

55 Coonara Avenue, West Pennant Hills

Planning Proposal - Economic Impact Assessment

Prepared for Mirvac

January 2016

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Reviewed by:



Dated 22 January 2016

Report Details

Job Ref No: C16157
Version: Final
File Name: C16157 55 Coonara Avenue, West Pennant Hills Proposed
Land Rezoning - Impact Assessment 220116
Date Printed: 22/01/2016

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LIST OF ABBREVIATIONS

ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
BTS	Bureau of Transport Statistics
CBD	Central Business District
DCP	Development Control Plan
DP&E	NSW Department of Planning and Environment
EIA	Economic Impact Assessment
FSR	Floor Space Ratio
GCCSA	Greater Capital City Statistical Areas
GDP	Gross Domestic Product
GFA	Gross Floor Area
GLA	Gross Lettable Area
GMA	Greater Metropolitan Area
Ha	Hectares
JTW	Journey to Work
LEP	Local Environmental Plan
LGA	Local Government Area
NLA	Net Lettable Area
NWGC	North West Growth Centre
NWRL	North West Rail Line
PCA	Property Council of Australia
SEPP	State Environmental Planning Policy
SIA	Social Impact Assessment
SA1	Statistical Area Level 1
SA2	Statistical Area Level 2
SA3	Statistical Area Level 3
SA4	Statistical Area Level 4
SD	Statistical Division
SLA	Statistical Local Area
Sqm	Square metre
TDC	Transport Data Centre
TZ	Travel Zone

EXECUTIVE SUMMARY

Mirvac is submitting a planning proposal for the rezoning of its site at 55 Coonara Avenue, West Pennant Hills for predominantly residential use. The Site is located less than 1km from the future Cherrybrook Station (under construction) and the land is currently zoned B7 (Business Park).

The current business park was purpose designed and built for IBM for their Australian headquarters and data recovery service. The property comprises seven inter-connected low-rise buildings of approximately 34,000sqm GFA and 1,600+ car spaces on a 25.87 hectare site in the Cumberland forest.

There are likely to be considerable challenges in maintaining the Site for commercial office uses once the tenants vacate the Site for the following reasons:

- The Sydney and the North West Metropolitan Office Market are currently characterised by fierce competition for tenants, compressed yields, and high incentives. Further, the implications of a major increase in supply at Barangaroo and other key high value locations is filtering down and impacting demand for space in metropolitan office markets.
- The changes in floorplate and location attributes that tenants expect in modern commercial space are not found at the Site. This includes flexible floorplates, public transport connectivity, local dining and retail as well as end of trip facilities. The subject Site which has been used as a sole tenancy on a site with poor access to any outside amenity means that it is difficult to meet the demands of current potential tenants in the market.
- The competitive offer of the Site is poor against competing sites in the North West market. The North West commercial office market is dominated by large business parks at Macquarie Park, Norwest, Rhodes and the regional city of Parramatta. The other centres offer much greater amenity, transport access, retail offer and flexible range of employment space compared to the Site.
- Availability of competitive sites remains high. The loss of 34,000sqm of commercial floor space on the Site is inconsequential to the historic and forecast growth in Parramatta, Norwest and Macquarie Park employment areas which combined will provide more than double this space every

year with sufficient capacity to meet that growth over the next 3 decades or more.

- **Job loss is insignificant against job gains** that are expected in the Hills Shire. 1,200 to 1,700 jobs loss represents less than 2.6% of total job gains of 65,000 by 2036. Many of these jobs will locate in Box Hill (16,000 jobs) and around the train stations – particularly Castle Hill (9,500 more jobs), Showground (7,700 more jobs), Norwest and Bella Vista (20,000 to 25,000) and Rouse Hill (3,500).

With IBM intending to vacate the Site, the cost in retrofitting the buildings to incorporate more mixed uses and flexible spaces (while complying with BCA and planning requirements) would be financially difficult. Even if these buildings were upgraded to contemporary standards the likelihood of long term vacancies would be high due to low demand for such space in such a location from potential commercial users. There would be a high risk of long-term vacancy and property neglect. Hence the loss of 1,700 jobs may be seen as a theoretical or imaginary number as much as a real one.

Employment generation on the site into the future as a business park is challenging and doubtful. Council and State Government have responsibly initiated changes to the planning controls in other areas including existing employment zones, in response to the new rail infrastructure and in new release areas that will significantly increase employment and job creation opportunities more than offsetting any loss of employment opportunities on the site. Therefore this change of zoning is considered minor.

1 INTRODUCTION

Background

Mirvac is submitting a planning proposal for the rezoning of its site at 55 Coonara Avenue, West Pennant Hills (hereafter called “the Site”) for predominantly residential use. The Site is located less than 1km from the Cherrybrook Station (under construction) and the land is currently zoned B7 (Business Park). The existing planning controls also set a 22 metre height limit and floorspace ratio of 0.2 to 1.

The purpose of this report was to address the supply of, and demand for, employment lands in the Hills Shire in order to address the Section 117 requirements. This study builds on previous work undertaken by HillPDA in June 2015 (Appraisal of the Commercial Property Market in North West Sydney).

This report provides an assessment of the effects that a rezoning of the Site would have on the total employment land stocks in the broader municipality and broader economic considerations of the planning proposal.

Project Purpose

The purpose of the report is to:

- assess the current supply of employment land in the Hills Shire;
- provide projections for the future demand for commercial office space in the Hills Shire;
- determine the degree of effect that a loss of employment land at the Site would have on the overall demand/supply situation in the municipality;
- assess the potential economic benefits associated with redevelopment of the Site for residential purposes; and
- assess the viability and likelihood of the Site being re-used for commercial purposes following the vacation of the main tenant, IBM.

2 SITE APPRAISAL

Location

The Site is known as 55 Coonara Avenue, West Pennant Hills, located 26km northwest of Sydney CBD and 9km north of Parramatta adjacent to the Cumberland State Forest. It is approximately 25.87 hectare site constructed for a single tenant campus style small business park. The Site is less than 1km south of the new Cherrybrook Train Station due to open in 2019.

Background

The current business park was purpose designed and built for IBM for their Australian headquarters and data recovery service. The property comprises seven inter-connected low-rise buildings of approximately 34,000sqm GFA and 1,600+ car spaces.

The buildings were designed with an enhanced sense of seclusion. It was an attractive business park at that time for its specific use nestled in the Cumberland forest. However, it does not have proximity to public transport and does not have the range of shops, food and beverage and entertainment uses typically found in traditional and competing commercial centres.

With IBM intending to vacate, the cost in retrofitting the buildings to incorporate more mixed uses and flexible spaces, while complying with BCA and planning requirements would be financially prohibitive. Furthermore, even if these buildings were upgraded to contemporary standards the likelihood of long term vacancies would be high due to low demand for such space from potential commercial users.

Existing Uses

The primary tenant on site is IBM. However IBM intends to vacate over the next few years upon expiry of the lease.

Table 1 - Existing Tenancy Schedule at 55 Coonara Avenue

Tenant	Floorspace
Credit Union	50sqm
Piccolo Me	440sqm
IBM Lease 1	10,010sqm
IBM Lease 2	6,510sqm
Lend Lease	5,100sqm
Vacant Area	7,600sqm
Total Net Lettable Area	29,710sqm
Gross Floor Area	34,000sqm

Source: Mirvac

The table above shows the current tenants. Note that Lend Lease is only temporarily occupying space for workers currently involved with the construction of the North Connex tunnel.

Surrounding Uses

Surrounding land uses are mostly low density residential with the exception of the 40 hectare Cumberland State Forest on the eastern boundary. 250m to the west is the Coonara Shopping Village with a small format Woolworths supermarket and approximately 10 specialty shops.

The area between the Site and Cherrybrook Station will be redeveloped for residential apartments which is consistent with the North West Rail Link Corridor Strategy.

North West Rail Link

The North West Rail Link (NWRL) is currently under construction and has an anticipated completion date of 2019. This major infrastructure project will have a significant influence over the long-term housing and employment land demand and supply situation in the area in proximity to the Site.

Upon completion, the NWRL will provide direct access between major residential and retail centres at Castle Hill and Rouse Hill, major employment centres at Showground, Rouse Hill and Norwest and larger employment and retail centres at Chatswood, St Leonards, North Sydney and the CBD. The NWRL consists of eight station precincts, from Cherrybrook in the east to Cudgegong in the west.

An overview of the proposed rail line is shown in the figure below and further detail about each station precinct is provided in the table below.

Figure 1 - North West Rail Link



Source: www.nwrail.transport.nsw.gov.au

Table 2 - North West Rail Link Station Precincts

Precinct/Suburb	Current Precinct Characteristics	Planned Structure Change / Strategy
1. Cherrybrook Precinct	Mostly low density housing	Mix of neighbourhood shops, townhouses and 3-6 storey apartments.
2. Castle Hill Precinct	Major shopping centre, low density housing and public amenities (schools, community and recreational uses).	Develop additional retail, commercial, community, education and residential floorspace within the precinct. Potential 7-20 storey residential buildings.
3. Showground Precinct	Mostly industrial and bulky goods floorspace with low density single detached housing.	Develop into mixed use centre which comprises a bulky goods corridor, retail, light industrial, community, and medium density residential development.
4. Norwest Precinct	Norwest Business Park, specialised centre with low density housing to the south and open space to the north.	Planned to build the largest employment centre within the study area (North West Region), with a mix of commercial, retail, light industrial and residential.
5. Bella Vista Precinct	Bella Vista Business Park, bulky goods and commercial floorspace. Also comprises low density housing and open space.	Develop into a business and commercial destination couple with medium density residential development.
6. Kellyville Precinct	Low density detached housing and open space.	Major residential area comprising mixed use development, coupled with retail and service based uses offering daily community needs.

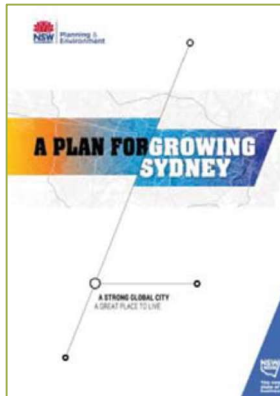
7. Rouse Hill Precinct	Rouse Hill Town Centre comprising a mix of retail, commercial and residential floorspace.	Mixed use destination with the ability to transform Rouse Hill Town Centre into a Major Centre with significant residential and commercial uses.
8. Cudgegong Precinct	Currently semi-rural with low density residential dwellings	Potential to provide local village centre, increased residential densities with varied housing and ensure housing affordability and choice.

Proposed Development

The proposed development would provide 128,600sqm GFA including approximately 1,270 residential dwellings. Development would occur in stages over a number of years to accord with market absorption.

3 POLICY CONTEXT

A Plan for Growing Sydney



The DP&I published the A Plan for Growing Sydney to 2031 (the draft Plan) in December of 2014. It seeks to achieve the following outcomes:

- A competitive economy with world-class services and transport;
- A city of housing choice, with homes that meet our needs and lifestyles;
- A great place to live with communities that are strong, healthy and well connected; and
- A sustainable and resilient city that protects the natural environment and has a balanced approach to the use of land and resources.

By 2031, Sydney's economic output will almost double to \$565 billion a year, with this economic growth being fuelled partly by an additional 689,000 new jobs over the period. Sydney will also experience a population growth of about 1.6 million persons, with 900,000 of this population growth occurring in Western Sydney. To meet this population growth, an additional 664,000 new dwellings will need to be constructed.

To address the projected economic, employment and population growth that Sydney will experience the draft Plan seeks to promote and facilitate growth which acknowledges market considerations and which integrates transport, infrastructure and land use.

Direction 1.4 of the draft Plan seeks to increase the productivity of Western Sydney through growth and investment. As part of this direction the draft Plan, identifies that Western Sydney will require new jobs which are located close to existing centres and transport nodes with improved access to knowledge jobs. The direction also highlights the need to provide improved scale and mixture of job opportunities in order help people work closer to home.

Direction 1.7 of the draft Plan focuses on the need to invest in strategic centres to facilitate growth in jobs. To achieve this removal of barriers to investment and economic activity is encouraged. This would unlock developable land for redevelopment and planning policies and regulations will encourage flexibility, higher density and a more diverse range of activities.

Direction 2.1 seeks to accelerate housing supply across Sydney. By accelerating the delivery of different dwelling types, this direction would help reduce pressure on rising housing prices. The target of this direction is the delivery of 664,000 new dwellings by 2031.

Direction 2.2 seeks to accelerate urban renewal across Sydney with the target of providing homes closer to jobs. The direction highlights the importance of urban renewal in helping to provide housing within Sydney and meeting the dwelling target. Urban renewal Precincts should be chosen that are in or near centres with good connectivity to economic and social facilities.

Direction 2.3 seeks to improve housing choice to suit the different needs and lifestyles of Sydney's population. The direction aims at requiring local housing strategies to plan for a range of housing types.

Under the new metropolitan plan the Hills Shire is in the West Central Subregion. The draft plan requires the Department to work with Councils in identifying suitable locations for housing and employment growth coordinated with infrastructure delivery (urban renewal), including priority precincts, established and new centres, and along key public transport corridors including the North West Rail Link.

EPA Act 1979 (Section 117 Directions)

Section 117 Directions are relevant to planning proposals that seek the rezoning of land. The directions require that the plan must:

- a) give effect to the objectives of this direction,
- b) retain the areas and locations of existing business and industrial zones,
- c) not reduce the total potential floor space area for employment uses and related public services in business zones,
- d) not reduce the total potential floor space area for industrial uses in industrial zones, and
- e) ensure that proposed new employment areas are in accordance with a strategy that is approved by the Director-General of the Department of Planning.

4 COMMERCIAL PROPERTY TRENDS

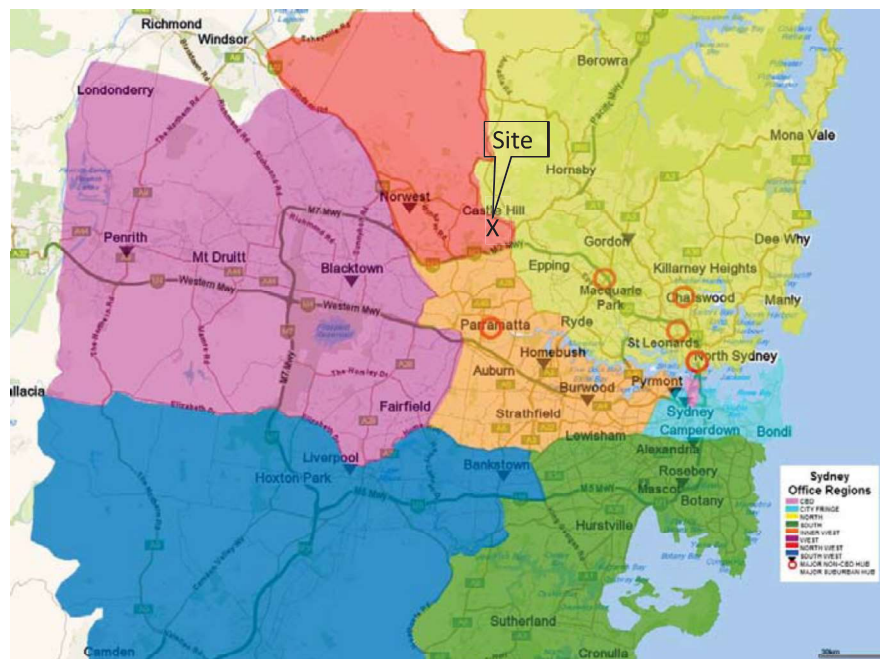
This chapter discusses market conditions in the local commercial market with some reference to the impact these conditions are likely to have on the Site.

Local Commercial Office Market Trends and Issues

The overall Sydney metropolitan office market comprises the non-CBD commercial markets which are grouped into seven major submarkets. Each submarket generally contains one or multiple larger commercial market centres with scattered clusters of commercial floorspace in business parks or smaller commercial areas around transit nodes, such as railway stations.

The Site is located in the North West submarket, which is shown in the figure below. The North West commercial market is more suburban and sprawled than other submarkets, and features a major commercial office centre in Norwest and a considerable number of scattered commercial office parks, including the Site.

Figure 2: Metropolitan Office Submarkets



Source: KnightFrank 2014

North West Office Market

The North West commercial office market comprises approximately 330,000sqm of commercial office floorspace¹ and the majority of this stock is located in major employment hubs or office precincts including Norwest, Bella Vista and Baulkham Hills. Commercial business parks are dispersed throughout the North West market, on sites such as the Site.

Office stock in the North West predominantly comprises business parks and campus style facilities with large floorplates and onsite parking. Market demand for commercial office space varies across the multiple employment precincts in the North West submarket. Demand for office floorspace is strongly influenced by the access, infrastructure and surrounding amenity of each employment precinct.

The North West market has experienced strong net absorption of commercial floorspace over the past two years, with new development largely driven by increased business sentiment relating to the North West Rail Link project.

Office Vacancy

KnightFrank indicate that the commercial vacancy rate in the North West submarket declined to 7.4% during in January 2015; this vacancy figure was nearly 18% in 2012². Potential tenant expansion, requests for new commercial office space and permanent stock withdrawals in Norwest reduced vacancy in the period to 2015 and, with improved sentiment relating to rail infrastructure improvements, the office vacancy rate is likely to remain below the 10% benchmark.

Despite a reduction in the overall level of vacancy, 24 of the 36 monitored commercial buildings* in the North West have at least a partial vacancy. This information is shown in the table below.

¹ KnightFrank, Sydney Suburban Office Market (February 2015)

² KnightFrank, Sydney Suburban Office Market (February 2015)

Table 3 - Buildings with a Vacant Component in the North West Commercial Submarket

	Vacancies			
Number of Buildings	<1,000sqm	1,000 - 3,000sqm	>3,000sqm	Total buildings with vacant component
36	18	4	2	24 (67%)

Source: KnightFrank 2015 *Monitored Buildings refer to those monitored by the major commercial property market commentators and from where their market statistics are derived.

Net Absorption

The net absorption of commercial office space has slowed in the latter part of 2014, after a period of healthy absorption of new commercial property from 2012 to 2014. As in other metropolitan markets, there have been some withdrawals for likely conversion to mixed use and residential developments.

Incentives and Rents

Incentives across the North West market for A-Grade commercial office stock in January 2015 were peaking at 27.5% and are expected to remain in that realm over the remainder of 2015-16.

The average net face rents for A-Grade commercial office floorspace in the North West was \$350/sqm, which are among the lowest average rents across the Sydney submarkets. These low rental rates, in combination with the high incentive rate, can push net effective rents below \$260/sqm³.

Yields

Yields have been marginally compressed in recent years due to a combination of low net face rents (noting that relatively high incentives drive down net effective rents) and some asset value appreciation. While there has been evidence of investors moving up the risk curve and investing in suburban core plus assets, growth in values has been typically boosted by demand for buildings with some form of change of use/development potential.

At present, commercial property in the North West submarket generates an average yield of around 8.25%-9.00%⁴.

³ KnightFrank, Sydney Suburban Office Market (February 2015)

⁴ KnightFrank, Sydney Suburban Office Market (February 2015)

Supply Pipeline

Permit activity data was obtained for The Hills Shire using the Cordell Connect Construction Database. The data in the table below identifies projects which are currently in various stages of planning or construction and excludes separate residential dwelling projects, of which there are multiple.

For The Hills Shire, the database identifies six projects which have an office or industrial component and the total value of these projects is \$129 million, including all industry sector uses. Essentially, a limited amount of new commercial office market supply is expected to enter the local market in the coming years.

However, it is quite likely the NWRL will stimulate commercial construction in and around the major station precincts at Norwest and Rouse Hill. This focus of commercial activity would likely be at the expense of smaller centres and scattered development. This consolidation pattern is consistent with planning policy in the North West Corridor Strategy.

Table 4 - Major Projected Commercial Supply of Floorspace

Development	Suburb	Commercial Floor Area	Project Stage	Completion Date	Notes
Eclipse Norwest	Bella Vista	10,000sqm	Sketch Plans	2020	Project procedure likely to be determined late 2015
Windsor Rd Shop Top Housing And Townhouses (Mixed Use)	Baulkham Hills	910sqm	Development Application	2019	Development Application submitted (information requested)
Money Close Industrial Building	Rouse Hill	4,100sqm	Construction	2016	Construction commenced September 2015
Loyalty Rd Industrial Units	North Rocks	9,000sqm	Development Approval	2017	Development Approval
Annangrove Rd Shop Top Housing (Mixed Use)	Rouse Hill	6,530sqm	Development Application	2018	Development Application submitted
Money Cl Warehouse	Rouse Hill	3,950sqm	Development Approval	2017	Development Approval

Source: Cordells Connect (2015)

Additional Market Demand Considerations

In addition to the data relating to current market conditions, consultation with local real estate agents who are active in the North West market provided qualitative insights into other local market factors in the North West. These factors are described below.

Floorplate size

Suburban office markets, comprising business parks and employment centres, differ in the type of occupant they attract compared to Sydney's CBD market. Enquiry suggests that tenants in the North West typically seek larger floorplates in business park centres such as Norwest (ie, greater than 1,000sqm), in comparison to Parramatta where a significant proportion of tenants tend to occupy smaller spaces which range from 100sqm to 500sqm.

Parking

The availability of on-site parking is an important driver of the office market in the North West with agents noting that office tenancies with an adequate provision of staff car parking are typically easier to lease than those without sufficient car spaces. Agents cited several recent leasing transactions in areas such as Norwest and Baulkham Hills which generally included parking provisions in the terms of agreement.

The rate of provision in the local area can be up to one space per 25sqm which, in older stock with inefficient floor layouts, can equate to nearly one space per employee. Consultation highlighted that access to car parking is particularly critical for tenants looking for new office space in business park locations, whereas access to public transport is more important for areas such as the Parramatta or CBD market.

The Site currently offers 1,600+ car spaces and reflects a rate of one space per 19-20sqm of office floor area. This rate is slightly lower than the office market in Norwest.

Tenancy Size

Tenants located in business parks, such as Norwest Business Park, generally occupy much larger commercial floorspaces than tenants who seek office accommodation in the Parramatta and CBD markets. The Norwest Business Park has a comparatively small number of tenants overall, with the business park able to offer large floorplates

of 10,000sqm or larger. Generally these tenants specifically seek premium A-Grade office space in established business parks in preference to alternative locations in or around CBD locations.

A considerable proportion of commercial tenants in the North West occupy floorspace in the 2,000sqm to 5,000sqm size range, though the majority of tenants occupy smaller tenancies of less than 1,000sqm. As the Site includes approximately 34,000sqm of floorspace, purpose built for a single tenancy being IBM, commercial agents unanimously agreed that seeking a sole tenant to lease out the entire property would be extremely challenging.

The cost in retrofitting the buildings to incorporate more mixed uses and flexible work spaces, while complying with BCA and planning requirements, would make this financially difficult. Even if these buildings were upgraded to contemporary standards the likelihood of long term vacancies would be high due to low demand for such space in such a location from potential commercial users. As a result the risk of long term vacancy and property neglect would be high.

Public Transport and Amenity

Demand is strong for commercial property in close proximity to public transport and areas with sufficient amenity, according to agents. Consultation undertaken indicates that office buildings which have access to open space, dining and retail options as well as connectivity to other employment centres and transport nodes are significantly easier to lease than those which have poor provision.

Furthermore, end of trip facilities, such as lockers, showers, change rooms and bicycle storage, are becoming increasingly demanded by potential tenants seeking new commercial office space.

Competing Markets

Primarily four main commercial centres are located in the North West submarket:

- Parramatta;
- Norwest
- Rhodes/Sydney Olympic Park; and
- Macquarie Park.

These centres provide a wide range of office accommodation options which compete for potential tenants who seek major commercial floorspace in the region.

An overview of the characteristics and current market performance of these four competing centres is provided below.

Parramatta Office Market

- Parramatta benefits from being a recognised regional centre and the second CBD in the broader Sydney metropolitan area. The area is very well connected through transport options, has an extensive retail offer which includes a major Westfield shopping centre, and has experienced multiple new commercial developments over the past five years.
- Through 2014, Parramatta benefitted from demand which was generated through a lack of affordable commercial office space in the Sydney CBD market. Vacancy rates for A-Grade commercial office space during that time were extremely low, with a rate of just 0.2% recorded in June 2014.
- An apparent lack of vacant office supply has forced tenants to consider suburban market alternatives such as Norwest, Rhodes and Homebush Bay. At present, minimal forecast supply is anticipated until 2016 when several new developments are expected to enter the market.

Rhodes/Sydney Olympic Park Office Market

- Rhodes is a relatively new employment/commercial precinct which has been built as part of the masterplanned peninsula with some older commercial developments. Rhodes is serviced by the CityRail Network and has high amenity, having regard for its location along the Parramatta River. The area has considerable shopping, dining and entertainment options which have been a driver in attracting new tenants to the commercial office market.
- Sydney Olympic Park has grown in stature as a larger commercial market with existing office stock of around 135,000sqm of floorspace and another 62,000sqm committed or under construction. Office stock in the area is typically characterised as flexible in terms of medium to larger floorplates and has high natural amenity, an evolving town centre and direct access to Sydney's rail network. Furthermore, approximately 10,000 car parking spaces are provided locally.

- Rhodes has experienced an increase in net face rents in 2014, rising by 2.0% in the last six months ranging from \$365/sqm to \$395/sqm. This increase can be attributed to upward pressure brought about by a reduction in vacancy from 9.1% to 8.4% over the last six months. However, incentives have also increased marginally to range from 22% to 25% which negatively impacts on effective rent for investors.

Macquarie Park Office Market

- Macquarie Park is a major commercial market competitor to other centres in the North West submarket due to its close proximity to the Hills District and access via the M2 Motorway and Chatswood to Epping Rail Link.
- Macquarie Park has a major regional shopping centre with extensive, retail, dining and services which is a major attractor for potential commercial office tenants;
- Macquarie Park accommodates over 850,000sqm of commercial floorspace, although has a comparable vacancy rate of 11.2%; this figure is slightly higher than the North West submarket which stood at approximately 10.1% at the same time^[2].
- Average net face rents for A-Grade office space is approximately \$323/sqm in Macquarie Park, which is the lowest across all suburban office markets.
- Average incentives are relatively high at approximately 29% in Macquarie Park, compared to Norwest and Chatswood at 24% and 26% respectively.

Centres in the North West submarket, such as Norwest and the smaller employment centres which are dispersed throughout the region, are required to compete with Parramatta, Rhodes/Sydney Olympic Park and Macquarie Park in varying degrees.

Norwest Business Park Office Market

Norwest is currently experiencing strong tenant demand with 15,000sqm absorbed over the first 6 months of 2015⁵. Average net face rent is \$355/sqm and average incentive is 23%. Market yield is high at around 9%.

^[2] KnightFrank, Sydney Suburban Office Market (2014)

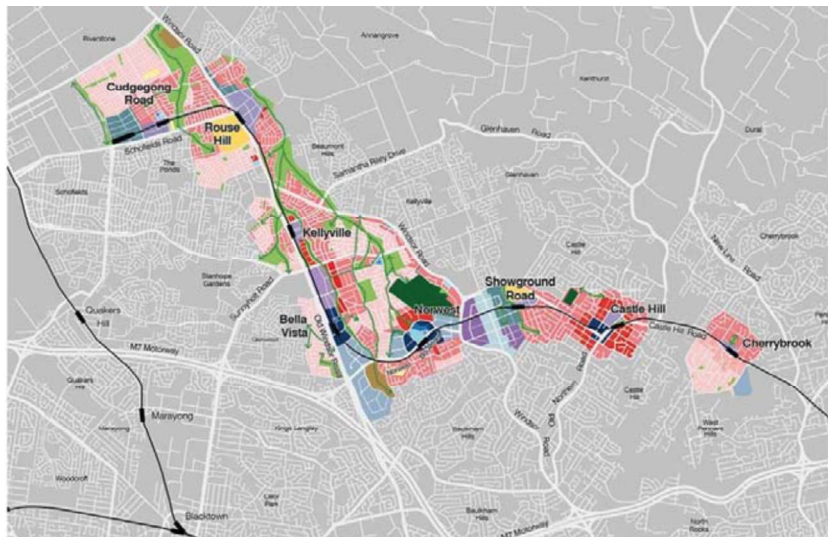
⁵ Colliers Research Metro Office 2nd Half 2015

Stock is low with no new buildings constructed since 2012 apart from Council's administration building. At the time of report there was only 4 vacancies with more than 1,000sqm of floor area. A range of tenants are being enticed into Norwest offering reasonable rents and ample car parking. It's believed that the train station will strengthen the interest.

The North West Rail Link

The North West Rail Link (NWRL) is likely to drive major change in the demand and supply pattern of commercial development in the North West. A map of the North West Rail Link is shown in Figure 3 below.

Figure 3: NWRL Station Precincts Map



Source: NSW Department of Planning & Environment (2014)

Overview of the Project

The North West Rail Link (NWRL) Project, combined with population growth will be a key driver of economic growth in the North West region. The \$8.3 billion project is currently under construction and is due to complete in 2019. The project will extend the current rail line with an addition of eight new stations at Cherrybrook, Castle Hill, Showground, Norwest, Bella Vista, Kellyville, Rouse Hill and Cudgegong Road.

Once completed the project will not only stimulate demand for new housing, retail and commercial floor space but also increase housing diversity, enhance cultural and recreational uses and develop new specialised education and medical hubs. The nature of development

along the NWRL corridor (and some areas beyond) will thereby shift to a more transport orientated focus with increased density and less reliance on cars for work related trips.

The rail link will support the rapidly expanding Norwest precinct as a major growth centre in both employment and residential housing over the next 10 years. The NWRL Corridor Strategy (the strategy) has nominated Norwest, Bella Vista and Rouse Hill precincts for additional office space to be concentrated within close proximity to the planned railway stations.

In terms of developing additional housing, the strategy has implemented a long term plan to further develop existing residential accommodation in Kellyville, Cherrybrook and Cudgegong precincts with medium and high density housing.

Relation to the Site

The Site currently falls within the Cherrybrook Station Precinct in the NWRL Corridor Strategy. The Site is located less than 1km from the future Cherrybrook Station. It's location within the station precinct is shown in the figure below.

Figure 4: Location of the Site within the Cherrybrook Station Precinct



Source: NSW Department of Planning & Environment (2014)

The NWRL Corridor Strategy prioritises increased commercial/employment functions at Bella Vista, Bella Vista and Rouse Hill. It seeks to consolidate employment activity around commercial centres located in very close proximity to the future stations.

It is envisaged that increased density and development in the Cherrybrook station precinct based on the corridor strategy would be predominantly residential.

The Site is located less than 1km away from the railway station and away from any commercial or retail centre apart from the small neighbourhood centre on Coonara Avenue. Unlike the competitive centres the attributes of the Site are not conducive to attracting businesses that generally prefer centre locations with highly convenient public transport options, a large and diversified retail offer and entertainment uses. It is considered that there would be difficulty in attaining a high proportion of absorption of the floor space once the Site becomes vacant.

Employment generation on the site into the future as a business park is challenging and doubtful. Council and State Government have responsibly initiated changes to the planning controls in other areas including existing employment zones, in response to the new rail infrastructure and in new release areas that will significantly increase employment and job creation opportunities more than offsetting any loss of employment opportunities on the site. Therefore this change of zoning is considered minor.

5 COMMERCIAL LAND ASSESSMENT

The three major employment zones that compete with the Site (and hence offer alternative accommodation for workers) are Parramatta, Norwest and Macquarie Park/North Ryde. These three employment areas offer adequate supply of office space and/or land for development or redevelopment to meet growth in demand over the next several decades. Availability of space is quantified for each of these areas immediately below.

Macquarie Park

The planning policy framework for Macquarie Park/North Ryde Employment Area (MPNREA) seeks to strengthen the area's significance as a key service and employment node whilst also facilitating better use of land for mixed use development around train stations.

In 2004 MPNREA had around 475,000sqm of employment floor space. By 2014 this increased to 860,000sqm and it has now taken over Parramatta in both in floor space and number of workers⁶.

Nearly 90,000 sqm of this existing commercial space is currently vacant – equivalent almost three years of growth (as recorded by market absorption over the past 10 years).

The area has over 102,000 sqm of space in the development pipeline. This space, assuming it proceeds, is equivalent to 3 to 4 years of market absorption.

The recent upzoning of land allows for infill development and redevelopment to a maximum capacity of 2.0 million sqm to 2.85 million sqm of floorspace. This equates to a further 1.14 million sqm to almost 2 million sqm of additional commercial floorspace over the current level. At an historic rate of 31,000sqm per annum it will take between 37 and 65 years for the market to absorb this amount of space⁷.

Parramatta

Parramatta is Australia's fifth largest employment zone. Its growth rate has been more mundane compared to Norwest and Macquarie

⁶ SGS Parramatta CBD Planning Framework: Economic analysis (Draft)

⁷ PCA Preston Rowe Paterson 2015

Park rising from 600,000 sqm in 2004 to just under 700,000sqm today⁸.

Parramatta has less than 1% vacancy rates for A-grade office space but a reasonable supply of B and C grade stock. There are a number of developments in the pipeline (around 280,000 square metres of commercial space) including:

- Parramatta Square providing almost 200,000sqm of commercial floor space staged over several years. Stage 1 with 28,000sqm for UWS is currently under construction;
- The Eclipse Tower, 60 Station Street providing 26,000sqm of commercial space in a 20 storey building;
- 89 George Street providing 10,000sqm in a 14 storey building;
- 105 Phillip Street by Dexus providing 20,000sqm;
- A proposed 20 storey 35,000 m2 commercial tower designed to sit atop the current Parramatta Westfield Shopping Centre plus a sixth level of retail.

BTS forecasts around 1,000 more jobs every year. This translates to around 15,000 to 20,000sqm more floor space every year. There is considerable additional capacity largely in Auto Alley and other miscellaneous sites salt and peppered in the CBD.

The Parramatta CBD Planning Strategy adopted by Council in April 2015 will result in considerable uplift in floor space ratios – from 5:1 to 10:1 in the CBD. This will improve the viability of redevelopment and hence the supply of employment uses.

The Hills Shire

Norwest

Originally designed to accommodate mainly industrial uses, the Business Park has transformed into a highly desirable office location. This has added significant pressure on the local infrastructure resulting in 2 stations being constructed within the business park.

According to the NSW Employment Lands Development Program the Norwest Business Park had 156.7 hectares of employment zoned land of which 120.6 was developed. 36.1 hectares remain undeveloped and of these 9.1 hectares is unserviced⁹.

⁸ SGS Parramatta CBD Planning Framework: Economic analysis (Draft)

⁹ NSW Employment Lands Development Program 2015

In 2005 Norwest had around 240,000sqm of employment uses. By 2014 this had increased to 400,000sqm¹⁰. Today Norwest Business Park accommodates around 20,000 workers. Its capacity is expected to be just over 35,000 workers. The increase in projected employees is due to both development of the remaining parcels of vacant sites and due to increased site densities through redevelopment¹¹.

BTS forecasts a higher number of workers on site at more than 45,000 by 2036 – around 1,000 to 1,100 workers per annum. Based on this rate the business park will not reach 35,000 workers until 2026. Through redevelopment of some sites and increased densities it could accommodate further growth in demand well beyond 2026.

These projections are consistent with the North West Rail Link Station Precincts Structure Plan prepared by NSW Government.

Rouse Hill

The current plan for Rouse Hill provides around 100,000sqm of retail space and 52,500sqm of other commercial space. The current planning proposal by Council in relation to the northern precinct will add a further 65,000sqm of retail space and 40,000sqm of further non-retail commercial space which is sufficient space to provide a further 3,500 jobs. This is consistent with the North West Rail Link station precincts Structure Plan which identifies a further 3,500 jobs from the current level of 4,000 for Rouse Hill by 2036.

Castle Hill

With well over 100,000sqm of retail space Castle Hill is already identified as a major centre under Sydney's metropolitan plan. Currently there are 7,000 jobs in the centre. With considerable "upzoning" and the opening of the rail line in 2019 Castle Hill is expected to more than double its worker population to 16,500 by 2036.

Box Hill

Box Hill is subject to two planning proposals that aim to increase job opportunities. One PP is for the rezoning of IN2 zoned land along Annangrove Road and Edwards Road to a range of zones including B6. This will provide employment for around 3,162 workers.

¹⁰ SGS Parramatta CBD Planning Framework: Economic analysis (Draft)

¹¹ <http://norwestbusinesspark.com.au/>

The 69 hectares of Business Park B7 land zoned recently in 2013 will eventually provide jobs for around 12,800 workers when it's fully developed.

North Rocks

The current planning proposal by Council seeks to rezone 46 hectares of Industrial General IN1 land to B6 Enterprise Corridor between North Rocks Road and Excelsior Reserve / Darling Mills Creek. By reducing the minimum lot size and removing shop top housing as a permissible use Council estimates an increase in job numbers from 1,300 to 2,133 (+833).

Showground Road

The station in the Showground Road Study Area has the potential to provide the catalyst for the development of the area as a mixed use centre with strong public transport links to the city and other centres throughout the north-west region providing impetus for the area to evolve as a vibrant and active Centre comprising offices, retailing, community facilities, recreation, cultural, leisure, education and housing within walking distance of a new station.

Under the North West Rail Link Station Precincts Structure Plan employment is expected to increase from the current level of 7,500 jobs to 15,200 by 2036.

Conclusion

The existing commercial market dynamics across Sydney and the North West Metropolitan Office Market are currently characterised by strong competition for tenants. The implications of a major increase in supply at Barangaroo and other key high value locations is filtering down and impacting demand for space in metropolitan office markets.

The loss of employment space on the Site (34,000sqm) is inconsequential when compared to strong growth in supply in major employment zones such as Macquarie Park (30,000 to 35,000 sqm per annum with ample supply for the next 20+ years), Parramatta (10,000sqm per annum – forecast to reach 15,000 to 20,000sqm per annum) and Norwest (around 15,000 to 20,000sqm per annum). The loss of floor space on the Site would easily be replaced by less than 6 months growth in supply in Parramatta, Macquarie Park and Norwest

6 ECONOMIC EFFECT OF THE PLANNING PROPOSAL

This chapter provides an assessment of the economic effects of the proposed land use on the site in terms of employment and contribution to the local economy. The effects are measured against the base case. It is assumed that after full development the commercial uses will be fully occupied and the apartments will be 95% occupied.

The Base Case

Employment

The Site currently provides a total of 34,000sqm of gross employment floorspace of which 29,700sqm is leasable and 7,600sqm of leasable space is currently vacant. Mirvac estimates that the current workforce is around 1,200 staff. If fully occupied by a single user the Site could employ around 1,600 to 1,700 staff.

Salaries

Total salaries on site are estimated at \$117m per annum¹².

Industry Value Added

Industry Value Added (IVA) refers to the market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added). The components include compensation of workers, net taxes on production and imports and gross operating surplus. IVA may be referred to as the contribution made to the local economy (GDP).

Total IVA on site is estimated at \$154m per annum¹³.

Expenditure from Workers

A recent survey conducted by Urbis found that Sydney CBD workers spend an average of \$230 a week, or \$11,000 per annum, on retail goods and services in the CBD. Given that the retail offer in the locality is considerably inferior to Sydney CBD, HillPDA has applied a more conservative rate of \$60 per worker per week being spent

¹² Source: IBIS World Industry Reports 2014/15, HillPDA

¹³ Ibid

locally which equates to an annual spend of \$2,760 per person (based on 46 working weeks per year). With 1,200 workers on site, this amounts to \$3.3m per annum.

Employment Generation

Following construction, the development would support a number of permanent jobs in retail on site. The residential component would also accommodate some jobs. According to ABS 7.6% of workers undertake the majority of their work at home (ABS Locations of Work 2008, Cat 6275.0). Assuming an average of 1.0 working residents per household then one in 13 apartments is expected to provide employment. The table below provides an estimate of the number of jobs that would be supported on site when fully occupied.

Table 6 – Estimated Employment Generation

	GLA Retail	Sqm/Employee*	No. of Workers
Specialty Retail	896sqm	24.5	35
Working from Home	1,270 dwellings	7.6%	92
Total Employment			127

Source: ABS Retail Surveys 1990-91 and 1998-99

** Source: 7.6% of workers undertake the majority of work at home (ABS Locations of Work 2008 Cat 6275.0), assuming 1.0 working residents per household and 5% vacancy.

As indicated in the table above, the development would facilitate the creation of approximately 127 jobs - considerably fewer than the estimated 1,200 jobs currently on site.

Salaries

Based on IBIS World Industry Reports 2014/15, HillPDA has estimated combined potential annual salaries at approximately \$6.7 million for workers on site which is some \$110m less than the base case (see above). A breakdown by land use is shown in the table below.

Table 7 – Estimated Salaries

	No. of Workers	Average Wage	Total Wage Generation
Specialty Retail	35	\$32,699	\$1.1m
Working from Home	92	\$60,000	\$5.5m
Total	127	\$41,115	\$6.7m

Sources: IBIS World Industry Reports; and ABS Average Weekly Earnings (Cat 6302).

Expenditure by Residents and Workers on Site

Residents in West Pennant Hills and Cherrybrook are aspirational high-middle income earners. Average spend on retail goods and services per capita is around \$15,500 per annum, which is around 20% above NSW average. With around 3,000 people living on site this amounts to \$46.5m. Close to half of this expenditure would be captured locally (on the Site, at the existing centre on Coonara Avenue and at Cherrybrook Station). A further \$1.2m would be captured by workers on site. Overall there would be an increase of around \$20m of additional expenditure available for local shops and services as a result of the planning proposal.

Industry Value Added

As shown in the table below the proposed development would contribute around \$8.5m every year to the local economy – some \$143m less than current estimated levels.

Table 8 – Estimated Industry Value Add of Proposal

	No. Workers	IVA/worker	IVA (\$m)
Specialty Retail	35	46,683	1.6
Working from Home	108	74,400	6.8
Total	304	56,309	8.5

Source: IBIS World Industry Reports and Hill PDA, assumed impact year of 2015/16

Construction Benefits

Estimated Construction Cost

The estimated construction cost is around \$550 million based on construction rates from Rawlinsons Construction Handbook 2015, RLB Digest and recent cost estimates prepared by quantity surveyors. These costs include demolition, site works, external works and preliminaries. It excludes soft costs such as design and application fees, development management, contributions, marketing and finance.

Construction Multiplier Effects

The construction industry is a significant component of the economy accounting for 6.7% of Gross Domestic Product (GDP) and employing

almost one million workers across Australia¹⁴. The industry has strong linkages with other sectors, so its impacts on the economy go further than the direct contribution of construction. Multipliers refer to the level of additional economic activity generated by a source industry.

There are two types of multipliers:

- Production induced: which is made up of:
 - first round effect: which is all outputs and employment required to produce the inputs for construction; and
 - an industrial support effect: which is the induced extra output and employment from all industries to support the production of the first round effect; and
- Consumption induced: which relates to the demand for additional goods and services due to increased spending by the wage and salary earners across all industries arising from employment.

The source of the multipliers adopted in this report is ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0). These tables identify first round effects, industrial support effects and consumption induced multiplier effects at rates of \$0.65, \$0.67 and \$0.99 respectively to every dollar of construction.

The table below quantifies associated economic multipliers resulting from the construction process.

Table 9 – Construction Multipliers (\$m)

	Direct Effects	Production Induced Effects		Consumption Induced Effects	Total
		First Round Effects	Industrial Support Effects		
Output multipliers	1	0.65	0.67	0.99	3.31
Output (\$million)	550	355.5	370.4	544.0	1819.9

Source: Hill PDA Estimate using data from ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0)

The estimated direct construction costs will generate a further \$726m of activity in production induced effects and \$544m in consumption induced effects. Total economic activity generated by construction of the proposal is therefore estimated at \$1.82 billion.

¹⁴ Source: IBIS World Construction Industry Report 2015

Note that the multiplier effects are national, and not necessarily local. The ABS states that:

“Care is needed in interpreting multiplier effects; their theoretical basis produces estimates which somewhat overstate the actual impacts in terms of output and employment. Nevertheless, the estimates illustrate the high flow-on effects of construction activity to the rest of the economy. Clearly, through its multipliers, construction activity has a high impact on the economy.”

In particular the multiplier impacts can leave the impression that resources would not have been used elsewhere in the economy had the development not proceeded. In reality many of these resources would have been employed elsewhere. It should also be noted, as stated in the NSW Treasury guidelines, that:

“Direct or flow on jobs will not necessarily occur in the immediate vicinity of the project – they may be located in head office of the supplier or in a factory in another region or State that supplies the project”¹⁵.

Nevertheless, economic multiplier impacts represent considerable added value to the Australian economy.

Construction Jobs

It is estimated that the equivalent of 2.85 construction positions over 12 months are created for every one million dollars of construction work undertaken¹⁶. Based on \$550m construction cost 1,568 job years¹⁷ would be directly generated by the proposed development on site as shown in the table below.

Table 10 – Construction Employment

	Direct Effects	Production Induced Effects		Consumption Induced Effects	Total
		First Round Effects	Industrial Support		
Multipliers	1	0.643	0.695	1.338	3.676
Employment No. per \$million	2.851	1.832	1.982	3.814	10.480
Total job years created	1,568	1,008	1,090	2,098	5,764

¹⁵ Source: Office of Financial Management Policy & Guidelines Paper: Policy & Guidelines: Guidelines for estimating employment supported by the actions, programs and policies of the NSW Government (TPP 09-7) NSW Treasury

¹⁶ Source: ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0) adjusted to 2014 dollars

¹⁷ Note: One job year equals one full-time job for one full year

Source: Hill PDA Estimate using data from ABS Australian National Accounts: Input-Output Tables 2008-09 (ABS Pub: 5209.0) adjusted by CPI to 2014 dollars.

The ABS Australian National Accounts: Input-Output Tables 2008-09 identified employment multipliers for first round, industrial support and consumption induced effects of 0.64, 0.70 and 1.34 respectively for every job year in direct construction. Including the multiplier impacts the proposed development is estimated to generate a total of 5,764 job years directly and indirectly.

Other Economic Benefits

Investment Stimulus

Where a significant property investment decision has been made it is generally viewed as a strong positive commitment for the local area. Such an investment can in turn stimulate and attract further investment. Direct investment on the Site would support a wide range of economic multipliers as outlined above which would in turn support investment in associated industries.

Public Transport and Services Feasibility

The provision of residential development on the Site would increase the economic benefits of the scheme to businesses in the locality, services and the financial feasibility of public transport. The benefits of residential uses in the locality are recognised in planning policy increasing the demand for retail, commercial and transport services and hence increasing the viability of these services.

The proposed development would create additional business opportunities in this locality associated with future residents and ancillary retail uses proposed on site. It would increase the profile of this area and in so doing increase the financial feasibility of mixed use development, particularly near the train station acting as a catalyst on surrounding sites.

Replacing Old with New

The redevelopment of the Site would replace existing older campus style commercial buildings that are at the end of their functional economic life with a modern residential development being the highest and best use for the site.

Without a rezoning the likely scenario is a long term redundant disused site following the withdrawal of the main tenant and consequentially the ancillary tenants. Residential provides a viable option for urban renewal thereby avoiding that outcome.

7 CONCLUSIONS

This report outlines the fact there are likely to be considerable challenges in maintaining the Site for commercial office uses once the tenants vacate the Site.

As discussed in the above chapters these challenges relate to:

- **The existing commercial market dynamics** across Sydney and the North West Metropolitan Office Market are currently characterised by fierce competition for tenants, compressed yields, and high incentives. Further, the implications of a major increase in supply at Barangaroo and other key high value locations is filtering down and impacting demand for space in metropolitan office markets.
- **The changes in floorplate and location attributes** that tenants expect in modern commercial space are not found at the Site. This includes flexible floorplates, public transport connectivity, local dining and retail as well as end of trip facilities. The subject Site which has been used as a sole tenancy on a site with poor access to any outside amenity means that it is difficult to meet the demands of current potential tenants in the market.
- **The relative suitability of the Site** for other uses and lack of suitability for continued commercial functions means that the existing use is not the highest and best use of the Site and alternative land uses should be considered. This is considering the longer term best use of the land on the Site given the pending completion of the North West Rail Link.
- **The poor competitive offer of the Site** against competing sites in the North West market. The North West commercial office market is dominated by large business parks at Macquarie Park, Norwest, Rhodes and the regional city of Parramatta. The other centres offer much greater amenity, transport access, retail offer and flexible range of employment space compared to the Site.
- **Availability of competitive sites** remains high. The loss of 34,000sqm of commercial floor space on the Site is inconsequential to the historic and forecast growth in Parramatta, Norwest and Macquarie Park employment areas which combined will provide more than double this space every year with sufficient capacity to meet that growth over the next 3 decades or more.

- **Job loss is insignificant against job gains** that are expected in the Hills Shire. 1,200 to 1,700 jobs loss represents less than 2.6% of total job gains of 65,000 by 2036. Many of these jobs will locate around the train stations and in Box Hill – particularly Castle Hill (9,500 more jobs), Showground (7,700 more jobs), Norwest and Bella Vista (20,000 to 25,000), Rouse Hill (3,500) and Box Hill (16,000).

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