than 25% of GSP and attract workers with a diversity of high-value knowledge jobs.<sup>7</sup>

Growth in innovation and knowledge hubs has been mirrored in gateway cities globally, however some cities recorded an outflow of residents during the pandemic, particularly in the inner urban cores.<sup>8</sup> Sydney and Melbourne are no different, although recent evidence shows some cyclicity to this with residential vacancy rates tightening and rising hours worked visible across all industries.<sup>9</sup>

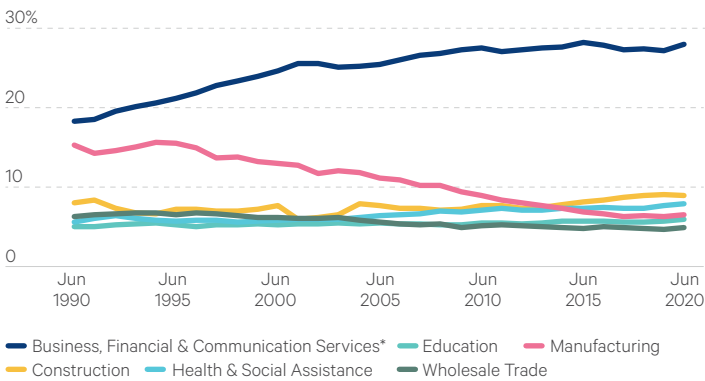
However with evidence of both residents and some firms moving out of cities like New York, San Francisco and London,<sup>10</sup> could Australia's cities follow suit?

We think the ongoing demand for urban life in Australia's cities, is far more multifarious than is often spoken for. To understand the drivers of urban life-stickiness, we look at the 'push-factors' influencing shifts more globally and compare these to Australia's largest cities. Forbes attributes the moves out of gateway cities to more than just the pandemic and restrictions;<sup>11</sup>

**Factors driving outflows from gateway cities were rising crime and social unrest, higher taxes & cost of living burdens, unaffordability, long commutes and desire for a better quality of life.**

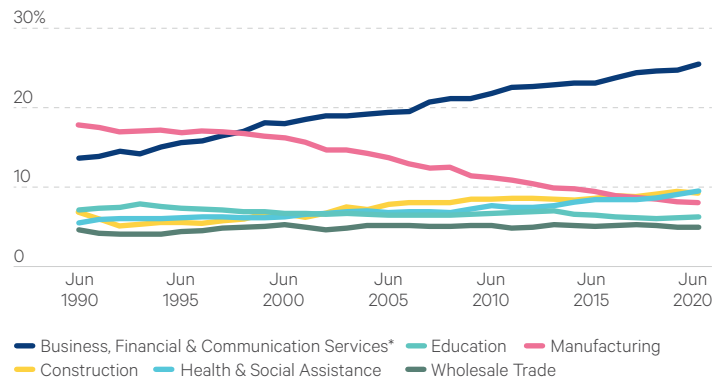


## NSW – GROSS VALUE ADDED SHARE OF TOTAL – SELECT LARGE INDUSTRIES



\*Communication Services includes Information, Media & Telecommunication Services  
Source: Australian Bureau of Statistics

## VICTORIA – GROSS VALUE ADDED SHARE OF TOTAL – SELECT LARGE INDUSTRIES



\*Communication Services includes Information, Media & Telecommunication Services  
Source: Australian Bureau of Statistics

## 1. SAFETY & CRIME

Human safety and low levels of crime are paramount for livelihoods everywhere. Clear linkages to economic growth are seen in gateway cities like New York where a large fall in the homicide rate 30 years ago boosted population growth, tourism, economic development and higher real estate prices.<sup>12</sup> However, by the end of 2020, significant increases in gun violence and homicide had surged in New York and across many large US cities.<sup>13</sup>

When we look at inner urban areas of Australia's largest cities, levels of violent crime are not only low on a per capita basis, but have been falling for some time.<sup>14</sup> In inner urban Sydney, non-domestic assault has been falling for two decades, while locations on the periphery of the inner-urban core have consistently recorded very low levels for over two decades. While in Melbourne, data available since 2011 shows a similar picture of declining criminal incidents.<sup>14</sup>

### INCIDENTS OF NON-DOMESTIC ASSAULT

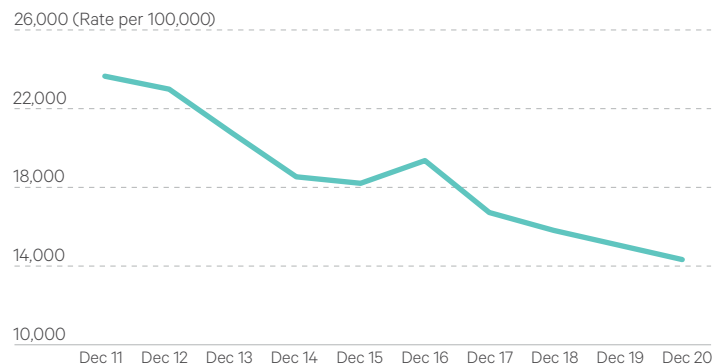
City of Sydney Inner Urban Local Government Areas



Source: NSW Bureau of Crime Statistics and Research

### TOTAL CRIMINAL INCIDENTS

City of Melbourne Local Government Area (Year to Dec)



Source: Crime Statistics Agency, Victorian Government

## 2. SOCIAL COHESION

While safety is vital to population growth, social cohesion is equally important. In 2019, the social unrest in Hong Kong took a heavy toll on Hong Kong's economy and for real estate owners, the investment performance of retail and hotel portfolios.<sup>15</sup> What impact has the pandemic had on social cohesion in Australian urban life? The Scanlon Foundation conducts the largest and longest running national study on social cohesion along with community attitudes to immigration and population. Interestingly, the data shows favourable views on community connections and multiculturalism within local neighbourhoods have never been higher. In November 2020, close to 90% of respondents answered favourably when asked if their local neighbourhood was becoming better.<sup>16</sup>

Attitudes towards 'immigrants are generally good for Australia's economy' were even stronger in young populations with 88% of 18-24 year olds agreeing, and other age groups in the 78%-83% range.<sup>16</sup>

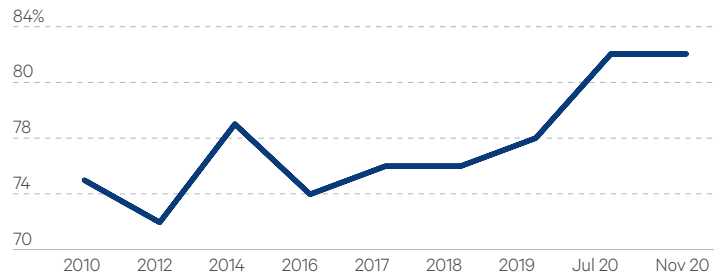
The results are significant given close to 30% of the national population is overseas-born, ranking Australia first within the OECD for populations over ten million.<sup>17</sup> This compares with 21% of the population being overseas-born in Canada, 16% in Germany and around 14% in the UK, USA and the OECD average.<sup>17</sup>

The Scanlon Institute's survey on social cohesion asked the question 'is living in your local area becoming better, worse or unchanged?'; A record 88% answered favourably.<sup>16</sup> This concurs with the strongest result recorded for favourable attitudes to local neighbourhoods being places where different ethnic groups get on well together.<sup>16</sup>

The highest levels of support for immigration are among younger age groups (18-24 and 25-34 year olds), individuals with higher education qualifications, more prosperous financial situations and of non-english speaking backgrounds;<sup>16</sup> all attributes that are highest in populations of urban cities.<sup>18</sup>

### PROPORTION ANSWERING 'STRONGLY AGREE', OR 'AGREE'

Q: Is your local area a place where people from different national or ethnic groups get on well together?



Source: Mapping Social Cohesion 2020 report, Scanlon Institute



In response to the statement 'multiculturalism has been good for Australia', 84% agreed in November 2020, up from 77% in 2018.<sup>16</sup>



Close to  
**30%**  
of the national population  
is overseas-born



ranking Australia first within the  
OECD for populations over ten million.

**a. Settlement patterns of overseas migrants**



Two in every five residents in Sydney and Melbourne are foreign-born and over a third of all households speak a language other than English at home.<sup>18</sup>

The proportion of Australia's foreign-born population has been rising steadily in the decades since the introduction of the post-World War II immigration policies were introduced and the 'populate or perish' mass immigration slogan was promoted.<sup>19</sup>

In the largest state, New South Wales, foreign-born populations have climbed from around 10% of state total in 1947, to 35% in 2016.<sup>18</sup> However in Sydney, Australia's largest city, the share of foreign-born population is above 40%.<sup>18</sup> Likewise for Melbourne, overseas migrants represent two in every five residents.<sup>18</sup>

Migrants are highly urbanised. In fact, 86% of foreign-born migrants that arrived in Australia since 1991 live in capital cities.<sup>16</sup> This is up from 60% in 1996.<sup>16</sup> The composition by country of origin has changed markedly too. In 1947, the proportion of 'Asian born' population was just 0.3%.<sup>15</sup> Today, Mandarin is the most common non-english language spoken in households, followed by Arabic.<sup>15</sup>

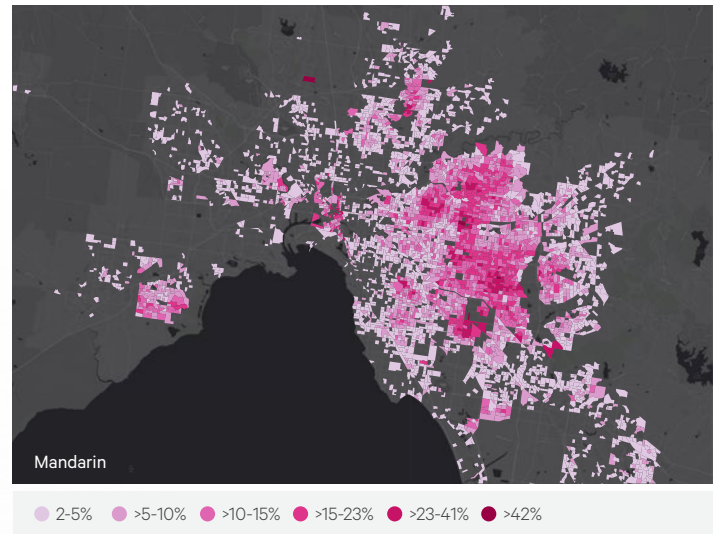
**86%** of foreign-born migrants that arrived in Australia since 1991 live in capital cities



Within cities, ethnic groups largely cluster with those that share their distinctive culture. People often seek similar nationalities and customs of their neighbours and a desire to live within proximity to religious or cultural affiliations which often extends to their children's schooling. Perhaps it's best evident in urban retail where treasured local cuisine and service providers provide the connection to home countries, culture & ancestry. These are strong pulling factors for urban life that often result in preferring proximity to families & community, creating a sticky geographical ring-fence.

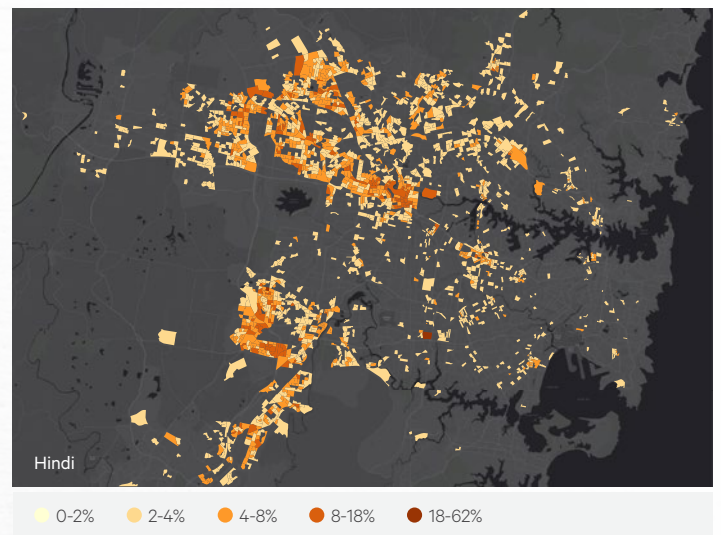
These factors are not easily replicated outside of capital cities. In fact, over a third of Sydney and Melbourne residents speak a language other than English at home.<sup>18</sup> These consist of over 250 different dialects, however the top eight are the most prolific and spoken by one in two foreign language speaking households.<sup>18</sup> Interestingly, within the two largest Australian states, these top eight languages are spoken in households overwhelmingly residing within Sydney and Melbourne.<sup>18</sup>

**MELBOURNE LOCATIONS WHERE MANDARIN IS THE MAIN LANGUAGE OTHER THAN ENGLISH SPOKEN AT HOME**



Source: ABS Census, TableBuilder

**SYDNEY LOCATIONS WHERE HINDI IS PRIMARY LANGUAGE SPOKEN AT HOME**



Source: ABS Census, TableBuilder

**TOP EIGHT FOREIGN LANGUAGES SPOKEN AT HOME – PROPORTIONS OF HOUSEHOLDS RESIDING WITHIN CAPITAL CITIES VS REST OF STATE**

	Mandarin	Arabic	Cantonese	Vietnamese	Greek	Hindi	Italian	Korean
<b>NSW</b>								
Greater Sydney	96%	97%	97%	97%	93%	96%	83%	97%
Rest of NSW	4%	3%	3%	3%	7%	4%	17%	3%
<b>VIC</b>								
Greater Melbourne	97%	96%	98%	98%	97%	97%	91%	96%
Rest of Vic	3%	4%	2%	2%	3%	3%	9%	4%

Source: ABS TableBuilder, Mirvac Research  
Source: Census 2016, ABS



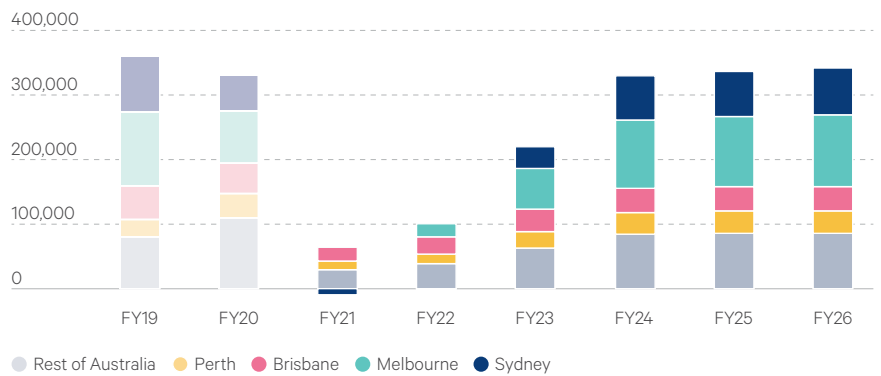
LIV Indigo, Sydney Olympic Park

**b. Outlook for overseas migration**

Australia is a highly urbanised nation with around 70% of the population today living in capital cities.<sup>20</sup> The two largest cities, Sydney and Melbourne are home to over five million residents each and account for more than 40% of the nation's population.<sup>20</sup> These large cities are also fast growing. In recent years prior to the pandemic, they accounted for over 50% of Australia's annual population growth, which ranks high by OECD standards.<sup>2017</sup>

December 2020 Forecasts from the Federal Government's Centre for Population anticipate a recovery in population following vaccine distribution and a gradual re-commencement of overseas migration in the coming years.<sup>21</sup> By FY24, three in four new Australians are again anticipated to reside in Sydney, Melbourne, Brisbane or Perth with one in two calling Sydney and Melbourne home.<sup>21</sup>

**ANNUAL POPULATION NET ADDITIONS – MAJOR CITIES & REST OF AUSTRALIA**



Source: Centre for Population December 2020, Population Statement Overview, the Australian Government, Canberra

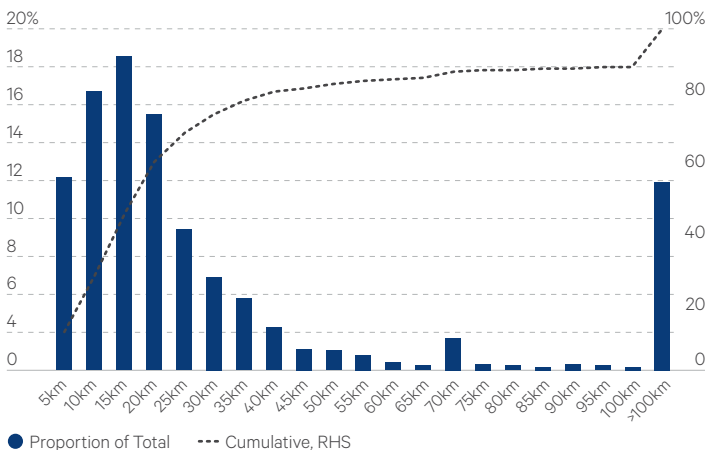


By FY24, three in four new Australians are again anticipated to reside in Sydney, Melbourne, Brisbane or Perth with one in two calling Sydney and Melbourne home.

**75%** of new overseas migrants to NSW locate within 30km of Sydney CBD

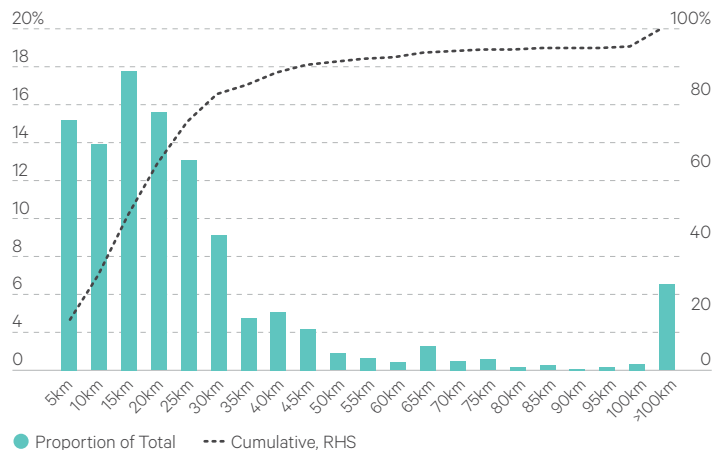
**80%** of new overseas migrants residing within 30km of Melbourne CBD

**NSW – NET OVERSEAS MIGRATION DISTRIBUTION BY DISTANCE FROM SYDNEY CBD**  
FY16 to FY20



Source: Australian Bureau of Statistics Regional Population Estimates SA2, Mirvac Research, Distances approximated with straight line between SA2 centroids

**VIC – NET OVERSEAS MIGRATION DISTRIBUTION BY DISTANCE FROM MELBOURNE CBD**  
FY16 to FY20



Source: Australian Bureau of Statistics Regional Population Estimates SA2, Mirvac Research, Distances approximated with straight line between SA2 centroids





### 3. LIVING PRESSURES

#### a. Taxation & cost of living

While considered high to some global jurisdictions, Australia's income tax settings are consistent nationally. This compares to markets like the USA where varying levels of state and even city-based taxes have contributed to population outflows from higher taxation gateway cities.<sup>22</sup> Research from Green Street notes that household presumptions of further increases in taxation arising from more progressive political settings and stretched fiscal health, has contributed to households making a move to lower taxation jurisdictions like Texas, Florida, Georgia and Arizona.<sup>23</sup>

#### b. Infrastructure investment

There is currently a record investment spend by Australia's state and Federal Governments over the next four years in both social and transportation infrastructure, with the majority of capital commitments focused on the major cities.<sup>24</sup> Researchers at the Australian Urban Observatory and RMIT University find that the "provision of well-planned social infrastructure supports liveability of communities by promoting walking and community social interaction."<sup>25</sup>

#### c. Liveability

While the inner urban life of major cities has been called into question with impacts from pandemic and temporarily closed amenity, the RMIT researchers find that inner urban locations score highest on social infrastructure and walkability—key components of liveability.<sup>26, 27</sup>



**RMIT researchers find that inner urban locations score highest on social infrastructure and walkability – key components of liveability.**

The authors find that inner urban neighbourhoods in major cities are likely to have an array of shops and services to walk to, smaller blocks and good street connectivity. The authors find that higher population density locations tend to be more walkable.<sup>27</sup> This in-turn provides health benefits, as walkable neighbourhoods increase active transport use improving physical activity and reducing chronic disease.<sup>27</sup>

#### d. Housing affordability pressures

Still, Australia's major cities, like other gateways, are not strangers to unaffordability. The data suggests a far bigger risk of city outward migration than the pandemic. While there is much discussion of movements away from cities, in Australia this is likely to be somewhat transitory given then influence of temporary housing policies.

Since June 2020, a clear theme was evident of an upturn in dwelling approvals across smaller capital cities and regional areas, i.e. almost all markets except Sydney and Melbourne.<sup>28</sup> This is in contrast to the last decade which was dominated by big residential cycles in the two major cities and largely high-rise construction.<sup>29</sup>

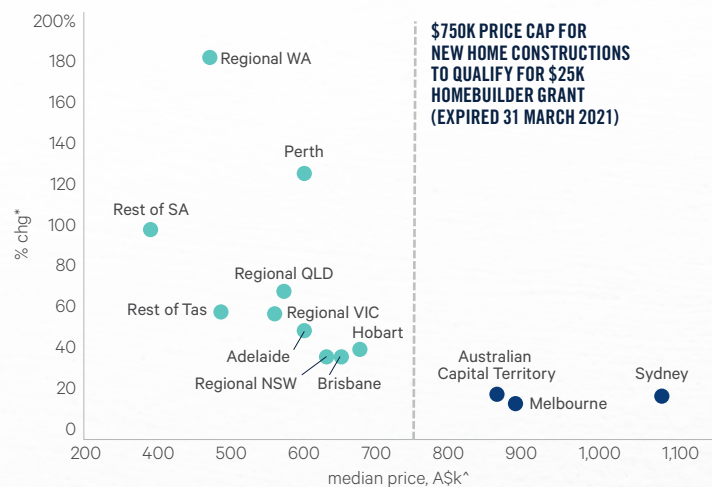
This strong performance of smaller markets reflects multiple factors including less disruption from COVID<sup>30</sup>, some net outflow from cities<sup>31</sup> and a strong uptake of the Federal Government's HomeBuilder housing construction stimulus grant.<sup>32</sup> Smaller cities and regional areas have a far greater proportion of projects meeting the scheme's price cap and commencement guidelines.<sup>33</sup> These factors are likely all transitory as the virus disruptions subside over 2021 and the expiry of HomeBuilder in March 2021.<sup>32</sup>

Already by early 2021, Sydney and Melbourne once again lead the nation for the fastest monthly house price growth, with monthly gains >2%.<sup>33</sup> While serviceability has improved for mortgage holders, affordability for prospective buyers is deteriorating.

While there is much discussion of city-dwellers leaving cities for the regions, an annual net outflow has been the case for more than two decades.<sup>31</sup> Cities typically receive much larger inflows of overseas migrants offsetting the outflow and resulting in high population growth.<sup>20</sup> Affordability presents a risk for cities – population outflows have occurred at peaks of past house price cycles, when affordability was stretched and there were shortfalls in varied housing supply.<sup>33, 29</sup>



### DWELLING APPROVALS, DETACHED HOUSES VS PRICE

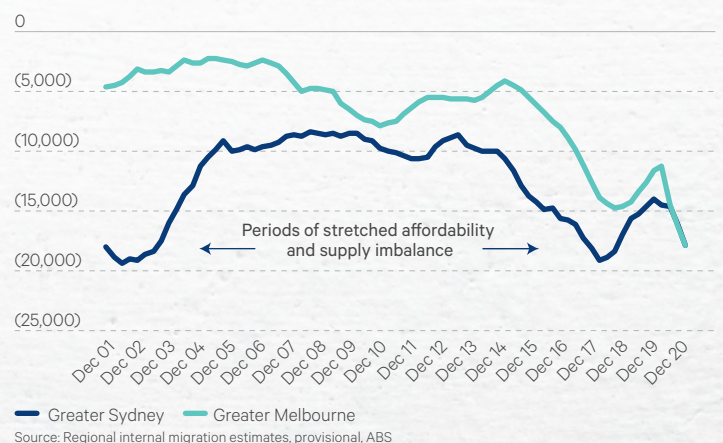


**\$750K PRICE CAP FOR NEW HOME CONSTRUCTIONS TO QUALIFY FOR \$25K HOMEBUILDER GRANT (EXPIRED 31 MARCH 2021)**

\*6 mths to Mar 21 vs 6 mths to Mar 20  
 \*median sales price of established dwellings, Jan 2021

Source: ABS.Stat, CoreLogic

### MOVING ANNUAL NET INTRASTATE MOVEMENT (METRO AREA)



Source: Regional internal migration estimates, provisional, ABS

**An annual net outflow of people from capital cities to regions has occurred for more than two decades. Large cities typically receive much larger inflows of overseas migrants resulting in high population growth within large cities.**



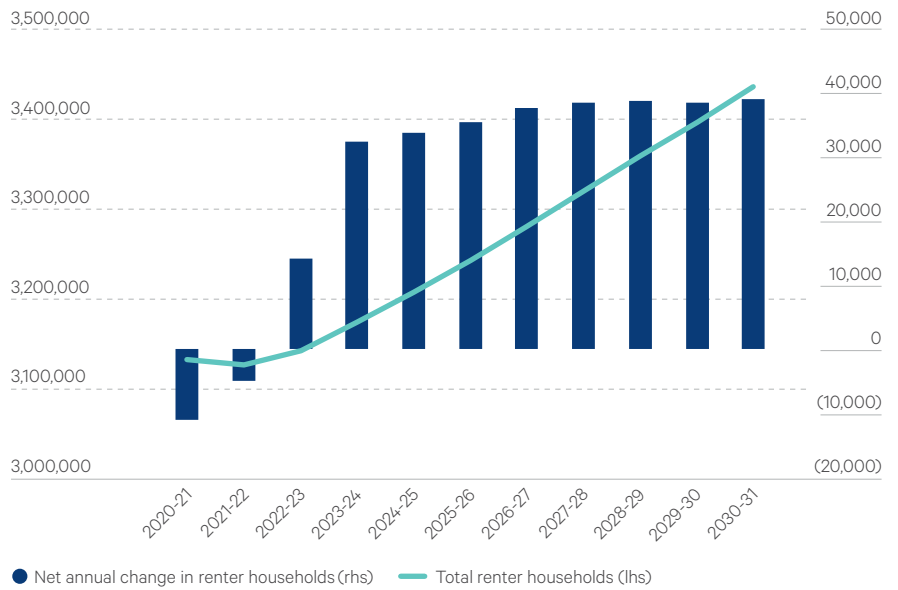
**e. The growth of renter households**

An increase in quality rental dwellings, which a growing Build to Rent sector can provide will be essential given the young age cohorts expected to remain prominent in cities.<sup>21</sup> If renter age proportions were to hold constant, using the forecasts from Centre for Population, the estimated number of new renter households is expected to exceed 300,000 over the 10 years to 2031, bringing the total volume to over 3.4 million.<sup>18,21</sup> However, with prices for detached dwellings significantly outpacing wages growth at present,<sup>33,34</sup> this could result in larger volumes of households renting for longer and an even greater rental dwelling requirement.

Looking at rental households in a spatial context highlights the clear desire of renters to live close to both amenity and place of work.<sup>6</sup> Renter household clusters are largest around areas with access to major transport, with a strong preference for train stations.<sup>6</sup>

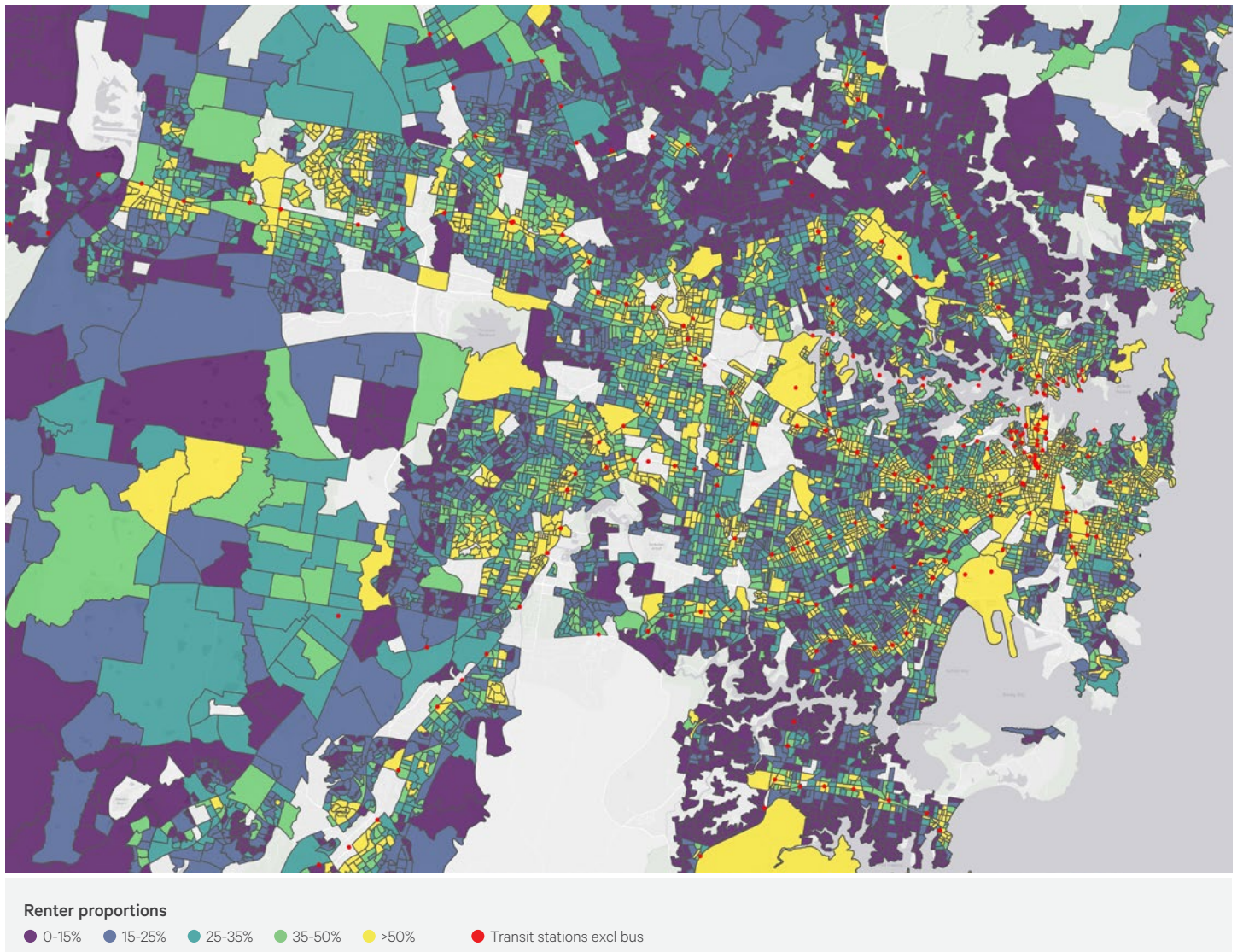
Looking at households in a spatial context shows renters have a clear preference to live close to amenity and place of work.

**TOTAL RENTER HOUSEHOLDS AND NET CHANGE PER YEAR**



Source: Centre for Population December 2020, Population Statement Overview, the Australian Government, Canberra; 2016 Census

**RENTER HOUSEHOLDS AS PROPORTION OF TOTAL HOUSEHOLDS, SA1 LEVEL**



Source: ABS Census 2016

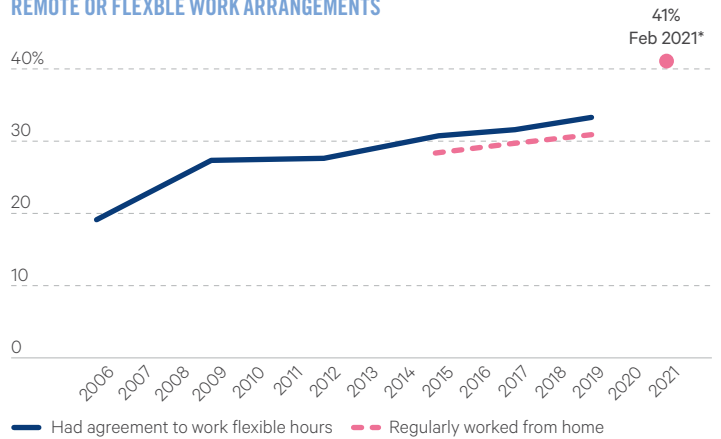
#### 4. FLEXIBLE WORKING AND ACCESS TO TALENT

##### a. Acceleration in flexible working arrangements

Of all pandemic shifts, the most evident around the world is an acceleration in flexible working for largely office-based roles. Pre-pandemic, the proportions of working Australians that had an agreement with their employer to work flexibly had been growing for more than a decade to almost 35% of the total workforce by 2019 according to the Australian Bureau of Statistics.<sup>35</sup> The share of the workforce working regularly from home one or more days a week was similar, at levels above 30% since 2017.<sup>35</sup> By February 2021 this had climbed to 41%, however restrictions due to COVID-19 was listed as the major reason.<sup>34</sup> During the month, two major states incurred short, state-wide lockdowns that restricted workplace attendance outside essential services.<sup>36</sup>

As such, with the pandemic still having an impact on workplace attendance, it will take time for firms to gauge the impact of remote working on their office occupancies. However, with a high baseline, the change from pre-pandemic may not be as large as surmised.

##### PROPORTION OF AUSTRALIANS WITH REGULAR REMOTE OR FLEXIBLE WORK ARRANGEMENTS



\*Two Australian states (Victoria & Western Aus) incurred state-wide lockdowns during Feb 21  
Source: ABS – Characteristics of Employment Cat. 6333.0 & Household Impacts of COVID-19 Survey

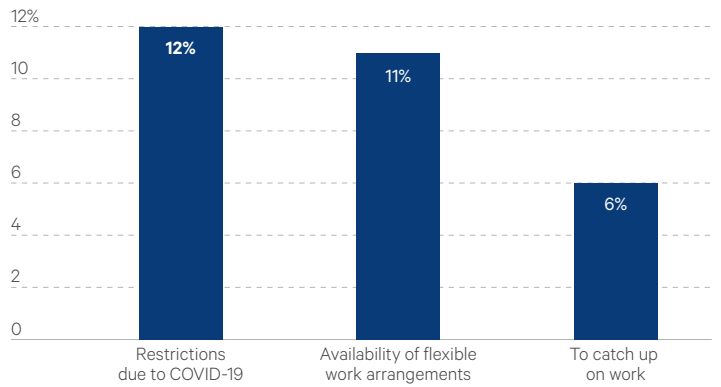


Flexible work arrangements had been growing for more than a decade - surveys indicate close to a third of Australian's worked from home one or more days a week pre-COVID.

##### b. Proximity to office workforce

One attribute of our major CBDs we think underpins their resilience is the proximity of the workforce. Contrary to other global gateways like London, New York and San Francisco, the vast majority of both Sydney and Melbourne CBD office workforces reside in relative close proximity to their workplace location. Census data shows seniority plays a part here too. Broadly speaking, the more senior the office-based worker, the closer they reside to the workplace. We find 75% of Chief Executives, General Managers or Legislators that work in Sydney CBD live within 15 kilometres (9.3 miles).<sup>6</sup> For professionals based in Sydney CBD, around 70% are located within 15km from the workplace. For Melbourne CBD the proportions are slightly lower, but broadly similar.<sup>6</sup>

##### TOP THREE REASONS AUSTRALIANS WORKED FROM HOME IN FEB 2021



Source: ABS Household Impacts of COVID-19 Survey



The vast majority of both Sydney and Melbourne CBD office workforces reside in relative close proximity to their workplace location.

Two in three professionals that work in Sydney or Melbourne CBD's live within 15km or 9.3 miles.



This is in contrast to New York, where the large Finance & Insurance industry is reported to have a high share of workers commuting from outside the city (38%) and has the longest average commute of all industries at 51 minutes.<sup>37</sup>

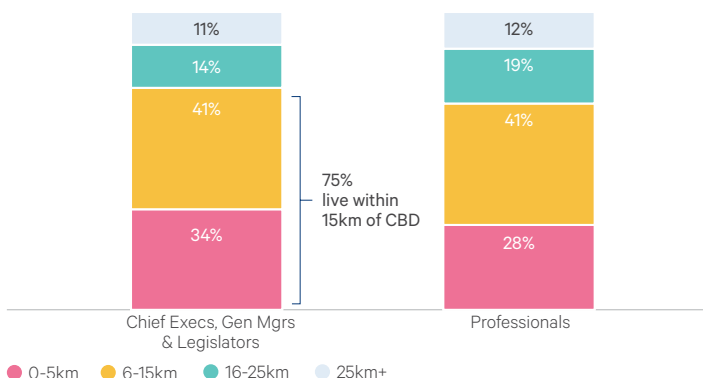


Similarly in London, data from the UK Census shows the more senior workers are more likely to commute longer distance, from outside Greater London.<sup>38</sup>

According to research from the Trades Union Congress and based on data from Office for National Statistics, the UK Finance & Insurance sector is the industry with the highest proportion of workers making long commutes, estimated to be close to 30% travelling more than two hours a day.<sup>39</sup>

##### SYDNEY CBD WORKPLACES – PROPORTION OF WORKERS RESIDING WITHIN DISTANCE BANDS OF GPO

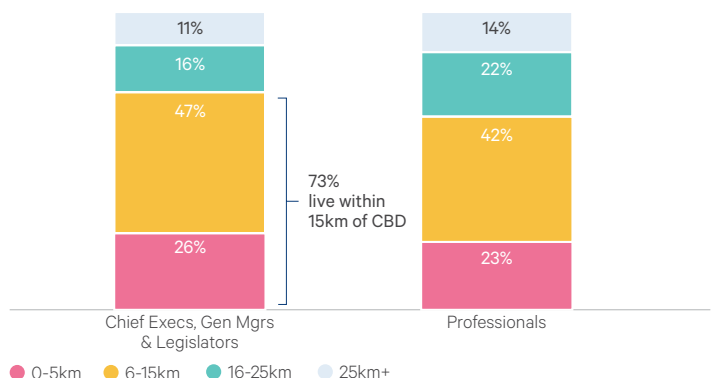
Select job levels



Source: Census 2016 Place of Work data

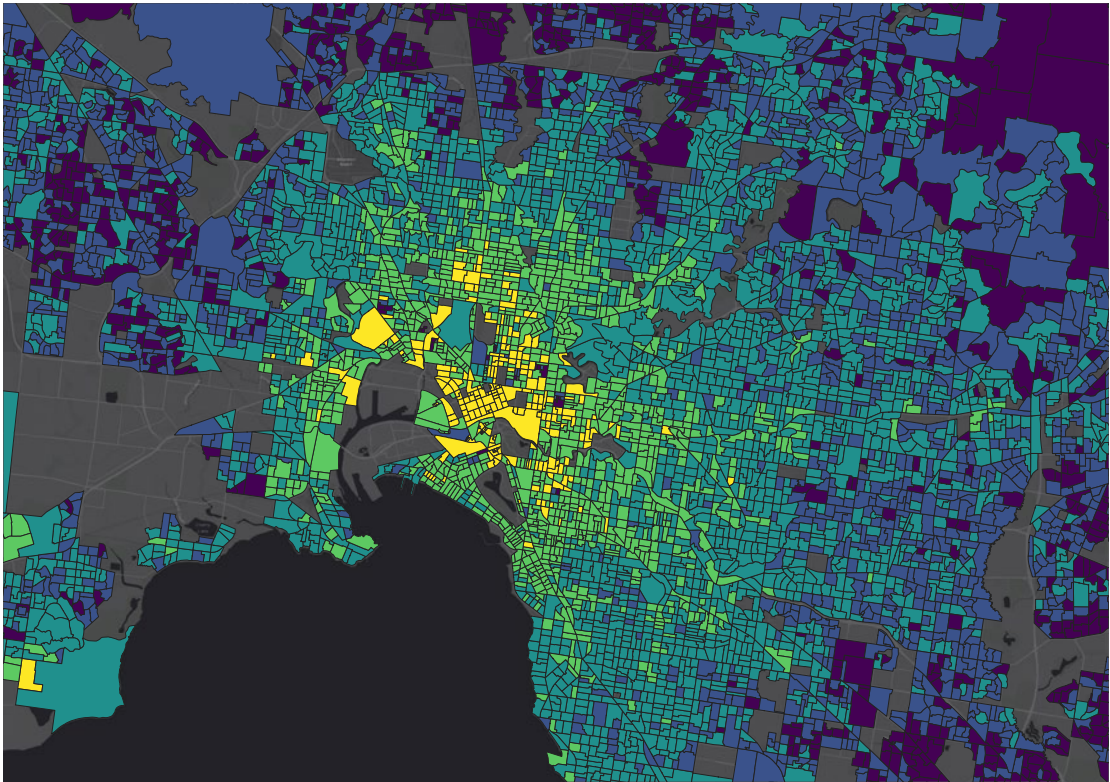
##### MELBOURNE CBD WORKPLACES – PROPORTION OF WORKERS RESIDING WITHIN DISTANCE BANDS OF GPO

Select job levels



Source: Census 2016 Place of Work data

RESIDENT LOCATIONS FOR WORKERS IN MELBOURNE CBD

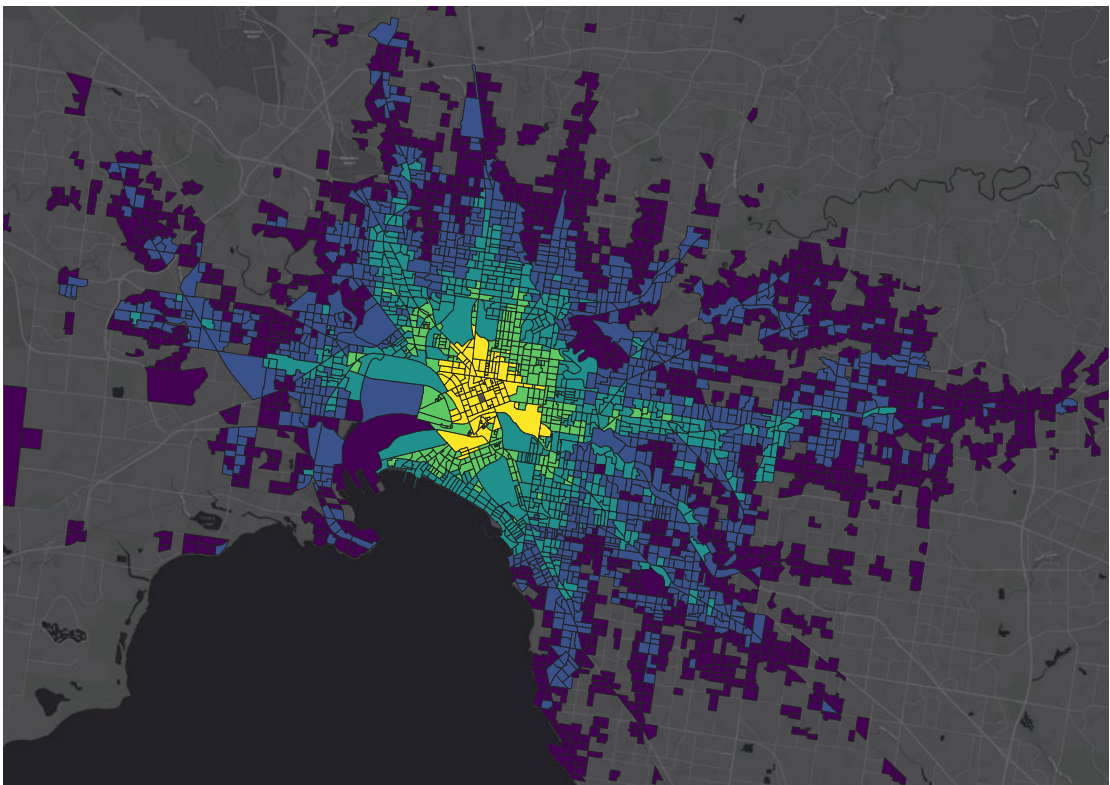


Vic CBD workers

- 1-2%
- 2-4%
- 4-8%
- 8-14%
- 14-31%

Source: Census 2016, Tablebuilder, SA1 area proportions of usual residents that work in CBD location.

VISUAL DISTANCE OF A 1 HOUR PUBLIC TRANSPORT JOURNEY FROM MELBOURNE CBD



Vic time to CBD

- 0-20min
- 20-30min
- 30-40min
- 40-50min
- 50-60min

Source: HERE Public Transit API v8, Mirvac Research

1. Public transport journey times calculated between each SA1 centroid to a single CBD SA1 central location for each state.
2. Departure day was a Wednesday, start times staggered by 30minute intervals from 8:30am for each 10km distance buffer. This allows for similar arrival times and peak traffic.
3. Maximum number of public transport transfers limited to three.
4. Initial connecting journey allowed for 2km max walk, otherwise priority given to public transport (bus) and if not available calculated with vehicle (excluding uber, taxis, rentals).

**c. Access to talent – barriers to large-scale decentralisation**

At the last Census, workers in Sydney and Melbourne office markets recorded very high levels of public and active transport (walking, cycling etc) mode share for journeys to work at around 80-85% of all journeys.<sup>6</sup> Radial mass transportation systems result in a funnelling of workers from every direction to CBDs. A sharp decline in both public and active transportation to workplaces is visible once the workplace is located a few kilometres from the CBD.<sup>6</sup>

In fact, we find that once a workplace is 6km from the GPO in Sydney, or just 3km from Melbourne GPO, public and active transport drops to around one third of all journeys, with two in every three workers travelling by private vehicle.<sup>6</sup>

Private vehicle usage results in significantly reduced access to talent as the geographical layout of cities and increased road congestion results in less timely (and seamless) journeys. Census data shows workplaces located further than the 6km perimeter from Sydney GPO (or 3km from Melbourne GPO) have highly localised populations.<sup>6</sup> As such we see the risk for meaningful decentralisation of offices away from CBD premises, outside these high public transport radius bands, as very low.



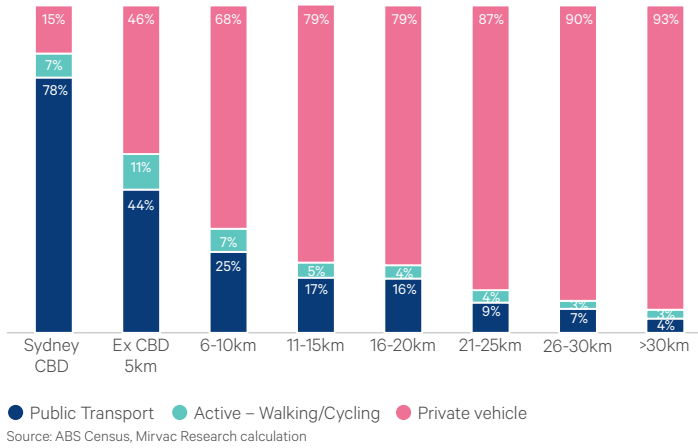
Once a workplace is 6km from the GPO in Sydney, or just 3km from Melbourne GPO, public and active transport drops to around one third of all journeys.



More than two in three workers journey to work by private vehicle, reducing access to talent.

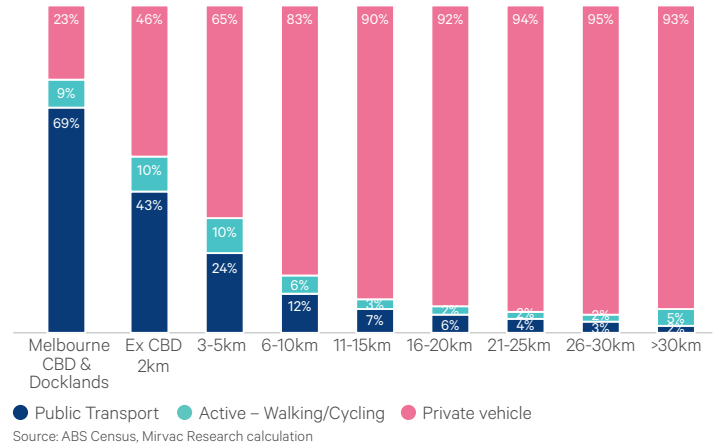
**MODE OF TRANSPORT TO GREATER SYDNEY WORKPLACES**

by distance from Sydney GPO



**MODE OF TRANSPORT TO GREATER MELBOURNE WORKPLACES**

by distance from Melbourne GPO



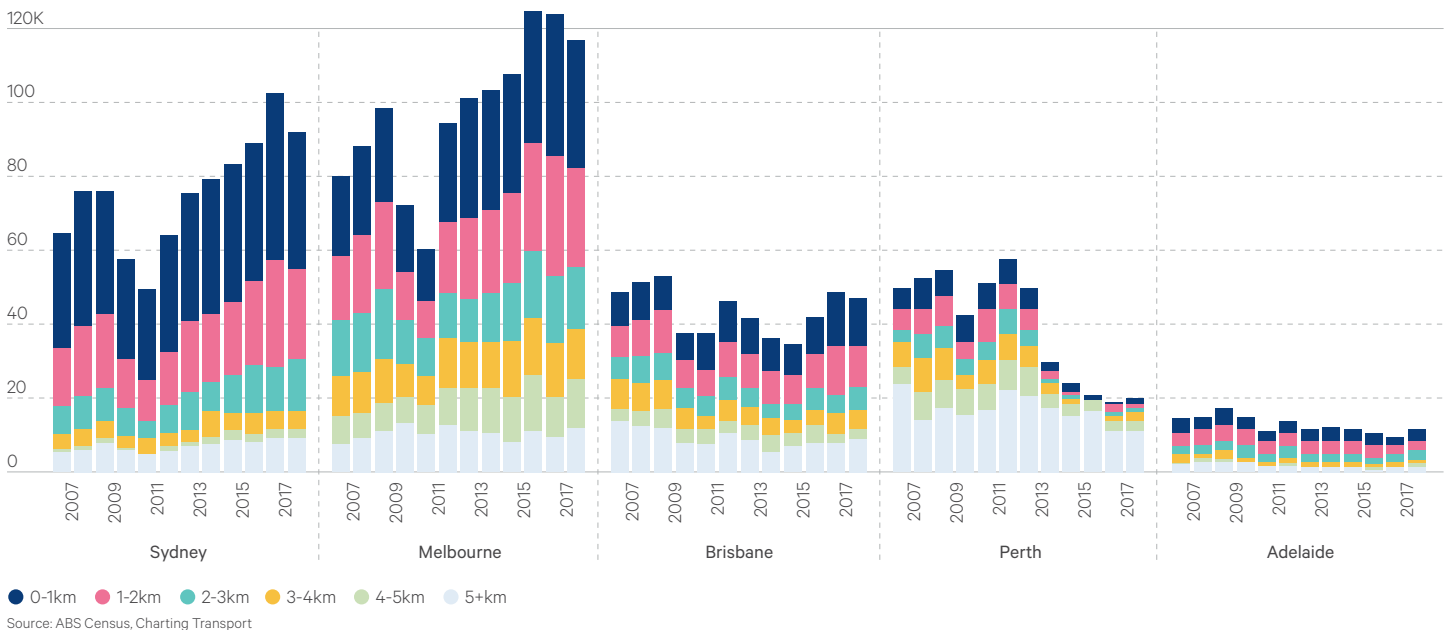
**d. Importance of public transport connectivity**

Post-pandemic, a higher proportion of the 'hybrid working week' of both office and home workplaces is still likely to result in workers prioritising public transport journey modes to their workplace and hence their residence within proximity to transport connections. This trend has been strongest in recent years in Sydney and Melbourne, where around 60% of all new residents located within 2km of a train or bus station.<sup>4,6</sup>



Around 60% of all new residents to Sydney and Melbourne reside within 2km of a train or bus station.<sup>4,6</sup>

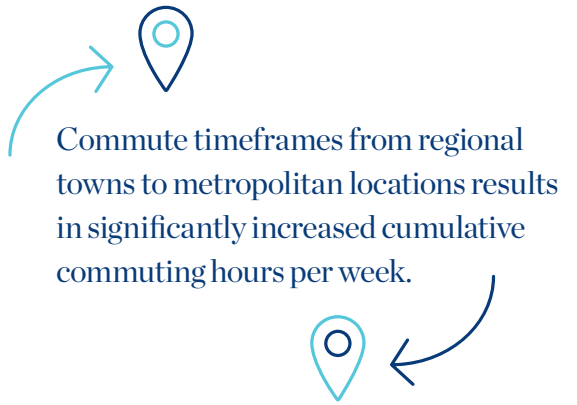
**ANNUAL POPULATION CHANGE BY DISTANCE FROM TRAIN/BUSWAY STATION**



### 5. CONSIDERATIONS FOR LARGE-SCALE POPULATION MOVES OUT OF CITIES

We think this largely resides on whether employers permit workforces to work remotely at least 3-5 days per week indefinitely. If there is an expectation that most white-collar workers return to metropolitan offices more than one or two days per week, the move away from cities may not be sustainable. This is because commute timeframes from regional towns to metropolitan locations results in significantly increased cumulative commuting hours per week.

The below table summarises cumulative commute times on a Monday morning, leaving at 8am directly from a train station to 200 George Street, Sydney CBD. It shows that once an employee is commuting more than twice per week from a regional town (with direct train access), the time becomes roughly equivalent or greater than a five day commute from within 20km of CBD.<sup>41</sup> This excludes frequency of services, which are generally less and can add to greater inconvenience of commute.



#### TIME LENGTH OF MORNING COMMUTE – CUMULATIVE HOURS PER WEEK COMMUTING TO 200 GEORGE STREET, SYDNEY BY RAIL

Days	Inner ring Sydney ~5km	Middle ring Sydney ~10km	Outer ring Sydney ~20km	Newcastle	Wollongong
1	0.3	0.6	0.8	2.8	1.8
2	0.7	1.1	1.5	5.7	3.5
3	1.0	1.7	2.3	8.5	5.3
4	1.4	2.2	3.0	11.3	7.0
5	1.7	2.8	3.8	14.2	8.8

Timeframes estimated using Google public transport direct from train station to 200 George Street, Sydney at 8am on 19th October 2020. Ringed areas include an average of North, West and South Sydney select stations.



Apart from cultural considerations covered earlier in this report, other employment considerations for households include:

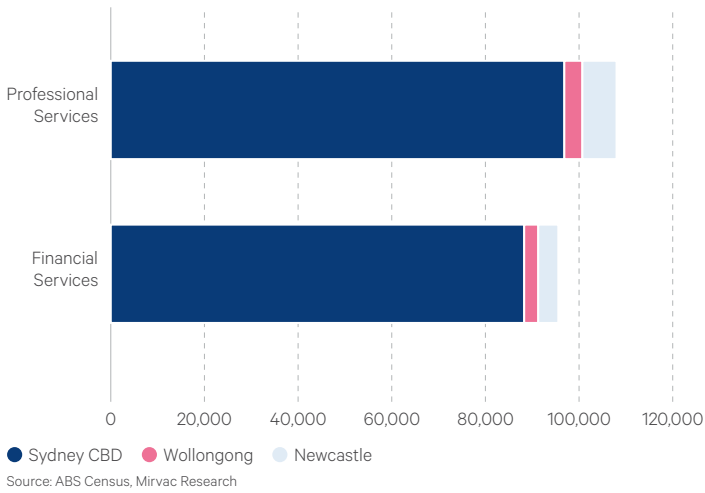
**a. Depth of local employment**

Even in the largest regional towns outside the capital cities, the size of the workforce for professional or financial services jobs is very small in comparison to CBD jobs.<sup>6</sup> Unlike countries like the USA which have a many alternative cities, Australia's highly urbanised geography results in a concentration of knowledge jobs in the largest capital cities only.<sup>6</sup>

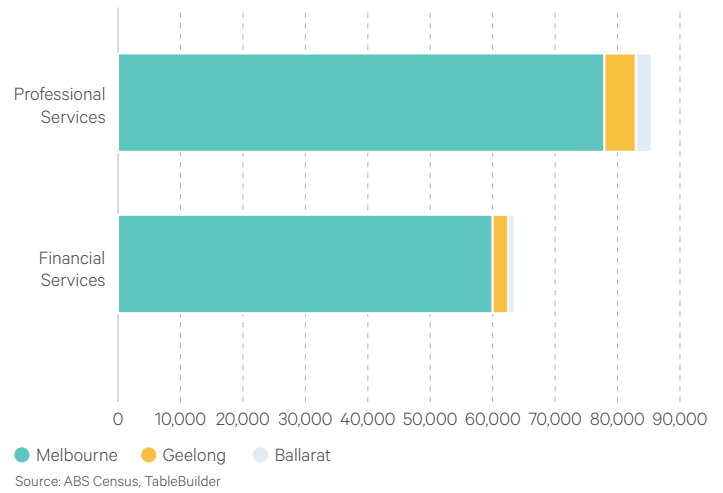


Australia's highly urbanised geography results in deep concentration of knowledge jobs in the large cities.

**COUNT OF JOBS – SYDNEY VS LARGEST NSW REGIONAL CENTRE**



**COUNT OF JOBS – MELBOURNE VS LARGEST VIC REGIONAL CENTRE**



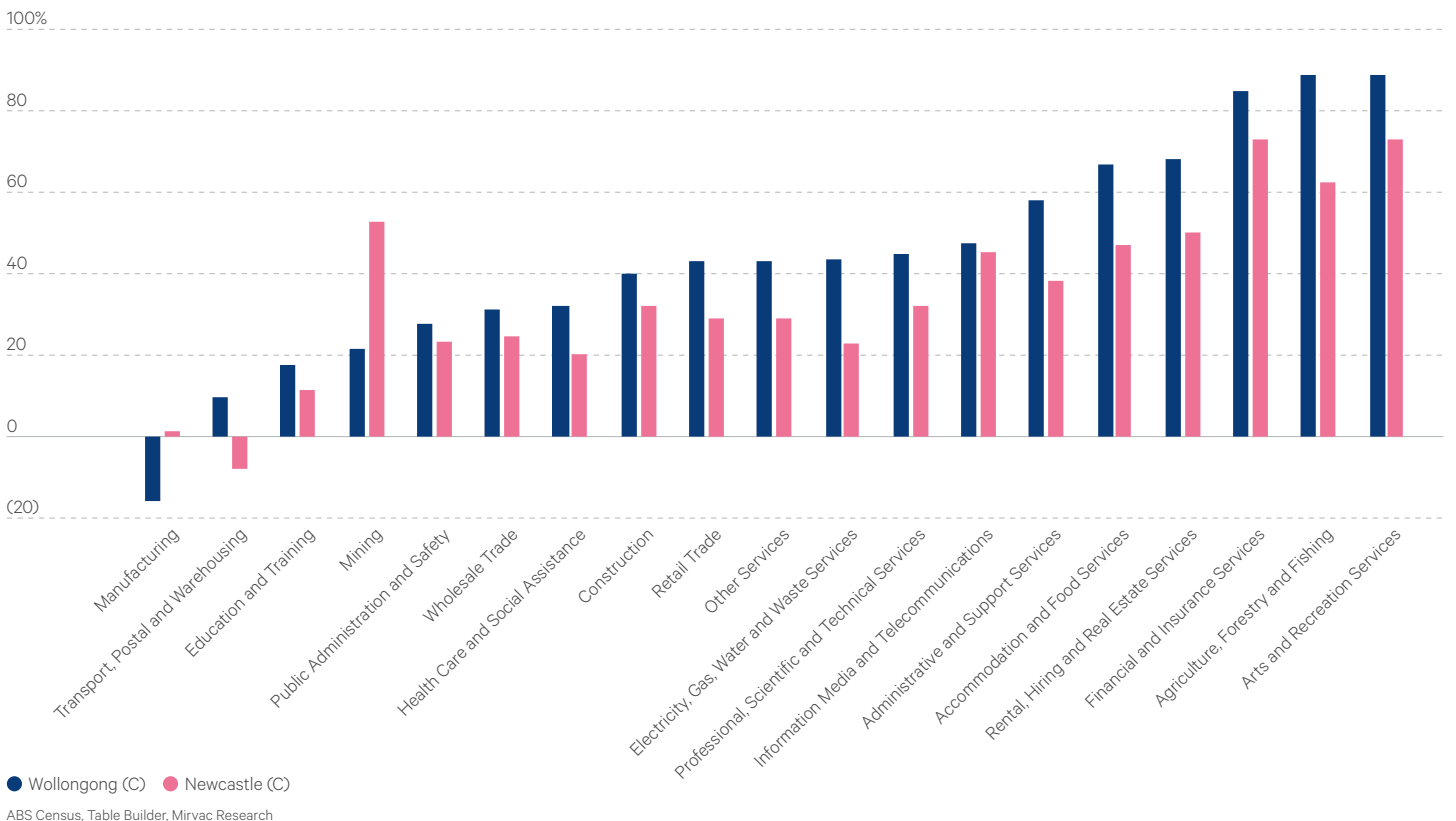
**b. Potential lower adjustment in earnings over time**

As many jobs (including some white collar roles) cannot be performed completely remotely indefinitely, the depth and compensation of localised employment becomes a key consideration in future. While significant wage premiums of city CBD white-collar roles to other locations is not a surprise, we found the wage premium is also particularly pronounced for industries that have lower average weekly earnings such as Arts & Recreation, Hospitality and Retail Trade.<sup>6</sup>



Wage premiums for inner Sydney based roles are pronounced for not just white-collar roles, but also industries with lower average weekly earnings.

**INCOME PREMIUM OF SYDNEY CBD JOB TO WOLLONGONG & NEWCASTLE BASED JOB**



**c. Depth of career aspirations**

Over the last 50 years, our cities have been transformed by the tremendous lift in highly educated workers, particularly amongst females who have increased their highest educational attainment in larger proportions than males.<sup>6</sup> Females have moved into higher paying jobs across a wide span of industries and occupations. However, this looks like it has further to run. For example, females now outnumber males in City of Melbourne based professional services roles, up until age 30.<sup>6</sup>

Looking at the geographical difference between cities and regional locations, we can see education levels for both women and men are significantly higher in metropolitan and particularly CBD based roles, than compared to regional locations.<sup>6</sup> This is particularly pronounced for workers aged under 45 years.<sup>6</sup>

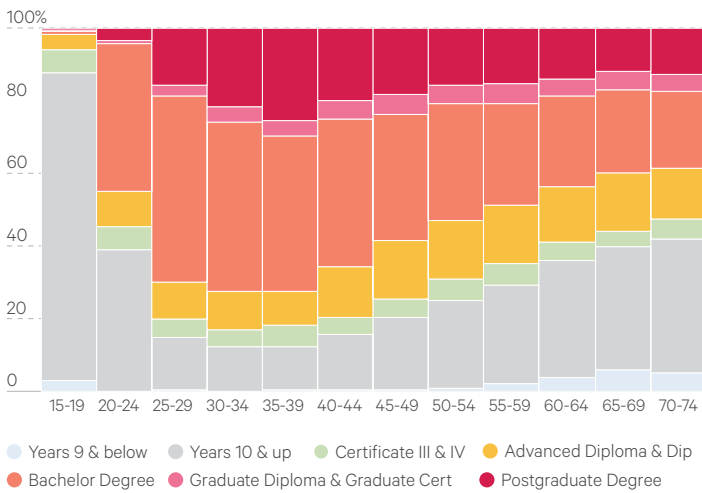
The increase in higher educational attainment over the last five decades is far more pronounced for females than males, but especially so in cities. Generations of highly educated workers will continue to increase as a proportion of the workforce, seeking diversity of high-paying jobs that satisfy career aspirations.



The increase in higher educational attainment over the last five decades is far more pronounced for females than males, but especially so in cities.

**FEMALES WORKING IN SYDNEY CBD OR NORTH SYDNEY CBD WORKPLACE**

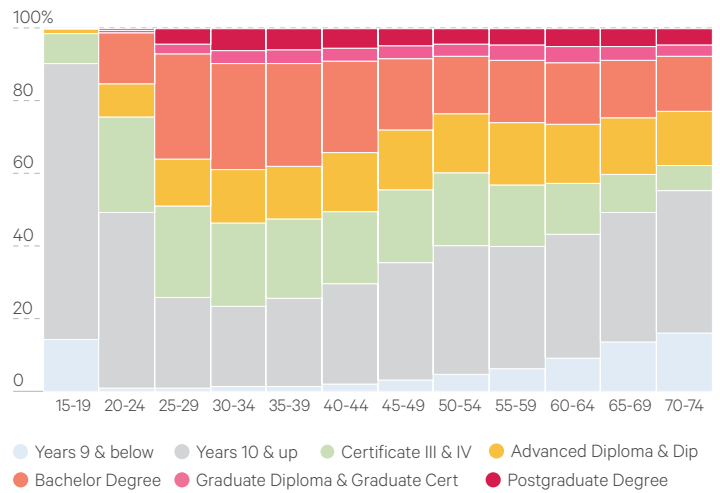
Highest Educational Attainment



Source: ABS Census 2016, TableBuilder, Mirvac Research

**FEMALES WORKING IN REGIONAL NSW**

Highest Educational Attainment



Source: ABS Census 2016, TableBuilder, Mirvac Research







# Conclusions

Claremont, Perth

## 1. CITIES ARE UNDERPINNED BY FAVOURABLE DEMOGRAPHIC TAILWINDS

Greater capital cities largely remain young with ageing more pronounced in rest-of-state area. Outside of cities, the largest increases in populations will occur in the 65 and older cohorts driven by:

- > Ageing of larger baby boomer cohorts, particularly in coastal regional areas; and
- > Lower inflows of overseas migrants to areas outside of cities.

Australia's major cities will see peak cohorts in the 20-49 cohorts requiring diversity of housing, employment space, services and social infrastructure.

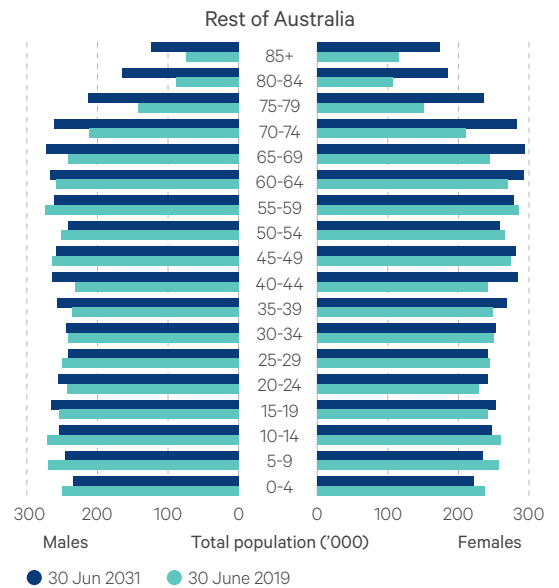
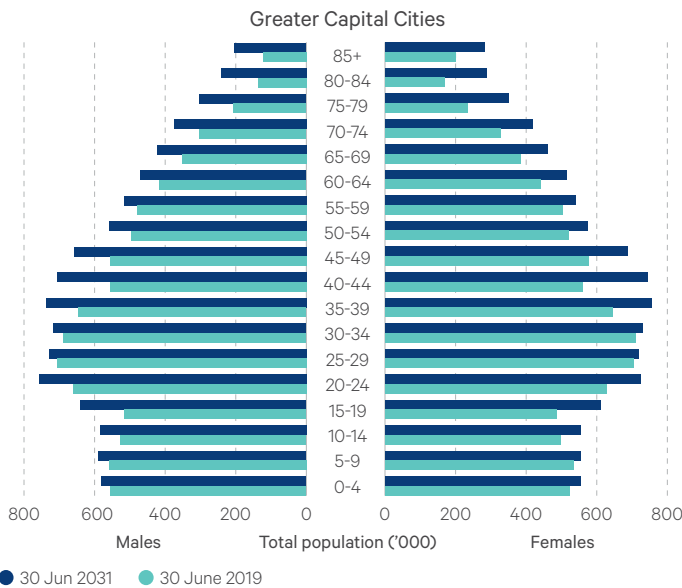
Over the next decade, Australia's capital cities are forecast to remain young with ageing more pronounced in rest-of-state areas.



BY 2031 PEAK AGE COHORTS ARE EXPECTED TO BE

# 20-44 year olds

### AGE STRUCTURE, GREATER CAPITAL CITIES AND REST OF AUSTRALIA, CENTRAL CASE, 30 JUNE 2019 AND 2031



Source: (Australian Bureau of Statistics, Regional population by age and sex, 2020), Centre for Population projections produced by Dr Tom Wilson Dec 2020 Population Statement Overview, the Australian Government

## 2. AUSTRALIA'S CITIES HOLD STRONG GRAVITATIONAL FORCES WITH FEW COMPETING OPTIONS

Like many European countries, Australia's major cities have multiple functional layers that don't exist in the same number elsewhere. For example, the hubs of commerce, culture and public administration are concentrated in just a few major cities. However, the pulling power of high liveability is also dependant on an equally crucial, but varied list of ingredients such as:



Claremont, Perth



We share the view of Green Street that the combination of these factors “act as separate gravitational forces that feed on each other to make the whole more powerful.”<sup>23</sup> However, weakness or imbalance of these factors poses the major risk for cities.

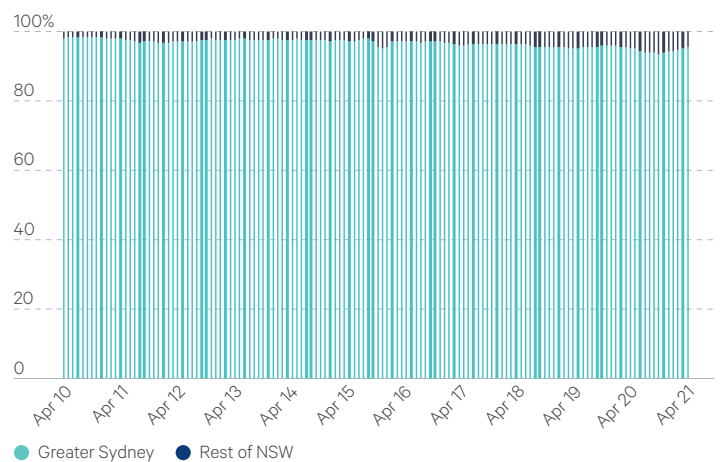
## 3. AUSTRALIA'S CITIES WILL REMAIN HOTSPOTS FOR INNOVATION & WEALTH CREATION

According to the United Nations, history “will look back at 2020 as the moment that changed everything”.<sup>42</sup> Accelerated digital transitions from business and consumers will have “lasting impacts on daily lives”.<sup>42</sup> This brings innumerable benefits of new solutions and convenience but vast challenges including societal digital divides and the capabilities ready for a digitised future.

Here is where cities will play a vital role. For example, the importance of attracting and developing talent with digital skills is no longer just for ‘Big Tech’ but critical for all industries. The evidence is just coming to light. In New York City for example, technology job ads outnumbered all other industries during April to November 2020.<sup>43</sup>

In Australia, vacant job positions for Information and Communication Technology professionals were back to pre-pandemic levels in March 2021.<sup>5</sup> They are concentrated in the largest knowledge sector states of NSW and Victoria, and over 95% of advertised roles are located in the respective Capital Cities.<sup>5</sup>

### ICT JOB VACANCIES IN NSW – PROPORTION LOCATED IN CAPITAL CITY VS REST OF STATE



● Greater Sydney ● Rest of NSW

Source: Internet Vacancy Index (IVI), National Skills Commission, Australian Government

#### 4. SUSTAINABLE SOLUTIONS ADVANCE ALONG WITH DEEPER CONNECTIONS WITH COMMUNITY

While strong environmental commitments abound for firms and governments worldwide, the further prioritisation of ESG, the push to net zero and the quantum leap forward in both well-being and inclusion are transformational for real estate. <sup>44</sup> For real estate owners and developers, there are higher expectations in building deeper connections with communities and contributing back to the city.

As firms look more broadly at every aspect of sustainability, we think this will extend not just to their premises, products and supply chains but increasingly to their employees journeys for days they are in the office. For example, some key requirements for spaces from global tech precommitments include: <sup>45</sup>

- > Carbon neutral;
- > Connection to major rail transportation to deliberately encourage sustainable journeys;
- > Connections to nature, open-space, wellbeing, inclusion;
- > Connecting with community through design & ground plane; and
- > Retaining heritage and uniqueness while improving efficiency.

In Sydney, high public transport journeys to workplaces exist in select transit corridors, while in Melbourne, sustainable journeys to work are only a significant proportion for the CBD and immediate inner ring locations only.

#### 5. THERE WILL BE WINNERS AND LOSERS

There is no doubt that various accelerated trends have laid the groundwork for faster obsolescence risk in real estate. Growing expectations of communities and workforces from the spaces they inhabit will result in a gravitational shift towards locations and spaces that can acutely meet their needs.

While Australia is a young country, parts of our cities are aging and will soon not be fit for purpose in future. For example, in the Melbourne CBD grid, over 55% of buildings greater than 10 storeys are over 40 years old, with one in every three buildings over 50 years old. <sup>46</sup> While various refurbishments have occurred over the years, the older bones of these buildings often lack the architectural design and integrated base building infrastructure of what space users are increasingly seeking.

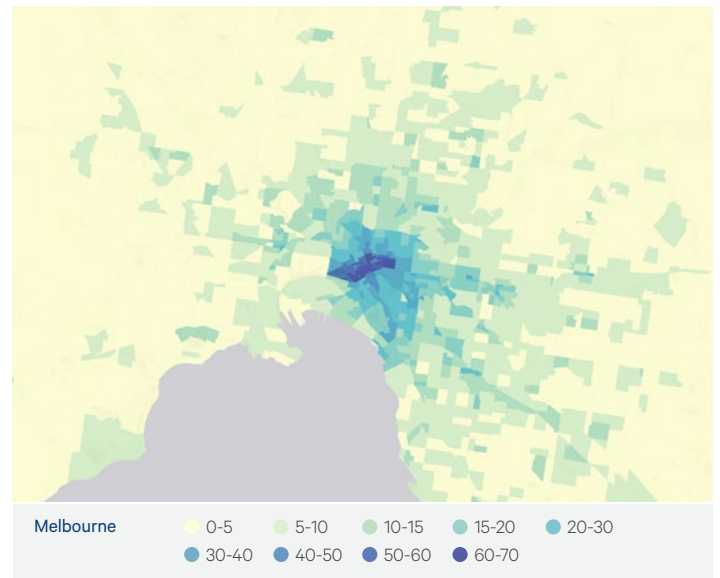


Various accelerated trends have laid the groundwork for faster obsolescence risk in real estate.

Better visibility of how spaces are used through real-time smart monitoring is in high demand, along with an elevated shift to healthy, open, touchless environments that are both sustainable and inclusive parts of the urban fabric.

Future winners will be defined by their ability to create, reposition and curate the new generation of sustainable, connected spaces that reimagine urban life.

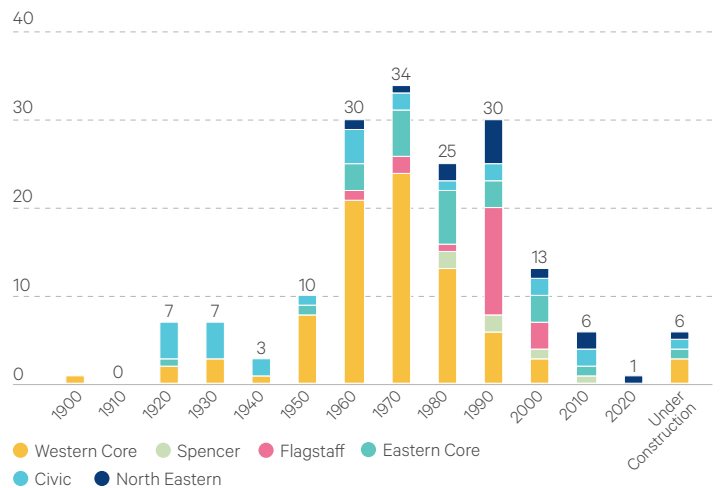
#### MELBOURNE WORKPLACES – PROPORTION OF JOURNEYS BY PUBLIC TRANSPORT



Source: ABS TableBuilder, Mirvac Research

#### MELBOURNE CBD GRID – NUMBER OF OFFICE BUILDINGS COMPLETED PER DECADE

Buildings >10 storeys; excludes Docklands & Southbank precincts



Source: City of Melbourne, Mirvac Research

The older bones of these buildings often lack the architectural design and *integrated* base building infrastructure of what space users are increasingly seeking.



Harbourside, Sydney (Artists Impression)

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