

25 August 2015

**PRIVATE & CONFIDENTIAL**

Doug Auchterlonie  
Develco Pty Limited  
Level 1 Unit 8 44-48 O'Dea Avenue  
Waterloo NSW 2017

Via email: [dauchterlonie@develco.com.au](mailto:dauchterlonie@develco.com.au)

Dear Doug,

**14-16 & 18-20 Orion Road, Lane Cove NSW**

**1. Instructions**

We refer to instructions dated 22 July 2015 from Mr Doug Auchterlonie of Develco Pty Limited requesting Jones Lang LaSalle to provide an Indicative Development Feasibility Analysis on:

- 14-16 Orion Road, Lane Cove; and
- 18-20 Orion Road, Lane Cove.

We have been specifically instructed to undertake this feasibility analysis on the basis of an industrial unit development in compliance with the current town planning controls.

We understand that under a Deed between the property owner and Lane Cove Council, the subject property is permitted to build a commercial office building with Gross Floor Area of 11,948 square metres, and that no Section 94 contributions would be payable under this Deed. We have been specifically instructed not to have regard to the conditions of this Deed for the purposes of this feasibility analysis, and we confirm that this feasibility analysis has been undertaken on the basis of the prevailing town planning controls only.

**2. Site and Surrounds**

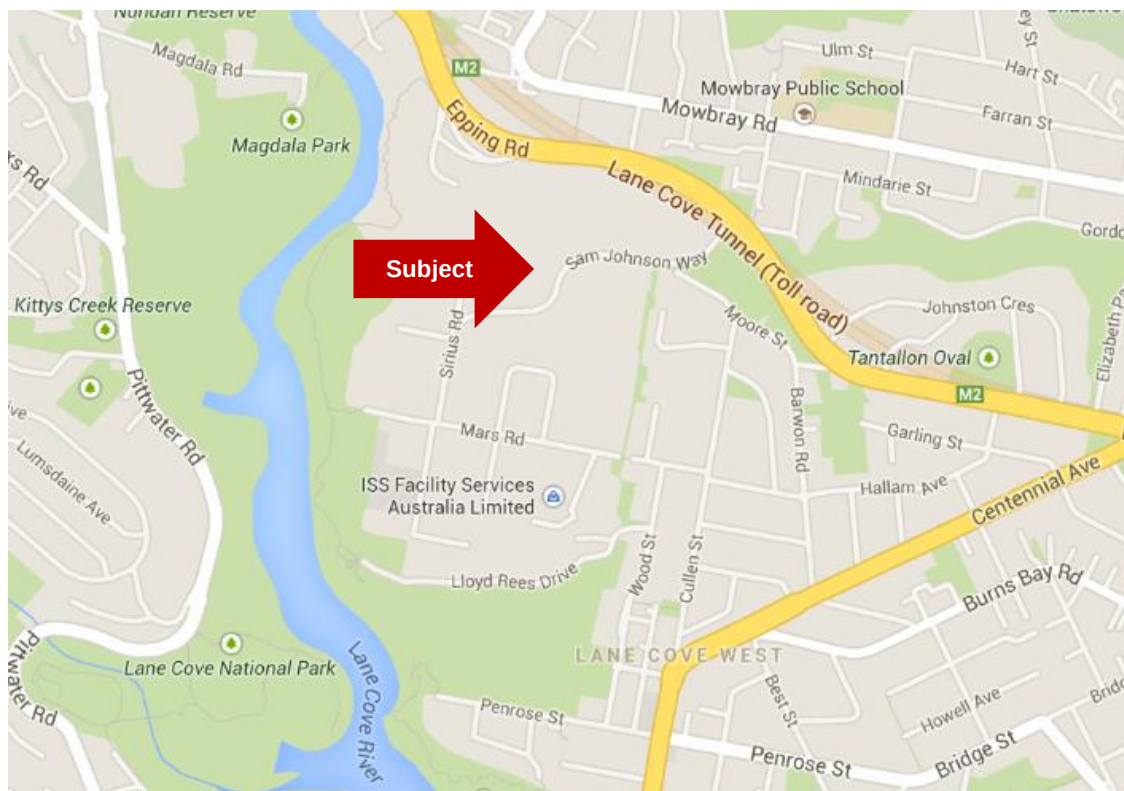
The property was inspected on 18 August 2015.

The subject property is located within an area administered by Lane Cove Council. It is more particularly situated on the western side of Orion Road, Lane Cove, approximately 400 metres south of the intersection with Epping Road. The property is situated within the Lane Cove West industrial area attaining elevated area views and 18-20 Orion Road has signage exposure to Epping Road. The Lane Cove West industrial area is located approximately 13 kilometres north west of the Sydney GPO by road and is within convenient proximity to the Chatswood, Macquarie Park and North Sydney business districts.

Surrounding development comprises predominantly industrial buildings along with a mix of commercial/hi-tech office buildings, including a range of large single-occupier premises and modern multi-unit estates. A limited number of medium rise office buildings are also situated within the surrounding area, providing alternative low cost office accommodation to the established North Shore office markets of North Sydney, St Leonards, Chatswood and Macquarie Park. Lane Cove West also provides a number of older style industrial premises occupied by self-storage establishments, removalists, medical research facilities, food preparation premises and a variety of small business uses.

Lane Cove West is an established location with adequate access to major transport routes including the M2 Hills Motorway, Gore Hill Freeway, Epping Road, the Pacific Highway and Lane Cove Road. Bus routes operate along Epping Road and into the Lane Cove West industrial area along Sam Johnson Way, Orion Road and to Mars Road.

The following map identifies the approximate location of the Property:



Source: Google Maps

The following aerial photograph identifies the approximate boundaries of the respective subject sites:



Source: RPData

### 3. Subject Sites

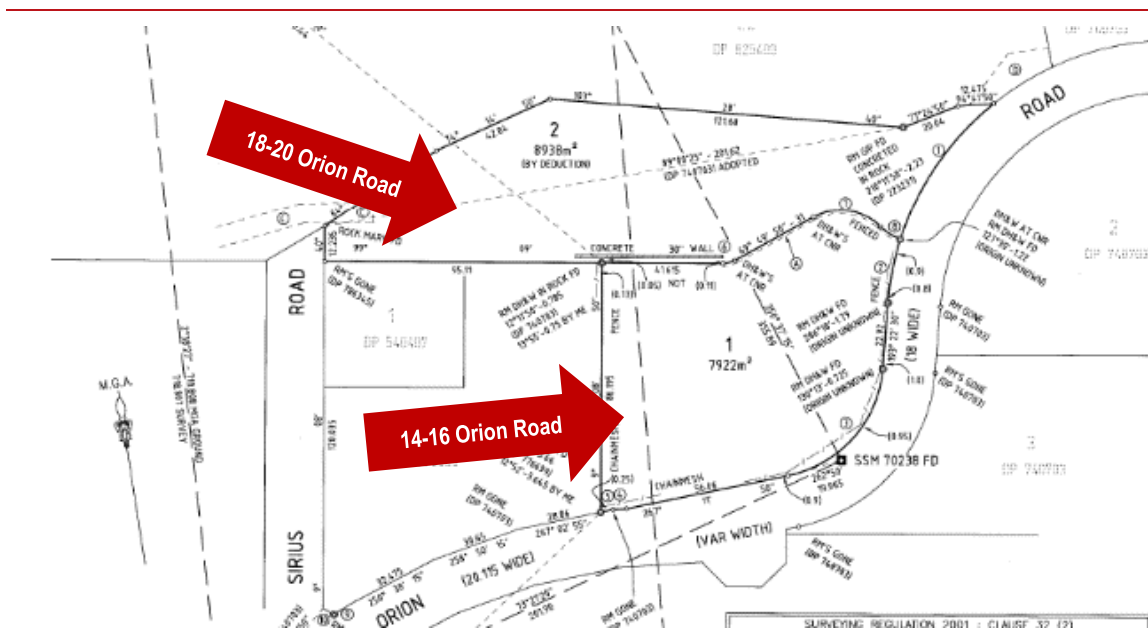
#### 14-16 Orion Road, Lane Cove

|                               |                                                                                                                        |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>Title Reference:</b>       | 1/1095363                                                                                                              |
| <b>Tenure:</b>                | Freehold                                                                                                               |
| <b>Description:</b>           | Lot 1 in Deposited Plan 1095363, in the Local Government Area of Lane Cove, Parish of Willoughby, County of Cumberland |
| <b>Registered Proprietor:</b> | Ducru Pty Limited                                                                                                      |
| <b>Site Area:</b>             | <b>Site Area of Lot 1 in DP 1095363: 7,922m<sup>2</sup></b> (as per Deposited Plan)                                    |
| <b>Zoning:</b>                | IN2 – Light Industrial, under Lance Cove Local Environmental Plan 2009                                                 |

#### 18-20 Orion Road, Lane Cove

|                               |                                                                                                                        |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>Title Reference:</b>       | 2/1095363                                                                                                              |
| <b>Tenure:</b>                | Freehold                                                                                                               |
| <b>Description:</b>           | Lot 2 in Deposited Plan 1095363, in the Local Government Area of Lane Cove, Parish of Willoughby, County of Cumberland |
| <b>Registered Proprietor:</b> | Ducru Pty Limited                                                                                                      |
| <b>Site Area:</b>             | <b>Site Area of Lot 2 in DP 1095363: 8,938m<sup>2</sup></b> (as per Deposited Plan)                                    |
| <b>Zoning:</b>                | IN2 – Light Industrial, under Lance Cove Local Environmental Plan 2009                                                 |

An excerpt of the Deposited Plan is shown below:



Source: SAI Global





14-16 Orion Road – Site Frontage to Orion Road



14-16 Orion Road – rear of site., adjoining 18-20 Orion Road



18-20 Orion Road – internal site view and existing office building



14-16 Orion Road – internal site view

#### 4. Town Planning Controls

We reiterate from Section 1 of this report that we have been specifically instructed to undertake this feasibility analysis on the basis of an industrial unit development in compliance with the current town planning controls. We emphasise however that we are not town planners or architects.

From our review of the Lane Cove Local Environmental Plan 2009, we report that the planning controls are summarised as follows:

|                                   |                                         |
|-----------------------------------|-----------------------------------------|
| <b>Planning Instrument</b>        | Lane Cove Local Environmental Plan 2009 |
| <b>Zoning:</b>                    | IN2 – Light Industrial                  |
| <b>Building Height:</b>           | 18 metres                               |
| <b>Maximum Floor Space Ratio:</b> | 1:1                                     |
| <b>Acid Sulphate Soils:</b>       | No                                      |
| <b>Heritage:</b>                  | No                                      |
| <b>Lot size:</b>                  | No control                              |
| <b>Land Reservation:</b>          | No                                      |



## 5. Proposed Development Overview

We have not been provided with a concept design scheme for a complying development under the current town planning controls, nor have we been provided with a detailed development cost estimate. Having regard to the site constraints, reflecting the shape and steep topography, we have been instructed to assume a development with FSR of 0.75:1 and a development cost of \$1,800/sqm of GFA.

With respect to a potential design scheme and the development cost, we emphasise that we are not architects or Quantity Surveyors, nor are we engineers or town planners, and therefore we cannot comment on the accuracy of the construction cost estimates provided. The formulation of a potential design scheme and the development cost is not our area of expertise and therefore the information herein can be considered to be indicative only, and not authoritative. Whilst we have made our own investigations in regard to quantifying and cross-checking these costs using Rawlinsons Australian Construction Handbook 2015, should the various costs be found by a Quantity Surveyor or other expert to be significantly different to those adopted in our assessment, any estimates should be forwarded to the JLL for review and we reserve the right to amend our assessment accordingly.

For feasibility analysis purposes we have adopted the following hypothetical industrial development schemes for the subject sites, which are summarised in the table below:

| Hypothetical Industrial Development                                        | 14-16 Orion Road | 18-20 Orion Road |
|----------------------------------------------------------------------------|------------------|------------------|
| Site Area                                                                  | 7,922            | 8,938            |
| Maximum Floor Space Ratio (FSR) under LEP (1:1)                            | 1                | 1                |
| Adopted Floor Space Ratio                                                  | 0.75             | 0.75             |
| Equated maximum Gross Floor Area (GFA) based on adopted FSR                | 5,942            | 6,704            |
| Average Hypothetical Industrial Unit Area                                  | 500              | 500              |
| Equated number of Industrial Units based on Average Unit Area and GFA      | 11.883           | 13.407           |
| Rounded Number of Industrial Units in a Potential Hypothetical Development | 12               | 13               |

As noted above the prevailing maximum allowable Floor Space Ratio under the Lane Cove LEP is 1:1; however we have been instructed to assume a development with FSR of 0.75:1 given the site constraints, reflecting the shape and the steep topography of both sites. As a cross-check of our adopted FSR, we have analysed the approximate FSR achieved within other modern industrial unit developments in Lane Cove West. These are noted as follows:

2 Chaplin Drive (built 2003): 0.79:1  
31 Chaplin Drive (built 2001): 0.73:1  
4 Chaplin Drive (built 2001): 1.74:1

As shown above the adopted FSR appears to be in line with other modern developments in Lane Cove West industrial area.

For feasibility analysis purposes we have adopted the provided cost estimate and have made allowances for statutory fees, professional fees and a contingency.

For the purpose of this assessment we have assumed that the full 10% GST will apply to all of the construction costs, excluding any contributions and levies to statutory authorities which are not subject to GST.



The development will also incur additional non-construction or soft development costs which are included in our financial feasibility analysis set out later within our report. These costs are:-

- Advertising/promotion;
- Legal fees;
- Development Management;
- Agents' commissions; and
- Holding costs (rates & taxes).

## 6. Market Evidence

In arriving at an appropriate rate to adopt per square metre of proposed GLA (end value) within our Gross Realisations calculations, we have had regard to the following market evidence of recent sales of industrial strata units within the Lane Cove West industrial precinct.

| Address                             | Sale Date | Sale Price  | Internal Area (sqm) | Rate \$/sqm |
|-------------------------------------|-----------|-------------|---------------------|-------------|
| 10/2 Chaplin Drive, Lane Cove West  | Jan-14    | \$425,000   | 151                 | \$2,815     |
| 3/4 Chaplin Drive, Lane Cove West   | Sep-14    | \$665,000   | 206                 | \$3,228     |
| 4/4 Chaplin Drive, Lane Cove West   | Jun-14    | \$530,000   | 199                 | \$2,663     |
| 15/4 Chaplin Drive, Lane Cove West  | Apr-15    | \$450,000   | 148                 | \$3,041     |
| 17/4 Chaplin Drive, Lane Cove West  | Apr-15    | \$435,000   | 147                 | \$2,959     |
| 9/9 Chaplin Drive, Lane Cove West   | Jan-14    | \$510,000   | 192                 | \$2,656     |
| 2/31 Chaplin Drive, Lane Cove West  | Jun-14    | \$670,000   | 269                 | \$2,491     |
| 12/31 Chaplin Drive, Lane Cove West | Nov-14    | \$695,000   | 252                 | \$2,758     |
| 1/21 Mars Road, Lane Cove West      | Jun-15    | \$2,550,000 | 1,753               | \$1,455     |
| 5/21 Mars Road, Lane Cove West      | Mar-14    | \$780,000   | 440                 | \$1,773     |

The sales above range from \$1,455 to \$3,228 per square metre of internal strata area.

## 7. Residual Feasibility Analysis

This method measures the price that a developer could afford to pay for the development site after making appropriate allowances for holding charges, development costs, transaction costs, etc. and a reasonable profit on the venture after taking into account the risks involved. This analysis assumes 100% debt financing.

Our assessment of value has been undertaken utilising the Estate Master Model version 5.32.

In our feasibility calculations we have either assessed a base residual value or 'as is' assessment for the subject property as appropriate utilising a number of key assumptions, inputs and considerations as follow:-

### 14-16 Orion Road, Lane Cove

| Feasibility Inputs                                                         | 14-16 Orion Road Feasibility Analysis Summary |
|----------------------------------------------------------------------------|-----------------------------------------------|
| Rounded Number of Industrial Units in a Potential Hypothetical Development | 12                                            |
| Equated maximum Gross Floor Area (GFA) based on adopted FSR                | 5,942                                         |
| Adopted rate per square metre As If Complete in current market             | \$2,100                                       |
| Equated Gross Realisation                                                  | \$12,477,150                                  |
| Average Value per Industrial Unit based on Gross Realisation and GFA       | \$1,039,763                                   |

| Feasibility Inputs                                                                       | 14-16 Orion Road Feasibility Analysis Summary |
|------------------------------------------------------------------------------------------|-----------------------------------------------|
| Lead In Period                                                                           | 9 months                                      |
| Construction Costs Per Square Metre [exclusive of GST]                                   | \$1,800                                       |
| Equated Construction Costs (exclusive of GST)                                            | \$10,694,700                                  |
| Demolition Cost                                                                          | \$0                                           |
| Section 94 Contribution @ \$42/sqm of GFA                                                | \$249,543                                     |
| Long Service Levy @ 0.35%                                                                | \$37,431                                      |
| Construction Certificate Fee                                                             | \$10,000                                      |
| Construction Contingency Allowance                                                       | 5.00%                                         |
| Development Interest Rate                                                                | 6.00%                                         |
| Establishment Fee                                                                        | \$50,000                                      |
| Agents Selling Fees                                                                      | Nil ('develop to hold' scenario)              |
| Marketing Costs                                                                          | \$0                                           |
| Legal Costs Upon Sale (exclusive of GST)                                                 | \$5,000                                       |
| Hurdle Rate (Profit & Risk)                                                              | 10.00%                                        |
| Hurdle Rate (Internal Rate of Return)                                                    | 15.00%                                        |
| Net Development Profit                                                                   | <b>-\$325,399</b>                             |
| Residual Land Value - Based on Target Development Margin of 10.00%                       | <b>-\$1,345,039</b>                           |
| Residual Land Value (based on Project Internal Rate of Return - Discount Rate of 15.00%) | <b>-\$693,893</b>                             |

#### 18-20 Orion Road, Lane Cove

| Feasibility Inputs                                                         | 18-20 Orion Road Feasibility Analysis Summary |
|----------------------------------------------------------------------------|-----------------------------------------------|
| Rounded Number of Industrial Units in a Potential Hypothetical Development | 13                                            |
| Equated maximum Gross Floor Area (GFA) based on adopted FSR                | 6,704                                         |
| Adopted rate per square metre As If Complete in current market             | \$2,100                                       |
| Equated Gross Realisation                                                  | \$14,077,350                                  |
| Average Value per Industrial Unit based on Gross Realisation and GFA       | \$1,082,873                                   |
| Lead In Period                                                             | 9 months                                      |
| Construction Costs Per Square Metre [exclusive of GST]                     | \$1,800                                       |
| Equated Construction Costs (exclusive of GST)                              | \$13,272,930                                  |
| Demolition Cost                                                            | \$3,600,000                                   |
| Section 94 Contribution @ \$42/sqm of GFA                                  | \$281,547                                     |
| Long Service Levy @ 0.35%                                                  | \$46,455                                      |
| Construction Certificate Fee                                               | \$10,000                                      |
| Construction Contingency Allowance                                         | 5.00%                                         |
| Development Interest Rate                                                  | 6.00%                                         |
| Establishment Fee                                                          | \$50,000                                      |
| Agents Selling Fees                                                        | Nil ('develop to hold' scenario)              |
| Marketing Costs                                                            | \$0                                           |



| Feasibility Inputs                                                                       | 18-20 Orion Road Feasibility Analysis Summary |
|------------------------------------------------------------------------------------------|-----------------------------------------------|
| Legal Costs Upon Sale (exclusive of GST)                                                 | \$5,500                                       |
| Hurdle Rate (Profit & Risk)                                                              | 10.00%                                        |
| Hurdle Rate (Internal Rate of Return)                                                    | 15.00%                                        |
| Net Development Profit                                                                   | <b>-\$5,160,365</b>                           |
| Residual Land Value - Based on Target Development Margin of 10.00%                       | <b>-\$5,951,965</b>                           |
| Residual Land Value (based on Project Internal Rate of Return - Discount Rate of 15.00%) | <b>-\$4,715,344</b>                           |

## 8. Conclusion

As shown above, based on the adopted hypothetical development schemes and construction cost estimates, our feasibility analyses for both 14-16 and 18-20 Orion Road result in negative residual land values.

Our assessments are subject to the qualifications and limitations as outlined above within this letter.

This feasibility exercise has been undertaken in accordance with our instructions based upon a set of assumptions and variables provided to JLL. As such it can be considered as an indicative exercise only and not an authoritative guide.

We reiterate that we are not architects or Quantity Surveyors, nor are we engineers or town planners, and therefore we cannot comment on the accuracy of the hypothetical development schemes or construction cost estimates provided.

Should you have any queries regarding the above, please contact the undersigned.

**Jones Lang LaSalle Advisory Services Pty Ltd**

**Tim Barwick**

Director, JLL

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