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Sydney's Barangaroo Is a Hit With Tenants, but Criticism Persists

By Isobel Lee
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Sydney's controversial Barangaroo project is beginning to shift the city's commercial center of gravity three years after the first new tower opened in the city's biggest ever urban-renewal project.

The first three skyscrapers that have opened, offering 3 million square feet of office space on the 18.5 acre first phase, have attracted numerous big-name tenants from traditional business districts including HSBC Holdings PLC, KPMG Audit PLC, PricewaterhouseCoopers LLP, Morningstar Inc. and Visa Inc. The first 159 apartments all sold out within 3 1/2 hours when put on the market in 2013.

More than 80 restaurants, bars and other attractions also have transformed the once-abandoned docklands area in central Sydney.

"The number of people flooding into the spaces that have already opened is extraordinary," said Chris Wilkinson, architect of the tallest tower in the 54-acre masterplan, a one billion Australian dollars (US$758 million) hotel and casino expected to break ground this year. "It's absolutely full of life."

The success has meant big profits so far for Sydney-based Lendlease Corporation Ltd., the lead developer of the first A$6 billion phase of the project, named Barangaroo South. In July, Lendlease began its current fiscal year with A$1 billion in cash thanks mostly to "urbanization projects, led by commercial at Barangaroo South," the company's chief financial officer Tarun Gupta, said on its earnings call in August. "The income from our more than A$600 million in direct investment in these towers is expected to increase again in the coming year," he said.

To be sure, it is too early for champagne for the planners and developers who struggled against community groups trying for years to limit the commercial development of Barangaroo. Opponents who have mostly objected to the scale of the project, for example, went into an uproar over Lendlease's 2015 modifications, which increased the total building footprint of Barangaroo South from 40% to 46% of the site in part by adding a Crown hotel and casino in a prime waterfront location.

"The new designs plunge public spaces into shadow," said John McInerney, former city of Sydney chief planner, who is part of a local planning group that unsuccessfully challenged the tower's location in court.

Moreover, Barangaroo is far from finished. An additional 4.3 million square feet of commercial space eventually will be added to the 54-acre Barangaroo site by the time the entire project is completed in 2024.

It is still far from clear whether the new space will be equally successful in attracting tenants. Especially murky is the future of the planned casino in Barangaroo's tallest building, a 902-foot tower -- slated to be developed by Lendlease and operated by Australian gaming giant Crown Resorts Ltd. -- given the recent downturn in the number of wealthy Chinese tourists in pursuit of VIP gaming facilities.

Meanwhile, fights are shaping up between competing developers. Recently development rights to a 13-acre parcel were awarded to a venture of construction company Grocon Pty Ltd, Chinese-backed developer Aqualand Projects Pty Ltd and Scentre Group Ltd.

Many are expecting this venture to try to renegotiate on building heights following the government's insistence that its site should include a new metro stop. But this would likely be of concern to Lendlease and Crown, whose own towers have priceless sightlines with Sydney Harbour. The Grocon-led consortium declined to comment.

Still, it is a sign of Barangaroo's commercial success that developers may be squabbling over who can build higher, observers say. "This is the last waterfront site in the Sydney (central business district) available for development. You could say it's iconic," said Lawson Hubbard of broker CBRE Group Inc., which represented the majority of the tenants for the first phase of the project.

Developers have created successful masterplanned projects in other cities around the world. But it has sometimes taken years for them to reach critical mass. For example, London's Canary Wharf, which celebrates its 30th anniversary this year, helped drive its original developer Olympia & York into bankruptcy protection in 1992.

Hudson Yards, the largest private development in the U.S. now rising in New York, has learned from those mistakes. That project's developer, a venture led by Related Cos., has attracted numerous major tenants from Midtown by timing new office buildings to a new subway station and residential development.

Barangaroo, too, is banking on getting the commercial, residential and leisure equation right. The masterplan also includes the 15-acre Headland Park, a public space built by the New South Wales government and opened in 2015.

"We worked very hard to curate a really fantastic mix of restaurants and amenities," said Rob Deck, Lendlease's managing director for Barangaroo South. "There's everything from barbers and gelato shops to Japanese tea-houses within 10 minutes of the offices and residences."

The project's developers are being emboldened by the office rents the first buildings are attracting, in line with comparable space in Sydney's traditional business district, where rents just exceeded A$1,000 per square meter for the first time ever according to Cushman & Wakefield data.

But that doesn't make opponents feel any better. "That's the issue. The lion's share of profits from Barangaroo will go to private hands," said Mr. McInerney. "The government developed the park, but the costs increased dramatically as it went on. They'll make some money, but not as much as the developers."

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