



23 October 2015

Mr Don Muggli
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SYDNEY NSW 2000

To Don,

This letter is an addendum to the previous highest and best use assessment work produced by Urbis in April 2015 on the subject site (77-83 Moore and 165-193 Macquarie Streets, Liverpool).

The purpose of this letter is to assess the feasibility of expressing the minimum non-residential floorspace requirements as a percentage of total GFA, rather than an absolute number (6,000 sq.m in this case).

It is anticipated that this will future proof the site against possible future market changes, whilst still achieving Council's intent. For example, should future final testing reveal that it is no longer feasible to realise the maximum proposed planning potential of the site, a requirement to include a 6,000sqm non-residential component may become a proportionally greater component of a reduced development, potentially precluding such a reduced development on the site.

Development Feasibility Options

In order to test the implications of the proposed planning restrictions, we have included five different development options as part of this addendum. The feasibility analysis has been prepared for each option using the EstateMaster Development Feasibility software. The five possible development options are based on varying areas of retail and commercial floorspace; and residential and serviced apartments, with consideration of the suitability on the subject site. Each of the options have been described below, with Table 1 providing an overview of the land uses and floorspaces (in Gross Floor Area - GFA) in each of the options.

The Preferred Option is consistent with the preferred option tested in the initial feasibility/ highest and best use analysis dated April 2015.

This option has a maximum building height of 100 metres and includes residential, retail, commercial and serviced apartment floorspace.

The Preferred Option (Variation A) is similar to the Preferred Option outlined above however the serviced apartment floorspace from the Preferred Option has been replaced by commercial floorspace. The purpose of this option is to highlight the financial viability of commercial floorspace compared to a combination of serviced apartment and commercial floorspace.

The Alternate Option 1 (Variation A) is based on the Alternate Option 1 from the initial feasibility analysis, with an FSR of 2.1:1 and a maximum height of 70 metres, representing a smaller scale development than the first two options. This option has the amount of non-residential floorspace fixed at 6,000 sq.m, including retail, commercial and serviced apartment uses. There is a reduction in total residential floorspace to allow for the fixed amount of non-residential floorspace.

Alternate Option 1 (Variation B) is similar to Alternate Option 1 (Variation A), however the amount of non-residential floorspace is based on 37.5% of the total GFA (instead of fixed at 6,000 sq.m). This allows for a slight increase in the amount of residential floorspace to 7,000 sq.m. In this option, the non-residential floorspace is split between retail and serviced apartments.

Under this scenario, the retail remains consistent as it is across all options and the rest of the non-residential floorspace is used for serviced apartments only. The non-residential floorspace is solely dedicated to serviced apartments as there is a minimum floorspace threshold for serviced apartments to be feasible and to justify the operations. If this non-residential floorspace was split across commercial floorspace and serviced apartments, then the serviced apartment component would likely not reach this threshold.

Alternate Option 1 (Variation C) is similar to Alternate Option 1 (Variation B), however the non-residential floorspace is instead used for retail and commercial floorspace only. Under this option, the non-residential floorspace is also set at 37.5% of the total GFA and hence the residential floorspace remains consistent with the previous option.

The purpose of this option is to test the implementation of the 37.5% non-residential floorspace threshold when compared to Alternate Option 1 (Variation A), as well as assessing the financial viability of commercial floorspace when compared to serviced apartments (at a smaller scale to the first two options).

The table below outlines the floorspace mix of each scenario:

Development Feasibility Options

77-83 MOORL AND 105-113 MALCOLM STREETS - LIVERPOOL DEVELOPMENT

TABLE 1

	Preferred Option	Preferred Option (Variation A)	Alternate Option 1 (Variation A)	Alternate Option 1 (Variation B)	Alternate Option 1 (Variation C)
Residential (sq.m)	9,634	9,524	5,200	7,000	7,000
Retail (sq.m)	894	910	910	910	910
Commercial (sq.m)	2,182	5,462	2,090	-	3,290
Serviced Apartments (sq.m)	3,186	-	3,000	3,290	-
Total (sq.m)	15,896	15,896	11,200	11,200	11,200
Car Parking	211	221	138	148	157

Assumptions

In order to conduct the feasibility analysis on each of the five options, the following assumptions were made where applicable:

- An initial land acquisition cost of \$5,475,000 (plus GST and transactions) costs has been allowed within our feasibility assessment. This has been based on the current book value of the site and is consistent with the market value of the site.
- In terms of land holding costs, it has been assumed that owner of the subject site pays \$77,500 per annum in land tax and \$22,000 per quarter in council rates. An annual fee of \$10,000 has been included to cover the insurance costs associated with the development (e.g. public liability insurance etc.). These costs will diminish proportionally with settlements. These have been based on actual land holding cost.

- Selling costs/ commission for the retail component has been adopted at 1.5% of sales, as this is considered to be in line with current market rates for large scale project marketing.
- For a feasibility exercise such as this it is recommended to assess the schemes on the basis that the project is 100% debt funded in order to reflect all the potential costs of the development and the real returns. An interest rate of 7.50% over the development has been applied, considered in line with market rates for a development of this type.
- The Section 94 contributions have been calculated in line with the Liverpool City Council's 'Liverpool Contributions Plan 2007 (Liverpool City Centre). The contributions are based on 3% of the development costs for land zoned B3 Commercial Core (where development costs exceed \$1 million).
- Marketing fees for the residential apartments have been adopted on a per unit basis. For the purpose of this feasibility analysis, we have adopted a marketing fee of \$3,500 per unit, as this is considered to be in line with similar marketing campaigns for residential developments.
- The loan application fee adopted is \$100,000 and the line fee as \$200,000.
- Professional fees have been assumed to equal 10% of construction costs. This is comprised of pre-construction (8%) and post construction (2%) professional fees.
- The development management fee adopted is 2% of the project costs.
- Costs and revenues have been escalated at 2.5% per annum.
- A building efficiency rate of 90% has been adopted to convert the Gross Floor Areas (GFA) to Net Lettable Areas (NLAs) for the retail and commercial components when calculating the gross realisations. Residential and serviced apartment revenues have been based on a price per unit analysis.
- The unit mix for residential apartments (1/ 2/ 3 bedroom units) has been kept in line with the conceptual design plans, to remain consistent across all development options.
- Similarly, the average unit sizes have also been kept in line with the conceptual design plans, for the purposes of construction costs and sales revenue.
- Car parking requirements have been calculated in line with the requirements in the JPRA concept design plans, and it has been assumed that these meet the Council's requirements.

Development Costs

The particular cost components included within the feasibility analyses have been included in Table 2 on the following page.

The construction costs have been adopted from the Rawlinson's 'Australian Construction Handbook' (2015 – Edition 33). These estimates are to be used as a guide only and provide the average cost range for a wide selection of typical buildings.

Other costs included within the feasibility have been based upon accepted industry benchmarks and assumptions.

Preferred Option:

The Preferred Option has the highest development cost of all options at approximately \$76.9 million. This is a product of the larger scale of the development under this option in terms of the residential, commercial and serviced apartment components. The high provision of residential, commercial and serviced apartment uses also has larger car parking requirements which will require more basement levels, further impacting overall development cost.

Preferred Option (Variation A):

The Preferred Option (Variation A) has the second highest development cost of all options at approximately \$74.7 million. This option is similar in scale to the first option, however includes a larger commercial component and removes the serviced apartment component. The large scale of the development also has higher car parking requirements due to the higher parking requirements for office (slightly higher than the Preferred Option), requiring more basement levels of parking, which comes at an increased cost.

Alternate Option 1 (Variation A):

Alternate Option 1 (Variation A) has the second lowest development cost of all options at approximately \$54.0 million. This option is a smaller scale of development than the first two options, reaching a maximum height of just 70 metres. The smaller amount of residential floorspace results in lower car parking requirements. Consequently the car parking does not need to extend to as many basement levels, limiting the associated car parking costs.

Alternate Option 1 (Variation B):

Alternate Option 1 (Variation B) has the third highest development cost of these five options at approximately \$55.2 million. The cost is higher than the previous option due to the increase in residential and serviced apartment floorspace, as well as the associated increase in costs for the construction of balconies and car parking for these land uses. This option does not include any commercial floorspace.

Alternate Option 1 (Variation C):

Alternate Option 1 (Variation C) has the lowest development cost of all five options considered, with an estimated development cost of approximately \$52.6 million. This is due to the lack of serviced apartments which have relatively high construction costs when compared to retail and commercial land uses.

Estimated Development Costs

PROJECT NO. 2015-0001, PROJECT NO. 100-000000, PROJECT NO. 100-000000

TABLE 2

Component	Cost		
	Preferred Option (Variation A)	Alternate Option 1 (Variation A)	Alternate Option 1 (Variation B)
Construction Costs			
Demolition	\$154,786	\$154,786	\$154,786
Retail	\$3,549,793	\$3,613,324	\$3,613,324
Commercial	\$6,188,598	\$15,491,348	\$0
Residential	\$29,345,969	\$29,010,899	\$21,322,585
Serviced Apartments	\$11,204,823	\$0	\$11,570,579
Residential and Serviced Apartment Balconies	\$1,350,033	\$1,064,144	\$1,052,232
Car Parking	\$9,515,182	\$9,966,139	\$4,273,979
Total construction costs	\$61,309,184	\$59,300,640	\$41,987,485
Other Costs			
Land Purchase Costs	\$6,022,500	\$6,022,500	\$6,022,500
Professional Fees	\$6,130,918	\$5,930,064	\$4,198,748
Section 94 contributions	\$1,621,264	\$1,568,151	\$1,110,325
Land Holding Costs	\$528,397	\$528,397	\$497,286
Finance Charges	\$700,001	\$700,001	\$683,334
Interest Expense	\$6,177,713	\$6,076,455	\$4,767,228
Project Contingency (2%)	\$1,381,227	\$1,335,977	\$945,931
Total Costs (before GST reclaimed)	\$83,871,204	\$81,462,185	\$60,212,837
Less GST reclaimed	\$7,002,551	\$6,782,382	\$4,978,351
Total Costs (after GST reclaimed)	\$76,868,653	\$74,679,803	\$55,234,486

Table 2: Estimated Development Costs

Gross Realisation

For the purpose of this assessment we have had regard to the direct comparison approach to assess value of the proposed residential, serviced apartment, retail and commercial components. The value of the serviced apartments has been adopted from the figures provided by Leedon Projects (a consultant to the applicant).

In assessing gross realisations for the residential component, we have reviewed new/modern unit sales comparable in quality and location. On this basis the unit sales sourced have been assessed to determine an appropriate price range to apply to the subject units. Sales have been compared on the basis of location, size, quality, aspect and views. The sales revenues adopted for each of the land uses are as follows:

SALES REVENUE RATES

LAND USE	SALE PRICE
Retail	\$6,000/ sq.m
Commercial	\$4,500/ sq.m
Serviced Apartments	\$317,507/ apartment
Residential Apartments	The average sales price varied between options based on their respective unit mix and scale. This feasibility adopted the following average sales prices based on comparable sales prices: Preferred Option: \$427,463 Preferred Option (Variation A): \$427,463 Alternate Option 1 (Variation A): \$426,171 Alternate Option 1 (Variation B): \$426,171 Alternate Option 1 (Variation C): \$426,171 Comparable sales prices for different unit types used to estimate the averages in Options 3-5 are as follows: 1 Bed: \$350,000 2 Bed: \$450,000 3 Bed: \$575,000 The adopted averages for the Preferred Options (Options 1 and 2) are marginally higher due to the premium prices that the apartments will attract due to the higher building heights and increased outlooks. The averages adopted in the preferred option are as follows: 1 Bed: \$370,000 2 Bed: \$470,000 3 Bed: \$595,000



By adopting these sales revenue rates, the gross realisations could be calculated and are shown in Table 3 on the following page. An overview of the gross realisation for each option has been provided below.

Preferred Option:

The Preferred Option has the highest estimated gross realisation of \$91.8 million (after GST). This is influenced by the high number of residential apartments (134 residential apartments), the large commercial floorspace and the largest provision of serviced apartments (72 serviced apartments).

Preferred Option (Variation A):

The Preferred Option (Variation A) has the second highest estimated gross realisation of \$81.8 million (after GST) which is also driven by the large residential component (134 apartments) as well as the large commercial component, which is the largest of all five options.

Alternate Option 1 (Variation A):

Alternate Option 1 (Variation A) has the second lowest estimated gross realisation of \$64.1 million (after GST). The gross realisation is limited by the overall scale of development under this option, with a significantly reduced number of residential apartments (73) and a smaller number of serviced apartments (63) when compared to the first and fourth options.

Alternate Option 1 (Variation B):

Alternate Option 1 (Variation B) has the third highest estimated gross realisation of \$67.1 million (after GST). This option has an increased number of residential apartments (98) when compared to the previous option, as well as an increase in the number of serviced apartments (69). This option does not include any commercial floorspace as part of the non-residential component.

Alternate Option 1 (Variation C):

Alternate Option 1 (Variation C) has the lowest estimated gross realisation of \$58.0 million (after GST). This is predominantly due to the fact that the commercial floorspace does not achieve as high revenue as the same floorspace would achieve as serviced apartments.

Note: The gross realisation for the retail floorspace is marginally higher in the Preferred Option (Variation A) compared to Alternate Option (Variations A-C), despite the floorspace being consistent across these options. This is due to timing of the development being extended due to the larger scale, increasing the length of time that price escalations are applied to these components; however it has no significant impact on the overall feasibility analysis.

Gross Realisations

Component	Cost		
	Preferred Option (Variation A)	Alternate Option 1 (Variation A)	Alternate Option 1 (Variation B)
Gross Sales Revenue			
Retail	\$5,188,111	\$5,270,107	\$5,270,107
Commercial	\$9,497,028	\$9,077,904	\$0
Residential	\$60,182,858	\$32,687,179	\$43,881,419
Serviced Apartments	\$24,567,657	\$21,496,700	\$23,544,005
Total Gross Sales Revenue	\$99,435,654	\$68,531,890	\$72,695,531
Less Selling Costs	-\$2,182,756	-\$1,425,776	-\$1,595,503
Net Sales Revenue	\$97,252,898	\$67,106,114	\$71,100,028
Total Revenue (before GST paid)	\$97,252,898	\$67,106,114	\$71,100,028
Less GST paid on all Revenue	-\$5,471,169	-\$2,971,562	-\$3,989,220
Total Revenue (after GST paid)	\$91,781,729	\$64,134,552	\$67,110,808
			\$58,009,590

Feasibility Outcome Summary

The following section provides an overview of each of the options as to their financial and practical viability, based on the feasibility analysis. Table 4 on the following page provides a summary of the feasibility outcomes.

Preferred Option:

The Preferred Option has the highest net development profit of all options at approximately \$14.9 million, representing a development margin of 18.9%. Typically a viable development should achieve a development return of at least 18-20% to satisfy both the developer and the banks requirements, and hence this option meets this requirement. Despite having the largest net development profit, the development margin is lower than Alternate Option 1 (Variation B).

Preferred Option (Variation A):

The Preferred Option (Variation A) has the second lowest net development profit of all five options at approximately \$7.1 million, representing a development margin of 9.22%. Whilst achieving a net development profit, this option is unlikely to attract the investment/ debt financing required to develop the subject site with a development margin of just 9.22%, which is significantly below both the developers' and banks' typical margin.

Alternate Option 1 (Variation A):

Alternate Option 1 (Variation A) has the third highest net development profit of all options at approximately \$10.1 million, representing a development margin of 18.3%. Despite the reduced scale of this option, this development margin would satisfy the typical requirements of both the developer and the bank and hence is considered a feasible development option. This indicates that the development containing a 6,000 sq.m non-residential component is viable; however we note that this is highly influenced by the contribution of the serviced apartment product.

Alternate Option 1 (Variation B):

Alternate Option 1 (Variation B) has the second highest net development profit of approximately \$11.9 million, representing a development margin of 20.9%. This is the highest development margin of all five options considered and comfortably exceeds the typical requirements of both developers and banks. The financial viability of this option is driven by increased residential component and all non-residential floorspace (making up 37.5% of all GFA) being dedicated to serviced apartment and retail only.

Alternate Option 1 (Variation C):

Alternate Option 1 (Variation C) has the lowest net development profit of all options of approximately \$5.4 million which represents a development margin of 10.02%. This is significantly below the margin that is required for a development to take place. The financial viability of this option is limited by the large provision of commercial floorspace and the lack of serviced apartments which has helped to support development viability under other options. This indicates that focusing a minimum non-residential floorspace percentage of 37.5% predominantly on office is not viable. As such it is unlikely that a planning control that was based purely on a minimum non-residential floorspace percentage without having regard to the nature of the non-residential floorspace may not be workable.

LIVERPOOL PLAZA & FEASIBILITY ADDENDUM

Conclusions and Implications

From this feasibility analysis, it is evident that the Preferred Option, Alternate Option 1 (Variation A) and Alternate Option 1 (Variation B) provide feasible outcomes for development of the site. The development margin achieved in these options satisfies the typical requirements of both banks and developers. The common theme for each of these options is a higher proportion of serviced apartment floorspace as a component of overall non-residential floorspace.

The analysis suggests that the residential and serviced apartment land uses generate an adequate return, while office components generate a relatively poor return where it is the predominant non-residential use. This has implications for setting an absolute number for minimum non-residential floorspace, as the type and nature of non-residential floorspace has a direct bearing on overall project viability.

For the scale of development tested in Alternate Option 1 (Variation A), the 6,000 sq.m non-residential floorspace requirement resulted in a relatively feasible outcome due to the contribution of serviced apartment floorspace. In contrast, the larger development in Preferred Option (Variation A) is not viable as it contains a relatively high volume of office floorspace despite having a higher provision of residential floorspace.

Alternate Option 1 (Variation B) and Alternate Option 1 (Variation C) show that the 37.5% of total GFA designated as non-residential development can be a feasible development option, only where serviced apartments make up the majority of this space, with the ground floor used for retail accommodation. As indicated earlier, the commercial floorspace in this market tends to have a negative impact on the overall financial feasibility of the project.

Consequently, we do not believe that the Council should set the amount of non-residential floorspace at 6,000 sq.m or as 37.5% of the total GFA of a development, as the viability of a project can depend on the types of non-residential land uses included.

Based on our analysis, it is likely that council may need to consider a more flexible range of controls that will ultimately meet their objectives, whilst also retaining flexibility for the developer to structure the development to respond to potential changes in the market. As such we recommend that Council consider the following proposed controls for the site:

- A minimum non-residential floor area of 3,076 sq.m
- A maximum residential floor area of 9,634 sq.m
- Any additional GFA above 12,710 sq.m to be allocated to non-residential floorspace.

We believe that by adopting these controls will still assist Council to ensure that a minimum amount of non-residential floorspace will be developed on the site whilst maintaining financial flexibility for the development. Furthermore, it ensures that any development over a GFA of 12,710 sq.m would have to be directed to non-residential floorspace if it is deemed to be viable.

We trust that this advice will assist you in your considerations.

Yours sincerely,

A handwritten signature in black ink, appearing to read "C. Ostwald" and "S. Gardner".

Clinton Ostwald and Stuart Gardner
Urbis



Planning Proposal

Draft Liverpool LEP 2008 Amendment No. 56

***77-83 Moore Street, 193 Macquarie Street and
165 Macquarie Street, Liverpool***

***Rezoning of Lots 1 & 2 in DP 1189772 and Lot 1 DP
628824 from B3 – Commercial Core to B4 – Mixed Use***

November 2015