DEEPEND SERVICES AND M3 PROPERTY

2 October 2020

Dean Rzechta
Sungrove Corporation Pty Ltd
1/1127 High Street
Armadale VIC 3143

Dear Dean

Former Hoffman Brickworks – reasonable or economic use – response to RFI

This letter has been prepared in response to a request for further information (RFI) submitted by Heritage Victoria on 17 July 2020 in relation to permit application P31711 for works to be undertaken at the former Hoffman Brickworks at 72-106 Dawson Street, Brunswick.

I was the author of the report *Former Hoffman Brickworks – Assessment of reasonable or economic use to accompany application to Heritage Victoria for demolition of buildings* ('economic use report') which was prepared on behalf of Sungrove Corporation on 3 July 2020.

Economic use report summary

The economic use report examined four potential redevelopment options:

- Option 1: Demolition permit is granted. The site is redeveloped in accordance with a scheme by MGS Architects.
- Option 2: The site is demolished but the existing buildings reinstated. Redevelopment occurs in accordance with the previous permit (MPS/2008/313).
- Option 3: The existing building is remediated. Based on advice from structural engineers at the time, this was deemed not feasible and not analysed further.
- Option 4: The site is demolished and remediated in compliance with the EPA notice to provide a vacant development site. This option was not considered further as in practise some kind of development would be required, both from HV's perspective (interpretation of former use) and to recoup at least some of the demolition costs for the landowner.

The economic use analysis was informed by a development feasibility report from M3 Property which compared remediation, construction and development costs under each option against the gross realisation generated by end uses. The M3 Property report used residual land value analysis to determine the extent to which each option leads to a positive residual land value, thereby reflecting a viable development from a financial perspective.

The conclusion from this analysis was that none of the options would generate a positive residual land value. In that sense, none of the development options represents a viable development project.

Nonetheless, the conclusion that I expressed in the economic use report was that Option 1 represents a realistic opportunity to achieve a viable project, as the feasibility analysis shows that the project is likely to deliver a positive profit margin of 9% for the developer. Although this is substantially lower than the typical return of 20% which provides the basis for the feasibility analysis, it is still an outcome that could be pursued by the landowner.

Other options were shown to be unviable as the cost of development outweighs the likely realisation from the sale of residential and commercial spaces.

Heritage Victoria RFI

Heritage Victoria prepared a request for additional information on 17 July 2020 under s98 of the Heritage Act 2017.

The RFI seeks additional analysis including structural assessments to examine whether the existing buildings could be made structurally sound.

In relation to the economic use report the RFI includes the following information request:

8. *The submitted Statement of Reasonable or Economic Use is prepared under the premise that the buildings must be demolished as part of the site's redevelopment to comply with the clean-up notice issued by the EPA. Further decontamination and structural assessments have been requested in this letter (items 1-4) to question the necessity of demolishing the buildings to achieve decontamination. The Statement of Reasonable or Economic Use will need to be updated to take into consideration the findings of these assessments.*

As a result of additional structural assessments commissioned by Sungrove Corporation, new cost estimates have been prepared for the remediation of the existing building in place.

These cost estimates have then been incorporated into a revised feasibility report prepared by M3 Property.

M3 Property revised feasibility

The revised feasibility analysis by M3 Property contemplates an amended Option 3 which incorporates cost estimates prepared by WT Partnership (30 September 2020) for the remediation of the existing buildings.

Details of the construction works costed under this exercise are provided on p13 of the M3 Property report (refer attached) as follows:

> *The developer contemplates remediation of the site in line with the EPA clean up notice with the existing buildings proposed to be retained in situ whilst decontamination works take place, with appropriate bracing and structural measures required to enable this. The cost plan captures scope up to and including the basement being infilled, the new ground slab being poured and connecting the existing structure of Building 5 to the new ground slab. Exclusions include any future works such as building a new superstructure frame to B5 and B6, with temporary structural support to Building 5 and 6 left in place.*

Upon completion of remediation, the site under this option is assumed to retain elements of Building 5 and 6 within the subject land, with advice provided by Irwin Consult suggesting that the roof trusses, floor beams, columns and walls will be retained, while the roof sheeting, façade sheeting and flooring will be removed. Post remediation, the existing buildings will also require structural strengthening works to allow for alternate uses but also bring the buildings up to compliance with Australian Standards.

On this basis, the subject land will be clear of contamination, however, will include an existing building, which would limit the development outcomes for the land. The value of the land including the existing and new structural elements will be dependent upon the adaptability of the final floorplan to allow for multiple uses and the ability to develop the airspace above the existing building for residential purposes, subject to any heritage restrictions put in place and any planning requirements.

According to the WT analysis, the total cost of these works is estimated at $20.76 million, excluding GST and authority and building application fees.

Implication for economic use

I note that the $20.76 million in remediation costs would not create a final development form. Additional costs would be required to redevelop the remainder of the site and refurbish the existing buildings to accommodate economic uses such as residential apartments and commercial activities, as well as heritage interpretation elements that are expected to be delivered.

If the final development outcome for the site was in accordance with Option 2 (ie as per the previous permit), additional construction activity is likely to involve a large share of the $34.77 million in development costs estimated under that option.

The total cost of development would therefore be well in excess of the $34.77 million estimated under Option 2. With realisation of just $12.95 million (net of selling costs and GST) associated with the residential and commercial uses as indicated in the M3 Property report, this would not be a viable development project and does not represent an economic use of the site.

Other development options could be considered. However, my opinion is that it's unlikely that any alternative development outcome for the site could absorb the $20.76 million in remediation costs associated with retention of the existing building, while still delivering a viable project once fully developed.

Conclusion

In summary, the additional structural assessments in response to Heritage Victoria's RFI indicate that the existing building could be retained, but at significant additional cost. With additional construction and refurbishment activity required to deliver an outcome that can generate sales of apartments and commercial space, any such project would be unviable given the significant negative residential land value.

The additional information contained in M3 Property's revised feasibility analysis therefore does not alter the conclusions presented in the economic use report, which remain as follows:

- Option 1 is a reasonable and appropriate use given the proposed development outcomes and market context in the area.
- Option 1 may be viable but would represent a reduced profit margin and lower returns for the developer.
- Other options are not viable as they lead to significant negative residual land values.
- Under these conditions, refusal to grant a permit would adversely affect the reasonable and economic use of the land.

Kind regards

Matthew Lee
Principal

LK:CB
30305684/312367

1 October 2020

Mr D Rzechta
94feet

Email: dean@94feet.com.au

Dear Dean

RE: FEASIBILTY ANALYSIS
72-106 DAWSON STREET, BRUNSWICK, VIC

We refer to your request for m3property to provide a feasibility analysis of the proposed development to assist with an application to the Heritage Council of Victoria. Our feasibility analysis cannot be relied upon for mortgage purposes and is to assist in the application to Heritage Victoria only. Specifically, we have been instructed to prepare feasibility analysis of the proposed development on the basis of four options, which are summarised below:

Option 1

- Demolish, remediate, and develop the site for a mixed-use development to comprise 59 apartments, a heritage interpretation centre, a café and commercial space.

Option 2

- Demolish, remediate, and reinstate/refurbish the existing building. Under this Option, we assume the building will be reinstated and refurbished to include 27 dwellings, a heritage interpretation centre and commercial space, in accordance with the endorsed plans dated October 2010.

Option 3

- Remediate with existing building in place. Based on advice provided by Irwin Consult/WT, the existing building would require substantial structural bracing in order for this to take place. This Option does not allow any redevelopment of the subject property with the land remediated to provide a clean site, in line with the Environmental Protection Agency (EPA) clean up notice.

Option 4

- No action, with the feasibility to assume demolition of the building and remediation of the site. This Option does not allow any redevelopment of the site. On this basis, the buildings are demolished and the site remediated to provide a clean and vacant site, in line with the Environmental Protection Agency (EPA) clean up notice.

Assumptions

- We assume the accommodation and areas of the apartments and commercial spaces summarised in this advice are correct.
- We were not provided with proposed fixtures and fittings for the subject apartments, however, we have been advised by the developer that these will be finished to a high standard. If this assumption proves to be incorrect, we recommend this advice be returned to us for comment.
- We have not searched a Certificate of Title for the purpose of this advice. We assume that there are no encumbrances, encroachments, restrictions, leases, or covenants negatively affecting the subject property. If any such matters are known or discovered, we should be advised and asked as to whether they affect our conclusions drawn by the feasibilities analysis.

- Our advice does not represent a valuation and is on the basis of preliminary advice only to assist with the application as stated above.
- Our feasibility analysis has been completed on the basis of the preliminary costs provided. The costs outline a sum for remediation of the contamination on the site. If this sum proves to be insufficient, this will negatively impact our residual land analysis based on the feasibility studies prepared. The costs provided have been accepted as true and correct.
- The planning information set out in this advice has been obtained via the website of the Department of Environment, Land, Water and Planning. We have relied upon this information in preparing this advice. No responsibility is accepted for the accuracy of that information and if it is wrong in any significant respect, our advice may be different.
- To our knowledge, a planning permit is yet to be obtained for the proposed development. Our advice is made on the strict assumption that a planning permit is issued allowing for the proposed development to be completed within Option 1, and that the Heritage Council of Victoria approves the proposed use. Furthermore, our advice assumes that there will be no onerous conditions within the planning permit.
- A construction program has not been made available to us for the purpose of this advice. We have estimated construction timeframes for the purpose of our feasibilities. If expert advice is obtained in this regard, we recommend our advice be returned to us for reassessment, in line with the expert's opinion.
- The general scheme is adopted for assessing GST.

Property Details

Address	72-106 Dawson Street, Brunswick, VIC.
Title Details	Volume & Folio Number: 11402/352 Description: Lot S4 on Plan of Subdivision 63185H
Planning	**Zone:** Mixed Use Zone (MUZ) pursuant to the Moreland Planning Scheme. **Overlays:** Development Plan Overlay – Schedule 3 (DPO3) Environmental Audit Overlay (EAO) Heritage Overlay (HO63)
Planning Permit	We have previously been provided with a Planning Permit No. MPS/2008/313 which relates to the wider development, which the subject parcel forms a part of. The permit expired in January 2019 and is not definitive. The expired permit allows for the following: *"Construction of a four storey building for dwellings and development and use of food and drink premises (Building E), construction of a five storey building for dwellings (Building 6A), adaptive re-use of Building 5 and 6 for dwellings, office and interpretation space, adaptive re-use and restoration and development of Kilns 2 and 3 for dwelling and interpretation space, advertising signage and reduction in onsite car parking, in accordance with the endorsed plans."* Our feasibility analysis for Option 1 is based on development plans prepared by MGS Architects dated June 2020, while we have relied upon the endorsed plans (with the permit relating to these plans having expired) prepared by Span Architecture for Option 2. We emphasise that these developments are not currently permitted and would require Planning Permits be issued by Moreland City Council prior to construction. We assume for the purpose of our advice, relevant approvals are in place.
Description	The subject property forms part of an infill development being the former Hoffmans Brickworks. The subject property is one of the last remaining sites within the overall development to be developed. The site is located to the north-eastern corner of Dawson Street and Brickworks Drive, within the established inner north suburb of Brunswick, approximately five kilometres north of the Melbourne Central Business District. Our desktop review revealed that the property comprised a dilapidated building which was the former main factory, with a brick chimney constructed on part of the land. The overall parcel of land is irregular in shape and part of the land is not developable. In addition, an open paved car park has been constructed on approximately 400 square metres of land attributed to the subject title.

Aerial View of Subject Property

Architectural Package (June 2020)

Development Summary – Option 1

No. of Levels	Seven
Architect	MGS Architecture
Revision	TP01
Date of Plans	June 2020
Endorsed	Not yet endorsed.

The Development plans can generally be described as below:

- Two basement levels to include 65 car spaces, 68 bicycle parks (secure) and 59 storage cages;
- 135 square metres of retail space to the ground level, which will be located on the south-eastern corner of the site. This location is considered to maximise pedestrian traffic to the retail space;
- 632 square metres of commercial/co-working space to the ground level, which will allow for greater collaboration within the community;
- 380 square metres for a Heritage Interpretation Centre to the ground level, which will include a museum that will display the sites former use (both as a Brick and Pottery works);

- 59 apartments interspersed across the ground level to Level 6; and
- Approximately 600 square metres of communal rooftop garden, which will include an urban farm.

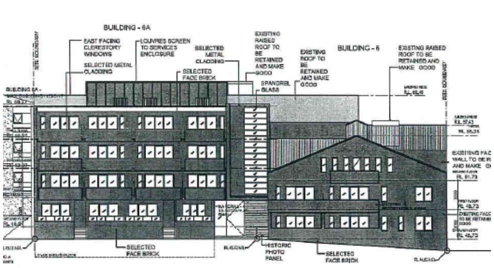
As per the above, there will be a relatively large amount of public space, which will provide for the broader community and residents of the proposed apartments. This is somewhat unique and may be attractive to potential purchasers.

A summary of the residential component of the proposed development is provided within the table below:

Apartment Type	Count	%	Average Internal Size (m²)	Average External Size (m²)	Total Internal Area (m²)
1 Bedroom 1 Bathroom, 1 Car	20	34%	52	11	1,030
2 Bedroom 1 Bathroom, 1 Car	17	29%	71	10	1,205
2 Bedroom 2 Bathroom, 1 Car	17	29%	82	14	1,393
3 Bedroom 2 Bathroom, 2 Car	5	8%	94	29	469
Total	**59**	**100%**			**4,097**

Development Summary – Option 2

No. of Levels	Four
Architect	Span Architects
Date of Plans	12 April 2010
Endorsed	Endorsed by Moreland City Council on 18 October 2010 – The Permit relating to these plans has subsequently expired.



The endorsed plans did not include specific areas. We have therefore undertaken our own measurements of the proposed commercial, residential and cultural heritage space. We emphasise that these are approximate only and should only be relied upon for the purpose requested within this advice. If these areas provide incorrect, it will impact on our feasibility analysis for Option 2 and this advice should be referred back to us for review.

While these plans are endorsed, they reflect an expired permit, with the residential and commercial application being pre Better Apartment Design Standards (BADS) introduced in December 2016. Under the BADS, the application would not comply with the requirements of the standards. Furthermore, we have been advised that the design consideration for the subject property under these plans was envisaged in the early 2000's and is therefore considered outdated and would not represent the Highest and Best Use of the site.

The endorsed plan can generally be described as below:

- Approximately 402 square metres of Historical Interpretation Centres;
- Approximately 830 square metres of commercial space over two levels, which as per the plans is split into 20 individual units. We have made our assessment on the basis of 20 individual units; and
- Twenty-seven apartments split over four levels.

A summary of the residential component of the proposed development is provided within the table below:

Apartment Type	Count	%	Average Internal Size (m²)	Total Living Area (m²)
Studio, 1 Bathroom	13	48	42	547
1 Bed, 1 Bath - Single Level	7	26	49	340
1 Bed, 1 Bath - Two Levels	6	22	57	340
2 Bed, 1 Bath - Two Levels	1	4	76	76
Total	**27**	**100**		**1,303**

For the purpose of our advice, we have not scaled each individual balcony and terrace for the residential component. We have assumed that each dwelling will include a minimum of eight square metres of private open space. In addition, we have been advised that there will be 17 at grade car spaces located outside of the building footprint, which will be available for purchases of the proposed apartments and commercial space. We have therefore assumed that each of the one and two bedroom apartments will include a single car space, while the studio apartments will not include a car space. Therefore, 14 car spaces will be available for the residential component, while the balance of the car spaces are assumed to be allocated to the commercial use (three car spaces).

The car parking is inferior to other developments, with car spaces allocated off site and open paved compared to other car parks that are generally secured. In estimating a value for the proposed apartments, we have been cognisant of this with the studio apartments having no car park and therefore are likely to take longer to sell and the inferior configuration of the car parks allocated to the one and two bedroom apartments.

Fixtures and Fittings

We have not been provided with a fixtures and fittings schedule for the proposed apartments, nor the commercial space. We have however been advised by the developer that the apartments will be completed to a high standard. We have therefore adopted this advice when assessing a Gross Realisation for Options 1 and 2. If this assumption proves to be incorrect, we recommend this advice be returned to us for review.

Project Costs

Feasibility (Options 1,2 and 4)	Prepared by the developer (undated)
Estimate Summary (Option 3)	Prepared by WT Partnership (30 September 2020)
Timeframe	We have not been provided with a construction program. We have therefore estimated a construction timeframe of approximately 15 months for completion of the Option 1 proposed development and a timeframe of 12 months for the construction of Option 2. We emphasise that we are not experts in this regard, and if these assumptions prove to be incorrect, we recommend our advice be returned to us for review.

Project Costs		Cost (Option 1)	Costs (Option 2)	Costs (Option 3)	Costs (Option 4)
Construction Cost		$17,005,000	$23,683,500	$9,937,000*	$0
Demolition		$906,205	$906,205	$796,000	$906,205
Basement/Backfill		$2,368,000	$350,000	$0	$350,000
Heritage Interpretation E/O		$1,809,750	$1,961,750	$0	$0
Landscaping		$500,000	$300,000	$0	$0
Total Construction Cost		**$22,588,955**	**$27,201,455**	**$10,733,000**	**$1,256,205**
Other Costs		$146,147	$164,282	$0	$31,427
Professional & DM Fees	7%	$1,864,231	$2,257,541	$1,730,000	$437,873
Remediation Costs		$4,477,500	$4,477,500	$7,636,000	$4,477,500
Remediation Contingency		$671,625	$671,625	$661,000	$671,625
Total Development Costs (exclusive of GST)		**$29,748,458**	**$34,772,402**	**$20,760,000**	**$6,874,630**
Add GST on costs @	10%	$2,974,846	$3,477,240	$2,076,000	$687,463
Total Development Costs (inclusive of GST)		**$32,723,304**	**$38,249,642**	**$22,836,000**	**$7,562,093**
Authority Fees/ Building Application Fees		$177,000	$100,000	$50,000	$50,000
Headworks Fees - Sewer + Water Tapping		$50,000	$50,000	$0	$0
Headworks Fees - Citipower		$50,000	$0	$0	$0
Open Space Contribution		$150,000	$150,000	$0	$0
Total Development Costs (inclusive of GST)		**$33,150,304**	**$38,549,642**	**$22,886,000**	**$7,612,093**

*The Construction Costs outlined within Option 3 includes items such as Structural Works, Ground Works, Preliminaries, Margin and a Contingency Allowance. Further, Option 3 cost plan captures scope up to and including the basement being infilled, the new ground slab being poured and connecting the existing structure of Building 5 to the new ground slab.

With respect to the Authority Fees/Building Application Fees for Option 3, we have been instructed to adopt the allowances within Option 4. If this proves to be incorrect, we recommend our advice be returned to us for comment.

Project Costs Breakdown (Option 1)	Analysis
$/m² of Saleable Area	$6,204/m²

Project Costs Breakdown (Option 2)	Analysis
$/m² of Saleable Area	$16,443/m²

Market Comment – Subject Locality

Brunswick is an inner metropolitan suburb located approximately six kilometres north of the Melbourne Central Business District and is incorporated within the Moreland Local Government Area (LGA).

Investigations with the Real Estate Institute of Victoria show the June quarter 2020 median unit price for Brunswick to be $550,000, against the Inner Melbourne Metropolitan median for the same period of $604,500. In comparison, the median unit price for Brunswick decreased by 2.7% from the June quarter 2019, with a median reflecting $565,000. The median unit price is dependent on the number of transactions which occur within the period and can often by skewed depending on the quality of the stock which transacts within the period. Whilst this is the case, we consider that the residential market, in particular the apartment market, has shown signs of softening, with the negative impacts of COVID-19 and reduction in population growth.

Approach

To determine a residual land value for each Option we have adopted a residual cash flow analysis. The cash flow will take into account the project gross realisation; but will not account for escalations in revenue or cost. A Profit and Risk (P&R) factor is applied to the net position derived after the deduction of selling/marketing costs and GST. This factor is a reflection of the required return and risk profile of the property. It is a static factor providing a required return for the life of the project, does not represent an annual return; and accordingly is useful for projects or stages of projects of relatively short duration. Relevant development, holding, interest and acquisition costs are then deducted from the net realisation resulting in an estimate of the residual land value for each Option.

The residual cash flow analysis requires the estimated gross realisation, As If Complete of the proposed development for each Option. To determine this input, we have adopted the Direct Comparison Approach. This approach when applied to residential units 'as if complete', gives consideration to living area, floor plan configuration, location and aspect/views achieved, and analysis is undertaken on a rate per square metre of living area basis and as a sum of money.

To estimate the As If Complete Value for the retail and commercial space, we have adopted the Capitalisation of Net Market Income and Direct Comparison approaches.

The Capitalisation Approach involves estimating the potential sustainable gross market income of a property from which annual outgoings are deducted to derive the net market income. This net market income is then capitalised at an appropriate rate derived from analysis of comparable sales evidence.

Adjustments to the capitalised value are then made for items including letting up allowance over vacant areas including foregone rental and outgoings over the assumed letting up period together with marketing expenses and leasing commissions, short term capital expenditure, outstanding lease incentives including rent free periods and committed Lessor contributions.

The Direct Comparison Approach involves applying a Value Rate to the selected unit of comparison which in this case is the value per square metre of GLA, with the adopted value rate derived from analysis of comparable sales evidence.

Apartment Sales Evidence

We have undertaken a search of both existing and proposed apartment projects within the Brunswick locality. From our research, the higher rates per square metre of living area have been achieved within developments located within close proximity of public transport and the Sydney Road retail precinct. The subject development, while being within reasonable proximity of amenity, is further removed than the projects which achieve rates above $10,000 per square metre of living area. We therefore consider rates towards the midpoint of the identified ranges to be appropriate for the subject apartments.

Apartment Type	Sale/Asking Price Range			Living Area Range (m^2)			$/$m^2$ Living Area Range		
One Bedroom/One Bathroom	$331,000	to	$495,000	40	to	56	$6,768	to	$10,220
Two Bedroom/One or Two Bathroom	$450,000	to	$830,000	52	to	85	$6,159	to	$12,213
Three Bedroom/Two Bathroom	$595,000	to	$1,299,000	85	to	122	$7,000	to	$11,538

Outlined below are sales which have occurred within the wider subject development. While these were completed some time ago and are dated, we consider these to provide a guide to the lower level of estimated value for the proposed subject dwellings.

Address	Sale Date	Sale Price	Beds	Bath	Car	Living m^2	\$/m^2 Living Area
27/97 Brickworks Drive	Apr-20	$310,000	1	1	1	40	$7,750
20/97 Brickworks Drive	Mar-20	$550,000	2	1	1	85	$6,471
207/80 Dawson Street	Nov-19	$582,000	2	2	1	68	$8,559
3/6 Pottery Court	Sep-19	$510,000	2	1	1	68	$7,500
30/99 Brickworks Drive	Aug-19	$490,000	2	1	1	62	$7,903
12/97 Brickworks Drive	Aug-19	$595,000	3	2	1	85	$7,000

Gross Realisation – Option 1

Gross Realisation Assessment Summary - Residential

In assessing estimating a value for the proposed subject apartments As If Complete, we have had regard to the sales evidence and our comments of comparison. In particular, in assessing the individual values within our Gross Realisation, we have considered the following:

- The subject development is large for the locality, proposed to comprise 59 apartments and ground level commercial uses upon completion.
- We have assumed that the apartments will be completed to a high standard.
- The floor plans are functional with natural light provided to all bedrooms.
- The majority of the apartments will have outdoor space broadly in line with similar apartment developments within the locality, with an overall average of 13 square metres, ranging from eight to 63 square metres.
- We have assumed that each of the one and two bedroom apartments will provide a single standard basement car park, while the three bedroom apartments will provide two car spaces.
- Apartments located to the upper levels with an aspect to the south will achieve good views, with some achieving city views.
- Each apartment will have private storage at basement level.
- The location being in close proximity to recreational facilities, schools, public transport and retail amenity.

A summary of our estimated Gross Realisation for the residential component is detailed below:

Apartment Type	Count	Average Internal Size (m²)		Average Assessed Price	\$/m² Living Area	Total
1 Bedroom 1 Bathroom, 1 Car	20	52	@	$465,500	$9,039	$9,310,000
2 Bedroom 1 Bathroom, 1 Car	17	71	@	$649,412	$9,162	$11,040,000
2 Bedroom 2 Bathroom, 1 Car	17	82	@	$756,471	$9,232	$12,860,000
3 Bedroom 2 Bathroom, 2 Car	5	94	@	$852,000	$9,083	$4,260,000
Total	**59**			**$635,085**	**$9,146**	**$37,470,000**

Retail/Commercial Evidence

We have undertaken a search of strata retail and commercial within Brunswick and the surrounding locality. In this regard, we were able to identify a number of strata retail premises within the area, however the majority of these provided a Gross Lettable Area of less than 100 square metres. Furthermore, with respect of the commercial units, there is limited available evidence of existing and proposed strata commercial space within Brunswick, with this market being relatively immature. We have therefore had to rely on dated evidence, in addition to evidence within inner northern suburbs such as Carlton, Fitzroy and North Melbourne to draw comparisons. We have provided the evidence within ranges as stated below:

Retail Units		Range	
Sale Price Range	$360,000	to	$535,000
Gross Lettable Area	37m²	to	152m²
Rent (\$/m²)	$205	to	$600
Initial Yields	5.05%	to	6.12%
Direct Comparison (\$/m² GLAR)	$5,114/m²	to	$10,288/m²

With respect to the above, the subject retail space provides a lettable area of approximately 135 square metres, which as previously mentioned, is larger than the majority of evidence obtained. Given the subject location is a secondary area within Brunswick, with the majority of evidence being closer to Sydney Road, we consider the subject would achieve a market income and yield towards the midpoint of the range. For the purpose of this advice, we have adopted the midpoint, being $400 per square metre of lettable area and a capitalisation rate of 5.5%.

Commercial Units		Range	
Sale Price Range	$170,000	to	$1,100,000
Net Lettable Area	40m²	to	369m²
Rent ($/m²)	$326	to	$541
Initial Yields	6.67%	to	7.33%
Direct Comparison ($/m² NLA)	$2,981/m²	to	$8,136/m²

Having regard to the available commercial evidence and the immature commercial market within Brunswick, we have adopted a rent of $300/m² on the commercial space, with an appropriate capitalisation rate of 7.0%.

Gross Realisation Assessment Summary - Retail/Commercial

With respect to the proposed commercial units, we have made the following assumptions for both the retail and commercial spaces:

- Let Up Period equivalent to 12 months rent;
- Rental Incentive equivalent to 10 months rent; and
- Leasing Commissions equivalent to 12% of rent.

Based on the above, our estimate utilising the capitalisation of Net Market Income is as follows:

Capitalisation Approach - Retail				
Net Annual Market Income	135m²	@	$400/m²	**$54,000**
Capitalised @			5.50%	$981,818
Adjustments				
PV of Let Up Period	12 months			-$52,007
PV of Rental Incentive	10 months			-$43,589
Leasing Commissions	12%			-$6,480
Total Adjustments				**-$102,076**
Indicated Value				**$879,742**
Adopt (rounded)				**$900,000**

Sensitivity Analysis		
Cap Rate	Value	$/m GLAR
5.25%	$930,000	$6,889
5.50%	$900,000	$6,667
5.75%	$840,000	$6,222

Our estimate under the Capitalisation Approach produces a capital value of $900,000. On a direct comparison rate basis, this equates to $6,667 per square metre of GLAR, which falls within the range provided by the sales evidence, albeit towards the lower end of the range, which is considered appropriate, given the subject provides a larger area when compared to the majority of the evidence.

Adopting the same assumptions for assessing the retail unit, our calculation for assessing the commercial space is as follows:

Capitalisation Approach - Commercial				
Net Annual Market Income	632m²	@	$300/m²	**$189,600**
Capitalised @			6.25%	$3,033,600
Adjustments				
Downtime	12 months			-$182,602
Incentives	10 months			-$153,047
Leasing Commissions	12%			-$22,752
Total Adjustments				**-$358,401**
Indicated Value				**$2,675,199**
Adopt (rounded)				**$2,700,000**

Sensitivity Analysis		
Cap Rate	**Value**	**$/m NLA**
6.00%	$2,800,000	$4,430
6.25%	$2,700,000	$4,272
6.50%	$2,600,000	$4,114

Our estimate under the Capitalisation Approach produces an estimated capital value of $2,700,000. On a direct comparison rate basis, this equates to $4,272 per square metre of NLA, which falls within the range provided by the sales evidence.

Gross Realisation – Option 2

Gross Realisation Assessment Summary - Residential

In estimating a value for the proposed subject apartments As If Complete within Option 2, we have applied a dollar per square metre rate to the average apartment size for each of the apartment types within the development. Given the preliminary nature of this Option and limited detail available, we consider this to broadly represent the appropriate Gross Realisation of the proposal. We have had consideration to the evidence previously outlined within this advice in forming our estimate.

A summary of our estimated Gross Realisation for the residential component is detailed below:

Apartment Type	Count	Average Internal Size (m²)	Total Living Area (m²)		Average Assessed Price	$/m² Living Area	Total
Studio, 1 Bathroom	13	42	547	@	$378,692	$8,250	$4,512,750
1 Bed, 1 Bath - Single Level	7	49	340	@	$412,857	$8,000	$2,720,000
1 Bed, 1 Bath - Two Levels	6	57	340	@	$453,333	$7,500	$2,550,000
2 Bed, 1 Bath - Two Levels	1	76	76	@	$589,000	$7,250	$551,000
Total	**27**		**1,303**		**$382,731**	**$7,931**	**$10,333,750**

Gross Realisation Assessment Summary - Commercial

Given the basic level of detail we have been provided, we have only utilised the Direct Comparison Approach in order to determine the value of the commercial space within Option 2. Having regard to the evidence previously outlined, we consider a rate of $5,000 per square metre of NLA to be appropriate. Our calculation is as follows:

Office Component	No of Units	Average Net Lettable Area (m²)	Total Net Lettable Area (m²)		Average Assessed Price	$/m² NLA	Total
Office Units	20	42	830	@	$207,500	$5,000	$4,150,000
Total	**20**						**$4,150,000**

Our estimate under the Direct Comparison approach produces a capital value of $4,150,000.

Feasibility Analysis – Option 1

Feasibility Assumptions

Our residual cash flow analysis has been prepared based on information provided. Our cash flow projections are forecasts based on available information and are exposed to fluctuating economic conditions. The cash flow analysis has been prepared on the following data:

Feasibility Assumptions	
Sale Assumptions	
Site Area	2,969m²
Indicated Density	1:50m²
Proposed No. of Residential Apartments	59
Retail Space (m²)	135m²
Commercial Space (m²)	632m²
Gross Realisation - Residential	$37,470,000
Gross Realisation - Retail	$900,000
Gross Realisation - Commercial	$2,700,000
Total Gross Realisation	**$41,070,000**
Sale Rate for Available Apartments (post completion)	8.0
Selling Costs (exclusive of GST)	3.91%
GST on Gross Realisations	General Scheme
Cost Assumptions	
Legal Acqusition Costs (exclusive of GST)	$10,000
Development Costs (exclusive of GST)	$29,748,458
Development Costs (inclusive of GST)	$33,150,304
Cost $/unit (exclusive of GST)	$504,211
Finance Costs	6.25%
Rates and Taxes	
Per Annum	Nil.
Timing Assumptions	
Lead in time (post land settlement)	1 month
Settlement on Hypothetical Land Purchase	3 months
Construction	19 months
Settlement on Presales	1 month
Selling Period (post completion)	8 months
Total Project Period (months)	29 months
Total Project Period (years)	2.42 years
Terms on Sale	
Deposit	10%
Balance	90%
Targets	
Developer's Margin	20.00%
Internal Rate of Return (incl. interest)	18.00%

For the purpose of this exercise, we have adopted a $1 Site Value to calculate Land Tax and Council Rates due to our feasibility reflecting a negative value.

We have adopted a target developer’s margin of 20.00% based on the following reasons:

- A planning permit has been obtained for the proposed development, with the plans endorsed;
- The costs relied upon are based on estimates provided by the developer, with the costs not having been reviewed by a third party;
- The development is located within reasonable proximity of retail amenity, schools, public transport, recreational facilities and road linkages; and
- Current economic conditions, interest rates and buyer profile for the area.

Analysis

The following is a summary of our analysis which reflects the current status of the project assuming 100% debt funding.

Residual Cashflow Analysis - Option 1			
Gross Realisation			$41,070,000
Less			
Selling Costs @	4.30%	$1,767,480	
GST		$3,406,364	$5,173,844
Net Realisation			$35,896,156
Less Profit & Risk Factor @	20.00%		$6,009,549
Funds Available for Development			**$29,886,607**
Less			
Development Costs		$33,150,304	
Interest @	6.25%	$1,987,637	
Legal Acquisition Costs		$11,000	
Holding Costs		$0	$35,148,941
Add GST Input Credits			$2,923,945
Indicated Value (inclusive of GST)			**-$2,338,389**
Less GST			-$212,581
Indicated Value (exclusive of GST)			**-$2,125,808**
Rounded to (exclusive of GST)			**-$2,100,000**
Indicated Value excl. of GST			-$2,100,000
Profit After Interest			$6,009,549
Developer's Margin			20.00%
IRR Including Interest			16.35%
$/unit			-$35,593/unit
$/m² site area			-$707/m²

Based on the assumptions adopted and the scheme for Option 1, the residual cash flow produces a negative value for the land, indicating the scheme is not commercially viable. In order to achieve a positive value for the land at a 20% return for a developer, savings in the costs will need to be found or the realisations increased.

Adopting a residual land value of $1 would equate to a return to a developer of 9.03%. This is below the market returns required by a developer, however, it demonstrates a profit can be obtained for Option 1 on the basis the land was obtained for nil consideration. Whilst at nil consideration, it returns a profit, this profit does not adequately reflect the risk of the site, given the contamination and heritage issues.

Having regard to the above and the results, these can be summarised as follows:

- To achieve the desired return on costs of 20%, a developer would need to be paid $2,100,000 to complete this project. That is the owner of the site would need to pay someone to transfer the site to an alternate developer. This is in contrast to the norm where a developer would seek a cash consideration when selling a site.
- To pay a hypothetical developer to transfer the site to their name is highly unlikely and therefore we have assessed a return on the basis the property was transferred to a hypothetical party for $1. Essentially this reflects the developer giving the site away as is. On this basis, a developer still has the risk of completing the proposed development, with that return to reflect 9.03% being a profit of $3,591,400. This is in comparison to $6,009,549 assuming a developer was paid $2,100,000 to take on the project.

On the above basis, the site as is, is unlikely to attract a purchaser to develop the site if offered in the open market.

Project Related Site Assessment – Option 2

Feasibility Assumptions

Our residual cash flow analysis has been prepared based on information provided. Our cash flow projections are forecasts based on available information and are exposed to fluctuating economic conditions. The cash flow analysis has been prepared on the following data:

Feasibility Assumptions	
Sale Assumptions	
Site Area	2,969m²
Indicated Density	1:110m²
Proposed No. of Residential Apartments	27
Retail Space (m²)	-
Commercial Space (m²)	830m²
Gross Realisation - Residential	$10,333,750
Gross Realisation - Retail	$0
Gross Realisation - Commercial	$4,150,000
Total Gross Realisation	**$14,483,750**
Sale Rate for Available Apartments (post completion)	7.0
Selling Costs (exclusive of GST)	3.71%
GST on Gross Realisations	General Scheme
Cost Assumptions	
Legal Acqusition Costs (exclusive of GST)	$10,000
Development Costs (exclusive of GST)	$34,772,402
Development Costs (inclusive of GST)	$38,549,642
Cost $/unit (exclusive of GST)	$1,287,867
Finance Costs	6.25%
Rates and Taxes	
Per Annum	Nil.
Timing Assumptions	
Lead in time (post land settlement)	1 month
Settlement on Hypothetical Land Purchase	3 months
Construction	16 months
Settlement on Presales	1 month
Selling Period (post completion)	6 months
Total Project Period (months)	24 months
Total Project Period (years)	2.00 years
Terms on Sale	
Deposit	10%
Balance	90%
Targets	
Developer's Margin	20.00%
Internal Rate of Return (incl. interest)	18.00%

Assessment

The following is a summary of our analysis which reflects the current status of the project assuming 100% debt funding.

Residual Cashflow Analysis - Option 2			
Gross Realisation			$14,483,750
Less			
Selling Costs @	4.08%	$591,635	
GST		$939,432	$1,531,067
Net Realisation			$12,952,683
Less Profit & Risk Factor @	20.00%		$2,167,865
Funds Available for Development			**$10,784,818**
Less			
Development Costs		$38,549,642	
Interest @	6.25%	$283,471	
Legal Acquisition Costs		$11,000	
Holding Costs		$0	$38,844,114
Add GST Input Credits			$1,079,298
Indicated Value (inclusive of GST)			**-$26,979,998**
Less GST			-$2,452,727
Indicated Value (exclusive of GST)			**-$24,527,271**
Rounded to (exclusive of GST)			**-$24,500,000**
Indicated Value excl. of GST			-$24,500,000
Profit After Interest			$2,167,865
Developer's Margin			20.00%
$/unit			-$907,407/unit
$/m² site area			-$8,252/m²

Based on our assumptions and the proposal, Option 2 is not feasible at the required returns by producing a negative value. Adopting a residual land value of $1 would equate to a negative return to a developer of -132.74%. Given the conclusions, Option 2 in any form is not commercially viable.

In comparison to Option 1, Option 2 results in a much greater negative land value, due to the onerous cost of developing the site in this Option. In addition, the development scheme is not efficient and would not be reflective of current market demands.

Analysis – Option 3

Under this Option, the developer contemplates remediation of the site in line with the EPA clean up notice with the existing buildings proposed to be retained in situ whilst decontamination works take place, with appropriate bracing and structural measures required to enable this. The cost plan captures scope up to and including the basement being infilled, the new ground slab being poured and connecting the existing structure of Building 5 to the new ground slab. Exclusions include any future works such as building a new superstructure frame to B5 and B6, with temporary structural support to Building 5 and 6 left in place.

Upon completion of remediation, the site under this option is assumed to retain elements of Building 5 and 6 within the subject land, with advice provided by Irwin Consult suggesting that the roof trusses, floor beams, columns and walls will be retained, while the roof sheeting, façade sheeting and flooring will be removed. Post remediation, the existing buildings will also require structural strengthening works to allow for alternate uses but also bring the buildings up to compliance with Australian Standards.

On this basis, the subject land will be clear of contamination, however, will include an existing building, which would limit the development outcomes for the land. The value of the land including the existing and new structural elements will be dependent upon the adaptability of the final floorplan to allow for multiple uses and the ability to develop the airspace above the existing building for residential purposes, subject to any heritage restrictions put in place and any planning requirements.

This Option still requires the developer to outlay $20,760,000 ex GST which relates to part demolition of the existing buildings, installation of new structural elements to support the existing structure and remediation of the site. When compared to the other options, the remediation of the site under this scenario will require more time and cost, due to the difficultly of remediating the site around the existing buildings. WT have not made any allowance for asbestos to the existing façade, roof or internal wall materials and have assumed that the works will take approximately nine months to complete.

Assuming an approved development plan in line with Option 2, where the remaining elements of the buildings are rebuilt/reinstate, resulted in a negative land value. Under this scenario the estimated gross realisation is approximately $14,500,000. Under Option 3, the cost to remediate the site with the building in situ is $20,760,000. This sum excludes future building works beyond infilling the volume of contaminated material removed and the pouring of a new ground slab to Building 5 and 6, other than pouring the ground slab. The cost to provide a clean site with the existing building in place exceeds the gross realisation of Option 2, therefore Option 3 based on the assumptions would result in a negative land value. On this basis, Option 3 is not commercially viable to the developer and does not include construction costs associated with building a new structure to suit a new purpose.

Analysis – Option 4

Under this Option, the developer would be required to remediate the site in line with the EPA clean up notice, with demolition of the building required in order to remediate the site. Upon completion of demolition and remediation, the site is assumed to remain vacant with no further development. On this basis, a clean and vacant site has been achieved, which we then assume can be sold in the open market. The price to be achieved for the site will be dependent upon any heritage restrictions put in place and any planning requirements in place in redeveloping the property.

This Option still requires the developer to outlay $6,674,630 ex GST which relates to the estimated cost of demolition and remediation for potentially no return. Based on the net developable land area of 1,822 square metres, the costs equate to $3,663 per square metre. Whilst we have not undertaken a land value comparing to site sales, adopting the assumptions and inputs from Option 1, however, excluding the cost to remediate and demolish the building results in a residual land value in the order of $4,200,000 to $4,300,000.

Based on Option 4, the current landowner remediates the site and demolishes the building, however, will not breakeven given the estimated results of the land value being below the cost to remediate the site. On this basis, Option 4 is not commercially viable to the developer.

Conclusion

Option	Description	Result
Option 1	Demolish, remediate and develop the site for a mixed-use development to comprise 59 apartments, a café and commercial space.	($2,100,000)
Option 2	Demolish, remediate and reinstate/refurbish and existing building. Assume the building has no higher and better use.	($24,500,000)
Option 3	Remediation with structural works and the removal of contained soil with the existing building in place with no further action thereafter.	Would result in a negative land value
Option 4	No action, with the feasibility to assume demolition of the building and remediation of the site, with no further action after.	Would result in a negative land value

The above Options all produce negative land values. Whilst this is the case, we make the following conclusions and observations:

- Option 1, whilst returning a negative land value, does have the most prospect of being viable, subject to changes that create a savings in costs or increased realisations. Assuming a $1 residual land value, returns a profit in the order of 9%, which whilst still below market expectations, does reflect a return to the developer.
- Option 2 is not viable given the significant negative residual land value derived by the feasibility. Even with changes, this Option is not an Option given the losses a developer would sustain to complete the development.

- Option 3 would require a substantial amount of costs to remediate the site, while retaining the heritage buildings located on the land. Given this, this option would result in a negative land value and excludes the building of a new superstructure frame to Building 5 and Building 6, with the assumed temporary structural support to Building 5 and 6 to remain in place.
- Option 4, whilst still can be completed, results in a negative return to a developer, as the time and cost taken to remediate the site and demolish the buildings is in excess of the estimated value of the site upon completion of the remediation and demolition of the buildings.

Having regard to the above, the most probable and beneficial outcome for the site, returning a profit assuming nil consideration for the land is Option 1.

Quality & Limiting Conditions

At this stage we have not conducted a formal valuation of the subject property and the Residual Land Values as produced by the feasibility analysis should be considered a preliminary view subject to further investigations being undertaken. This advice is for the private and confidential use of the addressee of this advice, and for the specific purpose for which it has been requested. No third parties are entitled to use or rely on this estimate in any way and neither the writer nor m3property have any liability to any third party who does.

We trust that this advice meets your requirements, however if you have any concerns or comments please do not hesitate to contact our office.

Yours sincerely
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