

Our Ref: 17053
19 January 2018

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Robert Cologna
Senior Manager Land Use Planning
Parramatta City Council
126 Church Street
Parramatta NSW 2150

Private and Confidential - Without Prejudice

Dear Robert

RE: 302 Church Street - Third Offer

Thank you for taking the time to meet with us on Monday 8 January, we understand you have a busy schedule and appreciate the input and guidance from both yourself and Jan Macready. At the meeting we promised to provide further details about the updated offer made in December to Rafu Pty Ltd with regard to the potential purchase of their land at 302 Church Street. This was sent through in an earlier email but please find it attached to this letter for your convenience (**Attachment A**).

The third offer, at \$14.25m, represents a substantial increase on the two previous offers (\$3.25m more) and seeks to share the potential value uplift between the existing landowner and JHJ Group Pty Ltd. The offer was proposed on a two (2) year settlement period from exchange. The proposed settlement period is required to allow JHJ Group to complete the necessary steps to amend the planning controls for the site, and is consistent with standard practice for sites where an amendment to the planning controls is required.

In calculating their offer JHJ Group Pty Ltd have considered the following.

1. The site's development potential

It has been assumed that a base FSR of 10:1 is achievable for the site as a minimum, with the following bonuses also taken into account:

- Potential uplift of 3:1 due to the land forming part of an Opportunity Site.
- Design Excellence Bonus of 1.5:1 subject to Design Excellence Process funded by JHJ Group.
- Sustainability Bonus of 0.5:1 subject to meeting the relevant Sustainability Criteria.

It is noted that these bonuses are only available upon meeting certain process, design and sustainability criteria to the satisfaction of Council. The additional time, expense and risk in achieving the bonus FSR also needs to be taken into consideration. The latest offer therefore reflects the certainty of the 10:1 available to the site and gives significant consideration to the further 5:1 in bonus FSR that could potentially be achieved subject to meeting the Council's requirements.

2. Matters for consideration

Having formed the basis of the site's development potential, the revised purchase offer has taken into consideration several other factors including:

- The costs associated with terminating leases and where necessary relocating tenants. A number of tenants within 302 Church Street have leases expiring beyond 2020 (e.g. Japanese Restaurant exp. 2022, Hairdressing salon exp. 2025, Vietnamese Restaurant exp. 2022). Each of these tenants will need to be compensated for early lease termination and will likely seek assistance and costs for relocating to a new premise, all of which will need to be funded by JHJ Group Pty Ltd if they acquire the site.

- The costs associated with holding the site during the planning and development process. Depending on the nature of the agreement between the JHJ Group and Rafu Pty Ltd, there would likely be some form of costs associated with holding the site.
- The costs associated with securing the site's rezoning, for example application fees and the significant consultancy costs incurred by JHJ Group to secure any uplift for 302 Church Street.
- Risks to JHJ Group Pty Ltd associated with uncertainty in the residential market. We note there has been a recent downturn in the residential market with pre-sales cooling off significantly during 2017.
- Risks to JHJ Group Pty Ltd associated with securing the rezoning (i.e. it's not a given that the rezoning will be supported).
- Developers share of the uplift vs share of the uplift attributed to the existing landowner.
- The requirement for JHJ Group Pty Ltd to fund Section 94 Contributions for any future development.
- The requirement for JHJ Group Pty Ltd to fund any other relevant payments and/or infrastructure contributions to Parramatta City Council or the State Government. For instance, the Planning Uplift Value Sharing mechanism recently exhibited by the Council, and any future State Infrastructure Contribution.

From the above it is evident that JHJ Group Pty Ltd will be taking on greater project risk due to the larger site, increased debt, higher finance costs and continued market uncertainty. It is acknowledged that the current owner of 302 Church Street should receive a portion of the uplift value for their site, however given JHJ Group Pty Ltd are taking on all the risk, making a significant financial commitment to purchasing the site, and solely responsible for creating the 'opportunity', it is reasonable for them to be entitled to the larger share of the site's value uplift.

3. Calculating the Offer

Land at 302 Church Street has a total site area of 776.5m² (see attached Survey Plan). A FSR of 15:1 for the site equates to a maximum GFA of 11,647m². Of the total GFA potentially available to the site, the Parramatta Planning Controls stipulate that a minimum 1:1 FSR needs to be used for non-residential purposes, equating to 776.5m². The remaining 10,871m² is therefore theoretically available for residential purposes under the proposed LEP controls.

Applying a 75% efficiency (GFA to NSA) within the residential component equates to a Net Saleable Area (residential) of 8,153m². Using an average apartment size of 75m² this equates to approximately 109 apartments for the residential component. In summary, under an amalgamated scenario the maximum development potential of 302 Church Street is therefore calculated as follows:

- 776.5m² of non-residential floorspace (i.e. retail/commercial);
- 109 apartments at average of 75m² each.

JHJ Group Pty Ltd have relied on their experience and knowledge of the Parramatta market to calculate the land value for 302 Church Street. According to JHJ Group Pty Ltd the current going rate for development sites that are appropriately zoned, and which do not require rezoning (i.e. a DA can be prepared and lodged immediately) is between \$150K - \$160K per apartment and approximately \$1,600/m² for non-residential floorspace. To confirm, these are generalised rates used by the development industry to calculate the land value of a building site ready for DA lodgement.

The site at 302 Church Street is not ready for a DA to be lodged, but requires a lengthy, costly and somewhat risky planning process to secure the site's rezoning and realise the land's full development potential. It would therefore be unreasonable in this instance for the raw land value to be calculated on rates that have been paid for DA ready sites as this would effectively award all of the value uplift to the existing landowner without them having taken onboard any risks or costs associated with securing that uplift. Accordingly, a discounted rate is that acknowledges the site's potential, reflects the matters for consideration outlined earlier, and which equitably shares the value uplift between the existing landowner and JHJ Group Pty Ltd as the developer.

Taking the above into consideration JHJ Group Pty Ltd have calculated the raw land value based on discounted rates of \$120K per apartment and \$1,500/m² for the non-residential component. Using this approach JHJ Group have arrived at their offer for 302 Church Street as shown in **Table 1** below.

Table 1 – Offer Calculation

302 Church Street – Offer Calculation*		
Site Area	776.5m ²	
Gross Floor Area (GFA)		
Maximum	11,647m ²	776.5m ² @ 15:1 FSR)
Non- Residential	776.5m ²	Min 1:1 FSR
Residential	10,871m ²	Max 14:1 FSR
Net Saleable Area (NSA)		
Non- Residential NSA	776.5m ²	@ 100% of GFA
Residential NSA	8,153m ²	@ 75% of GFA
Residential Apartments	109 apartments	8,153m ² / 75m ² per apartment
Calculation of Land Value – Value for a DA ready site		
Non- Residential	\$1,242,400	776.5m ² @ \$1,600/m ²
Residential	\$17,440,000	109 apartments @ \$160,000
TOTAL	18,682,400	
Calculation of Land Value – Site requiring rezoning (used as the basis for third offer)		
Non- Residential	\$1,164,000	776.5m ² @ \$1,500/m ²
Residential	\$13,080,000	109 apartments @ \$120,000
TOTAL	\$14,244,000	

**Note that this is not a proper valuation but rather an explanation of the methodology used to calculate the purchase offer price.*

Based on the outputs of the calculations shown in **Table 1** we note the following:

- The land value of 302 Church Street under a scenario where the site is 'DA ready' is estimated to be \$18,682,400. This has been calculated using current market rates of \$160K per apartment and \$1,600/m² for the non-residential component.
- By comparison, using the discounted rates to reflect the need to rezone the site, the land value is calculated to be \$14,244,000.
- The current 'market value' of the property is calculated to be \$10,500,000 based on the Valuation Report (July 2017) prepared by M3 Property Strategists.
- The potential land value uplift as a result of the site's successful rezoning to a FSR of 15:1 is therefore estimated to be approximately \$8,182,400.
- An offer of \$14,250,000 has been tabled to the owners of 302 Church Street. At this value the current owners will be receiving \$3,750,000 of the overall uplift in the site's land value, representing 45.8% of the value uplift despite the fact that they will not be taking on board any risks or incur any additional costs associated with holding the site, terminating lease arrangements, infrastructure contributions etc.
- JHJ Group Pty Ltd, as the party that is creating the opportunity, incurring all the additional costs, and taking on board all of the risk, will be receiving 54.2% of the land value uplift.

As demonstrated above, the latest offer tabled to the owners of 302 Church Street therefore clearly represents a fair and equitable offer that takes into consideration the site's potential value uplift. Indeed, it would be reasonable to argue that the current owners would be getting significantly more than a fair and reasonable offer given that they are taking on board none of the risk.

It is noted that the offer of \$14.25M is some \$3.75M above the site's valuation based on the existing tenancy arrangement. The latest offer is the third offer made by JHJ Group Pty Ltd to acquire the land, and represents the maximum value that JHJ Group Pty Ltd are willing to pay for the site. Indeed, we note that the offer represents the highest possibly amount that the owners of 302 Church Street will receive for their land, particularly as the site is only able to achieve a theoretical maximum FSR of circa 6:1 is developed on its own.

As of today, JHJ Group Pty Ltd are yet to receive a formal response from Rafu Pty Ltd, the owners of 302 Church Street. In most recent correspondence JHJ Group Pty Ltd has advised Rafu Pty Ltd that a response to the offer is required by 29 January 2018. Rafu Pty Ltd has been advised that should a response not be received by this time then it will be taken as though the offer has been rejected. We will inform Parramatta Council as soon as there is any further news with regards to these negotiations.

I trust this information assists Council with the ongoing review of the Planning Proposal. We would be happy to discuss any of the above with you and your colleagues if necessary. In the meantime should you have any queries or require us to clarify any of the matter outlined above please feel free to contact me on 9409 4953.

Yours sincerely,



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