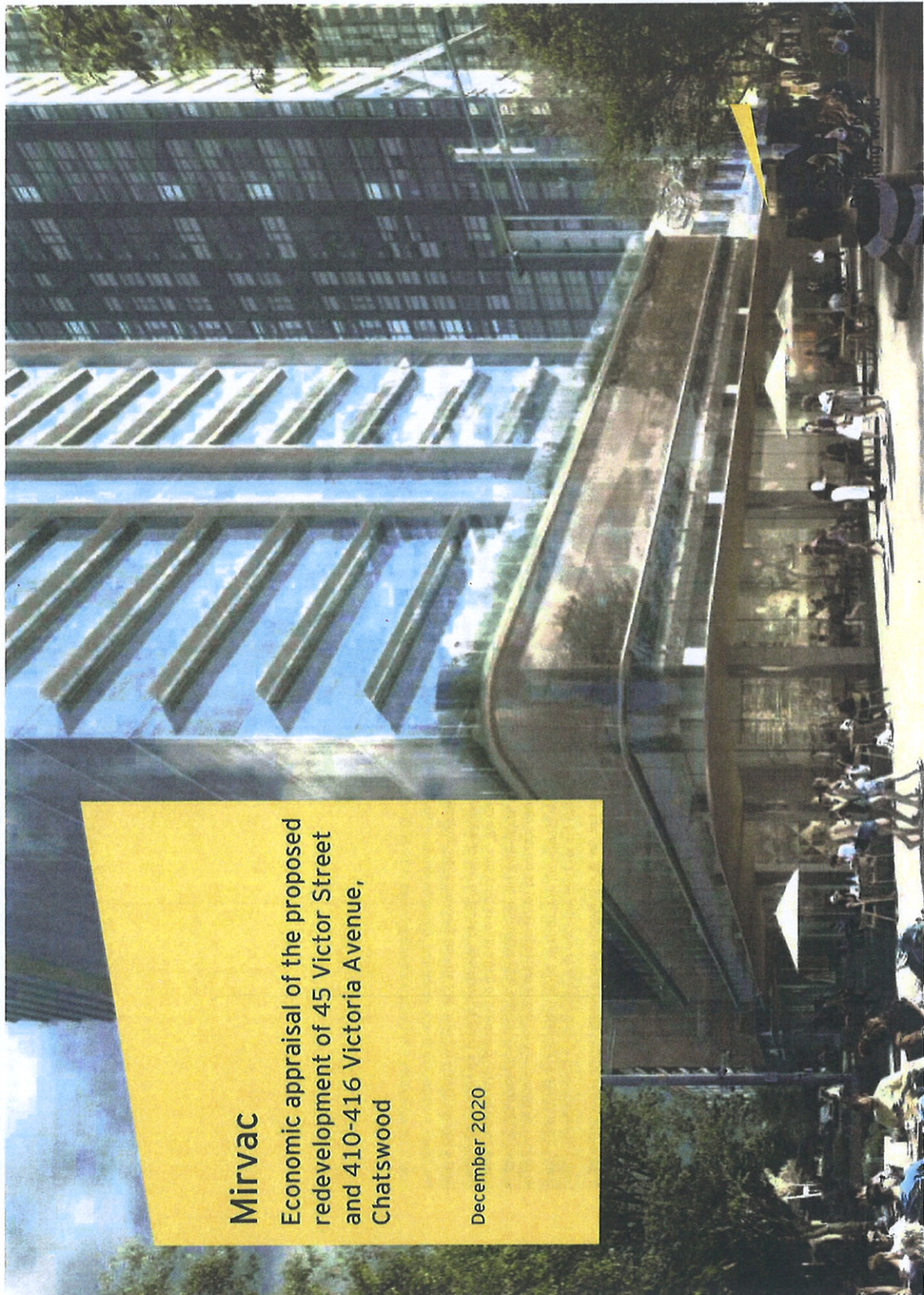


ATTACHMENT 5



Release Notice applicable to parties other than Mirvac ("Third Parties")

Ernst & Young was engaged on the instructions of Mirvac to provide an economic appraisal of the proposed redevelopment of 45 Victor Street and 410-416 Victoria Avenue, Chatswood ("the Site"). In doing this EY undertook an economic contribution analysis and a public value assessment, intended to support Mirvac in the planning and assessment process, which will include discussion with government at a state and local level. This analysis has been conducted in accordance with the engagement agreement dated 23 November 2020.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in this report dated 17 December 2020 ("the Report"). The Report should be read in its entirety, including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young following completion of the final issue of the report on 17 December 2020.

Ernst & Young has prepared the Report for Mirvac and has considered the interests of the Project as they relate to the Proposal for its assessment purposes. Ernst & Young has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes other than its use in planning assessment purposes.

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17 December 2020

Mr Charles Maxwell
Assistant Development Manager
Apartments and Residential Development
Mirvac
Level 28, 200 George St
2000, Sydney, NSW

Economic appraisal of the proposed redevelopment of 45 Victor Street and 410-416 Victoria Avenue, Chatswood

Dear Charles,

We are pleased to present Mirvac with a high-level economic appraisal of the proposed redevelopment of 45 Victor Street and 410-416 Victoria Avenue, Chatswood. This economic appraisal is intended to assist you in discussions with government at both a state and local level.

We refer to the engagement between Mirvac and EY dated 23 November 2020 ("the Engagement Agreement"), through which EY has been engaged to conduct this analysis.

The Report may only be relied on by Mirvac or any other party who we have agreed to provide reliance on the Report pursuant to the terms of the Engagement Agreement. We understand the Report will form part of a suit of documents proposed to state and local authorities in order to seek rezoning of the subject site.

Any commercial decisions taken are not within the scope of our duty of care and in making such decisions you should take into account the limitations of the scope of our work and other factors, commercial and otherwise, which you should be aware of from sources other than our work.

EY disclaims all liability to any party other than Mirvac for all costs, loss, damage and liability that a third party may suffer or incur arising from or relating to or in any way connected with the provision of deliverables to a third party. If others choose to respond in any way to the Report they do so entirely at their own risk.

Our work commenced on 23 November 2020 and was completed on 17 December 2020. Therefore, our Report does not take account of events or circumstances arising after issue of the final report.

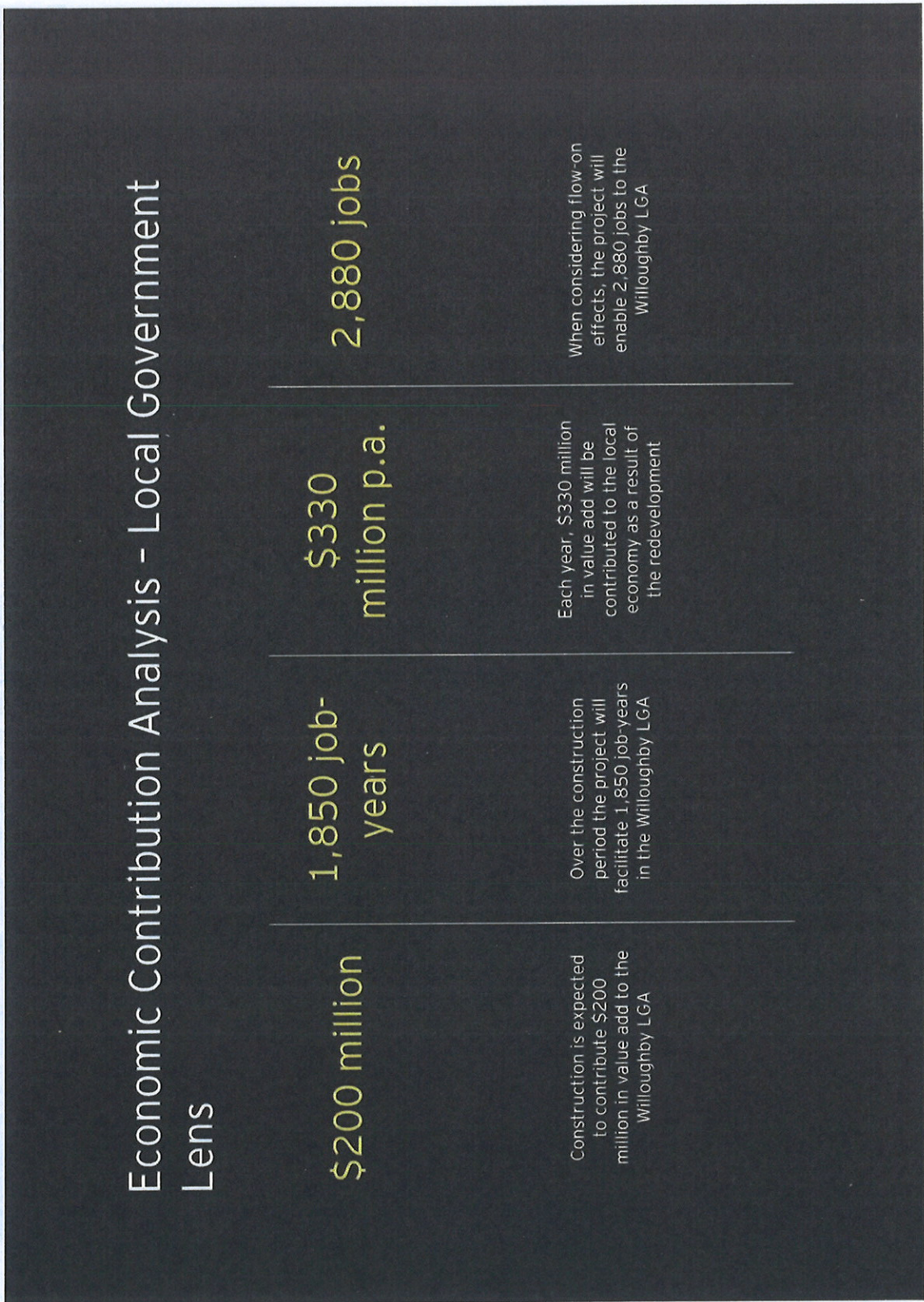
If you would like to clarify any aspect of this Report or discuss other related matters, then please do not hesitate to contact me.

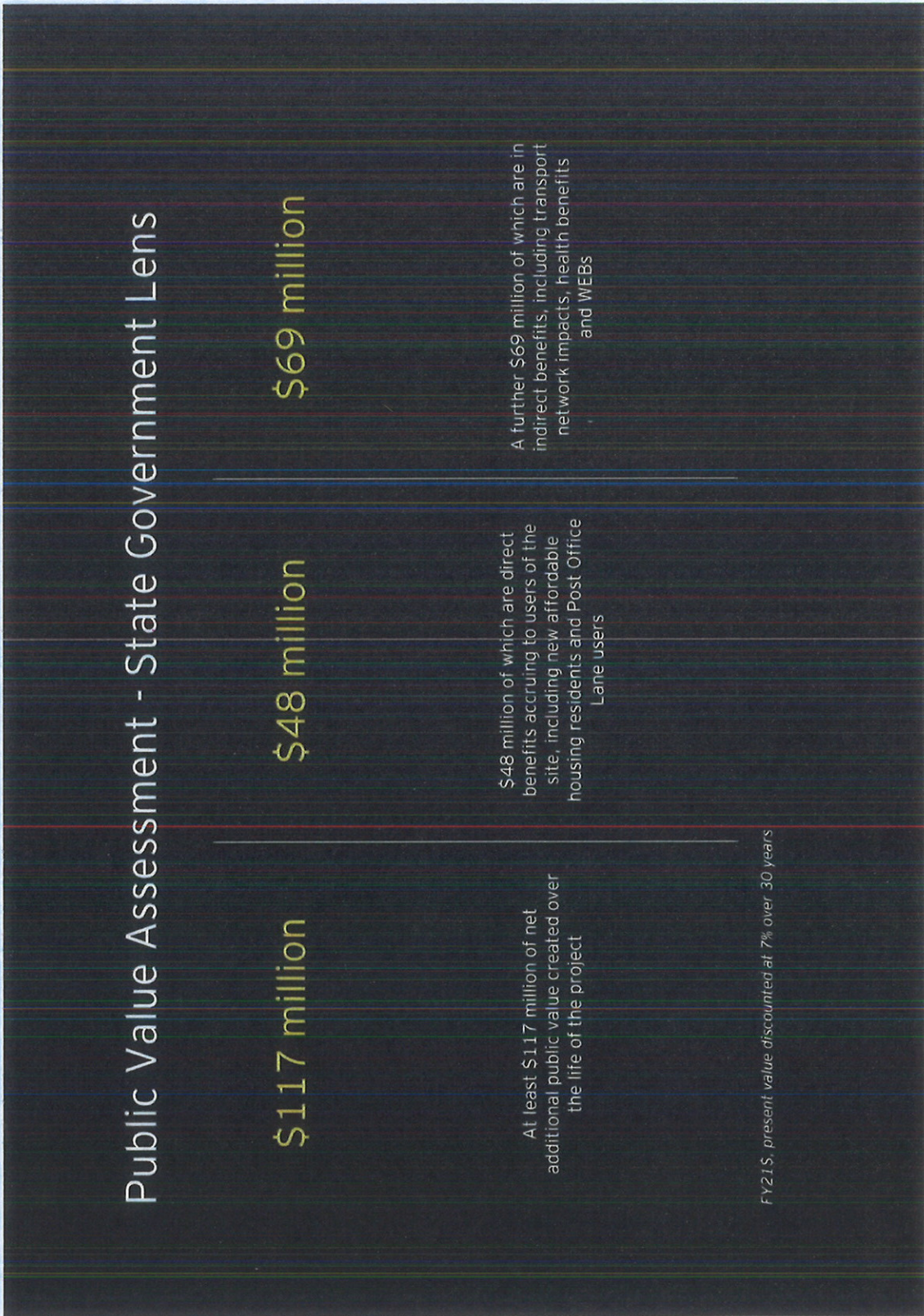
Yours sincerely,

Lars Rognlien
Associate Partner

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1. Executive Summary

The proposed redevelopment at 45 Victor Street and 410-416 Victoria Avenue, Chatswood is expected to deliver significant social and economic value to the local area as well as to NSW more broadly.

EY has undertaken an economic appraisal of the proposed redevelopment, undertaking an economic contribution analysis and a public value assessment. Combined these analyses are useful tools in communicating the economic merits of an investment to a range of stakeholders. In the case of this report:

- The economic contribution analysis quantifies the macroeconomic impacts that accrue to the local council (i.e. Willoughby LGA). This is a gross analysis and does not consider any impacts outside the bounds of the Willoughby LGA, however it is useful in communicating the economic importance of an investment to local council.
- The public value assessment quantifies the net additional societal benefits that accrue to NSW residents, firms and government as a result of the investment. Some measured benefits accrue directly to users of the site, whereas others are externalities that may accrue to non-users. The methodology used in quantifying these benefits follows a Cost Benefit Analysis framework, making it a useful tool to support discussions with state government.

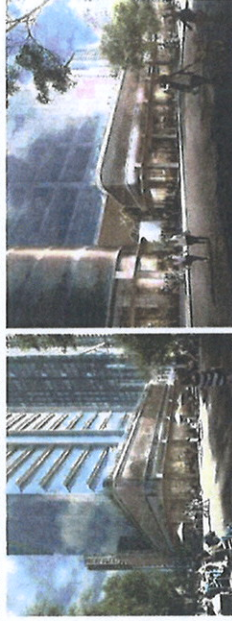
1.1 Key site outcomes

- In replacing the current use of the site, which currently only hosts 23 jobs, the redevelopment is expected to:
- deliver over 18,000 sqm of additional commercial and retail GFA, supporting over 1,550 net additional permanent jobs on site.
- deliver at least 310 well-located infill dwellings, including a 4% affordable housing dedication.

- make significant amenity improvements in terms of street frontage and retail activation, as well as significant improvements to the highly utilised Post Office Lane.

Figure 1 shows a high-level vision for the future of the site. The proposed new tower will replace the presently boarded-up Australia Post building as well as the NSI building.

Figure 1: Visualisation from the corner of Victoria Avenue and Post Office Lane



Source: Mirvac Planning Proposal Report, 45 Victor Street and 410-416 Victoria Avenue, Chatswood (Mircac Design)

1.2 Local council impacts

The net additional 1,530 commercial and retail jobs enabled onsite will contribute to the local economy. Workers will earn wages; firms will earn profits and a portion of these wages and profits will be spent within the Willoughby LGA. EY's economic contribution analysis estimates that the following local macro-economic impacts could be achieved as a result of the project.

Table 1: Key local impacts - annual

- 1 Contribution of \$330 million (gross value add) to the Willoughby economy each year.
- 2 \$215 million in labour income to local workers
- 3 2,880 supported jobs in the Willoughby LGA, comprising those generated on site and jobs generated through the production and consumption effects.¹

Source: EY analysis of Mirvac inputs

Furthermore, construction of the development, assumed to take place between mid-2024 and 2028, will provide an additional boost to the local economy. Supporting local industry and creating local construction, construction services and professional services jobs.

Over the 4.5-year construction period, construction activity could deliver the following macro-economic impacts to Willoughby council.

Table 2: Key local impacts - construction

- 1 \$200 million in gross value add to the Willoughby economy.
- 2 \$105 million in labour income.
- 3 1,850 supported job years resulting from the direct construction jobs as well as those generated through the production and consumption effect.

Source: EY analysis of Mirvac inputs

These economic impacts are best described as the economic 'footprint' of the project, with the above economic contributions representing a gross analysis of the benefits of the project.

¹ See section 3 for more details and methodology
Mircvac
Economic appraisal of proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood

1.3 State-wide benefits

In addition to being valuable at a local level, the redevelopment will also deliver net additional social, environmental and economic value to the residents of NSW more broadly. In particular, these benefits relate to the increase in supply of well-located, infill commercial office space and residential dwellings, as well as the improved urban amenity that results from the development.

Table 3 summarises the results of the public value assessment, which looks to quantify the benefits through a state-wide lens.

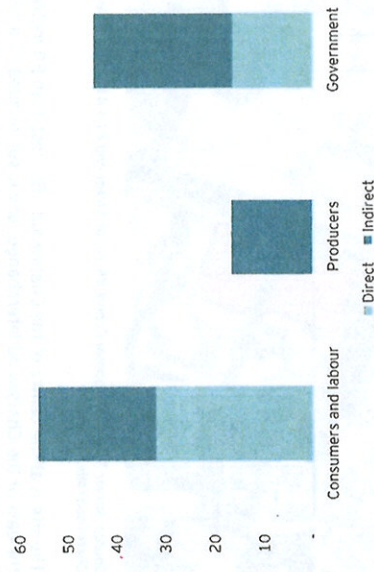
Table 3: Public value assessment results (\$2021 million, discounted at 7%)

Benefit	\$ million
Direct Benefits	
Land use benefits	\$35
Urban Amenity	\$13
Total Direct Benefits	\$48
Indirect Benefits	
Public infrastructure provision	\$19
Transport network efficiency	\$22
Public transport fare revenue	\$9
Health benefits	\$0.4
Wider economic benefits	\$17
Environmental	\$2
Total Indirect Benefits	\$69

Source: EY analysis

Overall, over a 30-year appraisal horizon the project delivers \$117 million (present value, discounted at 7%) in economic benefits to NSW.

Figure 2 Public value assessment - Summary results (\$ million, present value, 2021)



Source: EY analysis of Mirvac inputs

\$48 million (PV) of the \$117 million (PV) are direct benefits which accrue directly to the users of the site, including land use benefits to the residents of the new affordable dwellings and benefits from improved urban amenity, including the renewal of Post Office Lane.

Indirect benefits, externalities and benefits accruing to non-users of the site, account for a further \$69 million (PV). Benefits include:

- \$17 million (PV) in productivity improvements to the state from firms and workers closer together;
- \$19 million (PV) in infrastructure cost savings to Government;
- \$22 million (PV) in transport network efficiency from increased use of Sydney's public transport network and a further \$9 million (PV) in additional public transport fare revenue as a result of increasing density of residents and jobs close to the Chatswood Metro station;

Figure 2 presents the results in terms of key beneficiaries. Consumers and labour (i.e. workers) are the largest beneficiaries, realising just over 45% of the total benefits, with Government realising around 40% of the benefits. Firms (i.e. producers) benefit from productivity improvements, accounting for the remaining 15% of project benefits.

2. Background and Introduction

2.1 Document purpose

EY was engaged by Mirvac to prepare an economic appraisal of the proposed redevelopment of 45 Victor Street and 410-416 Victoria Avenue ("the Site"), located in Chatswood for the purpose of communicating the merits of the project to a range of stakeholders, including state and local governments.

EY has undertaken an economic contribution analysis and a public value assessment. Combined these analyses are useful tools in communicating the economic merits of an investment to a range of stakeholders. In the case of this report:

- ▶ **Local government analysis** - The economic contribution analysis quantifies the macroeconomic impacts that accrue to the Willoughby LGA. This is a gross analysis and does not consider any impacts outside the bounds of the Willoughby LGA, however it is useful in communicating the economic importance of an investment to local council, the community and other local stakeholders.
- ▶ **State government analysis** - The public value assessment quantifies the net additional societal benefits that accrue to NSW residents, firms and government as a result of the investment. Some measured benefits accrue directly to users of the site, whereas others are externalities that may accrue to non-users. The methodology used in quantifying these benefits follows a Cost Benefit Analysis (CBA) framework, making it a useful tool to support discussions with state government.

Combined, these economic tools are intended to be used to support Mirvac in articulating the economic merits of the proposed redevelopment mix in ongoing conversations with a range of stakeholders.

The results of the economic contribution analysis (local government analysis) are presented in section 3 of this report. The results of the public value assessment (state government analysis) are presented in section 4.

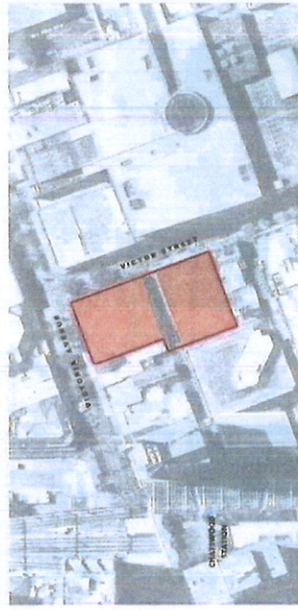
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Economic appraisal of proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood

2.2 Project Overview

The site is located on two parcels of land on the corner of Victor Street and Victoria Avenue, Chatswood within the Willoughby local government area and is separated by Post Office Lane. The current site comprises a vacant building, being the former Australia Post building at 45 Victor Street, and small-scale retail and commercial uses at 410-416 Victoria Avenue. The proposed redevelopment of the site will deliver a Gross Floor Area (GFA) of approximately 46,000sqm, with a split of 40% non-residential and 60% residential.

The location of the Site, and an aerial view of the current use is shown in Figure 3.

Figure 3: Aerial image of the Site in current use



Source: Mirvac Planning Proposal (Report 45 Victor Street and 410-416 Victoria Avenue, Chatswood (Mircvac Design))

The site is at the centre of the Chatswood CBD, less than 50 metres to the east of the Chatswood Interchange, and is surrounded by a mixed use and retail precinct. Chatswood is well connected to the Sydney CBD. Residents and workers in the area have access to bus, rail, and metro, and future residents will also have access to Sydney Metro - City and South West when it is completed in 2024. The site is also in close proximity of community facilities and recreational spaces such as Chatswood Library, Dougherty Community Centre, Chatswood Park, and Chatswood Oval

EY | 7

Source: Mirvac Planning Proposal Report 45 Victor Street and 410-416 Victoria Avenue, Chatswood (Mircac Design)

2.3 Limitations

The Economic contribution analysis and Public Value Assessment are high-level analyses completed to provide an economic appraisal of the proposed redevelopment. Please note the following:

- ▶ The results are based on inputs provided to EY by Mirvac, with supplementary historical data and economic statistics sourced as needed from the ABS.
- ▶ In contrast to the public value assessment, the outputs of economic contribution analysis (gross impacts) should not be taken to reflect the net incremental economic impacts on the economy of the development. A share of the additional economic activity on the site is likely to be displaced from elsewhere in Sydney or Australia.
- ▶ Analysis performed as part of our scope inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

These results are based on inputs that are correct as at 17 December 2020.

As proposed, the development will comprise the third largest commercial office development in Chatswood, and the largest delivery of new office space in over 25 years. Details on the existing and proposed planning controls, and the proposed development outcomes, are set out in more detail in the Planning Proposal, 45 Victor Street and 410-416 Victoria Avenue, Chatswood (Mircac Planning Proposal, 2020). Key development outcomes for the purpose of this assessment include:²

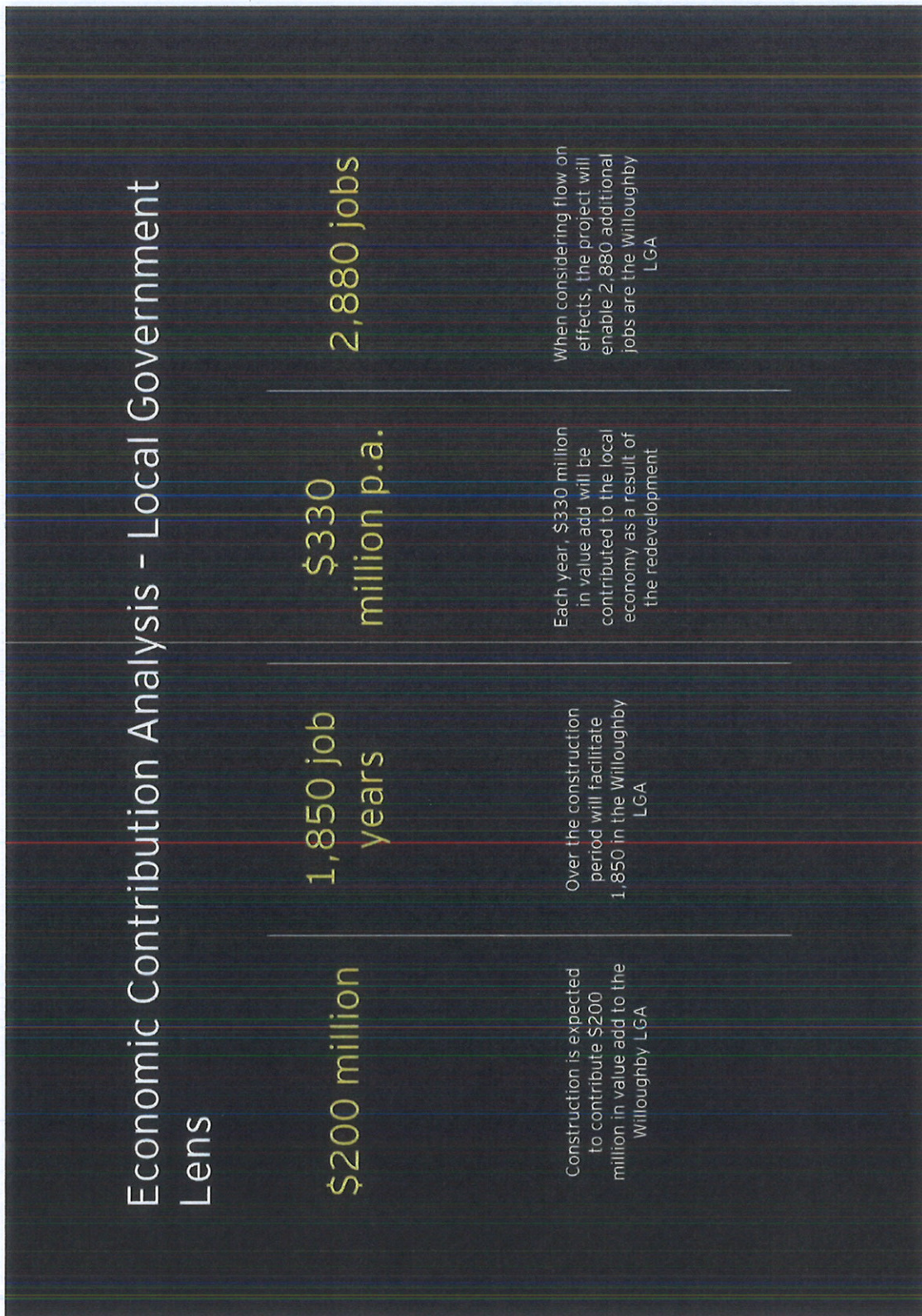
- ▶ The Project provides certainty for the redevelopment of two deteriorating sites and reinvigoration of Post Office Lane;
- ▶ Delivery of high-quality design outcomes;
- ▶ Enhanced activation including ground floor retail;
- ▶ Improved accessibility to public domain;
- ▶ Delivery of additional commercial and residential floorspace in the Chatswood CBD.

Indicative images for the potential future tower are shown in Figure 4.

Figure 4: Visualisation from the corner of Victoria Avenue and Post Office Lane (Source: Mirvac Design)



² Sourced from 45 Victor Street and 410-416 Victoria Avenue, Chatswood, Mirvac Planning Proposal, August 2020
Mircac
Economic appraisal of proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood



3. Economic Contribution analysis

The project will deliver increased economic activity to Willoughby LGA through incremental activity on the site, as well as flow-on benefits to the rest of the local economy.

3.1 Methodology

Economic contribution (or gross contribution) is a measure comprising all market-related output, value add and employment supported by a specified industry's activities. These metrics represent the local contribution of the Project and are described below:

- Value add - market value of goods and services produced, after deducting the cost of goods and services used. This represents the sum of all wages, income and profits generated as a result of an economic activity;
- Income - total value of income earned through gross wages and salaries as a result of an economic activity;
- Employment - the number of individuals employed as a result of an economic activity. In an economic contribution analysis, jobs may be presented as numbers of jobs - jobs sustained in a given year, or as "job-years" - which is the equivalent number of jobs sustained over a number of years. For instance, 100 jobs sustained over 5 years is 500 job-years.

The contribution analysis comprises both direct and indirect effects as outlined below.

- Direct effect - the direct economic contribution of the proposed redevelopment (i.e. direct output, value add and employment created by the Project during the construction and operation period).
- Production effect (indirect) - the indirect contribution or employment generated by an industry as it purchases input goods and services generating revenue for other businesses;

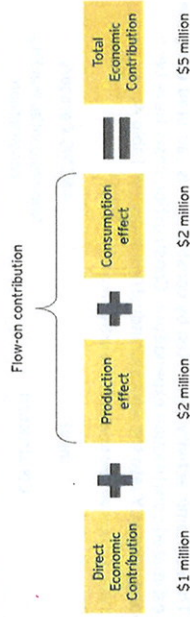
- Consumption effect (indirect) - the induced contribution/employment generated by an industry as its employees spend their wages and salaries on household consumption, providing revenue for other businesses.

Note that these direct, production and consumption effects do not represent net economic gains to local economy - rather, the effects are best described as the economic 'footprint' of the project.

Economic multipliers are used to capture the flow-on effects of the industry's operations within the local economy. The economic multipliers are a series of figures which measure the total economic contribution in a region resulting from an increase in the 'direct' economic activity of (or expenditure on) an industry.

Figure 5 shows the relationship between these effects and the total economic contribution.

Figure 5: Economic contribution and the effect of the multiplier



Source: EY analysis

As an example, a \$1 million direct contribution may result in an industrial effect (production effect) of \$2 million and a further consumption effect of \$2 million. So, an extra \$1 million in direct economic contribution would in this case result in an extra \$4 million of flow-on (indirect) economic contribution and a total economic contribution of \$5 million. In this example, the total multiplier is 5.

We use an input-output table (IO) to measure the direct, production and consumption effects resulting from the construction and operation of the Project, and thus the size of the contribution to the local area economy. An IO table accounts for all of the transactions in the area's economy, making up total demand for and supply of goods, labour and capital.

3.2 Inputs and Assumptions

Inputs

The economic contribution analysis has been undertaken using Input Output (IO) tables. IO tables record the economic flows between industries within an economy - they show how individual industries employ labour, capital, use resources, and purchases inputs from other industries.

IO tables can be used to compute value add and employment multipliers. These multipliers can be used to quantify the contribution of economic change and allow the analysis of 'what if' scenarios.

The economic contribution analysis quantifies the Project impacts for the Willoughby LGA. This area is shown in Figure 6.

Figure 6: Willoughby LGA



Source: REMPLAN map builder

³ Australian and New Zealand Standard Industrial Classification, 2006

Mirvac
Economic appraisal of proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood

3.2.1 Assumptions

There are multiple components to the analysis - the activity taking place during construction and the activity taking place at the site once operational (i.e. employment through commercial and retail use). The key underlying assumptions are outlined below.

Construction

The economic activity generated by construction is captured using the estimated construction expenditure. Construction costs have been aligned by EY into the ANZSIC³ industries shown in Table 4.

Table 4: Costs aligned to ANZSIC Industry Groups

Input	ANZSIC Category
Construction	Non-residential building construction
Construction	Residential building construction
Professional Fees	Professional services
Selling expenses; statutory costs; rental incentives; overheads; and leasing expenses	Not included in analysis

Source: EY analysis of Mirvac inputs

Ongoing Activity

The economic value of the ongoing activity is estimated through the employment generated by the incremental productive space on the site (i.e. commercial and retail GFA). Figure 7 shows the jobs enabled by the development when completed.

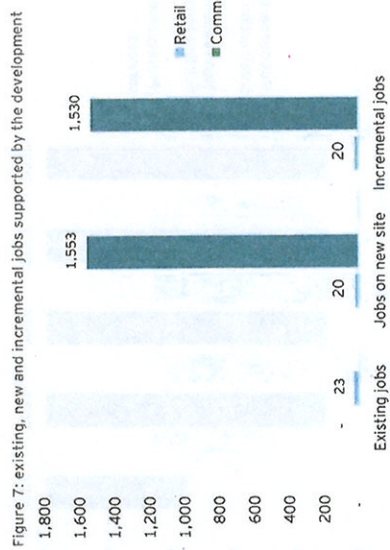


Figure 7: existing, new and incremental jobs supported by the development

Source: EY analysis of Mirvac inputs

3.3 Results

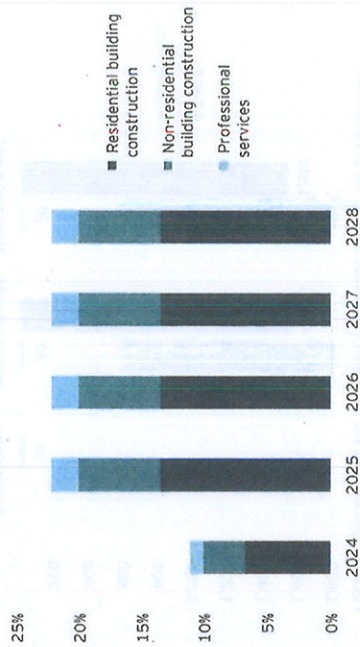
The results for both the construction and operations phases are presented in the following sections. All figures presented are undiscounted in 2021 real dollars.

3.3.1 Construction impacts

3.3.1.1 Construction expenditure

Construction is assumed to start mid-2024 and continue over a 4.5-year period (between mid-2024 and late 2028). For the purpose of this analysis construction costs are assumed to occur evenly over the period. The assumed high-level breakdown of construction expenditure between industry groups is shown in Figure 8 below.

Figure 8: Construction expenditure by ANZSIC industry group (percent of total, 2021)



Source: EY analysis of Mirvac inputs

3.3.1.2 Value add

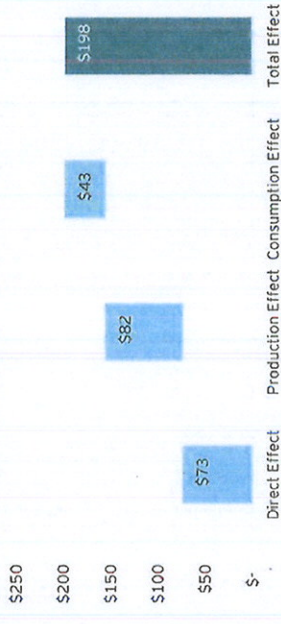
Value add can be defined as the total value of an activity net of expenditure on intermediate inputs. Value add, when combined across all

sectors, form Gross Value Add, which is closely related to Gross Domestic Product.

Over the construction period the Project is expected to deliver nearly \$200 million in value add to the Chatswood CBD economy. \$73 million is the direct effect, \$82 million results from the indirect production effect and \$43 million results from the induced consumption effect.

Figure 9 summarises the total value add during the construction period.

Figure 9: Value add during construction phase (\$ million, 2021)



Source: EY analysis

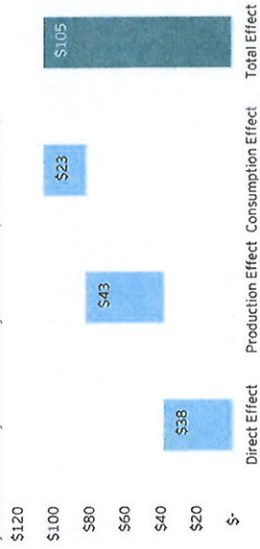
3.3.1.3 Income

The income effect can be defined as the share of value add that falls to workers, with the remainder falling to business owners.

Construction activities generate a direct income effect of approximately \$38 million, the indirect effect (both production and consumption) is a further \$66 million.

Figure 10 summarises the share of value add allocated to income through wages during the construction phase.

Figure 10: Income generated during construction phase (\$ million)



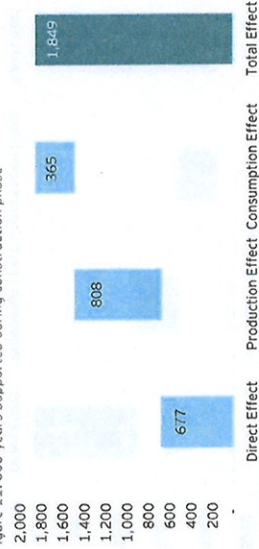
Source: EY analysis

3.3.1.4 Employment

In total, construction of the development is expected to support just under 680 direct job-years, with 150 jobs enabled in each full year of the development. In total, a further 1,170 job-years result from the indirect and induced effects, totalling around 1,850 job-years.

Figure 11 shows the total job-years supported by the full 4.5-year construction period.

Figure 11: Job-years supported during construction phase



Source: EY analysis

3.3.2 Operations Impact

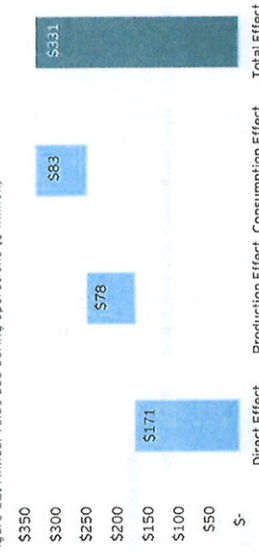
During the operation phase of the Project, it is expected to enable a total of approximately 1,550 additional jobs on the site. This section outlines the economic contribution to Chatswood CBD generated by this ongoing employment.

3.3.2.1 Value Add

The incremental activity is estimated to deliver more than \$170 million in direct value add each year. This increases to nearly \$160 million per year when including the indirect and induced effects.

Figure 12 shows the break-down of value add delivered to the local economy each year as a result of the development.

Figure 12: Annual value add during operations (\$ million)



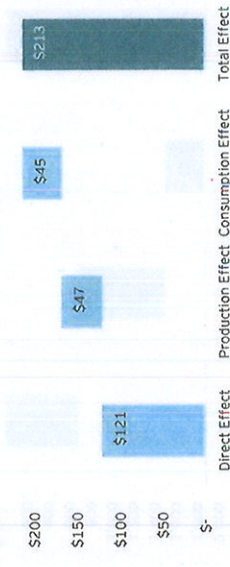
Source: EY analysis

3.3.2.2 Income

Of the above value add, from 2029 onwards, nearly \$215 million in wages per year is generated as a result of the direct, and indirect and induced income effects.

Figure 13 shows the share of output returned to employees through the income effect.

Figure 13: Annual income during operations (\$ million, 2021)

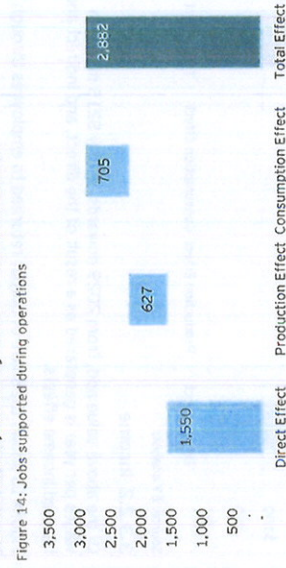


Source: EY analysis

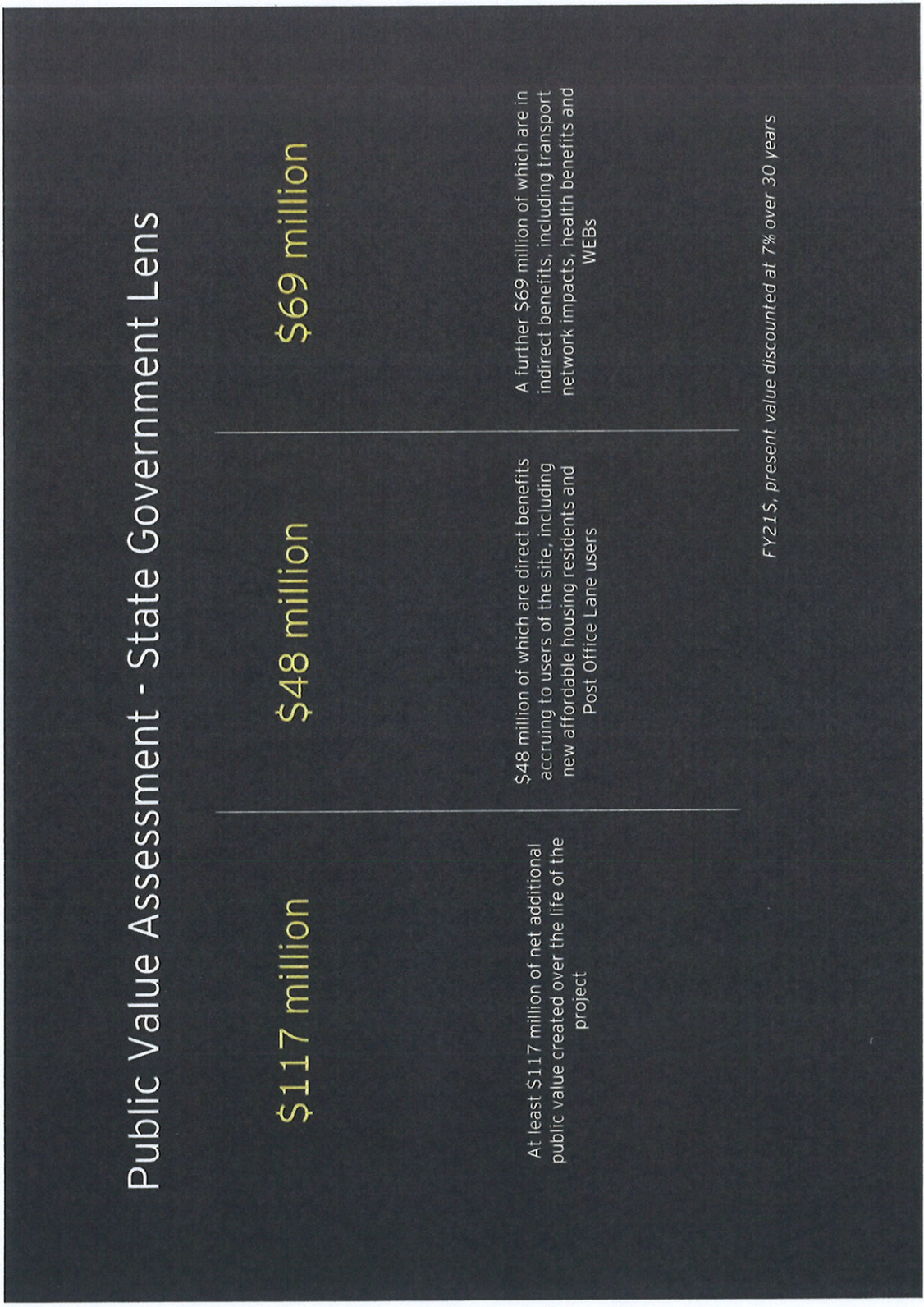
3.3.2.3 Employment

When capturing all effects, the development supports 2,880 jobs in Chatswood CBD, enabled through the incremental employment-generating floorspace on the site. This includes both the commercial and retail GFA over the appraisal period.

Figure 14: Jobs supported during operations with the direct jobs being located on the site.



Source: EY analysis



4. Public Value Assessment

This analysis captures the net-economic, social and environmental benefits that accrue to NSW as a result of the development.

4.1 Market Failure

Economic principles suggest that Government intervention is required to correct for a market failure (i.e. a problem that cannot be solved by market forces). The market failure that this project seeks to address is that current planning controls prevents the sites from being converted to highest and best use.

An intervention, i.e. rezoning approval, would allow Mirvac to redevelop the Site, delivering improvements outlined in the Planning Proposal. This would unlock significant public value and improve outcomes for businesses and the local economy.

In this chapter we are assessing the merits of this intervention through a public value assessment.

4.2 Methodology

A public value assessment is a net additional analysis that aims to capture the economic value of a project and assess it relative to a base case. The intent is to verify that the project produces a net economic return over and above the base case, in Present Value (PV) terms.

EY's public value assessment methodology follows a principled economic approach that draws upon the NSW Government's Economic Framework for Urban Renewal (the Framework). It is consistent with established principles for cost benefit analysis.

This economic assessment explores both direct and indirect benefits of the 45 Victor Street and 410-416 Victoria Avenue redevelopment.

4.3 Key Assumptions

A number of key assumptions underpin this analysis

Critically, this analysis assumes no net new jobs to the economy as a result of the development. This is because the public value assessment assumes that the existing labour market is broadly in equilibrium over the 30-year appraisal horizon; with labour demand equal to labour supply at a market-clearing equilibrium wage. This does not imply no unemployment, rather that the project will not have a material impact on unemployment rates on a state-wide basis. The implication is that the increase in jobs in Chatswood generated by the project will be displaced from other sectors and/or other locations of NSW.

4.3.1 Base case

In the base case, no redevelopment occurs, and the Site continues to operate in its current capacity, which comprises the following:

- ▶ Former Australia Post site at 45 Victor Street (3-storey commercial building) - currently vacant and boarded up. Any alternative use would require significant investment.
- ▶ 410-416 Victoria Ave (two-storey building) - comprising small retail and commercial tenancies hosting 23 base case jobs.
- ▶ Post Office Lane bisects the site and is owned by Council.
- ▶ The total site area is around 2,297sqm with an FSR of 2.5:1 across site, accumulating a permissible GFA of around 5,743sqm

It is expected the site will continue to enable 23 jobs in the Chatswood CBD for the full 30-year appraisal period.

4.3.2 Project case

In the project case, the Site is redeveloped into an 'A-grade' office space of 17,619sqm, with 745sqm of retail and approximately 310 residential apartments. The proposed mixed-use scheme will enhance street amenity, offer retail uses that complements the wider precinct and allow

for new housing in a highly accessible location with access to services, facilities and public transport. In addition, the development will improve the street level façade, and reinvigorate Post office lane, Victoria Avenue and Victor Street - improving the experience for pedestrians using the area.

Project benefits are assumed to start accruing from 2029 onwards.

4.4 Direct Project Benefits

The following sections explore the direct benefits attributable to the proposed redevelopment.

4.4.1 Urban land use benefits

A change in land use will generate a net economic benefit if the value of the new use is higher than the lost value of current use plus the cost of achieving the change. We quantify the public value of enabling this higher density through contributions paid to government as part of the transaction (this includes allowances for the upgrade of Post Office Lane and other external works⁴), and increased tax revenue (in the form of GST).

This benefit category also includes the use value associated with delivery of the proposed 4% affordable housing component.

4.4.2 Urban amenity

Urban transformations often result in improved public amenity. Not only is the new development expected to enhance and reinvigorate Post Office Lane, the pedestrianisation of Victor Street and Victoria Avenue will also provide a high-quality walkway that is connected to nearby Chatswood Interchange.

⁴ \$2 million allowance for Post Office Lane upgrades, \$1.5 million as an external work allowance, and a 4% Affordable housing levy
⁵ UK Transport Research Laboratory methodology

It is noted that the current site presents poor urban outcomes, including low pedestrian amenity and safety due to blank facades, poor quality and aging pavements with lack of lighting.

The urban amenity benefits component captures the benefits accruing to all users of the site (i.e. employees, public transport users, etc.) from having access to high-quality public domain.

The value of the upgrades to the Post Office Lane walkway and Victoria Street has been captured using the Pedestrian Environmental Review System (PERS)⁶ methodology. This approach reflects the benefits from spending time in the improved public domain (but not improvements in/reductions to travel time).⁶

4.4.3 Improved urban fabric

Redeveloping the site not only achieves a better urban outcome on the project site, but it will also lead to positive spillover effects on the surrounding area, and on the merits of local complementary developments.

Specifically, the redevelopment at Chatswood brings more employees into the immediate area. These workers are likely to use open space and improved streetscapes delivered by local projects, to use local transport improvements, and to use retail and other population servicing facilities in the local area such as hotels, restaurants and bars. This supports the Willoughby's Council vision⁷ to support the growth of the centre as a major mixed-use and commercial hub.

We proxy the value of these spillover effects, by capturing an uplift in land values in the local area. The impact is likely to be larger in the immediate area, declining as you move further from the development

⁶ Transport for NSW Land Use Planner - Employment in TZ 32, 41.42 and 49 in 2021
⁷ Planning Proposal 45 Victor Street & 410-416 Victoria Avenue, Minvac 2020

site. We assume a 2%⁸ uplift in land values in the area shown in Figure 15, which is essentially one block in each direction surrounding the project site.

Figure 15: Uplift area



Source: EY analysis

4.5 Indirect project benefits

Indirect, or external, benefits are benefits not directly related to the proposed redeveloped outside the Site. They are discussed in the following sections.

4.5.1 Public infrastructure provision

The development of additional built form requires the provision of additional public infrastructure, such as utilities, local road upgrades, stormwater drainage, etc. There is potential for public infrastructure cost savings from urban infill driven by a more efficient urban form when compared to investments in less dense areas. On average, the cost per dwelling to provide public infrastructure in low density developments is

⁸ Evidence suggests that development of improved public domain can generate a 10-20% increase in land values in the local area, we conservatively assume 2% in the immediate area

much higher when compared to already well-serviced and higher density infill locations.

4.5.2 Transport network efficiency benefits

Enabling more people and jobs to locate in the Chatswood CBD will affect travel patterns around the area. People living and working outside the Chatswood CBD are more likely to travel by car, as opposed to public transport, walk and cycle. Car use has impacts on other users of the transport network, as car use causes external impacts through congestion. The development is expected to reduce congestion and impact of car usage across Sydney through the location of mix uses and proximity to alternate transport modes from the Chatswood Interchange.

These externality impacts are an established feature of transport economic appraisals and can be reliably quantified using standard guidelines. The benefit results from a reduction in the number of car kilometres travelled in the transport network in the project case relative to the base case.

4.5.3 Increased Public Transport Fare Revenue

The redevelopment is located in close proximity to Chatswood Station, which provides an opportunity for more people to access public transport, including the Metro West line. The benefit is the result of an increase in public transport patronage in the project case, relative to the base case. The increase in transport fare revenue is a benefit for the NSW Government.

4.5.4 Health benefits

The development places significant employment and housing in close proximity to Chatswood Station. Increased levels of patronage will provide opportunities for active transport and a higher modal split to public transport. This benefit captures the health impacts that results

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from increasing the amount of active travel taking place under the project case relative to the base case.

4.5.5 Wider economic benefits

There is a well-documented relationship between the density of cities and the productivity of the economic activity taking place there, which is identified in several NSW Government economic appraisal guidelines, including the Transport Economic Appraisal Guidelines⁹.

Wider Economic Benefits occur when an initiative brings businesses and workers closer together. This may be physical proximity or better general connectivity (e.g. better transport). With the 'clustering' of economic activity, individual firms enjoy productivity benefits that they otherwise would not have. There are two types of wider economic benefits that are captured as part of this analysis:

- ▶ **Agglomeration benefits** - where businesses are located closer together, there is value that results from input sharing, output sharing, and knowledge and technological spillovers.
- ▶ **Labour productivity benefits** - where a land use development enables people to access jobs in a higher productive area (i.e. by accessing jobs at the site vs an alternative lower-productive area). The tax-take on any resulting productivity is net additional economic value.

Wider economic benefits capture the fact that other local firms will be more productive as a result of this development.

4.5.6 Environmental benefits

The Project, by providing additional infill dwellings and increasing the brownfield housing supply in Sydney means that fewer greenfield developments are needed. This preserves undeveloped land at the urban

⁹ Principles and Guidelines for Economic Appraisal of Transport Investment and Initiatives, March 2016

fringe. This has a value in terms of increased biodiversity and improved air quality. This is captured as an economic benefit.¹⁰ Urban development in infill areas means that greenfield development can be reduced. Environmental values such as biodiversity and air quality in greenfield areas can therefore be preserved.

In addition, the project will meet energy and water efficiency standards as outlined in the North District Plan (details of which will be outlined during the detailed design phase).¹¹ This benefit is not captured in this economic appraisal.

4.6 Results

The proposed Chatswood redevelopment is estimated to deliver net additional public value of at around \$117 million in present value terms. Of this, \$48 million (PV) are direct benefits. Indirect benefits account for a further \$69 million (PV).

Table 5 presents the results in undiscounted FY2021 values, and in present value terms discounted to FY2021 at 7% and 3.5%. In line with NSW Government guidelines, the core results should be considered with a 7% discount rate. A scenario with a 3.5% discount rate, shows both the sensitivity of the results to economic discounting as well as the impact of a discount rate that better reflects the ongoing structural changes to the opportunity cost of capital and one that is more aligned to discount rates used in other jurisdictions (i.e. the UK).

¹⁰ UK WEB TAG Guidelines, 2019

¹¹ Planning Proposal 45 Victor Street & 410-416 Victoria Avenue, Mirvac 2020

Table 5: Public value assessment results (\$2021 million, discounted as shown)

Benefit	Real (\$ m)	PV benefits (7%, \$ m)	PV benefits (3.5%, \$ m)
Direct Benefits			
Land use benefits	\$57	\$35	\$45
Urban Amenity	\$37	\$13	\$21
Total Direct Benefits	\$94	\$48	\$66
Indirect Benefits			
Public infrastructure provision	\$30	\$19	\$24
Transport network efficiency	\$81	\$22	\$40
Public transport fare revenue	\$36	\$9	\$17
Health benefits	\$2	\$0.4	\$0.8
Wider economic benefits	\$62	\$17	\$30
Environmental benefits	\$3	\$2	\$2
Total Indirect Benefits	\$213	\$69	\$115
Total Benefits	\$308	\$117	\$180

Source: EY analysis

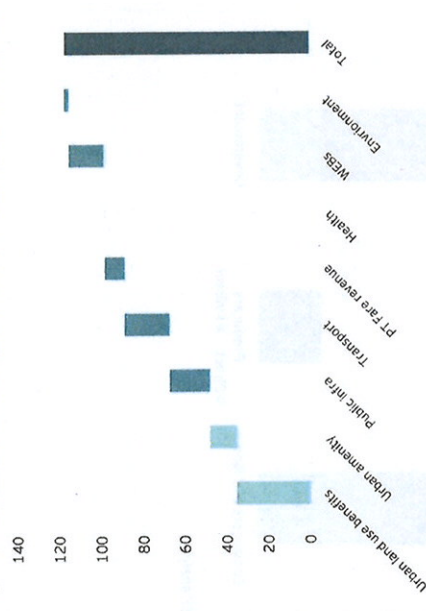
The economic value of the project is composed as follows (in present value terms):

- Urban land use benefits provides a direct benefit to NSW comprising of 30% of total benefits. This reflects the value to NSW that results from increasing density on the site, enabling more dwellings and more affordable housing.

- Public domain benefits make up 11% of total value. This is the value of improving the quality of the built form and street level amenity as well as the significant improvements made to Post Office Lane.
- Public infrastructure provision savings comprises 16% of benefits, reflecting the economies of scale associated with infill infrastructure relative to new infrastructure at the urban fringe.
- Transport network efficiency benefits makes up 19% and WEBS make up 14% of the total value. This reflects the efficiency and productivity gains that results from higher density infill dwellings and employment generating space.
- Increased public transport fare revenue, accounts for 8% of benefits, reflecting an increase in public transport use in Sydney as a result of the project.
- Health and environmental benefits combined make up 2% of the project public value.

Figure 16 shows the contribution of individual benefit items to the total public value delivered by the project.

Figure 1.6: Public value assessment benefit contribution (\$ million, PV, discounted @7%)



Source: EY analysis

4.6.1 Distributional analysis

This public value assessment quantifies a number of net additional benefits accruing to NSW. These benefits accrue to a number of different groups. Welfare economics typically defines these key groups as:

- Consumers – Residents of NSW;
- Producers (owners of land and capital) – Firms located in NSW
- Labour – workers in NSW;
- Government – Local, State or Federal Government.

Table 6 maps the benefits quantified in the public value assessment to each of these groups.

Table 6 Distributional analysis beneficiaries

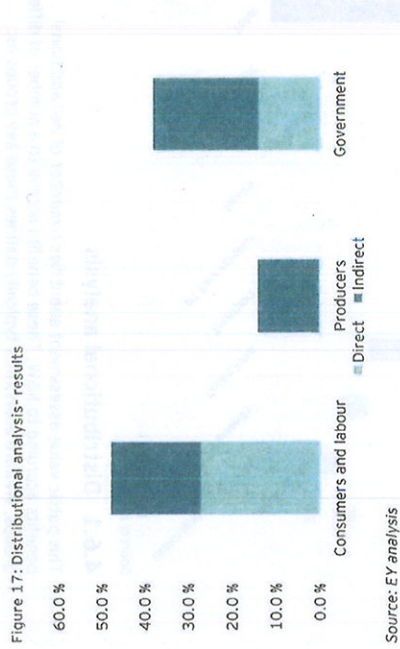
Benefit	Recipient	Rationale
Direct benefits		
Urban land use benefits	Government and consumers	Land value uplift accrues to government as a result of increased tax take, and contributions to local council. The benefits from affordable housing accrue to the ultimate residents. Benefits accruing to users of the site, post office lane and the local area
Urban Amenity Benefits	Consumers and labour	
Indirect benefits		
Transport network efficiency	Consumers and labour	Benefits accruing to residents of NSW as a result of reduced congestion
Direct Transport Benefits	Public transport fare revenue	Government
Health benefits	Consumers	Benefits accruing to residents and workers who choose to increase active travel
Wider economic benefits	Producers and Government	Agglomeration benefits accrue to local firms. Tax Labour supply benefits accrue to government

Source: EY analysis

Consumers and labour (i.e. users of the site and surrounding area), are the biggest beneficiaries, enjoying 45% of the total benefits attributable to the project. This is largely the result of an improved user experience for all workers and other visitors to the local area, as well as more productive firms. The producers (i.e. firms operating at the site and in the surrounding area) benefits form productivity improvements, accounting for 15% of total benefits realised.

The remaining 40% of benefits accrue to Government in the form of direct revenue (to council and other contributions) and higher tax revenue (from improved labour supply).

Figure 17: Distributional analysis- results shows the results of the distributional analysis, with the benefits split between direct and indirect impacts.





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December 2020

Our report may be relied upon by Mirvac only pursuant to the terms of our engagement letter dated 23 November 2020. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

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Mirvac
Economic appraisal of proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood



3 December 2020

Mirvac
Level 28, 200 George Street
Sydney, NSW 2000

Re: Addendum – Chatswood Office Market Analysis

1. Requirement

JLL were appointed by Mirvac to provide a study of the Chatswood office market. In our report (Chatswood Office Market Analysis – August 2020) we considered the broader economic and office market context impacting Chatswood. Additionally, we provided observations on the challenges with office development within the market. In conclusion we identified from a pragmatic and viability point of view, embracing a mixed-use scheme for the subject site at 45 Victor Street and 410-416 Victoria Avenue, Chatswood will provide significantly more employment based commercial (risk adjusted) compared to a commercial only outcome which will likely see continuation of the status quo i.e. no redevelopment of the site.

The requirement for this addendum has arisen as following Mirvac lodging their Planning Proposal, Willoughby Council (Council) has responded identifying that the proposal as it currently stands is unlikely to be supported. Specifically, the floor space allocation has been identified as a key issue with commentary indicating the commercial / non-residential floor space percentage should be in the order of 70% of the developable floor space (the current proposed split being approx. 40% non-residential and 60% residential). We understand this floorspace allocation would equate to a commercial component of ~30,000 sqm in NLA.

This letter considers this proposed floor space allocation, largely leveraging the analysis and research conducted as part of our prior report, as such, **we note this document is not stand-alone and forms an addendum to our original report and should therefore be read in conjunction.**

2. Amended Floor Space Allocation Observations

As identified above, in providing the observations on Council's proposed mix we have largely leveraged off the analysis and research conducted as part of our prior commercial market report. Specifically, we have focussed on observations which are relevant to Council's proposed floor space allocation and the associated challenges:

- Our report outlined that we are heading into a period that will support significantly less office based development, compared to the proceeding 25 years, due to a range of factors that include; softer population growth, higher workspace densities, offshoring and lower growth in white collar employment. More broadly we note that over this strong period Chatswood has failed to attract office development. Further, we note the likely economic impacts of COVID-19 and more importantly, its potential to reshape how office based uses are viewed which adds further downward pressure on demand.
- Despite the above, continued growth of suburban office markets is expected – with a larger share than the Sydney CBD. While this may suggest growth in Chatswood, Chatswood competes with other suburban markets for tenants. Going forward, there will be a greater focus away from the Chatswood market and into Western Sydney in both the short term (e.g. Parramatta) and long-term (e.g. Western Sydney Aerotropolis). Additionally, Chatswood benefits from significant levels of amenity relative to many of its suburban office market counterparts, however, lack of major tenant demand and feasibility challenges (discussed further below) has resulted in no new office development in ~25 years.
- As part of our report, we undertook feasibility analysis of a potential commercial only scheme for the subject site. The findings of our analysis was that despite assuming a pre-commitment of 50% of the space (which as identified within the report is a very optimistic assumption), as well as, other broadly optimistic inputs, we found a clear lack of viability for the site with the economic rent (rent required to support the development) much higher than the market rent. While we have not undertaken a feasibility analysis of a mixed-use scheme with Council's suggestion of 70% non-residential uses, based

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on our expertise and detailed knowledge and understanding of the market a floor space allocation for residential of only 30% is unlikely to be sufficient to bridge the gap in viability.

- Our report identified that major tenants are less likely to consider the Chatswood market as they previously had and in fact we are seeing significant relocations out of the market. The report identified that JLL was expecting a negative net absorption in 2020 of 25,000 sqm, being the 2nd highest reduction in occupied stock in Chatswood since JLL began tracking the market. The latest Q3 2020 forecast has adjusted this expectation. JLL Research now expect a negative net absorption of 37,000 sqm in 2020 with a vacancy rate peaking at just under 20% of total stock. This is the highest reduction in occupied stock in Chatswood in the 50 years JLL has been tracking the market. This highlights the significant challenges with the commercial market within Chatswood.
- As part of our report we completed a benchmarking of all commercial development in the JLL tracked Sydney markets over the past decade to understand the pre-commitment rates achieved prior to the start of construction. This is an important consideration as it has a direct impact for financing of development projects. In summary, we found more established commercial markets (Sydney CBD, North Sydney) have a greater likelihood of lower levels of pre-commitment, whereas less established markets typically have higher levels of pre-commitment. In the closest competing markets of Macquarie Park and St Leonards the average pre-commitment rate was 80% and 75% respectively.
- We have considered the above in light of the suggested 70% non-residential floor space allocation. Assuming a pre-commitment rate lower than those above (at 60%) would suggest a pre-commitment of ~18,000 sqm. Putting this in context, this area is more than 3 times larger than the largest tenant move in the Chatswood market in the past 10 years (at 5,567 sqm) which is also the only tenant move greater than 5,000 sqm during that period. Additionally, over the same period more than 63% of the tenant moves have actually been for smaller users (0 to 2,000 sqm).

On balance, we see significant challenges with Council's proposed floor space allocation for the reasons identified above, including viability challenges, tenant size and demand, as well as, pre-commitment risk. From a pragmatic and viability point of view, we consider embracing the mixed-use scheme proposed by Mirvac will provide significantly more employment based commercial space (risk adjusted) compared to the higher proportion of commercial recommended which due to the challenged outlined will likely result in no redevelopment of the site.

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20 November 2020

Mr Adrian Checchin
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Via email: adrian.checchin@mirvac.com

Dear Sir

**Market Consultancy Report – Updated Advice
45 Victor Street and 410-416 Victoria Avenue, Chatswood, NSW 2067**

We have reviewed Willoughby City Council's (Council) letter of 28 October 2020 and take this opportunity to provide further advice following our report of 26 July 2020 as to the merits and viability of increasing the office component of the proposed development at 45 Victor Street and 410-416 Victoria Avenue, Chatswood to 70% of the proposed gross floor area.

The resulting office net lettable area (NLA) at Chatswood Council's requested 70% mix would be approximately 30,000 sqm, making the proposed scheme the second largest office building in Chatswood, with only Zenith Centre being larger at circa 44,270 sqm across two buildings. The typical commercial floorplates would be:

- Levels 1 to 5: ~1,200 sqm NLA
- Levels 6+: ~1,100 sqm NLA

Based on the most recent Property Council of Australia (PCA) Office Market Report as at July 2020, the Chatswood office Market currently extends to 274,024 sqm. The addition of a further 30,000 sqm would increase the market by some 11% to 304,024 sqm. With total current vacancy of 24,015 sqm (9%), the addition of 30,000 sqm in the absence of substantial lease pre-commitment would see vacancy increase to circa 18%.

Looking at the broader North Shore office market, a concept proposal for the Crows Nest Over Station Development has a gross floor area of 56,400 sqm, of which 43,400 sqm is designated for commercial uses (Site A – 40,300 sqm and Site C – 3,100 sqm). This would increase the Chatswood / St Leonards / Crow Nest office market to 608,071 sqm, when combined with the proposed lettable area for the subject site. This represents a further 12% increase on existing stock levels. In the absence of lease pre-commitments, the addition of 73,400 sqm would result in total vacancy of some 21%. Vacancy has not been at these levels since the recession of early 1990s.

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Further to the supply additions to the Chatswood market, St Leonards has 22,000 sqm mooted for development at 88 Christie Street and a further 200,000 sqm is to be potentially developed in Macquarie Park. Stockland have recently secured development approval for Stage 1 of their site at Khartoum Road for a 16,785 sqm building and are actively seeking pre-commitments.

Winten and Frasers lodged a development application for 396 Lane Cove Road, Macquarie Park in January 2019. It was subsequently referred to the Sydney North Planning Panel (2019SNH006). The application was approved by JRPP in December 2019 and is actively seeking lease pre-commitments. Overall, the site can accommodate in excess of 83,000 sqm of office GFA, however Building D in isolation will extend to some 17,753 sqm of office, with a further 1,631 sqm of retail. The building will be known as MQX4 at 1 Giffnock Avenue. In September 2020 it was acquired by Ascendas Real Estate Investment Trust for \$167.2 million on a fund through arrangement with rental guarantees in place. The building will be completed by mid-2022.

A list of proposed developments for Macquarie Park is below.

APPROVED/MOOTED PROJECTS					
Supply Date	Supply Grade	Building Name	Address	Owner/Developer	Supply (sqm)
Dec-22	Prime	M Park	33-37 Talavera Rd/11-17 Khartoum Rd	Stockland	16,785
Dec-22	Prime	Macquarie Exchange – Building A	396 Lane Cove Rd	Frasers & Winten	17,753
Dec-22	Prime		31-35 Epping Rd	Harvey Norman	14,477
Dec-23	Prime	Macquarie University Station Site	8-12 University Ave	Macquarie University	50,000
Dec-23	Prime		11 Talavera Rd	Goodman	24,000
Dec-24	Prime	Epicentre	6-8 Julius Ave	ISPT	34,194
Jun-24	Prime	City Views Business Park	75 Epping Rd	Goodman	32,299
Total Supply					176,508

It should be noted that Macquarie Park is an office market with existing vacancy of 61,032 sqm, which is 6.8% of this market overall.

With respect to North Sydney, the office vacancy as at July 2020 is 66,121 sqm which is 8.0% of the market overall. The market is entering a new supply cycle with a large supply pipeline of circa 155,400 sqm coming online between 2020 and 2024. These projects include 1 Denison Street, which is circa 60,825 sqm and 118 Mount Street, which will add a further 20,515 sqm in late 2020. Both of these projects are partially leased. Furthermore, 73 Miller Street, North Sydney will complete its refurbishment and expansion to 19,062 sqm and will be partly leased by oOh!Media.

Accordingly, the planned office supply across the North office market is substantial and difficult to absorb in a period of potentially declining demand. Due to the impact of the COVID-19 global pandemic, occupier demand and the lack thereof, will potentially cause greater uncertainty and demand unknowns in the future. We consider this not to be the primary reason, but a further reason which supports the lack of viability for an office development in its proposed configuration in this location.

Business sentiment across the country, remains sluggish at best. Growing uncertainty, coupled with remote and flexible work practices which continue to be in place, with occupier's keen to avoid capital outlay when assessing their long-term real estate strategy. As a result, sublease space is expected to continue to rise in the future, exerting further upward pressure on vacancy, face rents and incentives.

Cost cutting by businesses and persistent economic headwinds will result in occupiers seeking greater lease flexibility to accommodate the rapid 'flex up' or 'flex down' workforce, as well as catering to employee expectations for a 'more than a workspace' environment.

45 Victor Street and 410-416 Victoria Avenue, Chatswood, Sydney, NSW 2067

However, the mixed sublease tenure and majority of it being fitted space provides greater opportunities for occupiers looking to expand or relocate. This is not necessarily something an office development in Chatswood could replicate.

Moreover, the increased letting up and incentives required to secure tenants across 30,000 sqm will have a material impact upon the viability of the project overall. This is in addition to limited appetite from financier/lenders to take such risk for a development of the size and scale in this location suggested by Council.

NSW currently has 164,949 sqm of sublease office vacancy, this is up 56%. Financial and insurance services, professional services and IMT remain the top three contributors to the sublease stock, with 64% driven by contraction, compared to 42% in Q2 2020. These are the types of users that would be sought out to pre-commit to Chatswood.

In terms of size ranges, the bulk of available sublease space are larger tenancies of 2,000 sqm+, which account for just under 70% of availability. Accordingly, this would appear to make office development prohibitive, particularly in secondary office markets such as Chatswood.

Generally, when the suburban office market is soft, tenants have taken the opportunity to relocate to perceived superior markets. This 'flight to quality' has enabled them to upgrade their accommodation and secure elevated incentives. This certainly occurred between 2010 and 2011 in Chatswood, where a number of larger tenants relocated to North Sydney, with incentives of 35% to 40% being offered at 40 Mount Street, Victoria Cross at 60 Miller Street and 141 Walker Street. These were (and remain) superior buildings to what was available at Chatswood at the time, and the relocation of tenants proved to be the catalyst for owners to upgrade their buildings.

At the time it was difficult for Chatswood to compete for tenants, with building owners retaining tenants at lease renewal with elevated incentive packages and refurbishment programs. Significantly, they tended to secure larger tenants from within Chatswood itself. There was no major net absorption during this period and no tenant demand to relocate to Chatswood.

The value of the asset reflects office leasing and investment fundamentals at a particular point in time. Values however may change as a result of market fluctuations and the pricing of risk by the market. This is particularly relevant to the subject property, given current uncertainty in property and economic markets as a result of COVID-19. Therefore, substantial office development at this time in a secondary markets may not be viable.

It is also noted that the marketability (and hence value) of assets can vary significantly depending on broader market conditions. In buoyant conditions, the variance between prime and secondary assets may potentially be minimal. During market downturns however, the value variance may increase due to a reduction in the number of potential purchasers in the market, investors applying higher risk premiums and reduced funding availability. This is particularly relevant to the subject property, given current uncertainty in property and economic markets as a result of COVID-19 and the secondary nature of the Chatswood office market. This detrimentally impacts the viability of what is proposed, noting Chatswood has always been a secondary office market and less desirable to tenants and investors relative to other CBD office locations.

It is also important to note that apart from changes to market dynamics, the fundamentals of the site have not altered. The western alignment of Victor Street, at its intersection with Chatswood Mall (Victoria Avenue) remains the heart of the Chatswood retail precinct and is a non-core office location within Chatswood. Established office buildings within Chatswood are to the west of the subject property and are physically separated by the main North Shore Rail Line.

The key strengths of this location include:

- Proximity to public transport.
- Proximity and concentration of retail amenity which needs to be serviced by an immediate mixed use/residential population.
- A concentration of existing residential apartment towers and mixed-use buildings within the immediate vicinity.
- Access to schooling with Our Lady of Dolours, Mercy Catholic College and St Pius College a short distance to the north east.

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These strengths, together with the existing characteristics of the area continue to support longer term residential use, with ancillary retail or commercial uses only on the ground or lower levels, which can be subsidised by the residential above.

Given the lack of tenant and investment demand for Chatswood, and noting Council's letter of 28 October 2020, our view remains any office component included in the development should be capped at 10,000 sqm. Moreover, given the impact of COVID-19 this may be considered generous, particularly as commercial values come under pressure over the next 12 to 18 months.

Despite the desire of Council to drive commercial uses in the Chatswood CBD for in excess of 20 years, the commercial reality is this use has not been viable, nor it is deemed to be the highest and best use.

Increasing the commercial mix to 70% is in our opinion, too large and unviable for the Chatswood CBD. Moreover, the floorplate is compromised and not reflective of current market requirements. The revised scheme has a floorplate size of 1,100 sqm to 1,200 sqm and based upon our understanding and experience of current tenant requirements and workplace strategies, we would expect a minimum floorplate for a new suburban A Grade office building to be 1,200 sqm to 1,800 sqm in size in order to achieve work space efficiency.

Given the size of the asset and the likely purchaser profile, there would be an expectation from investors for the same. Anything less would be potentially detrimental to the leasing and therefore investment metrics of the asset.

We also consider the proposed stratum title to be a further factor which may be detrimental to the investment potential of the end asset, particularly should the shared ownership and services agreement result in greater complexity and risk to the owner of the office component. Post COVID-19, risk is being fully priced by the market and the appeal of the property would potentially be detrimentally affected by Council's desired outcome.

Having a mixed-use scheme underpinning a development enables the early delivery and inclusion of alternative uses such as office and retail. Within Chatswood, the disposal of the Quest Hotel and medical centre which form part of 63 Archer Street, Chatswood prior to practical completion de-risked the project for the developer. However, the development was only feasible as it formed part of a larger predominantly residential mixed-use scheme.

In St Leonards, the inclusion of residential had been key to commencing the development of 500 Pacific Highway, which comprised 495 apartments, together with a non-residential podium. Furthermore, St Leonards Square recently achieved practical completion in 2019 and comprised approximately 500 residential units with ancillary commercial and retail uses. Some 4,000 sqm of commercial strata was sold off the plan, comprising 32 suites ranging in size from 60 sqm to 200 sqm. The retail was underpinned Virgin Active with a lease of 10+5+5 years secured. It was subsequently sold prior to practical completion in July 2019 for circa \$11.6 million.

The inclusion of residential within these schemes was key to the funding and offsetting of risk associated with the retail and office uses, which would not have been viable in isolation.

Accordingly, we consider a mixed-use scheme to be the most appropriate for the subject property, with ground level retail and minimal office. We recommend no more than 10,000 sqm and note Mirvac in its original proposal included in excess of this, with a scheme of 15,351 sqm. We consider there to be no market justification for what Council is proposing, it is certainly not demand driven. Consideration should be given to the quantum of commercial included to ensure it does not detract from the residential component and more importantly, that its size is not difficult for the market to absorb.

Given the proximity of the site to Westfield Chatswood, which is directly opposite, a retailing outcome for the lower levels would not only appear to be in keeping with the surrounding area and uses, but a lower risk option. We would also expect retail to be highly sought after by tenants and investors alike.

Leasing activity in Chatswood fundamentally remains fragile, prone to sustained periods of stagnant face rental growth, elevated vacancy and incentives. This has only been exacerbated by the detrimental impact of COVID-19.

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Chatswood fundamentally lacks a critical mass of quality office stock to underpin further large scale office development, and there is no evidence to suggest that sufficient tenant demand exists to justify development of 30,000 sqm. In fact, the opposite is the case.

Given the locational attributes of the site and the dynamics of the Chatswood CBD outlined in this letter, it is clear that a mixed-use outcome for the subject site is the most suitable option, with residential being the enabler to provide a material component of no residential uses.

Importantly, having residential underpin a development enables the early delivery and inclusion of alternative uses such as office and retail. The development of these alternative uses is only feasible when they form part of a larger, predominantly residential mixed-use scheme.

In summary, we do not support Council's suggestion of 28 October 2020 and consider the maximum non-residential component of the proposed development be capped at 10,000 sqm, noting Mirvac is proposing 15,351 sqm. Unfortunately, non-residential uses of scale are not viable in Chatswood. In order for them to be, they need to be supported by mixed uses. This is the commercial reality of the Chatswood CBD office market.

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We trust the analysis herein is satisfactory for your purposes. Should you require any further assistance please do not hesitate to contact the undersigned on +61 2 9333 3348.

Yours sincerely
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