State of the City

The 2021 Review of Sydney

Committee for Sydney

pwc

Introduction

Sydney in 2021 – a city interrupted

Sydneysiders will not quickly forget 2021, some starting the year in lockdown, then the entire city entering an extended lockdown by mid-year.

As restrictions began to ease in October, the year drew to a close with cautious but intermittent freedoms for most, as Sydney (like the rest of the world) braced for the Omicron variant.

In 2021, COVID-19 continued to be the defining event in Sydney, buffeting the city's economy, housing market, and construction and infrastructure sectors - and continuing to test the city's resilience in new ways.

While many changes wrought by COVID-19 have been temporary in nature, their impacts could shape Sydney for years to come.

So, what are those impacts, and what will be their legacy?

This short report is a year in review of Sydney's health, economy, housing, transport and infrastructure.

It is by no means the full picture, for every Sydneysider has their own story to tell. However, we hope it starts a discussion about what matters for Sydney, and how we will get there, in 2022.

What happened in 2021? Here are four observations:

01 Governments were expected to solve big problems, and citizen expectations are high

From significant stimulus payments, to major infrastructure works, to public vaccination roll outs, to homelessness and to programs that reimagined our streets - the COVID-19 pandemic raised public expectations about what public programs can do to solve problems.

02 An economic downturn where losses were recovered, but bounceback was unequal

In 2021, slower wage regrowth and strong house price growth made it harder yet for younger workers in Sydney to buy a home. Sydney experienced a protracted lockdown, but by late 2021, house prices had returned, employment had rebounded to better than pre-lockdown levels in many areas, and ASX values indicated that some sectors came out ahead of pre-lockdown performance. Inflationary pressure on fuel costs and everyday items such as vegetables, meant that the costs of living got harder for many across the city.

03 Small population changes disproportionately impacted the vibrancy of our city

In 2021, new arrivals of economic migrants fell by 52%, 5,100 Greater Sydney residents (net) moved to regional NSW while another 3,100 moved interstate in the March 2021 quarter. International student arrivals to NSW in November 2021 were 96.2% lower than in November 2019. An impact of these trends was significant job vacancies in hospitality, food, and health. Long term, PwC estimates these declines will amount to a loss of ~500,000 in population by 2031 – a 7.6% decline on what we previously expected.

04 The city's pipeline of infrastructure delivery is approaching its peak amidst pandemic shutdowns. labour and supply constraints and changing travel preferences

Public infrastructure expenditure, in line with the national pipeline, is due to peak in the next year, contributing ~4.5% to state GSP. Major investment in public transport infrastructure as well as other transport and social infrastructure, is underway at a time Sydneysiders have switched to driving more, with traffic at 128% of pre-pandemic levels. Visits to offices dropped 73% in North Sydney in August, and 42% in Liverpool, and the occupancy rate of offices in the CBD was equivalent to 45% of the pre-COVID occupancy level, climbing to 67% just before the June lockdown.

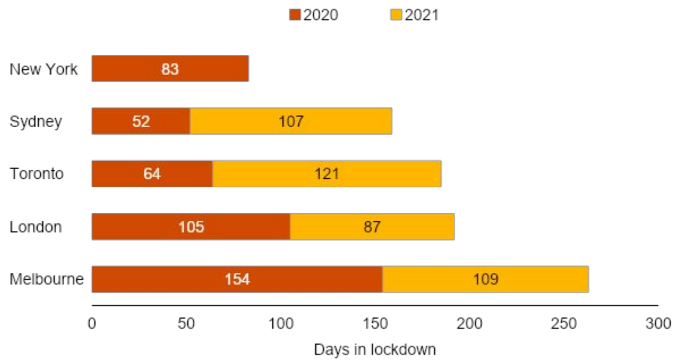
Health

After 107 days in lockdown, Sydney reached a major milestone with over 90% of eligible Sydneysiders double vaccinated, amongst the highest rates in the world.

107 days of lockdown

Residents of Sydney's Northern Beaches began 2021 under stay-at-home orders. However, the mid-year Delta wave started in the east, before quickly moving west, resulting in a city-wide lockdown. Of the 159 days that Sydneysiders have spent under stay-at-home orders since the beginning of the pandemic, 107 – or two thirds – were recorded during the Delta outbreak. In comparison, other global cities had varying levels of restrictions of movement through multiple waves.

Number of days under stay at home orders

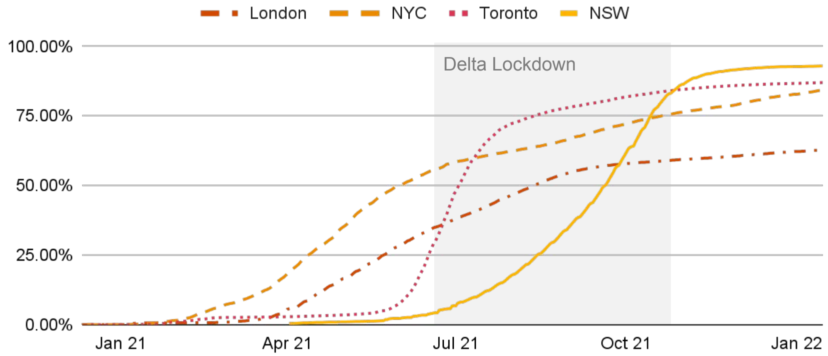


Source: PwC research based on various news sources.

Over 90% vaccination rates

In November, Sydney was the first Australian state capital to reach 90% double vaccination of the eligible population. While Australia's vaccination rollout lagged behind global counterparts, the Delta wave lockdown saw Sydney's rates of vaccination rapidly surpass other global cities in the second half of 2021. The double-dose vaccination rate for the eligible population in New South Wales went from 10% to 80% within 100 days, compared to 270 days in New York, and 105 days in Toronto.

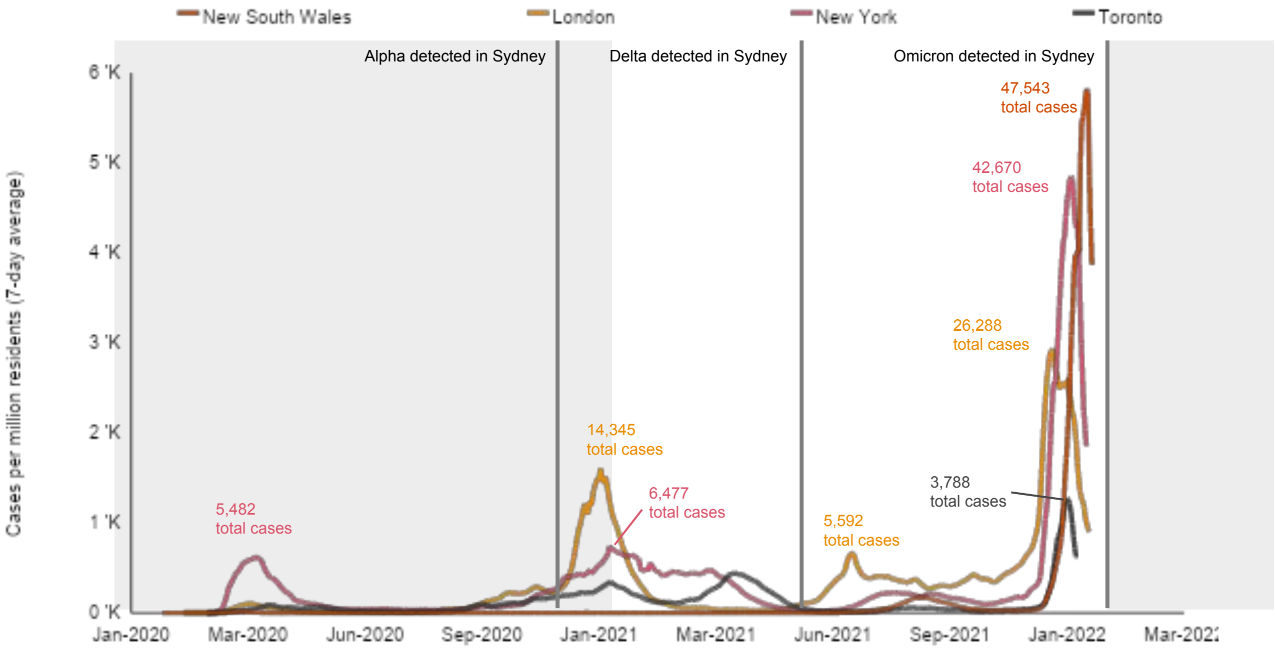
Cumulative vaccination rate,
Double-dose vaccination share of eligible population %, Dec 20 - Jan 22



Source:: COVID Live, New York State Department of Health, UK Health Security Agency, and City of Toronto.

While late 2021 saw rapid growth in Omicron cases, the number of cases overall through 2021 and the level of COVID-related morbidity in Sydney was far below global peers.

COVID-19 cases over time,
Per million residents, 7-day average



Source: COVID Live, New York State Department of Health, UK Health Security Agency, and City of Toronto.

Caseload

Although Sydneysiders endured tighter restrictions for longer than many of their international counterparts, throughout 2021, Sydney's per-capita infection rates were a fraction of those seen amongst its global peers.

By the end of 2021 however, as restrictions were lifted and the Omicron variant circulated, case numbers in New South Wales began to increase rapidly.

Low levels of mortality

While infections spiked rapidly in NSW as we entered 2022, overall severity was lower. By early 2022, New South Wales had reported 826 deaths due to COVID-19 since the start of the pandemic, compared to more than 36,000 in New York, over 18,000 in London, and over 3,700 in Toronto.

New South Wales' combination of lockdowns, contact tracing, healthcare system and high vaccine and booster uptakes has supported in keeping severe health outcomes comparatively low through the various phases of the pandemic.

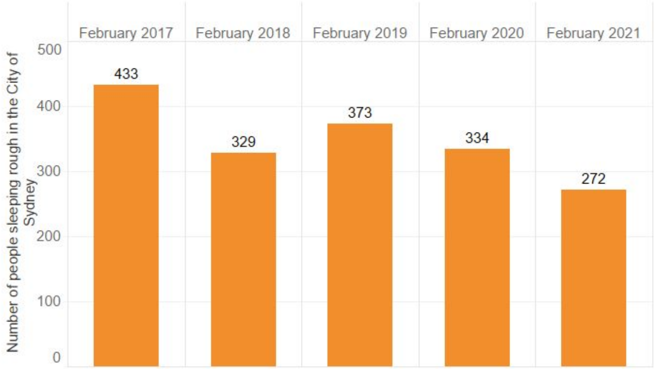
COVID-19 prompted governments interventions to alleviate both acute and chronic issues exacerbated by the health crisis

Homelessness initiatives during COVID-19

COVID-19 spurred action on tackling acute and ongoing issues of homelessness at the state and local government levels. Between March and June 2020, it is estimated that over 1,900 rough sleepers in New South Wales were provided emergency housing in hotels and other facilities. A further 9,700 other homeless people within the State were also provided emergency housing.[1]

In 2021, street count data from the City of Sydney indicates the number of rough sleepers in the CBD fell to its lowest level in five years. By February 2021, there were 272 rough sleepers in the CBD – a 37% drop since 2017. As Sydney emerges from the pandemic, there is the potential to reinforce successful initiatives to comprehensively address homelessness in the longer term.

Rough sleepers count in the City of Sydney,
Number of people



Source::The City of Sydney, Street Counts, August 2021

[1] Launch Housing, Australian Homelessness Monitor 2020, October 2020

The wider policy response to COVID-19 altered and re-imagined the City's streetscapes

To reactivate the CBD's high streets, businesses and planners alike reinvented public spaces to support public health measures. One such intervention – the NSW Alfresco Dining Program – saw 24 businesses in The Rocks being provided with expanded outdoor dining spaces for over a total of 1,000 additional patrons under COVID capacity restrictions. In the first quarter of the program, the gross revenue across food and beverages in The Rocks increased by 101%, with some businesses attributing up to 70% of their revenue to the program. The map below provides a snapshot of the second iteration of the program, underway in Darling Harbour.

Snapshot of the Alfresco Dining Program – Darling Harbour

Source: NSW Department of Planning, Industry and Environment

Economy

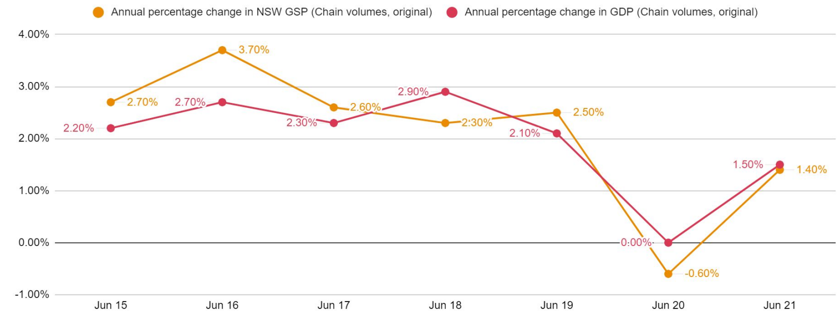
COVID-19's hit on Australian economy resulted in a spectrum of economic performance across states and market sectors, with NSW economy sustaining modest but uneven growth.

Economic performance

Although the Australian economy contracted by 6.8% in the final quarter of FY2019-20, the annualised outcome saw no change in GDP compared to the preceding financial year. In comparison, the initial impact on the New South Wales economy saw an annualised contraction of -0.6% in FY2019-20, with a sharp recovery to record 1.4% growth in the next 12 months. This recovery coincided with significant stimulus announced by State and Federal Governments. As at March 2021, NSW Government had announced $29 billion of stimulus, or 4.6% of GSP, and the 2021-22 Budget anticipated a further $6 billion in the next year.[1] The Half-Yearly Review estimates NSW will see 2.5% growth in FY2021-22.[2,3]

Annual percentage change in GDP and NSW GSP,

Percentage %, Jun 15 - Jun 21



Source: Australian Bureau of Statistics, Australian National Accounts, December 2021

[1] Parliament of Australia, ,2020-21 National Fiscal Outlook, March 2021
[2] NSW Government, 2021-22 NSW Budget Statement, Paper 1, June 2021
[3] NSW Government, 2021-22 Budget Half-Yearly Review, December 2021

Multi-speed recovery

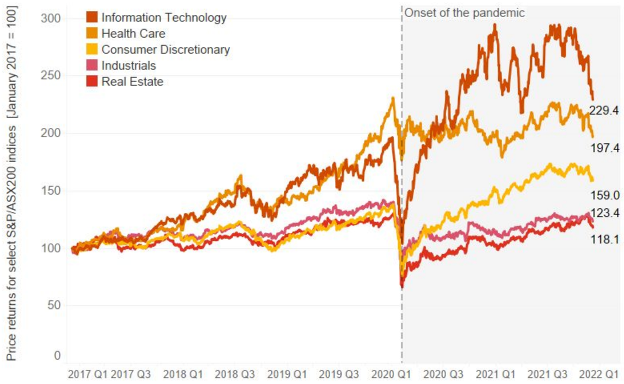
While all industries have been exposed to COVID-19 related shocks, information technology and health care sectors on the ASX200 recorded a quicker recovery, outperforming sectors like industrials (manufacturing and construction) and real estate. The consumer discretionary index that includes listed hospitality, restaurant and retail food companies indicated a steadier recovery following public stimulus measures.

In NSW, annual business registrations to June 2021 grew by 4%, with health care and technical services industries recording 7.2% and 4.8% growth respectively. The number of registered retail trade businesses also increased by 6.3%.[4]

While retail spending made a recovery as Sydney emerged from lockdown, it remained lower than pre-COVID levels. In the Sydney CBD, quarterly retail spending increased by 153% in the December 2021, but remained 20% below 2019 levels.[5]

Sector price returns for S&P/ASX200 indices,

Jan 17 - Jan 22



Source:Market Index, S&P/ASX 200 indices, January 2022

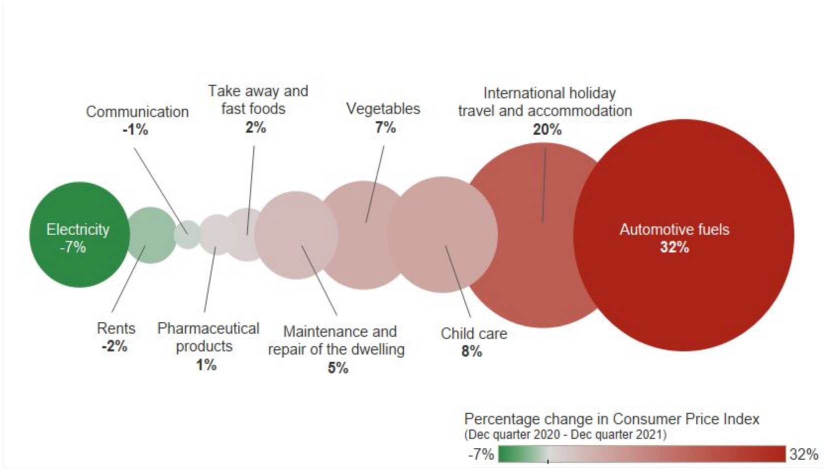
[4] Australian Bureau of Statistics, Counts of Australian Businesses, including Entries and Exits, December 2021
[5] The City of Sydney, Community Recovery Plan, Quarterly Report #6 (unpublished), February 2022

By late 2021, Sydney's employment levels were stronger than pre-lockdown, with recovery strongest in the east. At the same time, inflationary pressures were evident across fuel, groceries, furniture and child care

Cost of living pressures

The cost of electricity and telecommunications in Sydney fell by 7% and 1% respectively during 2021, while some goods and services saw disproportionate rises in cost driven primarily by supply chain pressures. Compared with the final quarter of 2020, fuel prices had increased by 32% by 2021 final quarter. As international travel slowly opens, holiday travel and accommodation costs have spiked by 20%, though these figures are expected to stabilise in the longer term. Rents decreased by a modest 2% as some segments of the market experienced higher vacancy rates.

Percentage change in Consumer Price Index,
Percentage change %, Dec 20- Dec 21

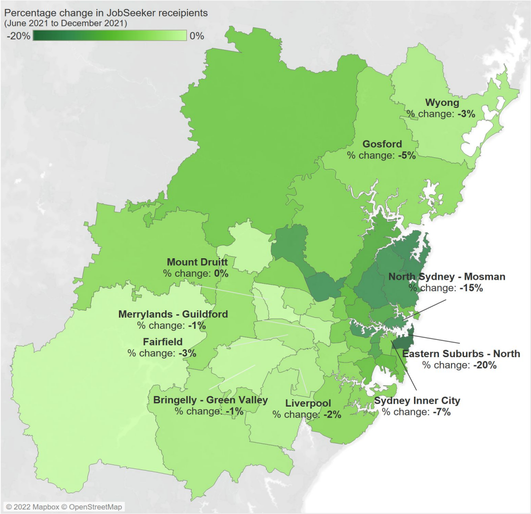


Source: Australian Bureau of Statistics. Consumer Price Index, Australia, December 2021

Bounceback in employment

Unemployment in Sydney grew during the lockdown, but by December 2021, the number of people receiving JobSeeker support payments compared to June 2021 had fallen by 20 per cent in the Eastern Suburbs, by 15% in North Sydney and Mosman, and by 7% in the inner city. In Mount Druitt, JobSeeker numbers returned to pre-lockdown levels, while Merrylands - Guildford, Liverpool and Fairfield saw minor improvements of 1%,2% and 3% respectively. Whilst the number of JobSeeker recipients decreased overall, bouncebacks in employment were not uniform across the state.

Percentage change in the number of JobSeeker recipients,
Percentage %, Jun 21 - Dec 21



Source: Australian Government, JobSeeker Payment & Youth Allowance recipients- monthly profiles, December 2021

The number of skilled workers arriving in NSW dropped to less than a quarter of the intake three years earlier, compounding workforce shortages in hospitality, sales and health care.

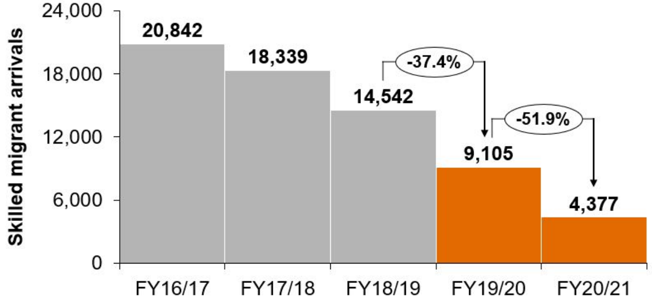
52% drop in offshore permanent skilled migrants entering NSW

New arrivals of skilled migrants to NSW declined by 4,700 – or 52% – in FY2020-21 due to border restrictions. This decrease reinforced a pre-pandemic decline seen in the three previous financial years which was driven by a policy shift. In addition, international student arrivals decreased by 99.6% in the 12 months to January 2021.[1]

Also, Greater Sydney recorded net losses of 5,100 people to regional NSW, while 3,100 moved interstate in the March 2021 quarter.[2] In November 2021, international student arrivals to NSW were 96.2% lower than pre-COVID levels in November 2019.

While the internal shifts have remained lower than speculated at the onset of the pandemic, PwC analysis show the structural impact of these movements on Greater Sydney will amount to a ~500,000 reduction in population size by 2031 – a 7.6% decline on previous expectations. This is the largest impact for any state or territory in Australia.

Skilled migrant arrivals in NSW from overseas,
FY 2016-17- FY 2020-21



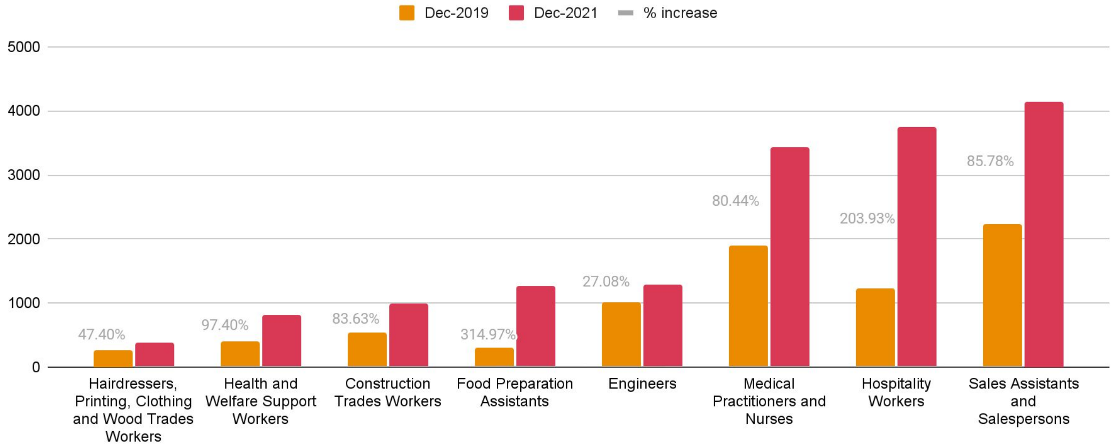
Source: Department of Home Affairs, Permanent additions to Australia's resident population, November 2021

[1] Australian Bureau of Statistics, Overseas Arrivals and Departures, Australia, January 2021
[2] Australian Bureau of Statistics, Regional Internal Migration Estimates, provisional, March 2021

Worker shortage in food and hospitality

Workforce shortages were evident with significant increases in job vacancies compared to pre-pandemic levels. Healthcare, retail and food services reported the highest demand by the end of 2021. Against pre-pandemic data, the largest jumps in job vacancies were in food preparation (315% increase) and hospitality (203% increase). Job vacancies for sales and medical workers also experienced significant increases. During both the initial lockdowns and as Sydney's restrictions ease, these industries have been hit hard and are struggling to keep up with demand.

Growth in job vacancies in Australia across key sectors,
Dec 19 - Dec 21



Source: The National Skills Commision, Labour Market Information Portal, January 2022

Housing

House prices reached record highs in 2021, fuelled by record-low interest rates and a surge in mortgage lending.

Record price growth following pandemic disruptions

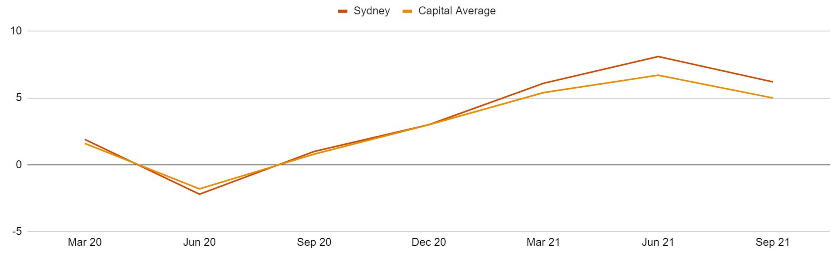
In the first three months of the pandemic, Sydney's median house prices dropped around 4%, before growing steadily until mid-2021. Sydney recorded the fastest annual price growth rate in 2021, with the median house price cost reaching $1.5 million.[1]

Compared to September 2020, Sydney's Residential Property Price Index had grown 25.4% by September 2021, outpacing average growth for other state and territory capitals. Volatility in financial markets drove some investors into real estate, with record growth in sales and prices.

Slower increase in rentals, as house and apartment prices diverge

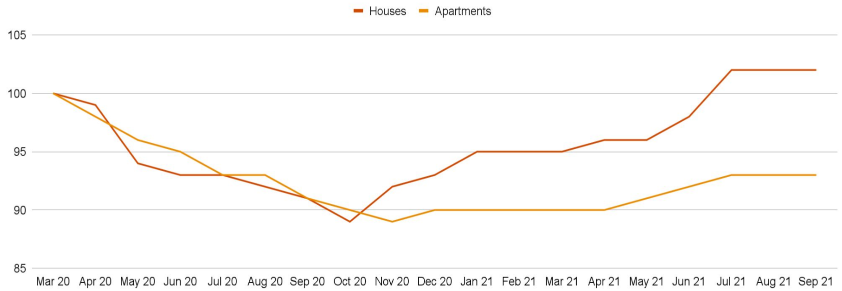
In contrast, Sydney's rental market experienced a protracted dip, with rents for both houses and apartments dropping by 10% in the six months from March 2020. House rentals recovered to pre-COVID-19 levels by June 2021, while apartment rentals remained ~7% below pre-COVID-19 levels. This delineation in prices shows a sustained preference for houses over apartments as a portion of the workforce continue to work from home, and a large portion of temporary residents such as international students remain offshore. The NSW Residential Tenancy Support Package and other COVID-19 payments aided Sydneysiders in keeping their tenancies through financial uncertainties.

Percentage change in residential property prices,
Percentage change %, Mar 20 - Sep 21



Source: Source: Australian Bureau of Statistics, Residential Property Price Indexes, December 2021

Changes in the Asking Rent Index over time,
Mar 20 - Sep 21



Source: Australian Council of Social Service,UNSW, Asking rents for houses and apartments, 2021

[1] Domain, 2021 wrapped: Why this year's Sydney property market is one for the record books, December 2021

As the house price growth outpaced wage growth, the generational gap in home ownership has become more prominent.

Growth in house prices outstrips wages

The price of a typical house in New South Wales grew by 22% in the 12 months to June 2021, 10 times the rate of wage growth. Ontario saw a similar gap, which recorded a 2.7% wage growth against a steep 24% increase in house prices. New York recorded a more reasonable 5% wage growth against a 11% growth in housing prices.The increasing gap in growth of prices against wages means Sydney property ownership may not be as accessible as it once was.

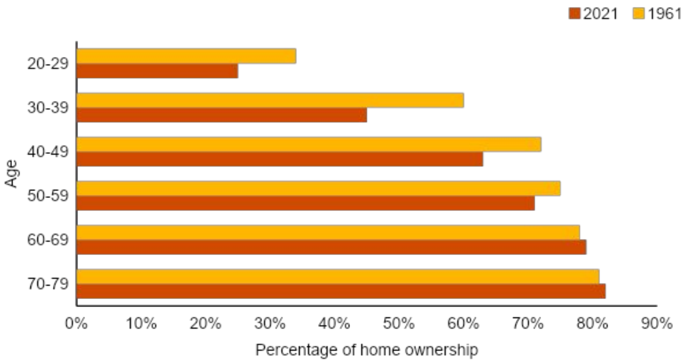
Lower home ownership amongst young Sydneysiders

In fact, a growing generational gap in home ownership is evident in the past 50 years. In 1961, approximately 34% of 20–29 year olds were homeowners, while 60% of 30–39 year olds owned a house. These figures decreased to 25% and 45% respectively by 2021. Approximately 72% of those in their 40s owned their home in 1961, compared to 63% in 2021. The lagging wages growth in 2021 is likely to compound this increasing struggle for younger generations to enter the housing market.

Percentage growth in wage and house price,
Percentage growth %, 2020-21

Source: PwC analysis based on various sources

Share of home ownership by age group,
Percentage %, 1961 - 2021



Source: PwC, based on Australian Institute of Health and Welfare; Australian Parliamentary Library

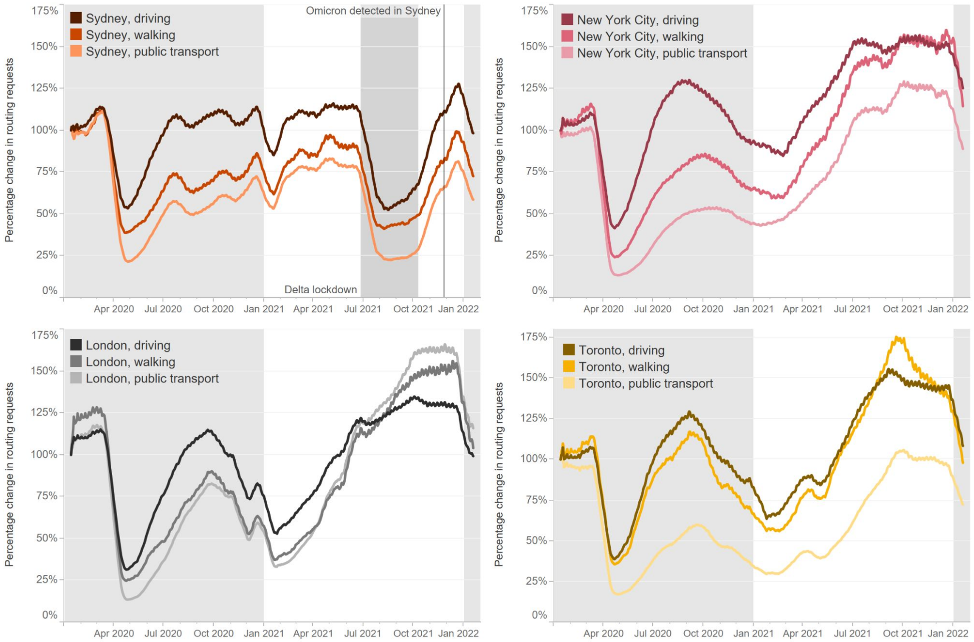
Transport

Passenger travel emerged from restrictions with a shift towards private vehicles.

Public Transport usage slow to recover

Sydney’s car traffic fell by as much as 50% while patronage on public transport reached lows of 25% of pre-pandemic levels during last year’s Delta outbreak. As the lockdown ended, car traffic outpaced the growth in public and active transport modes – a trend similar to New York and Toronto. Trip routing data shows that Sydney’s car traffic reached 128% of the January 2020 baseline by late December 2021, while public transport recovered to only 80% of its pre-pandemic levels. Although there were no restrictions placed on mobility since Omicron began circulating in the community, Sydney’s mobility patterns show movements across all modes of transport slumping again in late-December 2021.

Percentage change in routing requests by select cities,
30-day moving average of percentage change %, Jan 20- Jan 22



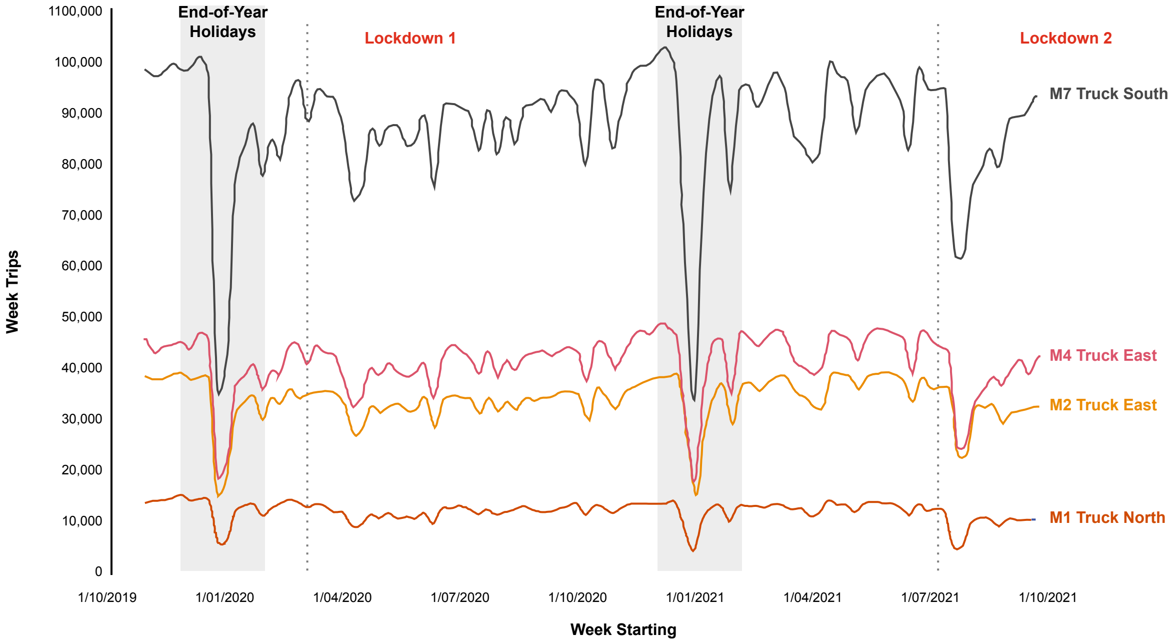
Source: Apple, Mobility Trends Reports, January 2022

Road freight movements remained resilient throughout the pandemic, making quick recoveries during lockdowns.

Resilience of Road Freight

While international supply networks faced unprecedented challenges, the resilience of our local freight networks played an important role in maintaining Sydney's supply chains through the lockdowns. By the second week of the initial lockdown, truck trips dropped by 22% across M1, M2, M4, and M4 motorways, before making a swift recovery to roughly 95% of pre-lockdown levels by the fourth week. The rebound following the lockdown in mid-2021 was slightly slower than in 2020. Four weeks into the Delta lockdown, there was a 43% average decrease in truck trips across Sydney motorways. By the sixth week, truck traffic had returned to 81% of pre-lockdown levels.

Number of truck trips on NSW select motorways,
Weekly total truck trips, Oct 19 - Oct 21



Source: Transurban, NSW Toll Roads Data, January 2022

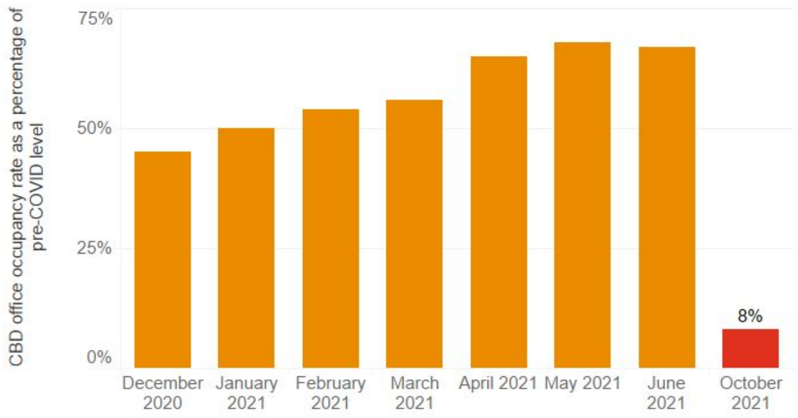
As Sydneysiders adapted to working from home, their mobility patterns changed, and office vacancy rates grew.

Delta wave a major blow to recovery in office occupancy

For many white-collar workers, the pandemic meant working remotely and reducing their commutes, resulting in half-vacant office floors, quiet retail strips, and less congested streets. Having somewhat recovered from the initial round of restrictions by December 2020, the occupancy rate of offices in the CBD reached 45% of the pre-COVID level. Vacancy rates steadily recovered to ~67% by June 2021, before the Delta lockdown saw occupancy slumping to 8% of pre-COVID levels. Surveys point to a shifting preference towards hybridised work models.

Sydney CBD office occupancy rate as a share of pre-COVID level

Dec 20- Oct 21



Source: Property Council Australia, October 2021

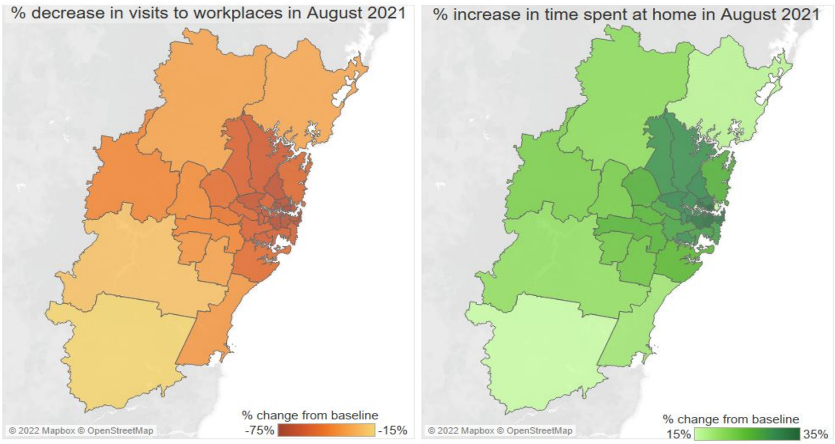
Spatial divide in mobility patterns

While the Delta lockdowns forced many professional and financial services workers back to working from home, it also showed a geographic divide in the ability of Sydney's overall workforce to conduct their work remotely.

Visits to workplaces closest to the CBD dropped more than those in outer suburban areas – particularly in Sydney's south and south-west, while residents living in inner city, northern and northwestern suburbs were able to spend more time at home compared to those living in the south and south-west. For instance, during August 2021, visits to workplaces in North Sydney dropped on average by 73% against pre-pandemic levels, while the drop in Liverpool was 42%. Lane Cove residents stayed home 35% longer compared to pre-pandemic levels, while Sutherland Shire residents were home roughly 25% longer.

Percentage change in visits at workplaces and time spent at home

Percentage change %, Aug 2021



Baseline period used for comparing percentage changes: Weekdays between January 3, 2020 and February 6, 2020.

Source: Google, COVID-19 Community Mobility Reports, January 2022

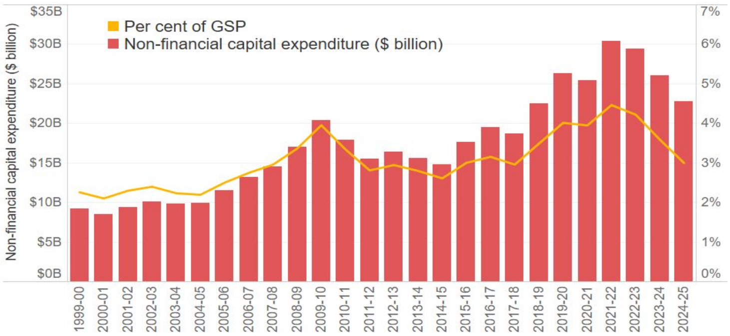
Infrastructure

Public Infrastructure investment continues to grow across Sydney, peaking in the near term, but may face fiscal constraints in the future.

Infrastructure spending grows as a share of GSP

The 2021-22 Budget saw the NSW Government reaffirm its commitment to capital expenditure in a bid to boost longer-term economic activity while continuing the State's ambitious infrastructure plan. Over the four-year period to FY2024-25, the 2021-22 NSW Budget allocated $108.5 billion of its Non–Financial Public Sector expenses for infrastructure capital expenditure. In real terms, this represents a $7.9 billion increase in the annual spend on infrastructure compared to the 10-year historical average, with the current financial year's allocation forecast to account for 4.3% of Gross State Product. Moving forward, the 2021-22 Half Yearly Review anticipated a budget deficit of $19.5 billion, with implications for long term fiscal sustainability.[1]

Non-financial public sector capital expenditure as percentage of GSP,
$bn (June 2021), percentage of GSP %,Fy1999-20- FY2024-25



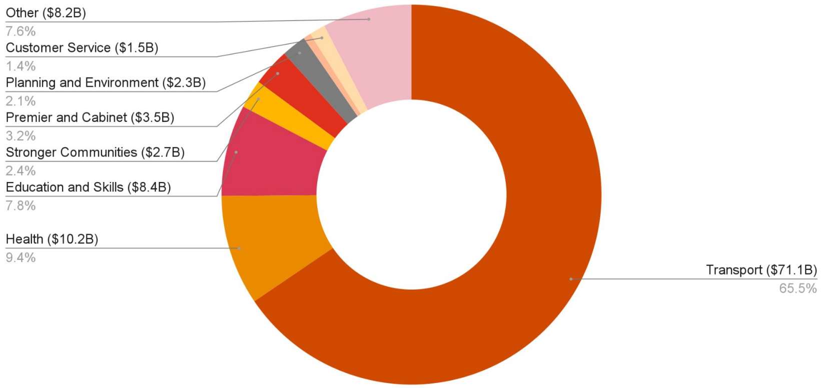
Source: NSW Government, NSW Budget 2021-22 Open Data, June 2021

[1] NSW Government, 2021-22 Half-Yearly Review, December 2021

Transport and social infrastructure leads the capital investment

Of the $108.5 billion infrastructure budget, $71.1 billion has been allocated to transport projects, with health accounting for $10.2 billion and education and skills infrastructure accounting for $8.4 billion. Much of this spend continues the State's existing pipeline of works, with several major new projects commencing delivery in FY2021-22. New commencements in Greater Sydney include $2.7 billion for the M6 Extension, $207 million for the Prospect Highway upgrade, $479 million for the Ryde Hospital Redevelopment, and $300 million for the Rouse Hill Health Service.

Capital expenditure as percentage of GSP,
percentage of GSP %



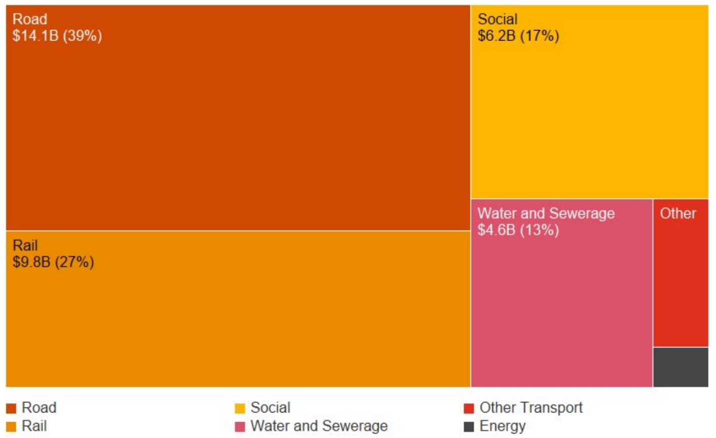
Source: NSW Government, NSW Budget 2021-22 Open Data, June 2021

Construction activity has slowed following workforce and supply chain pressures, coupled with a snap construction shut down that impacted some of the largest infrastructure projects in Australia.

Construction shutdown halts delivery of major projects

Although the sector faced minimal disruptions to construction during the initial stages of the pandemic, last year's Delta outbreak saw all construction activity being halted in mid-July. Work on more than $36 billion worth of major infrastructure projects across Greater Sydney were under delivery at the time of the shutdown. These projects included the Sydney Gateway, Westconnex M4-M5 Link, Sydney Metro – City and Southwest, Parramatta Light Rail Stage One, and Western Sydney Airport. As the construction industry and the State Government collaborated in establishing additional health and safety protocols, the shutdown was partially lifted across much of Greater Sydney within a fortnight, with some restrictions remaining in eight Local Government Areas.

Value of major infrastructure projects impacted by the construction shutdown in Greater Sydney

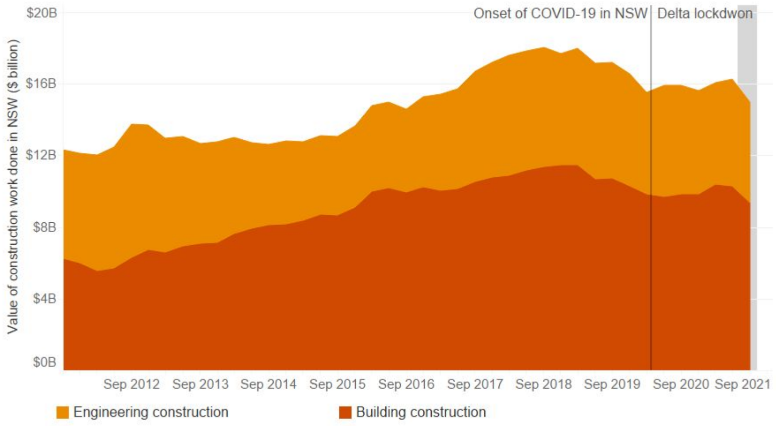


Source: Infrastructure Partnerships Australia, The Pipeline Report, July 2021 edition, August 2021

Dip in aggregate construction activity

Signs of the impact of construction shutdowns, supply chain constraints, and skill shortages in the sector have started to emerge in the state's aggregate construction activity outcomes. Following the July shutdowns, the quarterly aggregate construction work done in NSW dropped by $1.3 billion, or 8 percent in September 2021. This slump mainly comprised a $919 million decrease in building construction work. As supply chain constraints exacerbated inflationary pressures while skill shortages rose sharply to December 2021, the construction activity in New South Wales is likely to see ongoing constraints.

Value of construction work done in NSW,
Sep 11 - Sep 21



Source: Australian Bureau of Statistics, Construction Work Done, Australia, November 2021

Planning approval reforms and residential construction grants have reinforced the supply of future housing stock

$4.4 billion growth in residential building approvals

Although construction activity slowed in the third quarter of 2021, the residential construction sector has seen steady growth in the number and value of residential dwelling approvals in the Greater Sydney region since the start of the pandemic.

- In 2020, there were roughly 36,000 dwelling approvals granted, worth $14.7 billion
- In 2021, approximately 44,000 approvals were granted, valued at $19.1 billion.

These approvals include new builds, alterations and additions, and conversions for residential dwellings.

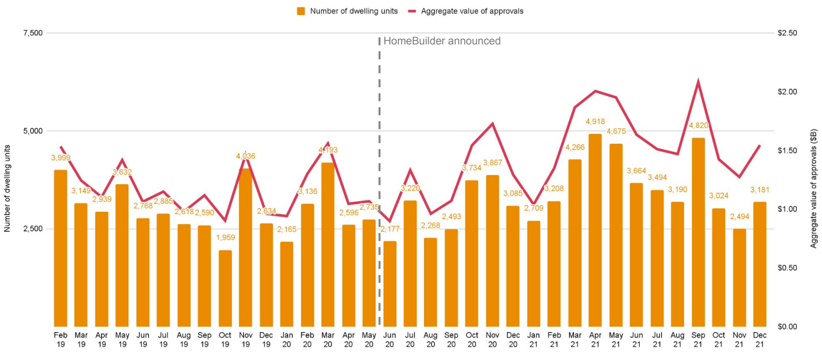
These results were bolstered by low interest rates, grant support such as the HomeBuilder program, and state programs such as the Planning System Acceleration Program.

Development approvals in eastern and western Sydney

Strong growth in the number of residential dwelling approvals in 2021 was seen across a mix of areas in eastern and western Sydney. The LGA of Blacktown which has traditionally had lower population and residential densities saw a 2,157 increase in dwelling approvals in FY202-21, while the City of Sydney saw an increase of 1,383, followed by 1,306 in Cumberland, 1,274 in The Hills Shire, and 766 in Ryde.

Residential dwelling approvals in the Greater Sydney region

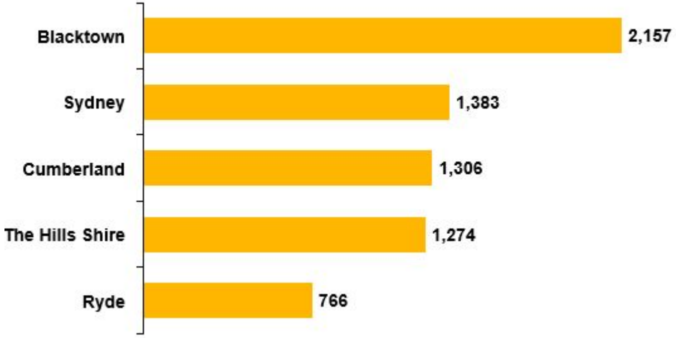
No. of approvals, Value of approvals ($billion), Feb 19 - Dec 21



Source: Australian Bureau of Statistics, [Building Approvals by Greater Capital Cities Statistical Area (GCCSA) and above (Greater Sydney)], December 2021

Top 5 LGAs with the largest increase in residential dwelling approvals,

Increase in the number of approvals, FY2019-20 - FY2020-21



Source: NSW Government, [Greater Sydney Regional Housing Activity], September 2021

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