



DIGITAL REALTY

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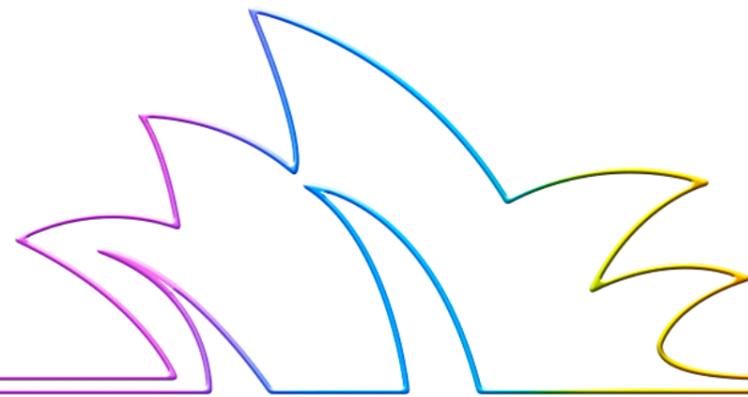
DIGITAL CAPITALS SYDNEY REPORT

NOVEMBER 2019



Contents

01 CITY FOCUS: SYDNEY	
Introduction	4
Main Drivers	5
Digital Capital – Sydney	5
Value of AI, IoT, Blockchain & 5G to the Sydney Economy: 2019	6
Predicted Future Value: 2024	6
Predicted Future Value: 2029	7
Overall Performance: 2019-2029	8
Conclusions	9
Recommendations and Opportunities for Businesses	9
Appendix	11
Glossary of Terms	14



1

Introduction



The creation and sharing of data is central to both economic and social activity. However, in recent decades there has been an enormous increase in the rate at which data is created, stored and used for commercial purposes, and for other uses such as in healthcare and entertainment.

The rate at which data is being created continues to grow at astounding rates, driven by data-intensive technologies in business, government and in the home. The growth in data is also expected to be further stimulated by new or evolving data-intensive technologies such as Artificial Intelligence (AI) and the fifth generation of mobile communications technology (5G).

The economic contribution of digital information has previously been termed the 'data economy':¹ the financial and economic value generated by the creation, storage, retrieval and use of highly detailed business and organizational data at high speeds. The economic contribution of the data economy to national economies was previously examined in an earlier study also commissioned by Digital Realty (dating from 2018), which focused on the current and potential future size and value of the digital economy in a number of European countries.

The world's leading cities are major hubs for the data economy because they typically have very high densities of commercial activity stimulated by data and digital technologies. This leading role is linked to the concentrations of knowledge-intensive and data-fuelled industries, such as financial services, professional services, and media and communications. Of course, the largest cities are also very often the location for command and control functions for governments, major corporations, universities and other entities.

The leading cities – the digital capitals – also possess some of the world's richest digital skills resources, research and development (R&D) assets, and digital and supporting infrastructures that make it easier for entrepreneurs and skilled workers to share ideas, collaborate and develop new forms of technology and applications.

To explore the status of Sydney as one of the world's digital capitals, Digital Realty has commissioned a new report that quantifies the current and assesses the potential future contribution to the data economy of 4 specific digital technologies: AI; Blockchain; the Internet of Things (IoT); and 5G. The time period for the future assessment is the period up to 2029.

Main Drivers

There has been a huge increase in data generation over the past decade – driven by advances in digital technology – that have led to the proliferation of connected devices and sensors in both business and household situations. The growth in the rate at which data is being generated currently shows no signs of diminishing, driven by an increasing range of industrial, government and consumer applications. The amount of data generated each day is expected to be further boosted as emerging or fast-growing digital technologies – including AI, virtual reality (VR) and autonomous vehicles (AV) – become widespread in their usage.

Various predictions of the scale of data generation are available, all of which anticipate continued huge increases in the volume of data production. For example, IDC in 2018 predicted that there is likely to be a world-wide annual growth rate for data generation of 61% per annum (p.a.) up to 2025.²

This global growth is being driven by ever larger numbers of people being connected to digital devices for an increasingly large number of uses and applications. However, it is expected that the creation of data by businesses will become even more important than that created by consumers as the number of sensors and devices in industrial, commercial, infrastructure, healthcare, transportation and many other situations increases very rapidly.

The continuing increase in the generation and sharing of data is being further boosted by the emergence and development of 4 interlinked digital technologies: AI; IoT; Blockchain; and 5G.

Digital Capital – Sydney

As Australia's largest and most diversified city, Sydney is a major digital economy centre for the Asia-Pacific region. Sydney is by far Australia's most important corporate headquarters location providing the largest and most highly qualified workforce, as well as the largest concentration of universities and research institutes, and excellent digital and other communications infrastructure – including global aviation links.

As highlighted in the Digital Capitals Index, Sydney is currently ranked 14th among the world's pre-eminent digital capitals. Moreover, the city is predicted to improve its overall ranking position by 1 place (rising to 13th overall) over the next 10 years.

Sydney's contribution is driven by the size, prosperity and digital infrastructure assets of the city. The scale of contribution is also influenced by the composition of the city's business structure, the innovation of its companies and the appetite of its citizens for digital services.

A key component of the city's economy and its status as a leading global digital capital is the contribution of the financial services sector. Sydney is estimated to account for around 65% of Australia's financial services activity by value. The city is also a major headquarters location for many of the country's largest banks, insurance companies and other financial institutions. Technologies such as AI and Blockchain are already important in the provision of financial services (including market trading and in the detection of fraudulent behaviour) – their use and importance can be expected to grow very significantly over the next decade or so.

As the country's largest financial centre and also the country's most important headquarters location for national and international businesses, Sydney is also a major location for a wide range of professional services industries, ranging from legal and accountancy services and business support services to advertising. It is also the country's most important hub for media and communications industries. All of these industries are at the forefront of the adoption of digital technologies.

A further factor influencing and supporting the city's role as a major digital capital is the role of the education sector. Sydney is home to 5 major universities (including 2 ranked in the world's top 50) and also provides campuses for 2 additional universities. The presence of these institutions is important in ensuring that Sydney is supplied with large numbers of digitally skilled graduates and the next generation of digital entrepreneurs.

In addition, Sydney also provides a base for numerous private and government-funded research centres, including those specialising in information and communications technology and defence technology. The city also provides a major base for the CSIRO, the country's leading government funded scientific research organization. Sydney is also an increasingly important centre for healthcare research, with 4 medical schools and a growing private sector research and development base focusing on bioscience R&D.



¹ Digital Realty: The Data Economy Report, 2018

² <https://www.networkworld.com/article/3325397/idc-expect-175-zettabytes-of-data-worldwide-by-2025.html>

Value of AI, IoT, Blockchain & 5G to the Sydney Economy: 2019

A key part of the growth of Sydney as a digital capital expected over the next decade will result from a set of data-intensive, interconnected technologies such as AI, IoT, Blockchain and 5G. With that in mind, the economic contributions of these 4 high-potential, data-led technologies have been examined to provide a baseline against which the future potential for growth in Sydney's data economy can be compared.

The current contribution of the 4 digital technologies to the Sydney economy in 2019 is estimated to be worth A\$6.66 billion, with IoT alone contributing A\$3.35 billion (around 50% of the total). AI is estimated to contribute a further A\$2.05 billion (31%) while a further 17% of value is contributed by Blockchain (A\$1.13 billion). The current contribution of 5G – as the newest technology – is a comparatively modest A\$0.13 billion.

The 4 technologies in aggregate are currently estimated to contribute A\$6.66 billion to the economy of Sydney, which amounts to an estimated 1.65% of the city's overall economy.

In terms of international rankings, Sydney is currently ranked 13th overall in terms of the annual value contributed by these 4 digital technologies.

Technology	Annual value (in A\$ billions), 2019	% of overall city economy, 2019
AI	2.05	0.51%
Blockchain	1.13	0.28%
IoT	3.35	0.83%
5G	0.13	0.03%
Total	6.66	1.65%

Table 1: Sydney – Estimated value of the 4 digital technologies: 2019 (A\$ billions, 2019 prices)

Predicted Future Value: 2024

By 2024, the value of the 4 technologies to the annual value of Sydney's economy is expected to have grown to A\$16.02 billion per annum (p.a.). This represents expected growth of A\$9.35 billion compared to 2019, which translates into predicted growth of 140%. By 2024 the 4 technologies are expected to contribute 3.11% to the city's overall economy, up from 1.65% in 2019. The predicted totals for 2024 are set out in the table below. Note, some columns or row totals may not sum exactly due to rounding of decimals.

In absolute terms, the largest component of growth is expected to be from AI: this segment is expected to contribute A\$6.47 billion p.a. by 2024, compared to

Technology	Annual value (in A\$ billions), 2024	% of overall city economy, 2024
AI	6.47	1.26%
Blockchain	2.33	0.45%
IoT	5.70	1.11%
5G	1.51	0.29%
Total	16.02	3.11%

Table 2: Sydney – Estimated value of the 4 digital technologies: 2024 (A\$ billions, 2019 prices)

The 4 technologies in aggregate are currently estimated to contribute A\$6.66 billion to the economy of Sydney

A\$2.05 billion p.a. in 2019, representing an annual increment in value amounting to A\$4.42 billion p.a. (which is a proportionate increase of 216%).

However, the most spectacular growth – in proportionate terms – is expected to come from 5G, with real growth in annual value of around 1,055%. This is because while 5G is currently a newly emerging technology, by 2024 the use of 5G is expected to be widespread among both consumers and businesses.

With respect to international rankings for the annual value contributed by these 4 digital technologies, by 2024 Sydney is expected to maintain its overall position of being in 13th place.

Predicted Future Value: 2029

The overall contribution in terms of value to Sydney's economy of the 4 technologies by 2029 is expected to grow to A\$30.08 billion

The overall contribution in terms of value to Sydney's economy of the 4 technologies is expected to grow to A\$30.08 billion by 2029, representing an increase in real terms of around A\$14.07 billion (p.a. compared to 2024). The overall increase in annual value when the 2029 predicted values are compared to those for 2024 is expected to amount to 88%. Moreover, the contribution of the 4 technologies to the Sydney economy is expected to increase from 3.11% in 2024 to 4.66% by 2029.

Compared to 2024, the largest component of growth is expected to be from AI, with an anticipated increase in

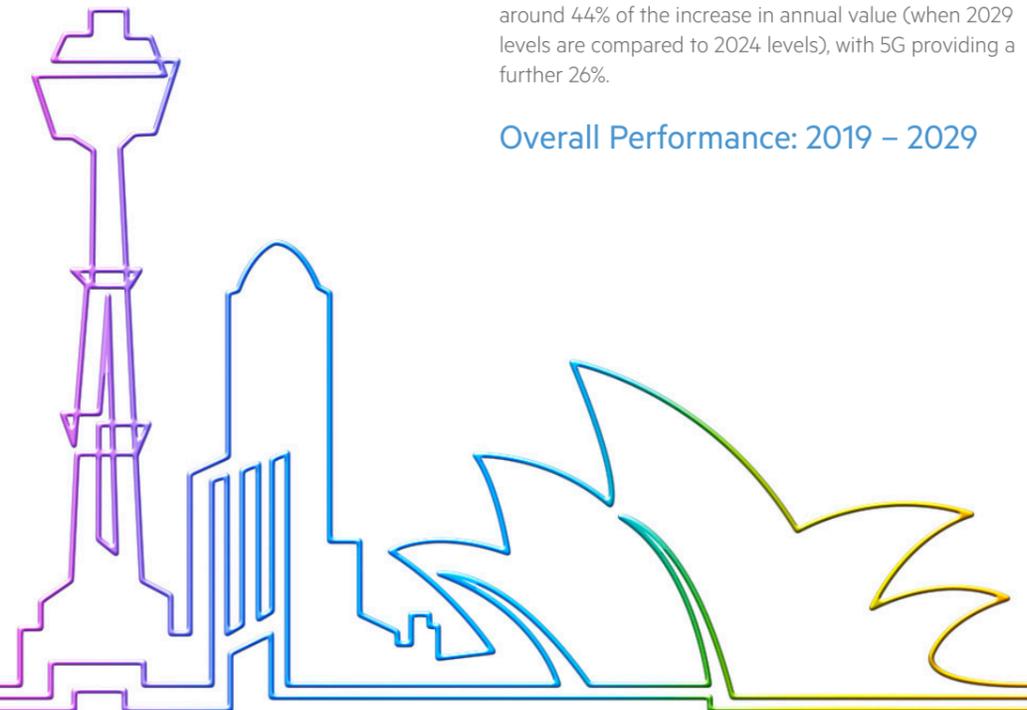
Technology	Annual value (in billions), 2029	% of overall city economy, 2029
AI	12.70	1.97%
Blockchain	3.96	0.61%
IoT	8.22	1.27%
5G	5.21	0.81%
Total	30.08	4.66%

Table 3: Sydney – Estimated value of the 4 digital technologies: 2029 (A\$ billions, 2019 prices)

the annual contribution of A\$6.23 billion. The most significant change is the relative contribution of 5G, which is expected to provide an increase of A\$3.69 billion p.a. (i.e. an increase of 244% compared to 2024 levels).

Overall, in proportionate terms, AI is expected to provide around 44% of the increase in annual value (when 2029 levels are compared to 2024 levels), with 5G providing a further 26%.

Overall Performance: 2019 – 2029



The overall expected situation with respect to the contribution of the 4 technologies to the economy of Sydney is summarized in the table below. Note, some columns or row totals may not sum exactly due to rounding of decimals.

The predicted overall value from the 4 digital technologies is expected to increase from A\$6.66 billion in 2019 to A\$30.08 billion by 2029. Over 45% of the overall predicted increase in value is expected to be contributed by AI, with 5G contributing nearly 22%.

Conclusions

Technology	GVA 2019	GVA 2024	GVA 2029	Total increase in GVA, 2019-2029	% contribution to aggregate growth
AI	2.05	6.47	12.70	10.65	45.5%
Blockchain	1.13	2.33	3.96	2.82	12.0%
IoT	3.35	5.70	8.22	4.87	20.8%
5G	0.13	1.51	5.21	5.08	21.7%
Total	6.66	16.02	30.08	23.42	100.0%

Table 4: Sydney – Annual value of the technologies: 2019, 2024 & 2029 (A\$ billions, 2019 prices)

Over 45% of the overall predicted increase in value is expected to be contributed by AI, with 5G contributing nearly 22%

The current annual contribution of AI, IoT, Blockchain and 5G to the Sydney economy is estimated to be A\$6.66 billion in 2019. When we look more closely at how well Sydney is adapting to new data-led technologies, very substantial growth potential can be predicted. Indeed, the predicted annual value is expected to grow massively, to A\$30.08 billion p.a. by 2029.

The enormous increase in annual contribution can be expected to be driven across all leading sectors and industries in Sydney, from financial and professional services, media and communications, life sciences, education and research.

By 2029, these 4 technologies in combination are expected to contribute nearly 4.7% to the overall Sydney economy, up from around 1.65% in 2019. The greatest share of this growth (over 45%) is attributable to AI with nearly 22% coming from 5G.

Recommendations and

Opportunities for Businesses

If businesses want to benefit from, and even help increase, the A\$30 billion p.a. that AI, IoT, Blockchain and 5G are predicted to contribute to the Sydney economy by 2029, they need to start taking action today. The economies of digital capitals around the world will only continue to grow, albeit at different speeds depending on a number of factors such as economic and government stability.

For Sydney, it is essential that the city and the businesses associated with it take all the right actions that see this digital capital continue to invest in and take advantage of the new technologies that will help them thrive and grow.

Already, the transport and logistics industry regularly makes use of sensors installed in their vehicles to help schedule maintenance and ensure drivers optimize fuel consumption when out on the roads. Financial services organizations are already using AI-powered fraud detection programmes to sift through huge amounts of records and find anomalies quickly, preventing illegal activity. Now is the time to plan how business can harness the potential these innovative technologies are offering.

Provided overleaf are some recommendations that businesses should seriously consider if they are to remain competitive in this rapidly growing technological environment.

Take Advantage of Competitive

Digital Platforms

There are as yet unrealized opportunities for businesses that have not yet created adaptable technology platforms that allow them work with key partners and deploy specialized technologies to gain competitive advantage:

- The 4 technologies explored are only growing in importance, enabling businesses to create and gain intelligence from their data in ways that have never been achieved before.
- An adaptable technology platform will differentiate a business' agility by reducing the time to connect to partners, providers and markets using the latest technologies.
- This will enable companies to tailor their technology deployments at speed and to meet, and even exceed, their needs in an increasingly competitive environment.

Invest in Talent

This report highlights one key area where investment is crucial: a skilled workforce. It is clear that cities and businesses should incubate and invest in technology talent to ensure that they continue to have the skills to operate, deliver and capitalize on innovative technologies.

Major cities are vital in creating and hosting high-value and innovative commercial activity through their role as locations for knowledge-driven business clusters. As a result, the high density of business networks in the city means the availability of talent and the presence of key infrastructure is also usually found there. With today's new technologies, this can very quickly lead to a major skills shortage and prevent businesses from being able to harness the power of their technology innovations.

Investing in digital apprenticeships and supporting college and university digital training programs is essential to the future success of all digital capitals, and especially in Sydney.

Think Urgently About Your Future Technology Strategy

Businesses should continuously invest in upgrading and expanding their technology strategies to stay ahead of business need.

The business that is not ready to take advantage of

these technologies is the one that is going to rapidly lose ground against its competitors.

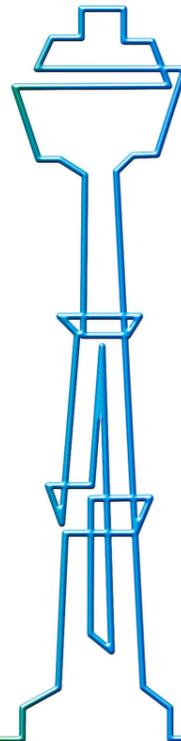
Identify the Partners, Suppliers and Key Players That Should Be In Your Competitive Ecosystem

In cities and businesses, having technical networks that can be rapidly and seamlessly connected to a global digital ecosystem is vital to fostering innovation and enabling a wider, global connection.

There is good evidence that major cities like Sydney are likely to be increasingly important in creating and hosting high value and innovative commercial activity through their role as locations for knowledge-driven business clusters or ecosystems.

Ecosystems are geographically concentrated networks of interconnected companies and allied organizations (such as universities and research institutes; financial services corporates and suppliers) operating within a specific industry or sector.

Successful ecosystems are usually characterized by a high volume of interactions. For example, where companies work collaboratively to create competitive advantage, exchange ideas, develop innovative products or processes, and go on to launch joint ventures, a competitive service or new businesses together.



Appendix

Approach to the Study

DATA ECONOMY RANKINGS

As the first step in the research process of Sydney's data economy, a desk-based review was undertaken of the evidence regarding the business benefits of digital technology. This review also identified potential sources of the latest available data covering the city's business and economic datasets.

Second, a set of potential digital economy indicators was proposed and agreed with Digital Realty. The 10 selected indicators covered the following:

- 1 The overall size of the city-level economy
- 2 The scale of activity of businesses operating in data-intensive business sectors, plus the rate of adoption of digital technology among other businesses
- 3 The scale of consumer demand for data and digital applications
- 4 R&D: the presence of a leading university or universities in the city
- 5 The quality of telecommunications infrastructure
- 6 Human capital: the proportion of workforce with advanced data skills
- 7 The stability of the local political environment, levels of crime and other metrics of governance
- 8 Quality-of-life indicators, such as the quality of health, public education, the efficiency of public transport and environmental indicators
- 9 Support for the data sector such as through open data policies
- 10 The quality of the environment for business (i.e. the ease of doing business, including for international companies)

Development Economics gathered quantitative data relevant to each family of indicators, as far as possible using single sources to facilitate consistent scoring and ranking on each indicator.

Future predictions of the absolute and relative rankings for the data economy were also developed in the study. These were developed by harnessing information on – among other things – the expected trajectories of change with respect to the size and structure of the city's economy; demographic and labor market forecasts; expected trajectories of growth in digital adoption by both businesses and consumers; recent trends in performance of universities; and trends in digital infrastructure provision.

CONTRIBUTIONS OF THE 4 TECHNOLOGIES

Apart from ranking the current and potential contribution of Sydney as a digital capital, the study also quantified the current and potential future economic contribution – in the form of GVA – of the 4 specific digital technologies: AI, IoT, Blockchain and 5G.

The approach taken to producing current estimates involved the gathering and analysis of information on the size, structure and productivity of the business sectors and workforces operating in the digital economy of Sydney. The quantification of future predicted estimates of contributions harnessed a range of forecasts, both for the economy and labor market, but also the likely rates of adoption of each digital technology by the city's business base, its public sector and the householder population of the city.

Indicators and Data Sources

The information is constructed by gathering the most recent available data for 10 families of indicators of the current economic, business, demographic, infrastructure and other characteristics that influence the scale and level of participation in the modern digital economy. More details on each of the criteria and the indicators used are provided overleaf.

SIZE OF THE ECONOMY

The first criteria used is a measure of the overall size of the city's total economy. This is measured in terms of the scale of economic output (GVA) produced by the city annually, with adjustments made to reflect productivity and local currencies using a purchasing power parity approach.

One challenge is that usually there are a variety of definitions available for the geographical and population coverage of any one city, such as the municipal area, the urban area or agglomeration, through to the wider urban area surrounding major cities.

Here it was decided that the most appropriate definition for which consistent data was available corresponded to the 'middle definition' (i.e. the urban area/agglomeration).

Data on the human and business population in the city, plus the annual value of production per capita was then used to estimate the current annual value of economic activity taking place.

BUSINESS DIGITAL ADOPTION AND ECONOMY

This criterion is a blended indicator that considers several aspects that relate to the extent to which digital technologies are important to the economy of the city.

- First, the score considers the extent to which digital technologies have been adopted by all businesses and other employers (including government organizations) in the city.
- The second aspect that was covered is the estimated extent of the take-up by businesses and public agency users of the 4 digital technologies (AI, IoT, Blockchain and 5G) included in this study.
- The third aspect is the extent to which companies that are part of the supply chain for digital technologies are locally present in the city. This was taken into consideration through estimation of the annual value of delivery of digital technology services by supplying businesses located in the city.

CONSUMER DEMAND FOR DATA

Having considered the supply side, the third indicator considers the demand for data on the part of the city's urban population. This is based on the estimated annual per capita demand for digital data multiplied by the estimated size of the city's population. The demand for data takes into account a number of sub-indicators, including number of mobile phone subscriptions; fixed broadband data usage; and social media usage.

HIGHER EDUCATION + OTHER R&D ASSETS

This indicator involved the gathering of information on the scale, quality and relevance of the research and teaching resources available at universities and other higher education institutions in each urban area. If specialist research institutes relevant to any or all of the 4 digital technologies were known to be present in the urban area, this was also reflected through a manual upwards adjustment to the city's scoring. Essentially, scores were awarded for the scale (e.g. number of students, value of research grants awarded) and quality of the research and higher education institutions located in each urban area.

DATA INFRASTRUCTURE

This indicator takes account of the estimated capacity and efficiency of the city's fixed and mobile data infrastructure. This was assessed using current data on average mobile and fixed broadband data download speeds.

HUMAN CAPITAL

This indicator considers the size, skills and qualifications of the city's working age population. There are 2 aspects included within the scoring and ranking process:

- Firstly, there is a general assessment of the qualifications of the city's working age population, considering the proportion and size of the workforce that is educated to degree level or equivalent, and also considering the proportion (and number) of workers that have no qualifications.
- The second aspect considers the proportion and size of the workforce that are 'digital workers' (i.e. the number of workers) and proportion of the workforce that are IT professionals (covering occupations such as computer systems designers and analysts, software developers, database administrators, information security analysts, etc.).

GOVERNANCE

This is a measure of the efficiency of municipal governance provided in the city, including aspects such as crime rates, corruption levels, etc.

QUALITY OF LIFE

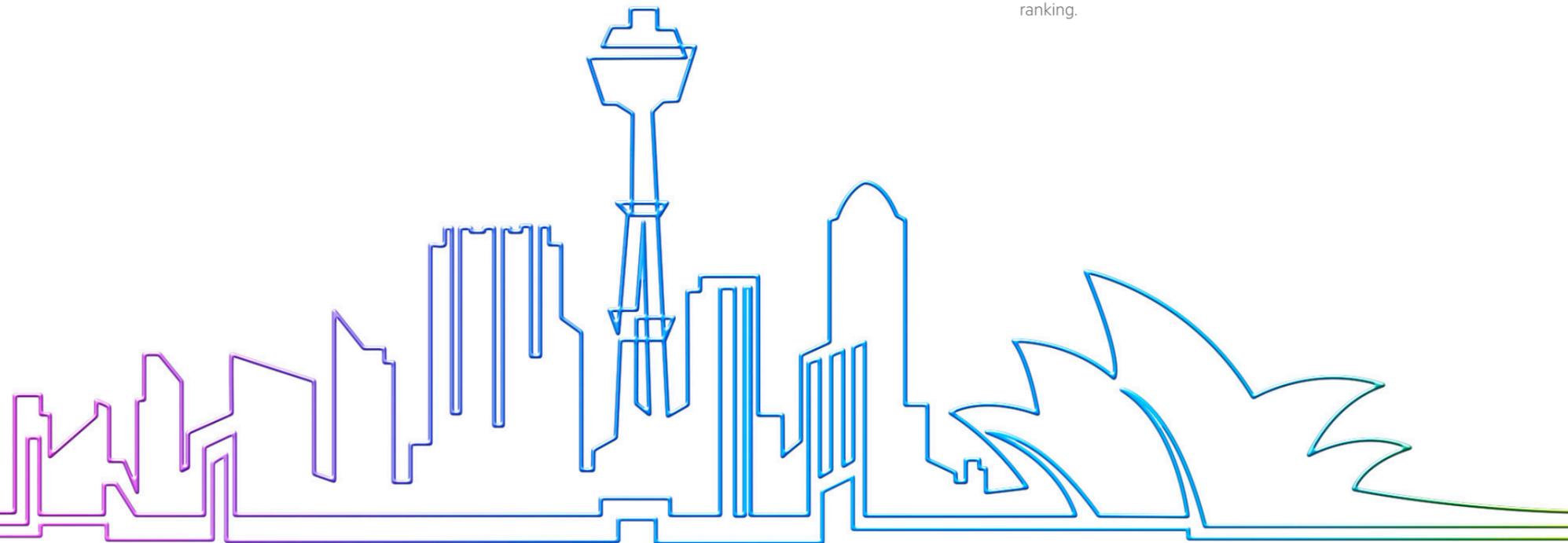
This criterion considers the ability of the city to attract and retain technology-based businesses, investment and skilled workers in 'knowledge economy' industries such as information and communications services, professional services and digital media. This is assessed by producing an overall score based on a range of quality-of-life based indicators, such as the quality of the city's primary and secondary education and public health systems, the efficiency of the city's public transport system, and the quality of the city's environment (based on air quality readings).

DATA OPENNESS

This indicator is different to those described above in that it applies to the national level rather than the specific city. Essentially, the score applied to the city is the national score achieved for data openness in the current edition of the open data barometer (ODB). This score reflects national policies with respect to the availability of government business datasets and other types of data.

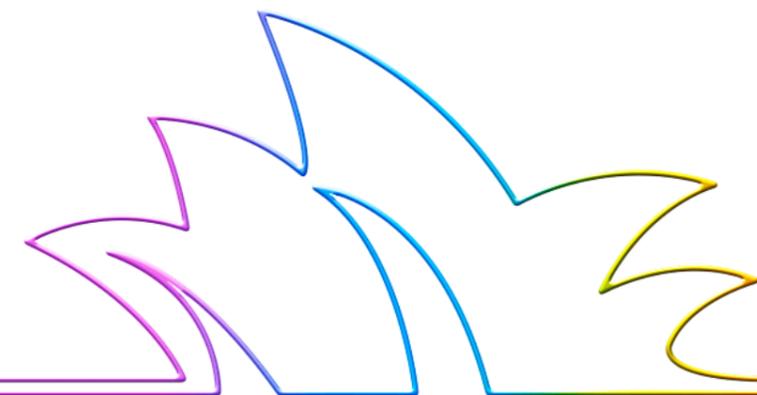
BUSINESS SUPPORT ENVIRONMENT

This measure provides an indication of the perceived ease of doing business in the city. The key component parts of this assessment are considered to include the business and personal tax burden, openness to inward investment and property ownership, policies with respect to international movement of digital industry talent, other skilled workers and entrepreneurs, intellectual property protection and levels of corruption. Because many of these factors are mainly influenced by national policy it was decided to use a single national ranking.



Glossary of Terms

Term used in report	Explanation
5G	The fifth generation of mobile network connectivity, expected to deliver significantly improved levels of network reliability, considerably faster data transfer speeds and improved performance with respect to latency.
Artificial Intelligence (AI)	A range of rapidly evolving computer-based technologies used by machines and devices to simulate elements of human behaviour such as sensing, learning, reasoning and decision-making.
Blockchain	Blockchain is an electronic transaction-processing and record-keeping technology that benefits users by decentralizing the way that information about transactions is shared. Blockchain provides users with a method of tracking information and transactions securely and by eliminating the need for third-party verification.
Clusters / Ecosystems	Clusters / ecosystems are geographically concentrated networks of interconnected companies and other organizations (such as universities, research institutes and public agencies) operating within a specific industry. Successful clusters / ecosystems are usually characterized by a high volume of interactions and collaborations between businesses and other cluster / ecosystem participants.
Data Economy	The financial and economic value created by the storage, retrieval and analysis via software and other tools of very large volumes of business and organizational data at high speed.
Gross Value Added (GVA)	GVA is defined as the net value contributed to the economy by a company, industry or other economic entity. This includes compensation of employees, company profits and contributions to the Exchequer.
Internet of Things (IoT)	A system of assets or devices that are fitted with a sensor producing data that is stored and available for analysis, and which can be used to deliver production efficiencies or other improvements in the way the system operates. For example, sensors on machines that can be used to predict the need for maintenance or use of spare parts before the machine fails and production time is lost.





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