Economic and Development Feasibility Study

1-13 Grey Street and 32-46 Silverwater Road Silverwater

PREPARED FOR

Hilfor Property Pty Ltd

October, 2013

HillPDA

HillPDA

ABN 52 003 963 755

Sydney
Level 3, 234 George Street
Sydney NSW 2000
GPO Box 2748 Sydney NSW 2001
t. +61 2 9252 8777
f. +61 2 9252 6077
e. sydney@hillpda.com

Melbourne
Suite 114, 838 Collins Street
Docklands VIC 3008
GPO Box 3424 Melbourne VIC 3001
t. +61 3 9629 1842
f. +61 3 9629 6315
e. melbourne@hillpda.com

www.hillpda.com

QUALITY ASSURANCE

REPORT CONTACTS:

Virginia Hill
Senior Consultant
Adv Dip Val, MProDev, PMAPI
VAL015544

QUALITY CONTROL:

This document is for discussion purposes only unless signed and dated by a Principal of Hill PDA.

REVIEWED BY:

David Parsell.

-- Dated 09/10/2013

David Parsell
Principal, Hill PDA
PhD Candidate (UTAS)
M. Public Administration (USYD)
M. Environmental Planning (Macquarie),
B. Commerce (UTAS)

REPORT DETAILS:

Job Ref No: C14048
Version: Final
Date Printed: 9/10/2013 8:46:00 AM
File Name: C14048 – Economic and Feasibility Analysis – 1-13 Grey Street and 32-46 Silverwater Road, Silverwater

CONTENTS

LIST OF FIGURES

LIST OF TABLES

APPENDIX

ABREVIATIONS

DCP – Development Control Plan

FSR – Floor Space Ratio

LEP – Local Environmental Plan

NPV – Net Present Value

RLV – Residual Land Value

DEFINITONS

Existing Improvement Value: the value of an asset based on the continuation of its existing use, assuming the asset could be sold as part of a continuing business regardless of whether that use represents the highest and best use.

Net Present Value (NPV): the measure of the difference between the discounted revenues, or inflows, and the costs, or outflows, in the DFC analysis.

Residual Land Value: This is the purchase price of the land whilst achieving a zero Net Present Value (NPV).

Development Profit: Total revenue less total cost including interest paid and received.

Development Margin: Profit divided by total development costs (including selling costs).

EXECUTIVE SUMMARY

The following Study provides independent economic advice concerning land located at 32-46 Silverwater Road and 1-13 Grey Street, Silverwater. Collectively this land is referred to as the Subject Site and is the focus of a planning proposal prepared by APP Corporation Pty Ltd on behalf of the Hilfor Property Group Pty Ltd.

The planning proposal seeks to rezone the 6,277sqm Subject Site from B6 Enterprise Corridor to B4 Mixed Use to ultimately facilitate the Subject Site's redevelopment to a mixed use residential development comprising:

- 19,539sqm of residential floorspace (220 residential apartments); and
- 4,000sqm of non-residential floorspace (3,550sqm retail and 350sqm commercial).

It also seeks permission to amend the height and floor space ratio standards allocated to the proposed mixed use zone. The Subject Site is currently occupied by 12 single storey residential properties and a commercial building located on the corner of Bligh Street and Silverwater Road.

By way of context, the Subject Site is located within Precinct 14 as nominated by the *Auburn Employment Lands Study* prepared for Auburn City Council by Hill PDA in April 2008. The 2008 Study recognised Council's resolution to zone land within Precinct 14 as B6 Enterprise Corridor[1].

The purpose of this Study is to review the feasibility of redeveloping the Subject Site in today's market for uses currently permitted in the B6 Enterprise Corridor Zone. These permitted uses include (but are not limited to): *business premises, office premises, light industries, warehouse and distribution centres and vehicle showrooms. Residential uses are prohibited.*

It is important to note the Study does not comment on the planning merits of the proposal or the feasibility of the proposed mixed use development. For the purposes of this planning proposal, Hill PDA's analysis has been restricted to the following question:

- *Whether it would be financially viable to purchase the Subject Site and re-develop it for non-residential uses as required by the existing B6 Enterprise Corridor Zone i.e.* ***industrial uses****, such as warehouse and ancillary office accommodation, or* ***commercial uses****, such as office and showroom accommodation.*

For the purposes of assessment, we have chosen to test the market demand for, and viability of, industrial development given that the Subject Site is directly adjacent to the Silverwater Industrial area and light industrial uses are permitted within the B6 Zone. We have also tested commercial development given that this use is not prohibited within the B6 Zone and our market research identified a growing demand for this type of space in the locality.

[1] Auburn City Council Resolution 19 March 2008

MARKET OVERVIEW

Silverwater Industrial Market

Our market research and discussions with local industry experts regarding industrial uses found that:

- Silverwater comprises of mix of industrial uses with high demand for existing stock;
- The current stock is a mixture of old and modern warehouse and ancillary office accommodation;
- Agents indicated that rents in Silverwater could range between $125-130/sqm/sqm whilst sale prices are generally between $2,200/sqm -$2,400/sqm;
- Little new development has occurred over the last 5-10 years, only refurbishments and additions to existing properties; and
- Achieved development sites sales range between $595-$885/sqm depending on size, location and age of stock.

Silverwater Commercial Market

Our market research regarding the Inner West commercial office market found that traditional office space can be difficult to lease even in vibrant centres. Despite having access to a larger pool of potential tenants and customers, vacancy levels for first floor office space are usually higher than ground floor premises. Our market research also found:

- Silverwater has a low portion of commercial office buildings;
- There is good demand and low vacancy rates for existing commercial stock in Silverwater and Newington;
- The current stock is a mixture of older and modern grade office accommodation; and
- Agents indicated that net rents achievable in Silverwater for commercial uses could range between $230-$400 /sqm, whilst sale prices in Silverwater are generally between $3,000/sqm -$3,400/sqm.

In summary the suburb of Silverwater is centrally located and within close proximity to the M4 motorway and other main roads that provide direct access to Parramatta and Sydney CBD. As a consequence, the Silverwater industrial area has maintained reasonable demand from tenants and owner occupiers for strata units in more modern complexes. With respect to commercial development, whilst demand is growing, new commercial opportunities have been limited to the refurbishment or expansion of existing buildings.

DEVELOPMENT FEASIBILITY ANALYSIS

Building on the market research outlined above Hill PDA tested whether it would be financially viable to purchase the Subject Site and re-develop it for industrial and / or commercial uses in the current market. The following two options were modelled for redevelopment.

Option 1 - Redevelopment as **industrial warehouses / office accommodation**

Option 2 - Redevelopment of **high quality commercial office space and showroom**

In summary, our financial modelling of the redevelopment of the Subject Site as a whole (one 6,277sqm parcel of land), based on its current market value, is not viable as either industrial or mixed commercial uses. This is despite the $/sqm rate of purchase equating to other comparable sale rates in the B6 Enterprise Corridor Zone.

It was found that neither of the two hypothetical development options provided sufficient financial return to warrant redevelopment using our nominated indicators of 18-20% IRR and 20-22% Development Margin. As a consequence, from a land economics perspective, the existing use of the Subject Site is likely to continue under the current planning controls (i.e. detached residential houses and commercial premises).

The results of our high-level feasibility testing under various land use and density controls are summarised below.

Table 1 - Options Analysed for the Subject Site

Site/Options Specifics	**Option1 Warehouse & office FSR 1:1**	**Option 2 Commercial office & showroom FSR 1:1**
Site Area	6,277sqm	6,277sqm
Developable Area[1]	6,277sqm	6,277sqm
Development Yield	42 units	42 units
Performance Indicators:		
Land Purchase Price	$4,200,000	$4,200,000
Residual Land Value (RLV)	$2,879,370	$2,369,111
RLV ($/sqm of site area)	$459	$377
Project IRR	10.43%	10.74%
Development Margin	5.63%	5.68%
Feasibility	Not feasible	Not Feasible

PEER REVIEW OF LEYSHON CONSULTING STUDY

In response to the second question posed by this Study, we have undertaken a review of the appropriateness and veracity of the assumptions within the Economic Need and Impact Assessment (the *Assessment*) prepared by Leyshon Consulting Pty Ltd. The *Assessment* was prepared by Leyshon Consulting for Mosca Pserras Architects acting on behalf of their client, Hilfor Project Pty Ltd[2]. The *Assessment* was "*intended to accompany the planning proposal which was submitted to Auburn City Council in relation to the proposed rezoning of land at Silverwater, New South Wales*."

It should be noted that Hill PDA has only reviewed the assumptions utilised in the *Assessment* and does make any comment regarding the appropriateness of the development of a new activity centre within the Auburn City Council area.

Hill PDA has assessed the appropriateness and veracity of assumptions used by Leyshon Consulting in the *Assessment* and makes the following observations and comments:

[2] Economic Need and Impact Assessment: Proposed Mixed Use Development Silverwater, Leyshon Consulting (2013)

- The process used to determine the retail needs assessment and its subsequent impact on competing centres in the locality is a widely accepted and common methodology which Hill PDA agrees with;
- The rate of population growth used in the analysis of trade areas does not appear to reflect projections prepared by .Id Consulting. As such, there is likely to be an underestimation of population at 2016 and 2021. This will have the effect of lessening economic impacts over time in the trade areas.
- The assumptions utilised in the determination of sales drawn to the Subject Site / centre are largely appropriate;
- Hill PDA concurs with Leyshon Consulting that an impact of approximately 10% can generally be described as a 'moderate' level of impact and would likely not threaten the long-term viability of the impacted centre. However it should be noted that if the Newington centre were to be trading poorly this level of impact would be more significant. The opposite applies should Newington be overtrading or performing strongly.
- There would be significant employment benefits accrued should the proposed development proceed, including direct construction, multiplier and operational phase employment of the order identified in the *Assessment.*

1. INTRODUCTION

The following Study provides independent economic advice concerning land located at 32-46 Silverwater Road and 1-13 Grey Street, Silverwater. Collectively this land is referred to as the Subject Site and is the focus of a planning proposal prepared by APP Corporation Pty Ltd on behalf of the Hilfor Property Group Pty Ltd.

The planning proposal seeks to rezone the 6,277sqm Subject Site from B6 Enterprise Corridor to B4 Mixed Use to ultimately facilitate the Subject Sites redevelopment to a mixed use residential development comprising:

- 19,539sqm of residential floorspace (220 residential apartments); and
- 4,000sqm of non-residential floorspace (3,550sqm retail and 350sqm commercial).

It also seeks permission to amend the height and floor space ratio standards allocated to the proposed mixed use zone. The Subject Site is currently occupied by 12 single storey residential properties and a commercial building located on the corner of Bligh Street and Silverwater Road.

By way of context, the Subject Site is located within Precinct 14 as nominated by the *Auburn Employment Lands Study* prepared for Auburn City Council by Hill PDA in April 2008. The 2008 Study recognised Council's resolution to zone land within Precinct 14 as B6 Enterprise Corridor[3].

The purpose of this Study is to review the feasibility of redeveloping the Subject Site in today's market for uses currently permitted in the B6 Enterprise Corridor Zone. These permitted uses include (but are not limited to): *business premises, office premises, light industries, warehouse and distribution centres and vehicle showrooms. Residential uses are prohibited.*

It is important to note the Study does not comment on the planning merits of the proposal or the feasibility of the proposed mixed use development. For the purposes of this planning proposal, Hill PDA's analysis has been restricted to the following question:

- *Whether it would be financially viable to purchase the Subject Site and re-develop it for non-residential uses as required by the existing B6 Enterprise Corridor Zone i.e.* ***industrial uses****, such as warehouse and ancillary office accommodation, or* ***commercial uses****, such as office and showroom accommodation.*

For the purposes of assessment, we have chosen to test the market demand for, and viability of, industrial development given that the Subject Site is directly adjacent to the Silverwater Industrial area and light industrial uses are permitted within the B6 Zone. We have also tested commercial development given that this use is not prohibited within the B6 Zone and our market research identified a growing demand for this type of space in the locality.

[3] Auburn City Council Resolution 19 March 2008

1.1 The Subject Site

The 6,277sqm Subject Site is located in the suburb of Silverwater and bounded by Bligh Street to the south, Grey Street to the west, Carnarvon to the north and Silverwater Road to the east (refer to Figure 1).

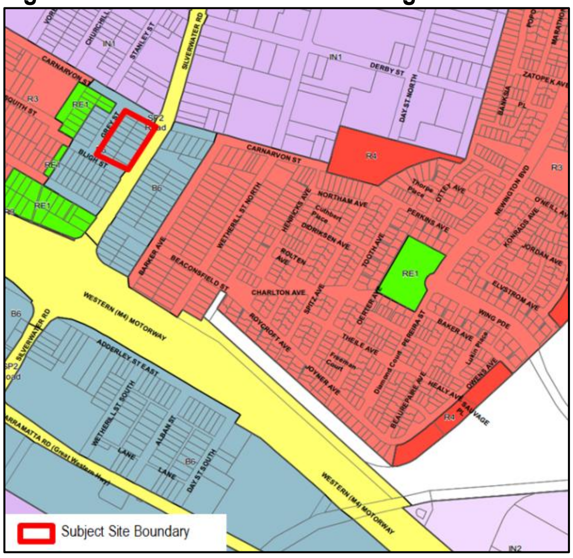
The Subject Site is zoned B6 Enterprise Corridor and has a maximum permissible FSR of 1:1 under the Auburn Local Environmental Plan 2010 (refer to Figure 2). The key functions of the B6 Enterprise Corridor precinct relate to light industrial manufacturing, utilities and urban services.

North of the Subject Site is the Silverwater's industrial precinct where properties comprise of older modern warehouses and ancillary office accommodation. The land to the east of the Subject Site is residential in character and zoned R3 Medium Density Residential. The Subject Site is located 1.9km walking distance of Auburn train station.

Figure 1 - Plan of Subject Site

Source: Red Square 2013

Figure 2 - Auburn LEP 2010 Zoning



Source: Auburn LEP 2010

2. MARKET DEMAND IN SILVERWATER

The following Chapter analyses trends and factors influencing the industrial market within the suburb of Silverwater. It also investigates the sale prices and rental values achieved for industrial and commercial uses based on detailed discussions with market and industry experts as well as a review of relevant property databases. These factors in turn inform the feasibility modelling undertaken in Chapter 3.

2.1 INDUSTRIAL MARKET OVERVIEW

The demand for industrial floorspace continues to be influenced by the globalisation of trade and the increasing dominance of information technology by businesses. The global supply chain has evolved into an alignment of firms that design, develop, market and produce goods and services and deliver to the end user as required. The face of traditional manufacturing is therefore changing, becoming more efficient amid the use of new technologies and equipment. These savings in efficiency have resulted in corresponding savings in labour costs and the demand for floorspace.

As a consequence, the rate of development of industrial land and floorspace across the State has generally been outpaced by the rate of employment growth. This trend however varies considerably between types of activity. In manufacturing and wholesale trade, employment growth has either declined or remained stagnant, with a few exceptions. In contrast, the sectors of transport and storage have shown strong growth in employment numbers.

The global financial crisis (GFC) saw a slowdown in global demand for the manufacturing and industrial sectors which directly impacted the demand for industrial space. In Australia, the impact of the rising Australian dollar compared to the US Dollar and other major currencies further impacted the retail, manufacturing and industrial sector. This has resulted in a fall in demand for pre-commitments and difficult credit conditions causing industrial land values to fall, in some cases by as much as 40%-50% over the post-GFC period. Since the GFC, industrial land values have recovered slightly however the scarcity of debt funding continues to plague this market sector.

2.1.1 INNER WEST AND SILVERWATER

The Inner West industrial market generally comprises the suburbs of Homebush, Rydalmere, Silverwater, Granville and Auburn. In this market, land values are generally found to have fallen in tandem with the market for industrial land elsewhere in Sydney to generally between $300/sqm and $500/sqm. The following key indicators provide a snapshot of this sub-market of Sydney's broader industrial property market.

Table 2 - Key Indicators of Sydney's Inner West Industrial Market (2012)

Grade	Average Net Face Rents (pa)	Incentives	Average Capital Values (/sqm)	Land Values (>2,000sqm)	Average Market Yield
Prime	$115/sqm - $140/sqm	8% - 10%	$1,600 - $1,850	$300 -$500/sqm	7.50% - 8.25%
Secondary	$95/sqm - $115/sqm	10% - 12%	$1,200 - $1,500	$300 -$500/sqm	9.00% - 10.00%

Source: Colliers International, Sydney Industrial Research and Forecast Report, Second half 2012

Our discussions with local industry experts and market research found that:

- Silverwater's industrial market has slowed over the last 5-6 years due to the effects of the GFC;
- Silverwater's development supply pipeline is low, due to the continued increased building costs and slow growth in rents. As a consequence the viability of industrial development has been marginalised and stimulus for redevelopment of existing stock has been curtailed;
- Silverwater as a central industrial area benefits from the exposure and close proximity to the M4 Motorway, Silverwater Road and Parramatta Road which provides excellent access to Parramatta and Sydney CBD;
- There is a mix of industrial uses in Silverwater including light industry, wholesalers, car smash repairs, corporate headquarters and general storage;
- The current building stock ranges from warehouses to office accommodation associated with industrial uses;
- The age of the building stock also varies. Modern industrial warehouses and office accommodation was generally constructed 5-10 years ago whilst older stock was built 15-25 years ago;
- The majority of older industrial stock that is available is characterised by warehouses with low clearance roof heights. In contrast modern industrial stock tends to have higher clearance roof heights (9m);
- Properties can take up to 3 months to sell and approximately 6-9 months to lease;
- There is more demand for smaller industrial units (500sqm-1,000sqm) than larger units (3,000sqm+); and
- Typical purchases include owner occupiers with a small portion of purchasers being investors.

Sale and Lease Evidence

Table 3 below demonstrates sale values for both old and modern industrial properties in Silverwater (referred to as second-hand and modern respectively). As mentioned above, modern industrial stock was constructed approximately 5-10 years ago and older stock constructed approximately 15-25 years ago.

The evidence shows sale values for small units ranging from $1,143/sqm (683sqm) to $3,732/sqm (209sqm) and larger units ranging from $819/sqm to $1,685/sqm. It should be noted that the large range of sale values is due to the variation in age, location and quality of stock referenced above.

Table 3 - Industrial Sale Transactions for Silverwater (June 2012 – July 2013)

Address	Sold Date	Second hand Price	Building Area (sqm)	Analysis $/sqm	Comments
17-83 Asquith St	Aug 12	$600,000	398	$1,508/sqm	Old Strata Titled Factory & Office Unit
81 Carnarvon St	Jul 12	$2,030,000	1,205	$1,685/sqm	Modern Warehouse, Showroom & Office
114 Carnavron St	Jan 13	$781,000	683	$1,143/sqm	Old Factory
16 Churchill St	Sep 12	$750,000	308	$2,435/sqm	Old Warehouse & Office Unit
16 Derby St	Nov12	$3,800,000	3,525	$1,078/sqm	Modern Warehouse & Office
20 Derby St	Nov 12	$3,000,000	3,663	$819/sqm	Modern Warehouse, Showroom & Office

Address	Sold Date	Second hand Price	Building Area (sqm)	Analysis $/sqm	Comments
46-58 Derby St	Nov12	$4,313,000	2,792	$1,545/sqm	Modern Warehouse, Showroom & Office
83 Derby St	Aug 12	$25,000,000	17,035	$1,468/sqm	Modern Warehouse
89 Derby St	Sep 12	$545,000	208	$2,620/sqm	Modern Strata Titled Warehouse
104a Derby St	Sep 12	$622,000	298	$2,087/sqm	Old Strata Titled Factory & Office Unit
105 Derby St	Nov 12	$265,000	425	$624/sqm	Old Strata Titled Factory & Office Unit
27-29 Fariola St	Sep 12	$510,000	205	$2,488/sqm	Modern Strata Titled Factory Unit
18 Fisher Street	Dec12	$1,710,000	968	$1,767/sqm	Old warehouse & Office Unit
10 Millennium Crt	Nov12	$620,000	270	$2,296/sqm	Modern Strata Titled Warehouse & Office Unit
1 Picken Street	Apr13	$6,962,000	5,201	$1,339/sqm	Refurnished Warehouse & Office
94-100 Silverwater Rd	Sep 12	$7,550,000	8,142	927/sqm	Old Warehouse, showroom& office
24 Vore St	Jun 13	$390,000	209	$3,732/sqm	Modern Strata Titled Warehouse & Office Unit

Source: PIMS & Hill PDA Research, 2013

Recent discussions with local agents indicated that older industrial stock would sell between $1,500-$1,700/sqm, while modern industrial stock could achieve from $2,000-$2,400/sqm.

Table 4 outlines the rents industrial properties have achieved over the last 12 months (2012-2013) in Silverwater. The research suggests that net rents in the Silverwater range between $125-175/sqm .

Table 4 - Industrial Rent Transactions Silverwater based on Building Area (2012- 2013)

Address	Date	Rental pa	Building Area (sqm)	Analysis $/sqm	Comments
					Leased
68-72 Derby St	Sep 12	$81,770 net	629	$130/sqm	Modern Warehouse & office
10 Rachel Cl	Feb 12	$197,825 net	1,582	$125/sqm	Modern Warehouse & office
Slough Business Pak Silverwater Rd	Jun 12	$120,000 gross	1,000	$120/sqm	Modern Warehouse & office
12 Millennium Ct	Mar 13	$234,468 gross	1,404	$167/sqm	Old Warehouse & office
13 Millennium Ct	Aug 13	$105,000 gross	782	$134/sqm	Modern Warehouse & office
			For Lease		
Unit 1, 13 Millennium Court, Silverwtaer	Sept 2013	$167,720 net	1,198	$140/sqm	Modern Warehouse and Office
Silverwater	Sept 2013	$38,306 net	215.2	$178/sqm	Old Warehouse & Office
72 Silverwater Road	Sept 2013	$187,500 net	1,250	$150/sqm	Old Warehouse & Office

Source: PIMS & Hill PDA Research, 2013

Further discussions with local agents suggested that recent net rents achieved in Silverwater would range between $125-$130/sqm.

Development Sites

To help inform our feasibility analysis we have also investigated site sales that are suitable for industrial redevelopment. According to a Jones Lang La Salle Industrial, Quarter 2 2013 report, properties over 2,000sqm have an average $/sqm rate of $600/sqm. Discussions with local agents have indicated that industrials sites could achieve land values between $650-$750/sqm.

Table 5 below outlines recent industrial site sales in Silverwater. As shown below the properties comprise of existing improvements with land values ranging from $595-$885/sqm depending on size, location and age of stock

Table 5 - Silverwater – Development Industrial Site Sales (2012)

Address	Year	Sale Price	Site Area (sqm)	Analysis $/sqm	Comments
32-46 Silverwater Road & 1-13 Grey Street	2013	$4,200,000	6,226	$675	Subject Site - zoned B6 Enterprise Zone. Existing 14 residential houses and 1 factory building.
75 & 77 Silverwater Road	2012	$1,000,000	1,132	$885	Site zoned B6 Enterprise Zone. Two sites with residential houses located on the eastern side of Silverwater Rd.
8-14 Egerton Street	2012	$11,250,000	16,820	$670	Site zoned B6 Enterprise Zone. Existing office building. Granted DA approval for Data Centre.
86-88 Asquith Street,	2013	$1,010,000	1,838	$595	Site zoned Commercial. Existing office building

Source: realcommercial.com.au

As shown in Table 5 above, the Subject Site sold this year (2013) for approximately $4.2 million, showing a land value of $675/sqm. The evidence above demonstrates that the Subject Site achieved a similar land value to other sold development sites within the area within the B6 Enterprise Corridor Zone, taking into consideration the size, location and existing improvements.

Development Pipeline

Silverwater's current development supply pipeline comprises mainly of industrial refurbishments and additions to existing warehouses and office accommodation premises. As mentioned above, the slow growth in rents (and hence the sale price linked by the property yield) and the increase in construction costs over the same time provides little incentive for a developer to demolish an existing industrial building and construct a new industrial development. Exceptions to this would be developments relating to special uses on larger sites, such as the DA Datacentre at 8-14 Egerton Street Silverwater.

2.2 Key Findings and Implications

For industrial uses:

- Silverwater comprises of mix of industrial uses with high demand for existing stock;
- The current stock is a mixture of old and modern warehouse and ancillary office accommodation;
- Agents indicated that rents in Silverwater for commercial uses could range between $125-130/sqm/sqm whilst sale prices are generally between $2,200/sqm -$2,400/sqm;
- Little new development has occurred over the last 5-10 years, only refurbishments and additions to existing properties; and
- Achieved development sites sales range between $595-$885/sqm depending on size, location and age of stock.

2.3 Commercial Market Overview

The Inner West commercial market has traditionally offered smaller scale commercial accommodation, often in conjunction with warehouse / industrial space. Commercial occupiers are diverse, from logistics and transport operators to local businesses. Warehouse conversions have facilitated tenant flexibility at competitive rates.

Market research into the Inner West commercial office market found that traditional office space can be difficult to lease even in vibrant centres. Despite having access to a larger pool of potential tenants and customers, vacancy levels for first floor office space are usually higher than ground floor premises.

Notwithstanding the demand for office space in some markets, the development supply pipeline remains constrained by the pricing and availability of credit (property funding). Furthermore, prevailing rents and capital values are generally below that of replacement cost. Due to poor development viability there have been limited transactions of commercial development sites in the Inner West and indeed in wider Sydney in recent years. As a consequence, new supply of commercial floor space observed to have entered the market in recent times has comprised primarily of refurbishments and adaptive reuse projects.

2.3.1 Silverwater and its Surrounds

The suburb of Silverwater has traditionally offered smaller scale commercial buildings along Parramatta Road. By way of example, a small scale office building located at 63-79 Parramatta Road, Silverwater comprises of two office buildings and warehouses units. The leasing agent identified that the office accommodation within the building is for lease only. Office suites in the building range in size from 60sqm – 600sqm with rents between $230/sqm and $300/sqm. The typical tenants in the office building consist of sales and marketing firms, IT firms, headquarters and other local small businesses that are did not want to locate within the surrounding town centres.

Agents also identified the Newington Business Park (located at 8 Avenue of the Americas, Newington) as a good example of high quality office accommodation with low vacancies in the area surrounding Silverwater. Leasing agents indicated that the achieved rents range from $280-$400/sqm net (75sqm – 380sqm). Further discussion with agents identified that office suites fronting the Avenue of the Americas achieved higher rents due to the exposure and larger floor plates (i.e. $350-$400/sqm net). Agents advised that the buyers largely comprised of owner occupiers with small urban businesses such as accountants, builders, IT firms and medical practise.

Discussions with local Silverwater agents confirmed that there is demand for existing commercial office space in Silverwater, particularly small office space between 50-100sqm with car parking and located in walking distance of retail shops.

Sale and Lease Evidence

Discussions with agents identified that there has been limited sale transactions within the suburb of Silverwater for commercial space due to the limited supply, again showing the effect of construction costs versus redevelopment viability. We therefore have investigated sales and rents in the suburb of Newington.

Table 6 outlines the asking and achieved sales of modern commercial style office space over the last 12 months (2012-2013) in Silverwater and Newington. The evidence suggests that sale values achieved range from $2,800/sqm-$3,500/sqm depending on the size, location and age of stock.

Table 6 - Commercial Sale Transactions for Silverwater and Newington (2012-2013)

Address	Sold Date	Second Hand Price	Building Area (sqm)	Analysis $/sqm	Comments
Sold					
Unit 33, 8 Avenue of the Americas	Jun 2012	$535,000	185	$2,892/sqm	Modern Strata Office Suite
Unit 17, 8 Avenue of the Americas	Jun 2013	$650,000	185	$3,514/sqm	Modern Strata Office Suite
Unit 19, 8 Avenue of the Americas	Sep 2013	$625,000	185	$3,380/sqm	Modern Strata Office Suite. Tenant has agreed on a sale value and will purchase in 6 months for $625,000. Currently leasing the suite.
8 Avenue of the Americas	Jun 2012	$530,000	185	$2,865/sqm	Modern Strata Office Suite
For Sale					
8 Avenue of the Americas	Sept 2013	$559,000	175	$3,195/sqm	Modern Office Suite

Source: PIMS & Hill PDA Research, 2013

Recent discussions with local commercial sale agents indicated that modern commercial office space could achieve sale values from between $3,000-$3,400/sqm.

Table 7 outlines the asked and achieved rents for commercial properties over the last 12 months (2012-2013) in Silverwater and Newington. The evidence suggests that net rents being achieved range from $170-$330/sqm depending on size, location and age of stock. Our market research suggests that recent rents achieved in Silverwater and its surrounds range between $230-$400/sqm.

Table 7 - Commercial Rent Transactions Silverwater and Newington based on Building Area (2012- 2013)

Address	Date	Rental pa	Building Area (sqm)	Analysis $/sqm	Comments
			Leased		
69-73 Silverwater Rd	Jun 2012	$77,550 net	235	$330/sqm	Modern Strata office Suite
8 The Avenue of the Americas	Apr 2012	$22,990 net	92	$305/sqm	Modern Strata office Suite
Ground Floor, 27-29 Fariola St	Feb 2013	$45,000 net	113	$398/sqm	Modern Strata office Suite.
Unit 19, 8 Avenue of the Americas	Aug 2013	$52,000 net	185	$281/sqm	Modern Strata office Suite
			For Lease		
8 The Avenue of the Americas	Sept 2013	$39,000 net	160	$245/sqm	Modern office Suite
8 The Avenue of the Americas	Sept 2013	$59,000 net	152	$388/sqm	Modern office Suite
Silverwater	Sept 2013	$23,660 net	124	$190/sqm	Old Office Suite
Unit 46, 8 The Avenue of the Amercias	Sept 2013	$42,435 net	171	$248/sqm	Modern office Suite
Level 1 &2, 185 Silverwater Rd	Sept 2013	$85,000 net	500	$170/sqm	Old Office Suite
90 Wetherill Road	Sept 2013	$44,400 net	222	$200/sqm	Old Office Suite

Source: PIMS & Hill PDA Research, 2013

2.4 Key Findings and Implications

For commercial uses:

- Silverwater has a low portion of commercial office buildings;
- There is good demand and low vacancy rates for existing commercial stock in Silverwater and Newington;
- The current stock is a mixture of older and modern grade office accommodation;
- Agents indicated that net rents achievable in Silverwater for commercial uses could range between $230-$400 /sqm, whilst sale prices in Silverwater are generally between $3,000/sqm -$3,400/sqm.

2.5 Conclusion

The Silverwater industrial area is central and within close proximity to the M4 motorway and other main roads that provide direct access to Parramatta and Sydney CBD. As a consequence, the industrial area of Silverwater has maintained good demand from industrial tenants and owner occupiers for strata units in more modern complexes. Demand from institutional investors for new business parks continues to be weaker.

This demand however, is mainly limited to existing stock as the industrial and commercial rents over the last 5 to 6 years have remained fairly constant (at best in line with CPI over this period). During the same period construction costs have continued to rise faster than rents and hence the viability of new development has decreased. This trend has helped push new industrial development further west where land is cheaper and stronger infrastructure linkages exist. In summary, despite growing demand, new commercial development has been limited to the refurbishment or expansion of existing buildings.

3. Development Feasibility Analysis

This Chapter outlines the assumptions and results of undertaking feasibility testing on the Subject Site. The assumptions pertaining to market attributes were based on the outcomes of the market research described in Chapter 2. All other assumptions are sourced where appropriate and / or based on Hill PDA's experience in similar projects.

To undertake this analysis, Hill PDA has adopted the hypothetical development feasibility approach utilising the industry standard, feasibility software called Estate Master DF in the analysis. In this approach a target profit margin (called the Development Margin) and project internal rate of return (called the IRR) are set to test whether a hypothetical redevelopment of the subject site is financially attractive to a potential developer to purchase for redevelopment or not. These targets are typically 18% to 20% respectively.

This feasibility analysis involves assessing the value of the end product of the hypothetical development, and then deducting all the development costs including site acquisition costs, site demolition and/or clearance if required, consultant fees for design and project management, developer levies and taxes, construction costs, and making a further deduction for GST, land holding costs, marketing and financing costs. If the resulting profit from this feasibility analysis is large enough to meet the target hurdles for both the development margin (DM) and the project IRR, the project is considered financial viable for redevelopment.

3.1 Financial Feasibility Criteria

The financial viability of various land use options can also be assessed by determining whether their calculated Residual land Value (RLV) is greater than the 'Existing' land value of the Subject Site. The RLV (based on NPV) is the estimated land purchase price that returns targeted IRR for the assumed feasibility assumptions while the RLV (based on Target Margin) is an alternative land value that returns the desired (targeted) development margin.

By way of background, the Subject Site was sold at auction to Hilfor Property Group for $4.2m. Whilst we do not have the benefit of a formal valuation for the Subject Site, given the currency of the sale and its purchase on the open market, we have adopted this as the Existing (market) value (i.e. $4.2m being $675/sqm). We have assumed for the purposes of our modelling that this price was paid on the expectation of redeveloping the Subject Site.

In light of the Subject Site's acquisition cost, we highlight that land use options that return higher Residual Land Values than the $675/sqm rate are considered economically viable or financially feasible. This is because such land values of this scale imply that they can sufficiently compensate for development risk and are a 'higher and better' use than the current use and are thereby incentives for their development and renewal.

This Chapter measures feasibility by the project Internal Rate of Return (IRR) and Residual Land Value (RLVs) with the ranges of acceptability indicated below.

Table 8 - Performance Criteria

Performance	Residual Land Value	Project IRR	Development Margin
Feasible	>$675/sqm	>18%-20%	>20%-22%
Marginally feasible	$600/sqm-$675/sqm	16%-18%	18%-20%
Not feasible	<$600/sqm	<16%	<18%

Whilst Hill PDA has adopted the project IRR as the primary indicator of performance (feasibility), regard is also had to the following performance criteria:

- **Residual Land Value** – This is the purchase price of the land whilst achieving a zero Net Present Value (NPV). For a use to be considered feasible, the corresponding Residual Land Value needs to be greater than the 'Existing' value (assumed at $4.2m) so as to make it (the proposed use) a 'higher and better use'. There is little economic impetus for effecting land uses that return lower Residual Land Values than current values.
- **Project IRR** - The discount rate where the Net Present Value equals zero. A minimum project IRR of 18%-20% is assumed for a project to be feasible.
- **Development Margin** - Profit divided by total development costs (including selling costs). A minimum development margin of 18-20% is assumed to be required for a project to be feasible. This requirement is particularly relevant for a project to meet the lending criteria of the funding market.

Hurdle Rates

The deduction for the profit and risk mentioned above for assessing the development potential is defined by the development margin and or Internal Rates of Return (IRR) target hurdle rates. Target hurdle rates are dependent on the perceived risk associated with a project (planning, market, financial and construction risk). The more risk associated with a project, the higher the hurdle rate.

A site that is covered by clear and unambiguous planning controls is less risky; clear planning direction will contribute to mitigating planning risk and thereby reducing the lead-in time to development commencement.

The absence of clear planning and development controls would conceivably result in developer resistance and corresponding increases in required hurdle rates to compensate for increased risk and longer holding periods. This is expected to result in an increased project IRR to 20% for industrial uses. Where the planning controls are clear the hurdles rates are likely to move closer to 18% for industrial uses.

3.2 Development Options Analysed

In light of the methodology described above, Hill PDA assessed the feasibility of two different development options for the Subject Site. The options were premised on:

- The entire Subject Site being zoned B6 Enterprise Corridor;
- The entire Subject Site is redeveloped at one point in time; and
- A maximum FSR of 1:1 (no height control was tested.

The two options are summarised as follows:

Option 1 – Industrial Warehouse (6,277sqm): The option included the demolition of the existing 14 residential allotments and 1 factory style building. The Subject Site would be redevelopedt into 42 small modern industrial units with office accommodation for strata owner occupier sale. At grade parking and under croft parking would be provided onsite. This option was based on the Subject Site's current planning controls, which include a B6 Enterprise Corridor zone and a maximum FSR of 1:1 under the Auburn LEP 2010.

Figure 3 - Example of a Warehouse and office development located at 11-21 Underwood Street, Silverwater

Source: realcommercial.com

Option 2 – Commercial office and Showroom (6,277sqm): The option included the demolition of the existing 14 residential allotments and 1 factory style building. In its place 42 new modern office and showroom suites would be constructed. At grade parking and under croft parking would be provided onsite. This option was based on the Subject Site's current planning controls, which include a B6 Enterprise Corridor zone and a maximum FSR of 1:1 under the Auburn LEP 2010.

Figure 4 - Example of a commercial and showroom development located at Newington Business Park

Source: realcommercial.com

3.3 Modelling Results and Conclusions

The results of our high-level feasibility testing under various land use and density controls are summarised below.

Table 9 - Options Analysed for the Subject Site

Site/Options Specifics	Option1 Warehouse & office FSR 1:1	Option 2 Commercial office & showroom FSR 1:1
Site Area	6,277sqm	6,277sqm
Developable Area[1]	6,277sqm	6,277sqm
Development Yield	42 units	42 units
Performance Indicators:		
Land Purchase Price	$4,200,000	$4,200,000
Residual Land Value (RLV)	$2,879,370	$2,369,111
RLV ($/sqm of site area)	$459	$377
Project IRR	10.43%	10.74%
Development Margin	5.63%	5.68%
Feasibility	Not feasible	Not Feasible

Source: Estate Master V5.

3.4 Key Findings

In summary, our financial modelling found that the Subject Site as a whole, based on its current market value, is not viable for redevelopment into either industrial or mixed commercial uses as permitted by the B6 Enterprise Corridor Zone. Based on our market research we have tested two development typical options – the office warehouse strata unit mix and the more expensive, office showroom strata and/or commercial business strata unit. Neither of these hypothetical development options provided sufficient financial return to warrant redevelopment. The likely option for the Subject Site under the current planning controls is therefore for continued use of the existing uses (i.e. for detached residential houses and renovation/repair for the existing industrial premises).

Although our market research demonstrated demand for commercial and industrial space in the suburb (Chapter 2) this is mainly for cheaper rents that are typical for existing industrial commercial stock. For new premises higher rents or sales prices would be needed and the current market does not justify this premium. Our research of development applications in the locality also indicates that new commercial and industrial development activity largely relates to renovations or the expansion of existing buildings. New development that has occurred has related to special uses such as a call centre and bus depot. The level of additional demand for these uses is uncertain.

4. Peer Review Of Leyshon Consulting Study

In response to the second question posed by this Study, we have undertaken a review of the appropriateness and fairness of the assumptions within the Economic Need and Impact Assessment (the *Assessment*) prepared by Leyshon Consulting Pty Ltd. The *Assessment* was prepared by Leyshon Consulting for Mosca Pserras Architects acting on behalf of their client, Hilfor Project Pty Ltd[4]. The *Assessment* was "*intended to accompany the planning proposal which was submitted to Auburn City Council in relation to the proposed rezoning of land at Silverwater, New South Wales*."

It should be noted that Hill PDA has only reviewed the assumptions utilised in the *Assessment* and does make any comment regarding the appropriateness or otherwise of the development of a new activity centre within the Auburn City Council area.

4.1 Precedent Test Cases

Section 79C(1)(b) of the EPA Act, requires Councils to consider "the likely impacts of that development, including environmental impacts on both the natural and built environments, and social and economic impacts in the locality". Previous court judgements have provided some guidance on relevant issues in relation to the economic impact of retail developments.

In Fabcot Pty Ltd v Hawkesbury City Council (97) LGERA, Justice Lloyd noted "economic competition between individual trade competitors is not an environmental or planning consideration to which the economic effect described in s 90(1)(d) is directed. The Trade Practices Act 1974 (Cth) and the Fair Trading Act 1987 (NSW) are the appropriate vehicles for regulating competition. Neither the Council nor this Court is concerned with the mere threat of economic competition between competing business…. It seems to me that the only relevance of the economic impact of a development is its effect 'in the locality'…".

In Kentucky Fried Chicken Pty Ltd v Gantidis (1979) 140 CLR 675 at 687 Justice Stephen noted that "if the shopping facilities presently enjoyed by a community or planned for it in the future are put in jeopardy by some proposed development, whether that jeopardy be due to physical or financial causes, and if the resultant community detriment will not be made good by the proposed development itself, that appears to me to be a consideration proper to be taken into account as a matter of town planning... However, the mere threat of competition to existing businesses if not accompanied by a prospect of a resultant overall adverse effect upon the extent and adequacy of facilities available to the local community if the development be proceeded with, will not be a relevant town planning consideration."

The Land & Environment Court has stated that Councils should not be concerned about competition between individual stores as this is a matter of fair trading. But it should concern itself with impact on established retail

[4] Economic Need and Impact Assessment: Proposed Mixed Use Development Silverwater, Leyshon Consulting (2013)

centres. The impact on competing stores and businesses is only relevant if the viability of those businesses are threatened and the viability of a retail centre as a whole is threatened due to a demonstrated nexus between the competitive stores and the other retailers within the retail centre.

In considering these principles Council is obliged to consider the impacts on centres in the locality (such as loss of trade), the ability of the centre to absorb any adverse impacts, and the likelihood or probability of social detriment if the any centre finds it difficult to absorb the adverse impacts (increase in long-term vacancies and any other measures that may be relevant).

Notwithstanding these considerations Council is also obliged to consider "whether or not the resultant community detriment will be made good by the proposed development itself". In particular if a locality is not well served in terms of retail and commercial services then the proposed development may make good for the detrimental impacts it causes.

4.2 Methodology

The Assessment uses the following methodology:

- Identification of the context of the area around the Subject Site including existing retail activity in the surrounds;
- Definition of the area of trade that the proposed retail activity could expect to draw sales from, assuming development of a mid-size supermarket;
- Analysis of the demographics of the population of this trade area including details on age and household structure, occupation / employment and household income;
- Estimation of the existing and forecast population in the trade area;
- Estimation of the spending potential of the trade area at 2011 and at 2021;
- Calculation of potential sales at the Subject Site based on its location, competition and other factors;
- Conversion of estimated sales at the subject site to retail floorspace demand; and
- Effect these sales may have on existing retail centres in the region.

The methodology outlined above is the preferred and accepted method for a trade area based, retail needs assessment. There is little commentary provided on the methodology used in the assessment of impacts on other retail centres in the region, however it appears to be based on a gravity model. A gravity model assumes the re-distribution of trade from existing centres and proposed centres based on distance and/or travel time from the subject site / centre.

4.3 Trade Area and Market Shares

The extent of the trade area identified in the Leyshon Consulting report is largely considered appropriate, however in Hill PDA's view the Primary Trade Area (PTA) would extend someway into the STA East Statistical Local Area (SLA) given the location of the Subject Site compared to the Newington centre. This would marginally increase sales drawn to the Subject Site / centre given that the rate of captured trade in the PTA is more than double that in the STA (25% compared to 12%). The rates of captured trade identified for the PTA, STA East and STA South are considered appropriate considering the range of other supermarket and grocery store facilities in close proximity (including Newington, ALDI and Costco). In non-urban / regional locations, the proportion of supermarket and grocery store trade drawn to the proposed centre would be considerably higher due to the lack of competing facilities.

4.4 Population Growth

Population growth is one of the key determinants in estimating the amount of trade that can potentially be achieved in any trade area and the subsequent demand for retail floorspace. The *Assessment* applied the following average annual rates of growth over a ten year period to 2021 from the Estimated Resident Population (ERP) at 2011:

- PTA: 0.2%
- STA East: 1.25%
- STA South: 1.50%

It is noted that Leyshon Consulting have not provided a source or basis for the application of population growth rates in the trade areas. The *Assessment* would be more rigorous with a source or basis for the applied growth rates.

In light of this, Hill PDA has conducted a review of population projections at a small area level (broadly consistent with suburb boundaries) provided by .Id Consulting for Auburn City Council and has found the following:

- The rate of growth estimated for the PTA (the suburb of Silverwater) is low given that .Id Consulting projections show an average annual rate of growth of 0.63% in their Silverwater small area over the period 2011 to 2021;
- The rate of population growth in the STA East which includes the .Id Consulting small area of Newington, Sydney Olympic Park and Wentworth Point appears to have been underestimated. Whilst .Id Consulting projections for the Newington small area show that population is actually forecast to decline over the period 2011 to 2021, the other small areas that form the STA East trade area are set to experience very high rates of population growth over the 2011 to 2021 period. Growth in the STA East trade area as a whole is estimated to be approximately 9% per annum on average throughout this period. It would appear that population estimates for the STA East component of the trade area should therefore have been even more significant than was identified in the *Assessment*;

- The STA South catchment is included as part of the Auburn (North) .Id Consulting small area. .Id Consulting projections show that population in this area is anticipated to grow at around 0.5% per annum on average, significantly less than the 1.5% assumed in the *Assessment*;
- Overall there is likely to have been an underestimation of the population growth in the trade areas, particularly given very high rates of growth forecast in the STA East trade area.

The implications of this underestimation of population growth in the trade areas is that growth in trade at other retail centres in the locality would be more significant than was identified in the *Assessment* over the period 2011 to 2021. As such, should the proposed retail activity on the subject site become operational at 2016 as identified in the *Assessment,* the redistribution of trade would have a proportionally smaller impact on competing retail centres in the locality.

In addition to this, Leyshon Consulting has not included the additional residential development proposed at the Subject Site (approximately 200 dwellings). Whilst not highly significant this additional residential development would contribute to a greater pool of expenditure in the trade areas.

4.5 Centre Sales

Hill PDA has reviewed the *Assessment* and has found the assumptions used in the expenditure analysis to be largely reasonable and based on sound economic principles. The following comments are made in relation to some of the assumptions utilised in the estimate of centre sales:

- A review of MarketInfo 2009 data confirms that personal retail expenditure is lower in the PTA and STA South compared to the STA East as identified in the *Assessment*. MarketInfo is generated by combining and updating data from the ABS Census and ABS Household Expenditure Survey (HES). The rates of per capita expenditure used for the trade areas in the *Assessment* could be considered low according to the MarketInfo data examined by Hill PDA. This would have the effect of increasing available spend in the trade areas.
- Hill PDA agrees that there would be some additional spend in the trade areas from workers in the Silverwater / Newington area. However, it is likely that worker expenditure has been slightly overstated in the analysis given that some workers would already be living in the trade areas and would therefore have had their expenditure recognised as part of the resident expenditure assessment. Given that total worker expenditure as estimated in the *Assessment* makes up just 3% of total available expenditure generated by trade area residents at 2011, the implications of this on the overall findings would be insignificant.

4.6 Economic Effects

The *Assessment* identified that there would be an economic trading impact on existing competing retail centres in the locality of between -1.1% (Rhodes) and -10% (Newington). There is discussion around these impacts which suggests that impacts of less than 5% are generally considered to be very low / insignificant, with the impact on Newington of -10% described as 'moderate'. Hill PDA broadly agrees with the definition of a -10% impact as being 'moderate'. The significance of a 10% loss in trade would be better determined however if trading figures or turnover levels could be provided for the Newington centre. Whilst this has not been identified in the *Assessment,* it is noted that Newington "*enjoys the patronage of a substantial adjacent workforce*" and that "*Specifically, impacts such as those estimated would not lead to any reduction in the availability of retail services provided in established centres…*".[5]

4.7 Key Findings

Hill PDA has assessed the appropriateness and veracity of assumptions used by Leyshon Consulting in the *Assessment* and makes the following observations and comments:

- The process used to determine the retail needs assessment and its subsequent impact on competing centres in the locality is a widely accepted and common methodology which Hill PDA agrees with;
- The rate of population growth used in the analysis of trade areas does not appear to reflect projections prepared by .Id Consulting. As such, there is likely to be an underestimation of population at 2016 and 2021. This will have the effect of lessening economic impacts over time in the trade areas.
- The assumptions utilised in the determination of sales drawn to the Subject Site / centre are largely appropriate;
- Hill PDA concurs with Leyshon Consulting that an impact of approximately 10% can generally be described as a 'moderate' level of impact and would likely not threaten the long-term viability of the impacted centre. However it should be noted that if the Newington centre were to be trading poorly this level of impact would be more significant. The opposite applies should Newington be overtrading or performing strongly.
- There would be significant employment benefits accrued should the proposed development proceed, including direct construction, multiplier and operational phase employment of the order identified in the *Assessment.*

As identified earlier Hill PDA has only addressed the veracity of assumptions utilised in the methodology used to undertake the *Assessment* and does not make any comment on the appropriateness of the development of a new activity centre within the Auburn City Council area.

[5] Economic Need and Impact Assessment: Proposed Mixed Use Development Silverwater, Leyshon Consulting (2013)

DISCLAIMER

1. This report is for the confidential use only of the party to whom it is addressed ("Client") for the specific purposes to which it refers and has been based on, and takes into account, the Client's specific instructions. It is not intended to be relied on by any third party who, subject to paragraph 3, must make their own enquiries in relation to the issues with which this report deals.

2. Hill PDA makes no representations as to the appropriateness, accuracy or completeness of this report for the purpose of any party other than the Client ("Recipient"). Hill PDA disclaims all liability to any Recipient for any loss, error or other consequence which may arise as a result of the Recipient acting, relying upon or using the whole or part of this report's contents.

3. This report must not be disclosed to any Recipient or reproduced in whole or in part, for any purpose not directly connected to the project for which Hill PDA was engaged to prepare the report, without the prior written approval of Hill PDA. In the event that a Recipient wishes to rely upon this report, the Recipient must inform Hill PDA who may, in its sole discretion and on specified terms, provide its consent.

4. This report and its attached appendices are based on estimates, assumptions and information provided by the Client or sourced and referenced from external sources by Hill PDA. While we endeavour to check these estimates, assumptions and information, no warranty is given in relation to their reliability, feasibility, accuracy or reasonableness. Hill PDA presents these estimates and assumptions as a basis for the Client's interpretation and analysis. With respect to forecasts, Hill PDA does not present them as results that will actually be achieved. Hill PDA relies upon the interpretation of the Client to judge for itself the likelihood of whether these projections can be achieved or not.

5. Due care has been taken to prepare the attached financial models from available information at the time of writing, however no responsibility can be or is accepted for errors or inaccuracies that may have occurred either with the programming or the resultant financial projections and their assumptions.

6. This report does not constitute a valuation of any property or interest in property. In preparing this report Hill PDA has relied upon information concerning the subject property and/or proposed development provided by the Client and Hill PDA has not independently verified this information except where noted in this report.

7. In relation to any valuation which is undertaken for a Managed Investment Scheme (as defined by the Managed Investments Act 1998) or for any lender that is subject to the provisions of the Managed Investments Act, the following clause applies:

8. This valuation is prepared on the assumption that the lender or addressee as referred to in this valuation report (and no other) may rely on the valuation for mortgage finance purposes and the lender has complied with its own lending guidelines as well as prudent finance industry lending practices, and has considered all prudent aspects of credit risk for any potential borrower, including the borrower's ability to service and repay any mortgage loan. Further, the valuation is prepared on the assumption that the lender is providing mortgage financing at a conservative and prudent loan to value ratio.

Appendix 1 - MODELLING ASSUMPTIONS

Project Timeframe:

- Project commencement in October 2013
- Option 1: Construction spans 10 months.
- Option 2: Construction spans 10 months
- We have assumed an FSR of 1:1
- We have assumed a land purchased price of $4,200,000. This was confirmed by the client.

End Sale Values:

- Due to the high-level nature of this assessment and in the absence of detailed plans, Hill PDA has adopted sale value in the order of:
- Option1 –Industrial Units end sale values @ $ 2, 480/sqm.
- Option 2- High quality commercial office/ Showroom end sale values @ $ 3,400/sqm.

Additional sales assumptions include:

- Sales escalations at 2.5% per annum.
- GST excluded on non-residential sales.
- Selling costs are assumed at 1.5% of non-residential sales.
- Marketing costs 0.50% of gross sales
- Legal costs 0.20% of gross sales
- Capital Works, Construction and Land Costs

Constructions costs have been sourced from Rawlinson's Construction Handbook 2012 and are as follows:

- Demolition and site preparation at $60/sqm (approximately 3,600sqm of improvements)
- Industrial construction:
  - $1,120/sqm construction;
  - $2,500 per at grade car space
  - $15,000 per undercroft car space
- High quality offie/showroom construction:
  - $1,875/sqm construction;
  - $2,500 per at grade car space
  - $15,000 per undercroft car space

Additional cost assumptions include:

- Professional fees have been assumed at 5% of building construction costs (3% expensed prior to construction of each stage and 2% pro-rated with the costs of development during construction and
- Construction contingency of 5% of construction costs.

Statutory costs:

- DA, CC and, Section 94A contributions and Construction Certificate fees assumed Councils estimates; and
- Landholding costs estimated based on prevailing statutory rates and assumed to diminish with sales.

Performance Criteria

- Hill PDA has adopted a project discount rate of 18% per annum nominal on the cash flow of the project which includes financing costs but excludes interest.
- Additionally, a developers target development margin of 18% on total development costs (including selling costs) has been assumed both reflecting the size of the development and the associated risk.

Appendix 2 - DEVELOPMENT FEASIBILITY SUMMARY SHEET

EstateMaster DF DEVELOPMENT FEASIBILITY	1	2	3	4	5	6	7	8	TOTAL
	Option 1 - oFFICE wAREHOUSE	Option 2 office Showroom							
Summary of Stages and Consolidated Project	32-46 Silverwater Rd & 1-13 Grey Street, SIlverwater - Industrial Zoning - Redeveloped into Industrial warehouse and ancillary office	32-46 Silverwater Rd & 1-13 Grey Street, SIlverwater - Industrial Zoning - Redeveloped into Industrial warehouse and ancillary office							
Silverwater- B6 Enterprise Zone	41.8 Units 6,277. GFA 6,277. SqM	41.8 Units 6,277. GFA 6,277. SqM							
Estate Master Licensed to: Hill PDA Pty Ltd - Administration Account	Miscellaneous Under Review	Miscellaneous Under Review							
REVENUE									
Gross Sales Revenue	16,912,064	22,923,371							39,835,435
Less Selling Costs	(372,065)	(504,314)							(876,380)
Less Purchasers Costs	-	-							-
NET SALES REVENUE	16,539,999	22,419,057							38,959,056
TOTAL REVENUE (before GST paid)	16,539,999	22,419,057							38,959,056
Less GST paid on all Revenue	-	-							-
TOTAL REVENUE (after GST paid)	16,539,999	22,419,057							38,959,056
COSTS									
Land Purchase Cost	4,620,000	4,620,000							9,240,000
Land Acquisition Costs	284,890	284,890							569,780
Construction (inc. Construct. Contingency)	10,444,252	15,966,162							26,410,414
Professional Fees	474,739	725,735							1,200,473
Statutory Fees	177,939	266,752							444,691
Land Holding Costs	199,876	198,762							398,638
Finance Charges (inc. Line Fees)	104,443	159,662							264,104
Interest Expense	721,326	864,336							1,585,662
TOTAL COSTS (before GST reclaimed)	17,027,464	23,086,298							40,113,762
Less GST reclaimed	(1,369,478)	(1,871,469)							(3,240,947)
TOTAL COSTS (after GST reclaimed)	15,657,986	21,214,829							36,872,815

PERFORMANCE INDICATORS									
[1] Gross Development Profit	882,013	1,204,228							2,086,241
[2] Net Developer's Profit after Profit Share	882,013	1,204,228							2,086,241
[3] Development Margin (Profit/Risk Margin)	5.63%	5.68%							5.66%
Target Development Margin	18.00%	18.00%							
[4] Residual Land Value (Target Margin)	2,879,370	2,369,111							5,248,481
[5] Breakeven Date for Cumulative Cash Flow	Aug-2015	Aug-2015							Aug-2015
Discount Rate (Target IRR)	18.00%	18.00%							
[6] Net Present Value @ Start of Stage	(889,195)	(1,065,751)							
Date of Commencement	Oct-13	Oct-13							
Holding Discount Rate 10.00%									
[7] NPV at Start of Consolidated Cash Flow	(889,195)	(1,065,751)							(1,954,946)
[8] Benefit Cost Ratio	0.934	0.941							
[9] Project Internal Rate of Return (IRR)	10.43%	10.74%							10.60%
[10] Residual Land Value (NPV) @ Start of Stage	3,386,173	3,224,437							6,610,610
Peak Debt Exposure	11,687,574	15,813,542							27,501,116
Date of Peak Debt Exposure	Feb-2015	Feb-2015							Jul-2015
[11] Breakeven Date for Project Overdraft	Jul-2015	Jul-2015							
Total Equity Contribution	3,734,165	5,087,623							8,821,788
Peak Equity Exposure	3,734,165	5,087,623							8,821,788
Date of Peak Equity Exposure	Dec-2013	Feb-2014							Jan-2016
[12] IRR on Equity	12.23%	12.66%							12.48%
Weighted Average Cost of Capital (WACC)	6.37%	6.37%							

YIELD ANALYSIS	Qty	Area	Qty	Area	3	4	5	6	7	8	Qty	Area
SALES		SqMi		SqMi								SqMi
Commerical Office	1	0	1	0							2	0
Storage & Warehousing	6,277	6,277	6,277	6,277							12,554	12,554
TOTAL	6,278	6,277	6,278	6,277							12,556	12,554
TENANCIES		SqM		SqM								SqM
Commerical Office		100		100								200
TOTAL		100		100								200

Footnotes (based on current Preferences):

1. Development Profit: is total revenue less total cost including interest paid and received
2. Developer's Net Profit after distribution of profit share.
3. Development Margin: is profit divided by total costs (exc selling & leasing costs)
4. Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
5. Breakeven date for Cumulative Cash Flow: is the last date when total debt and equity is repaid (ie when profit is realised).
6. Net Present Value: is the project's cash flow stream discounted to present value.
   It includes financing costs but excludes interest and corp tax.
7. Net Present Value of each stage at commencement of the consolidated cash flow using the Holding Discount Rate.
8. Benefit:Cost Ratio: is the ratio of discounted incomes to discounted costs and includes financing costs but excludes interest and corp tax.
9. Internal Rate of Return: is the discount rate where the NPV above equals Zero.
10. Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.
11. Payback date for the equity/debt facility is the last date when total equity/debt is repaid.
12. IRR on Funds Invested is the IRR of the equity cash flow including the return of equity and realisation of project profits.