



# Hercules Street, Chatswood

Commercial Demand and Viability Analysis

Prepared for Hercules 36 Pty Ltd and Oscar  
Pty Ltd

September 2015

## QUALITY ASSURANCE

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

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# 1 INTRODUCTION

Hill PDA has been engaged to undertake market research on the demand for and viability of the construction of commercial office space in Chatswood. HillPDA was asked to consider the demand for office space for the redevelopment of the Site located 36-50 Hercules St and 256-260 Victoria Ave, Chatswood (Subject Site) being developed by Hercules 36 Pty Ltd and Oscar Pty Ltd (The Client).

Planning controls provide for a floor space ration (FSR) of 2.5:1 with a limit of 1.25:1 Shop Top Housing. An FSR of 0.5:1 is proposed for ground floor retail/childcare uses. The combined FSR for Shop Top Housing and retail/childcare allows for an additional 0.75:1 FSR for commercial office. This equates to 6,700sqm.

In order to advise the client on the commercial demand in Chatswood and more specifically around the Subject Site , this report has been conducted with the following key objectives:

- Undertake research on the demand for office space in Chatswood;
- Undertake research on current sale and rental values of commercial office space;
- Assemble details on the nature of supply (existing, approved and under construction) of new and refurbished space and space withdrawals;
- Investigate the existing commercial floor space and vacancy levels in Chatswood; and
- Advise on providing office space in the proposed development at the Subject Site.

We have also made observations of the risk and effect on the development should the commercial component, in its various configurations such as Strata and or investment stratum, be required to be built.

## 2 SUMMARY OF FINDINGS

The findings of the research were that it is not viable to construct a 6,700sqm commercial building or to provide commercial office space in the development due to various site constraints, site location and low market demand all of which will affect the viability of the whole project.

The following conclusions are made:

- 1) The total development cost of delivering modern commercial space is greater than \$9,000/m<sup>2</sup> of floor space. In this location, because of the distance from the Chatswood train station, and the lack of direct presence of new commercial space to Victoria Avenue, the value of new commercial space is at most \$7,000/m<sup>2</sup>. Consequently, the cost of developing new commercial office space exceeds the value of the resultant space, and therefore even if approved, the commercial space is unlikely to be built.
- 2) Due to the site's location outside the Chatswood CBD, if commercial office space is built above street level, it is likely to remain vacant due to its inconvenient access. There is now, and will likely always be, better located offices within the Chatswood CBD that will be occupied before this site is considered.
- 3) A development with an FSR of approximately 2.5:1, which has a limit on residential floor space of 1.25:1 would include non- residential floor space of over 11,000m<sup>2</sup>. A commercial development of this scale would almost certainly require a pre-commitment from commercial occupiers in order for the project financier to approve the construction loan. It is highly unlikely a commercial pre-commitment could be achieved at this location because small strata occupiers are unable to commit far enough in advance, and large occupiers would not be interested because the site is outside the Chatswood CBD and is substantially separated from other large commercial occupants. Consequently, without the required pre-commitment the entire development would be unable to proceed.

4) The proposed commercial space would be considered too large for a strata title development. As strata title office space is typically subdivided into smaller areas of 50sqm-200sqm, an average strata lot of say 80sqm would involve the sale of 83 strata title lots. Typically, 80% of these lots would need to be sold prior to the commencement of the project. At the current perceived sales rate (which would be lower than the rate of sale achieved by Mirvac in the prime commercial heart of the Chatswood CBD) of two lots per month, it would take 2.8 years to sell the required 66 lots. A construction delay of this magnitude is longer than acceptable for off-the-plan sales contracts and consequently such a delay would prevent construction finance from being accessed.

5) The alternative configuration for a commercial building is as an investment building. This would entail a stratum of the whole project and a pre-leasing commitment in order to:

- Give the developer confidence the project is viable; and

- Provide a project financier confidence and surety that the security is in place to fund the whole development.

In the current uncertain commercial market a developer and lender would require between 30%-50% pre-commitment from a tenant. In Chatswood, the upper end of this range would be the case. This equates to a leasing pre-commitment of 3,350sqm. The research shows that there is reluctance to lease a building when it is part of a larger residential flat building/shop top housing and consequently a sufficient pre-leasing commitment is not likely in this location.

Considering the above issues in totality, if a development at this location were to include a substantial amount of commercial space above ground level, it would render the entire development economically unfeasible.

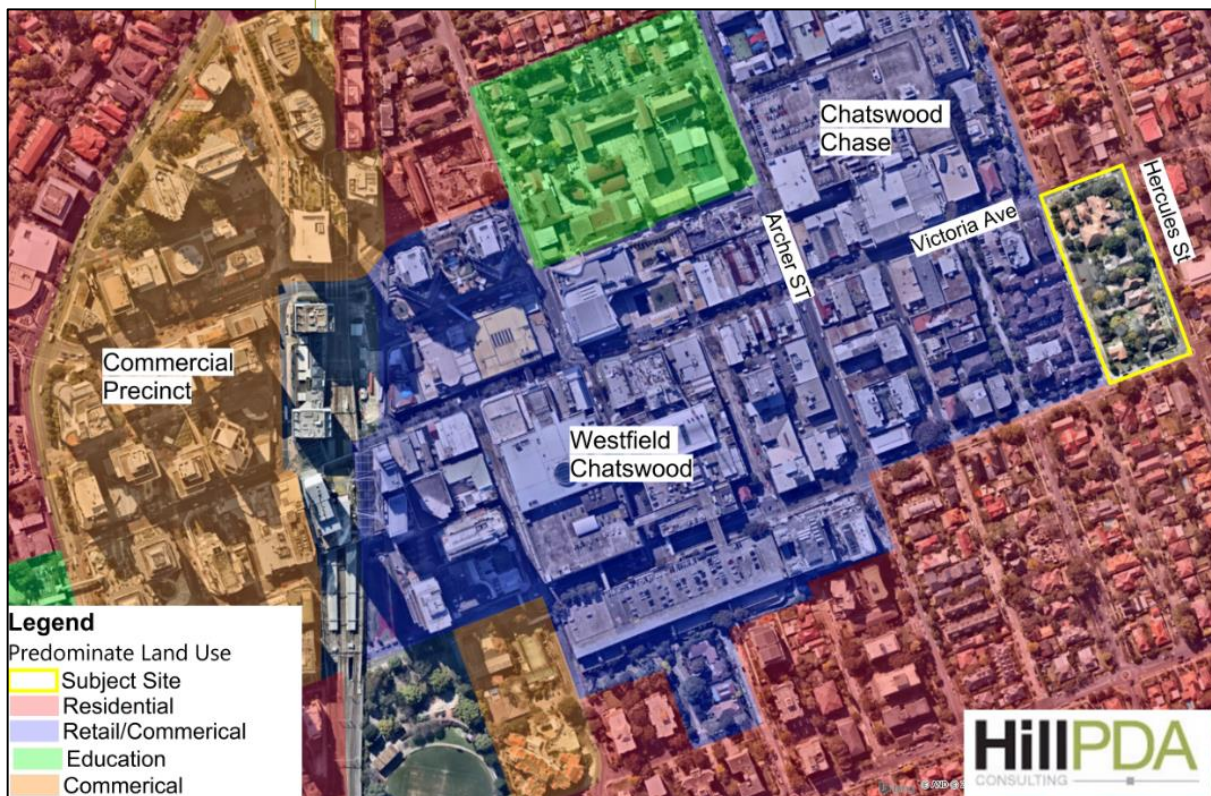




### 3 SITE PARTICULARS

The Subject Site of 8,889 sqm is located at 36-50 Hercules St and 256-260 Victoria Ave, Chatswood. The Subject Site is approximately 10 kilometres north of the Sydney Central Business District (CBD), in the local government area (LGA) of the City of Willoughby. Chatswood is a Major Centre on the North Shore of Sydney providing a range of civic uses and is a regional shopping destination for a broad catchment area. It should be noted the site lies outside the official Chatswood CBD as shown on the Chatswood CBD map located on Willoughby Council Website.

**Figure 1: Aerial Photograph of the Subject Site**



Source: MapInfo

Immediately surrounding the Subject Site is a mixture of single storey residential dwellings, NSW Health buildings and medium density strata titled residential apartment buildings and strata tiled commercial buildings.

#### Current Zoning and Relevant Standards

The Subject Site is designated within the B4 Mixed Use Zone under the City of Willoughby Local Environmental Plan 2012 (LEP).



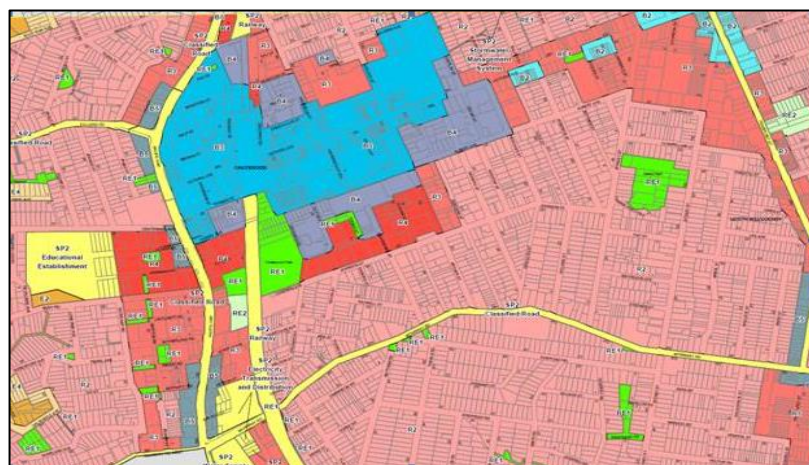
For information purposes we have noted the objectives of this zone, as well as the permissible land uses with consent. A range of additional uses are prohibited and listed in greater detail in the WLEP 2012. The objectives of the B4 Mixed Use zone are to:

- To provide a mixture of compatible land uses;
- To integrate suitable business, office, residential, retail and other development in accessible locations so as to maximise public transport patronage and encourage walking and cycling; and
- To allow for city living on the edges of the city centre of Chatswood, this supports public transport use, shopping, business and recreational services that contribute to the vitality of the centre, without undermining its commercial role.

Developments which may be carried out with consent includes: Boarding houses; Building identification signs; Business identification signs; Child care centres; Commercial premises; Community facilities; Educational establishments; Entertainment facilities; Function centres; Hotel or motel accommodation; Information and education facilities; Medical centres; Passenger transport facilities; Recreation facilities (indoor); Registered clubs; Respite day care centres; Restricted premises; Roads; Seniors housing; Serviced apartments; Shop top housing.

Planning controls provide for a floor space ration (FSR) of 2.5:1 with a limit of 1.25:1 Shop Top Housing. An FSR of 0.5:1 is proposed for ground floor retail/childcare uses. The combined FSR for Shop Top Housing and retail/childcare allows for an additional 0.75:1 FSR for commercial office. This equates to 6,700sqm.

**Figure 2: Zoning Map of Subject Site, Chatswood Major Centre and Surrounds**



Source: WLEP 2012

## 4 MARKET RESEARCH

The following Chapter analyses trends and factors influencing the commercial office in Chatswood. It provides an overview focusing on key market performance indicators, trends, sales and leasing, and development activities.

### Chatswood Office Market Overview

Chatswood has undergone significant transformation over the past decade. The area is characterised by residential towers overtaking commercial office buildings.

The residential market in Chatswood has grown from strength to strength, with residential towers dotting the skyline and 'shop top living' continuing to increase in market acceptance.

The commercial precinct is located between Pacific Highway and the railway line; bounded by the Pacific Highway to the west, Wilson Street to the north, Railway Parade to the east and Albert Avenue to south. Commercial uses comprise larger firms ranging from IT, property development and construction and Government.

Secondary office space is located generally to the east of the railway line within the B3 Commercial Core zone as well as the B4 Mixed Use zone which is primarily focused along Victoria Avenue, Albert Avenue and Neridah Street.

The secondary commercial market differs notably from the prime locations in that it has a strong local focus, with demand generally driven by smaller commercial services (e.g. accounting practices, medical practices, dental surgeries, chiropractic services and beauty services). There are no recent commercial office buildings which have been built on the east side of The Station. The dominant commercial use remains the commercial core on the west side.

The shop top housing provided on the east side of Chatswood is predominantly retail and residential as opposed to retail, commercial office and residential.

The Chatswood office stock has a total net lettable area of 285,245 sqm, accounting for 19.5 per percent of Sydney's North Shore Commercial Market. The breakdown is approximately 157,412sqm for Prime office space and 127,833sqm for secondary office space as shown in Table 1.

Table 1, displays the North Shore. North Sydney Office Market Indicators as at April 2015.

**Table 1: North Shore. North Sydney Office Market Indicators as at April 2015.**

Market	Grade	Total Stock (m2)	Vacancy Rate (%)	Annual Net Absorption (m2)	Avg Net Face Rent (\$/m2)	Outgoings (\$/m2)	Average Incentive (%)	Average Core Market Yield (%)
Chatswood	Prime	157,412	8.7	10,886	439	115	28.7	8.00-8.50
Chatswood	Secondary	127,833	7.6	8,032	371	101	30.3	8.75-9.25
Chatswood	<b>Total Market</b>	<b>285,245</b>	<b>8.2</b>	<b>18,918</b>	<b>408</b>	<b>109</b>	<b>29.4</b>	<b>8.00-9.25</b>
North Shore	<b>Total Market</b>	<b>1,455,804</b>	<b>9.5</b>	<b>8,576</b>	<b>494</b>	<b>112</b>	<b>28.9</b>	<b>6.25-9.25</b>

Source: Knight Frank Research/PCA ^ as at January 2015 \* Incentives on a Gross basis ‡ Incentives are on a Net basis Note. Average data is on a weighted basis Yield ranges reflect the average lower and upper yields for a select basket of office assets in each market and Grade: Prime includes modern and A-Grade stock whilst Secondary includes B, C and D quality Grade.

## Vacancy Rates

In accordance with Table 1 above, vacancy rate for prime office space is 8.7% and 7.6% for secondary office space. The vacancy rates have slightly decreased over the last 12 months, most notably from absorption from a new lease in the Zenith Centre (approximately 3,000sqm).

The slight increase in demand appears to be short term driven by work on major infrastructure projects (eg. Lend Lease leasing 3,000m<sup>2</sup> at Zenith), local Chatswood factors are also playing a role in the revival of leasing activity. The expanded retail and dining precinct at the Chatswood Interchange has resulted in a significant boost to the overall amenity of the market, which, along with a number of other residential projects, has improved the location's appeal for tenants.<sup>1</sup>

Notwithstanding this, in 2016 there is going to be 17,000sqm of backfill space that will need to be absorbed by the commercial market, due to Leighton's relocating to North Sydney. In order for this to not impact the prime commercial market and increase vacancy rates in Chatswood a pre commitment would need to be entered into in advance. This represents 5.96% of the total Prime and Secondary space in Chatswood, and 10.8% of prime alone. This is

<sup>1</sup> Knight Frank North Shore Office Market 2015

a significant factor in development assessment of the viability of commercial office space in Chatswood.

Discussions with agents indicated that there seems to be high vacancy rate for commercial office space along the Pacific Highway with tenants preferring to remain in the commercial core and not on the fringe. This is also a consideration of developers considering development of commercial office away from the commercial core, such as in and around the subject site (fringe east side).

## Market Rents

Referring to Table 1 above, average prime net face rents in Chatswood are around \$439/sqm, with secondary net rents around \$371/sqm with outgoings ranging \$100-\$115 respectively. These are considerably lower than the more popular locations such as North Sydney is at \$641/sqm for Prime office space and \$521/sqm for secondary office space. Incentives for Chatswood range from 28%-30%. These are the highest on the North Shore.

## Achieved Sales Values

The sales market for commercial space in Chatswood is slow, with no-significant sales in the first half of 2015. There is also lack of new office development activity after the completion of No. 1 Pacific Place (also known as ERA) by Mirvac in 2014. This could be attributed to the lack of pre-commitments when considering the softness in economy.

Over the past few years only two major sales have taken place in Chatswood. With one sale in the prime office market taking place at 67 Albert Avenue was acquired for \$81.64 million at a yield of 8.30%. In the secondary office market, 815 Pacific Highway was sold in 2013 for \$29 million. The property was sold with a delayed settlement in December 2014. This development proposes a mixed use development<sup>2</sup>.

## Market Yields

In accordance with discussions with agents and market reports Chatswood prime office space achieved yields range from 8.00% to 8.5%, with secondary office space achieving 8.75% to 9.25%<sup>3</sup>. Again these are some of the highest yields to be found on the North Shore reflecting the lower capital and rental growth and higher leasing risk.

<sup>2</sup> Knight Frank North Shore Office Report 2015

<sup>3</sup> Ibid

## Development Pipeline

A Colliers International, Metro Office Second half 2015 report, states that the despite lowering of vacancies rates, there is no new developments in the pipeline with longer leases tying up existing stock. More specifically Chatswood seems to have pressure to produce more residential. The Colliers report indicates that Chatswood has reached its peak for commercial office development capacity.

Table 2 demonstrates the future development supply for North Sydney, Crow's Nest/ St Leonards and Chatswood. Chatswood achieves no additional floor space over 2015-2017.

**Table 2: Development Pipeline**

	Future Supply by Year (sqm)			
Locale	2015	2016	2017	Mooted
North Sydney (sqm)	0	39,383	0	82,820
Crow's Nest/ St Leonards (sqm)	1,435	0	0	74,800
Chatswood (sqm)	0	0	0	0
<b>Total North Shore (sqm)</b>	<b>1,435</b>	<b>39,383</b>	<b>0,</b>	<b>160,620</b>

Source: PCA July 2015 - Office Market Report

It should be noted the lack of mooted supply of space in Chatswood. It will also be noted below the provision of commercial office in the current market is not considered economically viable. This could be the major reason for there being no new mooted supply in Chatswood.

Furthermore our data research on Cordell Connect development pipeline<sup>4</sup> revealed that there were no new development applications for commercial projects. In late 2014, a three storey office and workshop commercial development submitted a development application and later abandoned the project<sup>5</sup>.

Notwithstanding this the development pipeline displays that the new office supply tends to be in new mixed use developments, such as the Australia Post office site at 45 Victoria St proposing 1,860sqm of

<sup>4</sup> Cordell Connect <http://www.cordellconnect.com.au/>; HillPDA Research 2015

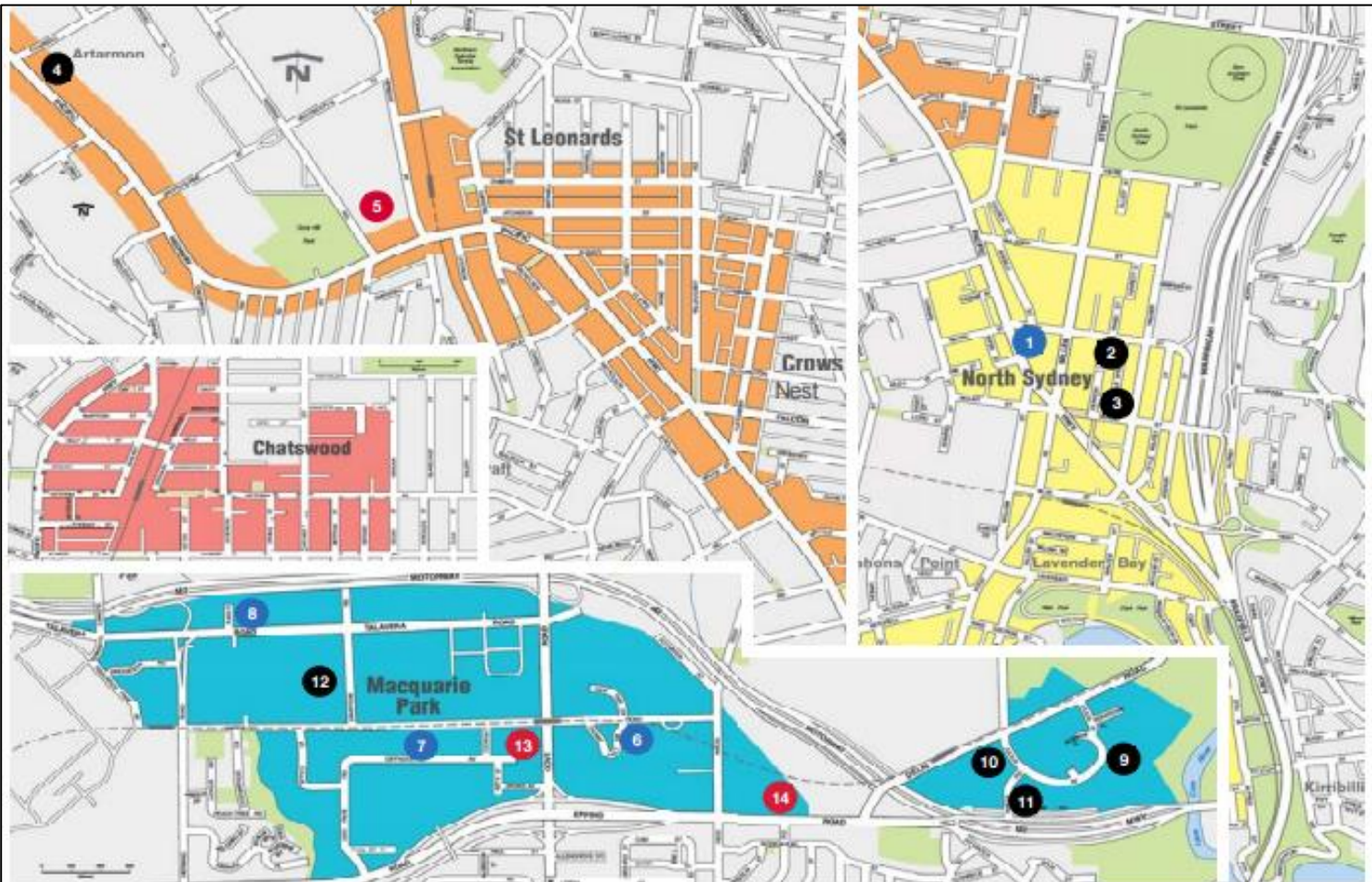
<sup>5</sup> Ausgrid Regional Headquarters, a 3-storey mixed commercial building comprising 7,110 sqm office accommodation and workshop space.



commercial space. However this amount of supply would have a minimal impact on the current market.

Figure 4 demonstrates completed, under construction, DA Approved, mooted or early feasibility for commercial office space in the North Shore Market. It should be noted again that there are no development proposals for Chatswood.

**Figure 3: Commercial Office Supply**



Source of Map: Knight Frank

#### North Sydney

- 1 177-199 Pacific Hwy - 39,144m<sup>2</sup> [Leighton]  
Suntec REIT Q2 2016 - 76% committed
- 2 1 Denison St - 45,270m<sup>2</sup>  
Eastmark Holdings 2018+
- 3 100 Mount St - 40,100m<sup>2</sup>  
Laing O'Rourke 2018+

#### Crows Nest/St Leonards

- 4 Gore Hill Technology Park - up to 46,000m<sup>2</sup>  
Lindsay Bennelong Development 2017+
- 5 Reserve Road, St Leonards - 34,700m<sup>2</sup>  
NSW Govt. Property\* - Site for sale\* - 2018+

#### Macquarie Park/North Ryde

- 6 1 Thomas Holt Drive\* - 11,500m<sup>2</sup> [Metcash]  
AMP Q3 2015 - 80% committed
- 7 52 Waterloo Rd - 10,000m<sup>2</sup> [Novartis]  
Novartis (owner-occupied) - H2 2015
- 8 66-82 Talavera Road - 5,000m<sup>2</sup> [AstraZeneca]  
Holdmark Holdings H2 2016 - 60% committed
- 9 Epicentre at Riverside, Julius Ave - 34,000m<sup>2</sup>  
ISPT 2017+
- 10 39 Delhi Rd - 30,000m<sup>2</sup>  
Stockland 2017+
- 11 1 Rivett Rd (Stage 2) - 11,380m<sup>2</sup>  
Pathway Property 2017+
- 12 8 Khartoum Rd - 11,360m<sup>2</sup>  
Goodman 2017+

- 13 396 Lane Cove Rd - 79,736m<sup>2</sup>  
Winten and Australand 2018+
- 14 29-35 Epping Rd - 14,500m<sup>2</sup>  
Harvey Norman Holdings 2018+

#### Chatswood

N/A

- Under Construction/Complete
- DA Approved/Confirmed/Site Works
- Mooted / Early Feasibility



Source: Knight Frank -North Shore Office Space 2015

## Commercial Sales Evidence

The following table outlines some sales of existing commercial space in Chatswood prime and secondary locations. Discussions with agents indicated that existing office space ranging from 50-100sqm tends to achieve a dollar per square metre rate between \$5,600-\$7,000/sqm NLA.

Agents revealed that new prime office space in Chatswood could achieve between \$7,500-\$8,500/sqm NLA. Agents indicated that on average 2.5 commercial premises would sell per month in Chatswood.

Based on sales analysis in Table 2, proposed new A-Grade commercial space is likely to be selling for between \$6,500/sqm to \$7,500/sqm of NLA, depending on the size. Existing strata office generally achieves between \$3,800 and \$5,600/sqm.

**Table 3: Commercial Sales Activity in Chatswood**

Building Name	Address	NLA (sqm)	Sale Price (\$/sqm)	Sale Date	Comments
No. 1 Pacific Place (Strata Titled)	7 Railway Street Chatswood	50 - 106	\$5,400-\$7,700	2014	Brand New Strata Office constructed in 2014
The Archer (Strata Titled)	63 Archer St	70-91	\$8,000-\$10,000	2014	Fully leased; Constructed in 2011
7 Help Street (Strata Titled)	7 Help Street	67 -265	\$3,800	2014	Secondhand Building constructed circa 1980s
6 McIntosh St (Strata Titled)	6 McIntosh St	66	\$4,515	May-14	Old Building constructed circa 1985
Sage Micropay Building (Torrens Titled)	67 Albert Av Thru Victoria	56,490	\$3,800	May-14	Constructed in 1989 and renovated in 2004
71-73 Archer Street (Strata Titled)	71-73 Archer Street	44-256	\$2,500-\$4,900	Apr- Oct 14	Secondhand Building constructed circa 1980s

Chatswood Village,	47 Neridah Street	62-147	\$2,446-\$5,600	Jul-14	Secondhand Building. Adjacent to Subject Site. Constructed circa 1980s.
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Source: PIM, Savills Research, HillPDA research, 2015

The Archer, 63 Archer Street generally achieves higher sale prices than the newly completed Mirvac development due to its special focus on medical services. Notwithstanding the relatively high sale prices, it is understood that take-up has been slow with 9 of 12 units taking 24 months to sell for this project. Extended selling periods add to the risk and cost of development.

The newly completed Mirvac development at 7 Railway Street incorporates A-Grade Strata office suit (50sqm to 106sqm) over 5 levels and 295 residential units on the upper levels (6-42 levels).

Take up of space here took three years.

Mirvac pre-sold approximately 85% of the strata office between 2011 and 2013, and the remaining 15% in 2014. Average sale rates increased by 3% per annum. Resale offices in this building indicate a capital growth of 7%-17% between 2011 and 2014. Mirvac sold almost 80% of the stock off-plan during 2011 and 2013.

Located directly opposite the Subject Site in Oscar Street is Chatswood Village, an older retail and commercial development. Discussions with real estate agents and industry experts identified that there were mixed opinions regarding the success of commercial space in this development.

It was identified that there was demand for commercial and retail space specifically as it had been fitted out to meet the needs of the local market. For example each suite had its own kitchenette and bathroom amenities as well as afterhours access, all of which are important features for medical, personal service, retail and associated uses.

It is considered the demand for this secondary space is strongly price driven.

## Commercial Leasing Evidence

Currently, there is a lack of leasing activities in Chatswood with the Zenith Centre, located at 821 Pacific Highway being the only major leasing over the past 12 months ending December 2014

Table 4 demonstrates that net rents achieved for existing office space in secondary locations rents between \$350-\$375/sqm, with more prime locations achieving a rent from \$480-\$744/sqm.

**Table 4: Leasing Activity in Chatswood**

Address	Rental pa	Internal Sqm	\$/sqm	Date	Comments
Net rents					
71-73 Archer Street	\$22,500	60	\$375	Jan 2014	Secondhand Building
15 Help Street	\$105,000	300	\$350	Aug - 14	Secondhand Building
12 Thomas Street	\$23,040	46	\$500	Feb - 14	Secondhand Building
Zenith Centre- 821-841 Pacific Highway	n/a	10-646	\$480-\$744	Jan-15	Refurbished Building

Source: Realcommercial.com.au, PIMS, Hill PDA research 2015

- Demand for retail is limited to ground floor with a mix of cafe and restaurants plus child care and fitness facilities. As per the proposed plan this accounts for approximate FSR of 0.5.
- Additional commercial space located on upper levels tends to be vacant due to poor accessibility from the street. We therefore would advise any commercial space on the upper floors be located along Victoria Avenue.

## 5 FINANCIAL VIABILITY OF COMMERCIAL OFFICE SPACE

The subject property is located outside the Chatswood CBD and is largely surrounded by residential and fringe retail uses. HillPDA has carried out an analysis of the viability of developing a typical 1,000sqm of office space into the development. While to maximise the FSR as defined under the planning controls a 6,700sqm building/commercial office could be constructed, this is a test of viability of any component of commercial on the site, hence 1,000 sqm has been adopted.

Approximate Costs of Commercial Space - excluding any land					
Gross Building Area		1,000 sqm			
Lettable area		800 sqm			
Parking ( 1 /50 sqm)		20	cars		
Area per car		40 sqm			
Cost of Offices - Gross Building Area					
Office Building - small specialised building with small floor plates)		\$ 3,000	per sqm		
Underground parking - with excavation in rock		\$ 1,450	per sqm		
Estimated Cost for Offices					
Office Component		1,000 sqm	x	\$ 3,000	= \$ 3,000,000
Parking	20	40 sqm		\$ 1,450	<u>\$ 1,160,000</u>
					\$ 4,160,000
Add Consultants	14%				\$ 582,400
Add Interest (with delay on whole development)					<u>\$ 832,000</u>
Total Cost of Commercial					\$ 5,574,400
Add assumed vacancy	2 years	6.50%			<u>\$ 724,672</u>
					\$ 6,299,072
Add Profit margin		20%			<u>\$ 1,259,814</u>
Revenue that must be assumed to be obtained for	800 sqm	of lettable area			\$ 7,558,886
Revenue per sqm required to justify development - with zero value for land component					<u>\$ 9,449</u>
Capitalised at 8%		8%		\$ 756	net rent per sqm

The analysis shows that to achieve a market-standard development margin (profit) of 20% the office space would need to be sold for \$9,449/sqm. The analysis of the market in the market research section of the report shows that the highest price that could be achieved for commercial in the area might be \$7,000/sqm.

The result is that even if only 1,000sqm was to be put to the market it would not be viable. The loss of this component would need to be subsidised by the more profitable residential and retail portions of the development.

It is noted the analysis uses 1,000sqm. A considerably higher amount of residential and retail would be required to subsidise 6,700sqm of office space.

## 6 CONCLUSION

Chatswood has been well-positioned geographically and strategically to benefit from a shift in residential market demand. The market for new office development is less encouraging, characterised by comparatively low rents, soft yields, high acquisition cost and difficulty to secure pre-commitment.

In summary the following points outlined below demonstrate that the Subject Site is not appropriate for the additional commercial floor space.

The following conclusions are made:

1) The total development cost of delivering modern commercial space is greater than \$9,000/m<sup>2</sup> of floor space. In this location, because of the distance from the Chatswood train station, and the lack of direct presence of new commercial space to Victoria Avenue, the value of new commercial space is at most \$7,000/m<sup>2</sup>. Consequently, the cost of developing new commercial office space exceeds the value of the resultant space, and therefore even if approved, the commercial space is unlikely to be built.

2) Due to the site's location outside the Chatswood CBD, if commercial office space is built above street level, it is likely to remain vacant due to its inconvenient access. There is now, and will likely always be, better located offices within the Chatswood CBD that will be occupied before this site is considered.

3) A development with an FSR of approximately 2.5:1, which has a limit on residential floor space of 1.25:1 would include non- residential floor space of over 11,000m<sup>2</sup>. A commercial development of this scale would almost certainly require a pre-commitment from commercial occupiers in order for the project financier to approve the construction loan. It is highly unlikely a commercial pre-commitment could be achieved at this location because small strata occupiers are unable to commit far enough in advance, and large occupiers would not be interested because the site is outside the Chatswood CBD and is substantially separated from other large commercial

occupants. Consequently, without the required pre-commitment the entire development would be unable to proceed.

4) The proposed commercial space would be considered too large for a strata title development. As strata title office space is typically subdivided into smaller areas of 50sqm-200sqm, an average strata lot of say 80sqm would involve the sale of 83 strata title lots. Typically, 80% of these lots would need to be sold prior to the commencement of the project. At the current perceived sales rate (which would be lower than the rate of sale achieved by Mirvac in the prime commercial heart of the Chatswood CBD) of two lots per month, it would take 2.8 years to sell the required 66 lots. A construction delay of this magnitude is longer than acceptable for off-the-plan sales contracts and consequently such a delay would prevent construction finance from being accessed.

5) The alternative configuration for a commercial building is as an investment building. This would entail a stratum of the whole project and a pre-leasing commitment in order to:

Give the developer confidence the project is viable; and

Provide a project financier confidence and surety that the security is in place to fund the whole development.

In the current uncertain commercial market a developer and lender would require between 30%-50% pre-commitment from a tenant. In Chatswood, the upper end of this range would be the case. This equates to a leasing pre-commitment of 3,350sqm. The research shows that there is reluctance to lease a building when it is part of a larger residential flat building/shop top housing and consequently a sufficient pre-leasing commitment is not likely in this location.

Considering the above issues in totality, if a development at this location were to include a substantial amount of commercial space above ground level, it would render the entire development economically unfeasible.



## Disclaimer

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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:

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.



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