Former Hoffman Brickworks

Assessment of reasonable or economic use to accompany application to Heritage Victoria for demolition of buildings

Prepared for Sungrove Corporation Pty Ltd
3 July 2020

Deep End Services
Deep End Services is an economic research and property consulting firm based in Melbourne. It provides a range of services to local and international retailers, property owners and developers including due diligence and market scoping studies, store benchmarking and network planning, site analysis and sales forecasting, market assessments for a variety of land uses, and highest and best use studies.

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Document Name
Sungrove report - Hoffman Brickworks reasonable or economic use analysis - 3 Jul 20.docx

Contents

1

Introduction

This report has been prepared on behalf of Sungrove Corporation Pty Ltd with respect to a permit application to Heritage Victoria (HV) for the demolition of heritage buildings on the subject site at 76-106 Dawson Street, Brunswick

The application seeks to demolish the Brick Pressing Shed (Building 5), the attached Former Engine House (Building 6) and the Edge Runner (Crushing) Mill which form part of the former Hoffman Brickworks, and construct a mixed-use development on the site consisting of:

- A heritage interpretation centre
- Co-work/community bookable office/meeting space
- Café/restaurant with outdoor dining
- Residential apartments.

A previous permit (now expired) contemplates retention of Buildings 5 and 6 for adaptive re-use for dwellings, commercial offices and an interpretation centre.

Deterioration in the condition of the buildings has occurred since that time, including as a result of a fire in March 2018. Moreover, environmental condition reports undertaken for the site have identified widespread contamination by petroleum and polyaromatic hydrocarbons within the fill and natural soils underneath the buildings. A clean up notice has been issued by the Environment Protection Agency (EPA) Victoria pursuant to Section 62(A) of the Environment Protection Act Victoria.

Given the structural condition of the buildings, demolition is required to comply with the EPA's clean up notice.

One of the criteria which is relevant to whether a heritage permit may be granted, pursuant to Section 101 of the Heritage Act 2017 (VIC), is "*the extent to which the application, if refused, would affect the reasonable or economic use of the registered place or registered object*".

In this context, Deep End Services has been commissioned to undertake an assessment of whether refusal of the application would affect the reasonable or economic use of the heritage place.

The underlying approach in undertaking this assessment is to compare the potential development outcome if HV grants a permit to demolish the buildings, against the likely outcome(s) if HV refuses the application, and to consider what affect this would have on reasonable or economic use of the site.

Consideration of *reasonable use* has regard to the market context for the types of uses proposed under each scenario, while consideration of *economic use* has regard to development feasibility analysis, which is informed by a report conducted by M3 Property (attached).

This report is set out in the following sections:

- Background context:
  Provides information on the site's development history, locational context, surrounding land uses, and other relevant characteristics.
- Development options:
  Sets out the future development scenarios to be considered to reflect likely outcomes under the granting or refusal of a permit by HV.
- Market context:
  Provides an overview of the market context for the types of development outcomes likely under each option, as input to consideration of reasonable use.
- Development feasibility:
  Summarises the results of development feasibility analysis undertake by M3 Property as input to consideration of economic use.
- Reasonable or economic use:
  Summarises the results of the analysis, highlighting that the application, if refused, would adversely affect the reasonable and economic use of the heritage place.

2

Background context

2.1 Location

The subject site is on the north-eastern corner of the intersection of Dawson Street and Brickworks Drive, within the Mixed Use Zone (MUZ) that applies to the whole of the Hoffman Brickworks site. The subject site is the final parcel of the former brickworks to be developed, in the south-west corner of the precinct, as shown in Figure 1 over the page.

Development at Hoffman Brickworks is largely complete, involving the reuse of brick kilns and the construction of a mainly residential mixed-use development in the surrounding area with an emphasis on townhouses and some apartments.

2.2 Surrounding uses

Surrounding land uses are as follows:

- To the east is an expansive commercial and industrial precinct within the Industrial 1 Zone (IN1Z) that has been designated as a '*Core Industry and Employment Area*' under the Moreland Industrial Land Strategy 2015-2030 (MILS). This precinct accommodates a wide range of commercial, industrial and trades and services businesses.
- To the west is a smaller IN1Z precinct that contains some larger warehouse-office units, a petrol station, auto-related services and a University of Melbourne archival store, among other uses. This precinct is identified as '*Employment area*' under MILS where a broader transition in employment use is anticipated.
- To the north is Gilpin Park immediately abutting the precinct, with Clifton Park further north across Albert Street.
- To the south, residential housing extends south of Dawson Street to Park Street and east to Fallon Street. Given the presence of surrounding commercial and industrial land, only around 2,500 people live within easy walking distance of the site.

Figure 1—Subject site context

Source: Deep End Services; HERE

2.3 Activity context

Union Square shopping centre is to the south-west and includes a Coles supermarket and a mix of retail and service uses on Grantham Street. There is evidence of some vacancies on the centre's edge.

More significant retailing and business and other services are situated to the east within the Sydney Road corridor which extends through the centre of Moreland, from Parkville to Coburg. Major retail elements in the Brunswick part of the corridor include Barkly Square shopping centre (Coles, Kmart, Woolworths) and a stand-alone Woolworths supermarket between Dawson Street and Albert Street. The Sydney Road shopfronts include a very wide range of retail shops, entertainment venues, service businesses, offices and community facilities.

Other uses in the area include RMIT's Brunswick campus and the Brunswick Secondary College, both of which are on the southern side of Dawson Street close to the railway line.

Local transport services include buses along Dawson Street, the no. 58 tram line which runs along Grantham Street, and the Upfield railway line which runs parallel to Sydney Road. The closest railway stations are Brunswick and Jewell, both of which are 1km from the subject site.

3

Development options

3.1 Approach

This report considers various potential development outcomes for the site, depending on whether HV grants a permit for the proposed development. These are summarised in the following sections.

3.2 Permit granted

Option 1

The permit application is based on plans prepared by MGS Architects which are for a development over 7 levels comprising:

- A heritage interpretation centre on the ground floor (380 sqm) which will incorporate examples of retained brick pressing machines, hoppers and a part of the conveyor system as a museum to display the previous industrial use of the site
- Various spaces for potential offices, meeting rooms, and creative workshop space available for co-working or for booking by community members, totalling approximately 640 sqm
- A café / restaurant on the ground level with outdoor dining (135 sqm)
- 59 residential apartments
- Rooftop facilities including communal terrace, common space and urban farm.

3.3 Permit refused

In the event that HV refuses the demolition permit, several options are considered.

Option 2

The site is developed in accordance with the previous permit (MPS/2008/313) which has now lapsed.

Under this option, the existing buildings would still need to be demolished and the site remediated in accordance with the EPA notice.

Construction work would then be undertaken to reinstate/refurbish the property to replicate the pre-existing heritage buildings and construct a mixed-use development in accordance with the endorsed plans for the previous permit.

The use outcomes would consist of the following mix of uses over 4 levels:

- A heritage interpretation centre of approximately 400 sqm
- Commercial office space identified for 20 strata offices over two levels, with total floorspace of approximately 830 sqm
- 27 residential apartments, some of which require modifications of pre-existing heritage structures.

Option 3

This option involved just the remediation of the existing building. Although this is conceivably an option if the demolition permit is not granted, the reality based on advice from structural engineers is that this option is not feasible due to the extremely poor condition of the existing buildings and the extent of the remediation required to make the building safe.

In addition, we understand that demolition is required to make the building safe in order to comply with the EPA clean up notice.

Option 4

This option has been included to consider compliance with the EPA notice (involving demolition and remediation of the site) but no construction activity.

Essentially, the buildings are demolished, and the site remediated to provide a clean and vacant site in compliance with the EPA notice.

In practice, this is not a realistic course of action because HV would likely require some kind of interpretation of the former heritage of the site and it's industrial history. Moreover, from a developer's perspective, the costs of demolition and remediation are such that the owner would seek to construct some kind of outcome (Option 1 or Option 2) in order to recoup these costs.

3.4 Summary

In summary, although four option are considered form a conceptual perspective, the reality is that the most logical options for consideration are Options 1 or 2. These are the focus for subsequent analysis.

4

Market context

4.1 Approach

This section provides commentary on the market context for the types of uses proposed to be developed under each of the options.

The analysis is intended to be sufficient to enable consideration of whether refusal of the permit would adversely affect the reasonable use of the site.

It is noted that Options 3 and 4 do not involve any ongoing economic activities on the site. Given the location of the site in an inner city suburb where more intensive activities are being encouraged on strategic redevelopment sites, and where active uses have previously been granted a permit, the conclusion to be made is that these options represent a significant adverse impact on the reasonable use of the site.

4.2 Residential

Both Option 1 and Option 2 incorporate residential apartments as part of the mix of uses to be developed on the site.

Redevelopment of land for residential use has been occurring throughout the surrounding area in recent years. Figure 2 over the page shows the location of existing apartment projects in various stages of planning, highlighting the presence of large apartment projects in nearby locations in Brunswick.

Given the development trends in the area, it is clear that residential apartments represent a reasonable use of the land. Indeed, the endorsed plans, providing for 27 apartments, could be considered an under-development of the land given the strong appetite for well-located residential apartments in Melbourne's inner northern suburbs.

Figure 2— Residential apartment projects

Source: Deep End Services apartment database

4.3 Heritage interpretation

Both of the options under consideration incorporate a heritage interpretation centre.

In the case of Option 1, this would involve the inclusion and visual display of retained brick pressing machines and other parts of the industrial process including some hoppers and part of the conveyor system.

Option 2 incorporates similar retained elements of the previous use within their historical heritage buildings.

The inclusion of a heritage interpretation facility represents a reasonable use of the site, although one which is unlikely to generate any commercial return for the developer or owner.

4.4 Commercial office

Demand for local commercial office space (as opposed to major corporate or government requirements) is usually driven by a range of factors that influence small business creation and the locational decisions made by business owners and managers. Some of the critical considerations include:

- Business ownership levels and trends, reflecting the fact that small businesses account for a large share of suburban office demand and typically seek to locate their business close to their residential address
- The availability of a local workforce with the requisite skills in the particular industry sector
- The presence of population and workforce growth leading to the emergence of new local business owners and improvements in local workforce supply
- Underlying infrastructure, in particular good transport linkages so that employees can easily get to work from across Melbourne (and preferably including rail-based public transport)
- Local amenity, which in the contemporary context includes good access to cafés, recreation and entertainment opportunities and other personal services
- Opportunities to locate in proximity to similar types of businesses or firms that represent opportunities for upstream and downstream industry linkages – this is a particularly important factor for businesses in knowledge-intensive sectors
- Competition from other locations where office space is readily available.

The Hoffman Brickworks site is assessed against these considerations in the following sections.

Small business ownership

The primary market for small-scale offices is the small business owner seeking strata ownership options or wishing to lease small amounts of office space. Based on primary research undertaken on behalf of private sector clients, this market sector is typically supported by owner-managers of small businesses operating as sole traders or employing fewer than 20 people, and in knowledge industry sectors such as:

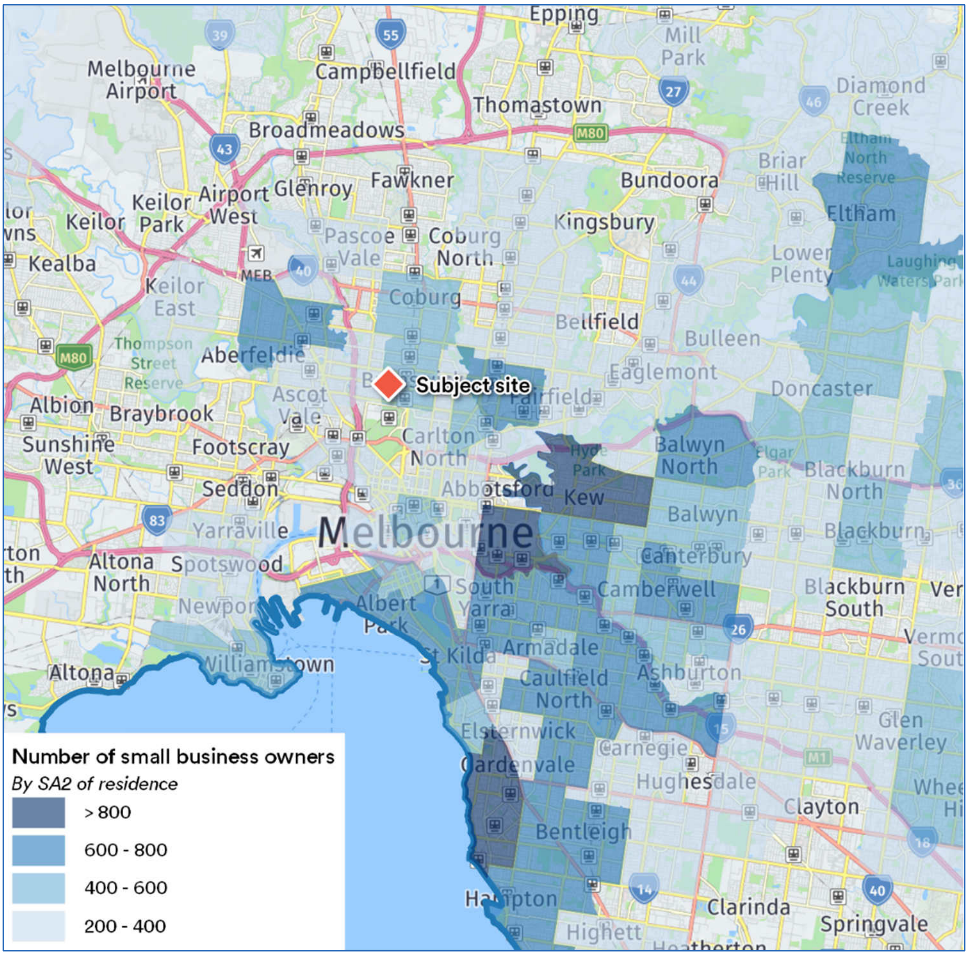
- Information media and telecommunications
- Financial and insurance services
- Rental, hiring and real estate services
- Professional, scientific and technical services
- Administrative and support services.

Analysis of Census 2016 data shows that in the area surrounding the subject site there are relatively few small business owners of the type described above that generate demand for small office product. This is demonstrated in Figure 3 which illustrates the number of these small business owners living in each Statistical Area 2 geography unit (SA2) across Melbourne. The concentration of these business owners in the inner and middle eastern suburbs underpins the strong property market for strata office product in these parts of Melbourne, but there is a significant gap in the numbers of these business owners in northern suburbs, reflecting the immaturity of the market in these areas.

Figure 3— Distribution of small business owners by place of residence

Note: selected industry sectors

Source: ABS Census 2016



The same conclusions can be made with respect to Figure 4 which shows the place of work for small business owners in the selected industry sectors, also highlighting the importance of Melbourne's eastern suburbs and city fringe as places where small office floorspace product is delivered, and the lack of such space north of the CBD.

The Census analysis described above is consistent with the commentary in MILS which acknowledges that the local commercial office market in Moreland is immature at best. This is also demonstrated in a review of existing land uses surrounding the subject site which shows little evidence of small-scale commercial office product being developed in the area.

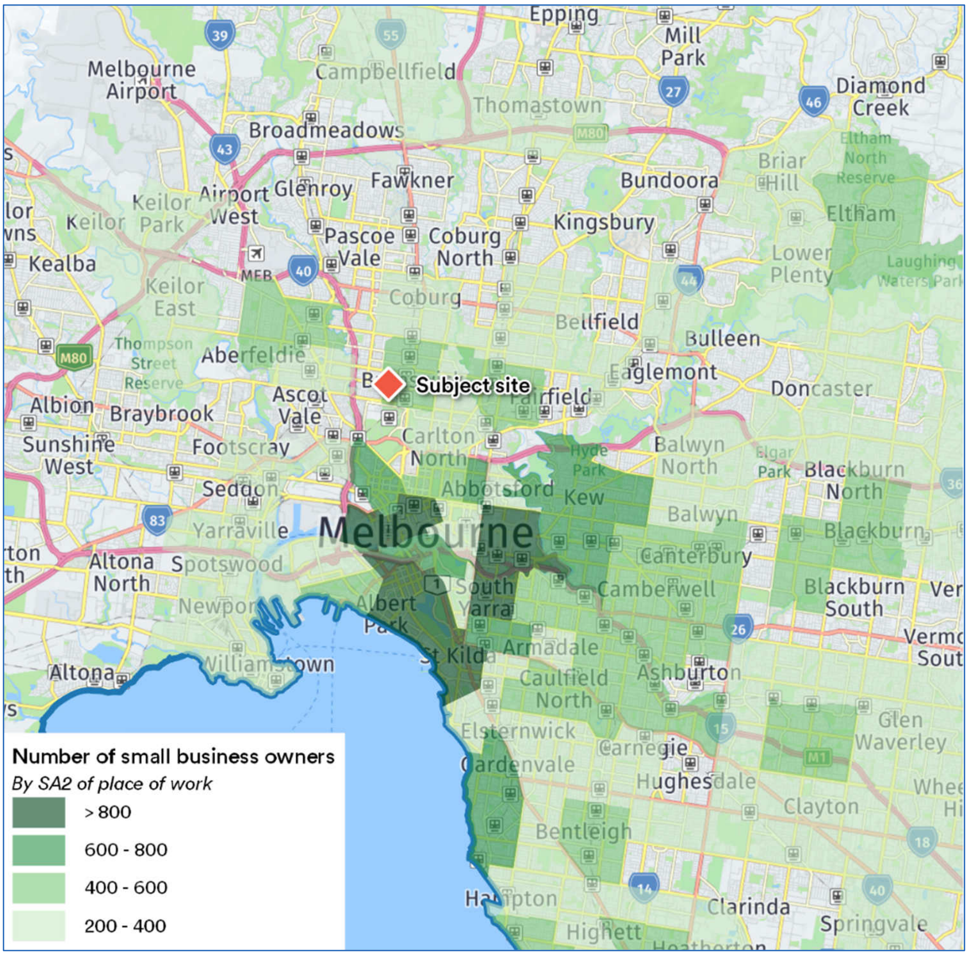
In addition, it is noted that the subject site is relatively poorly situated with respect to rail-based public transport, although there are bus services along Dawson Street and it is close to the Grantham Street tram.

Other factors also point to likely subdued demand for traditional commercial office provision, including the lack of potential for business synergies given the lack of presence of an established office market, and the competition emerging from recent and future developments along the Sydney Road corridor.

Figure 4— Distribution of small business owners by place of work

Note: selected industry sectors

Source: ABS Census 2016

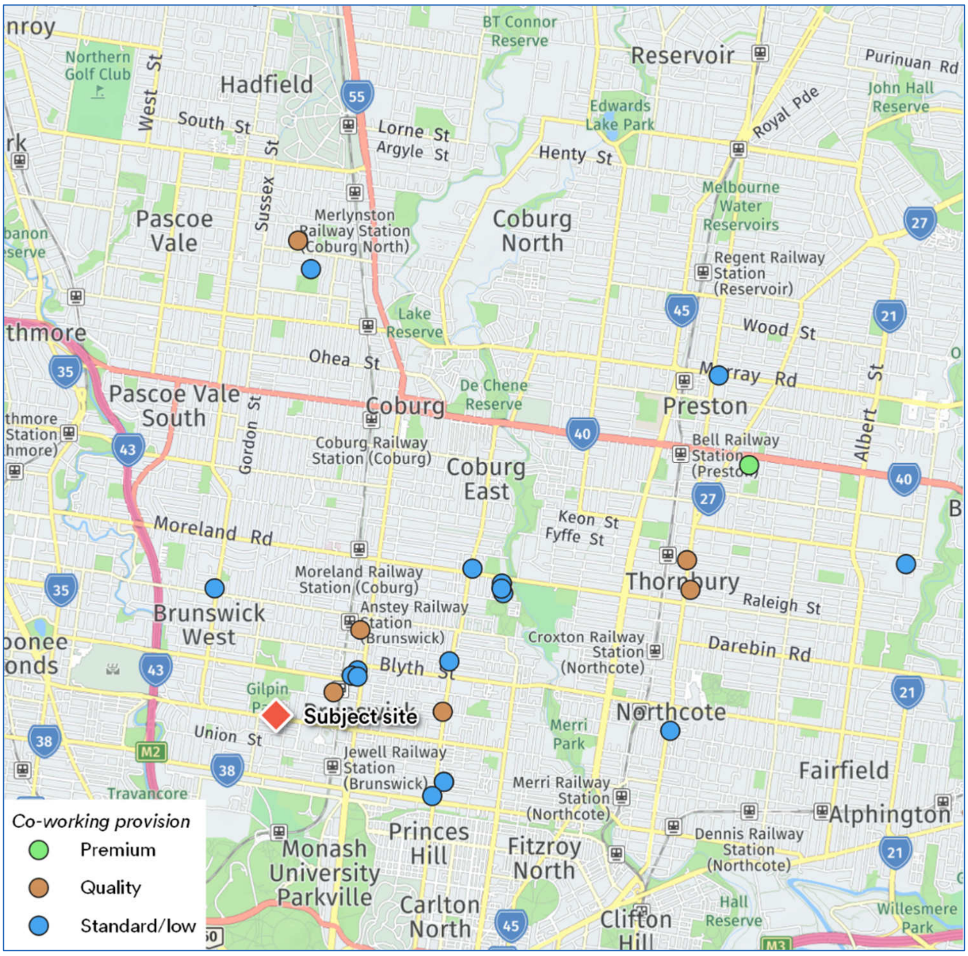


Overall, the site is not considered highly suitable for a traditional form of strata office provision as proposed under the endorsed plans, and in this context the proposed use of the office space for more 'casual' office use such as co-work space or for creative workshops is more suited to the area.

This is demonstrated in Figure 5 which shows that the Brunswick - Coburg corridor is becoming attractive for the provision of co-work space able to meet the needs of local industry sectors, including for more 'creative' and craft-based workers.

The inclusion of a dedicated café/restaurant provided added amenity for the local residential and workforce base.

Figure 5—Existing co-work provision



4.5 Summary

The uses proposed for the site under Option 1 and Option 2 both anticipate a mix of residential, office, and interpretive facilities.

In general terms these are both reasonable uses for the site, but the following qualifications are relevant:

- Refusal of the permit would lead to a relative small residential component which would arguably represent an under-development of the site given it's attractiveness for residential use.
- Refusal of the permit and construction in accordance with the endorsed plans (Option 2) would deliver a relatively traditional commercial office provision configured as a series of strata units. This does not reflect the current state of the local office market, which is immature at best, with office projects only now being delivered along the Sydney Road spine. Accommodation of co-working space represents a more market-oriented development outcome and therefore represents a more reasonable use of the site.

5

Development feasibility

5.1 Introduction

This section presents the results of feasibility analysis of each of the development options undertaken by M3 Property to consider whether refusal of the permit by HV would affect the economic use of the site.

The M3 Property report is provided as an attachment to this report, and includes, for each of the development options:

- Analysis of development costs including demolition, remediation, construction of new buildings and other costs
- Analysis of gross realisation through sales of apartments and commercial facilities, based on price assumptions from recent similar property transactions in the area, and allowing for relevant costs including incentives, commissions, etc
- Summary feasibility analysis using a residual cash flow approach to determine the commercial viability of each option.

5.2 Assumptions and inputs

Various assumptions and inputs are adopted for the purpose of the M3 Property analysis, with some of the critical components being:

- Development costs estimates have been provided by Neoscape, project managers acting on behalf of Ninety Four Feet and Sungrove Corporation
- Relevant planning permits would be granted to facilitate the development
- Indicative construction timeframes are 15 months for Option 1 and 12 months for Option 2
- Gross realisation for apartments has been calculated based on actual sales evidence for apartments sold in the local area, reflecting typical $/sqm pricing, and with various allowances for selling periods, settlement periods, etc

- Gross realisation for commercial areas is based on available evidence in similar inner city suburbs, reflecting the lack of market activity for new offices in the local area, and has been calculated using a capitalisation rate of 5.5%, an allowance of 12 months completion to fully let, and relevant incentives and commissions
- Feasibility analysis is undertaken by adopting a developer's margin of 20% to reflect risks, economic conditions, interest rates and other factors
- A comparison of the residual cash flow has been done by assuming a nominal $1 site value of the land for the purposes of rates and land taxes, reflecting the findings that both options do not generate a positive residual land value.

The methodology and assumptions used in the M3 Property appear reasonable, with the results properly reflecting a comparison of each of the development options.

However, it is noted that the analysis under both options assumes that the commercial office components would be traditional strata-type units, and that they would successfully be sold over a period of 12 months. There is significant risk that this would not occur under Option 2. Moreover, the potential sales of the space under Option 1 to a co-work provider may lead to slightly lower gross realisation under this option.

5.3 Results

The results of the feasibility analysis are summarised in the M3 Property report as indicated in the table below.

Option	Description	Result
Option 1	Demolish, remediate and develop the site for a mixed-use development to comprise 59 apartments, a café and commercial space.	($2,100,000)
Option 2	Demolish, remediate and reinstate/refurbish and existing building. Assume the building has no higher and better use.	($24,500,000)
Option 3	Remediate with existing building in place. This option is not feasible, due to the existing condition of the building.	Not an Option
Option 4	No action, with the feasibility to assume demolition of the building and remediation of the site, with no further action after.	Would result in a negative land value

Option 1

The M3 Property analysis indicates that Option 1 would not be economic, in the sense that a developer would be under to achieve the 20% developer margin that would induce investment in the project.

However, M3 Property acknowledge that Option 1 still has more likelihood of being a viable project, as the feasibility analysis indicates that the project may deliver a profit margin of approximately 9% to the developer. This occurs because the gross realisation from the development, at approximately $35.9m, is greater than the net development costs of approximately $32.2m incorporating GST credits.

Option 2

The M3 Property analysis shows that Option 2 would simply not be a viable development.

In simple terms, the sale of apartments and commercial elements would generate just $12.9m in gross realisation, compared to a net development cost of approximately $37.7m incorporating GST credits.

Options 3 and 4

Option 3 is not considered in the M3 Property analysis is remediation of the building will require demolition, according to advice from structural engineers.

Option 4 leads to a very significant negative land value. This would not be a realistic outcome as further development would need to be pursued by the developer (in the form of Option 1 or Option 2) to recoup the demolition and remediation costs.

5.4 Summary

In summary, the advice from M3 Property shows that refusal to grant the demolition permit would adversely affect the economic use of the land, as development in accordance with the endorsed plans is not viable from a development feasibility perspective.

6

Reasonable or economic use

1. The only realistic developments to be considered are:
   a. Option 1: Development in accordance with proposed plans prepared by MGS Architects, requiring the granting of a permit by HV to demolition existing heritage buildings
   b. Option 2: Development in accordance with the previously endorsed plans, which would require demolition and reinstatement of the existing heritage buildings and adaptation for a small development.
2. Both options entail similar use outcomes, comprising residential units, interpretation centre, and commercial space.
3. However, the additional residential units under Option 1 represents a more appropriate development outcome given the nature of development in the area and the opportunity to add to dwelling supply in a location that has an appetite for residential apartments.
4. Moreover, Option 2 proposes to deliver a conventional form of strata commercial offices, which does not reflect the current state of the local office market (which is immature at best) in which office projects are only now being delivered along the Sydney Road spine. Accommodation of co-working space represents a more market-oriented development outcome and therefore represents a more reasonable use of the site.
5. Feasibility analysis shows that Option 1 may be viable at a reduced return to the developer. However, Option 2 is simply unviable and not an economic outcome given the demolition and remediation costs that are required to comply with the EPA notice.
6. In summary, refusal to grant a permit would adversely affect the economic use of the land.

Attachment: M3 Property feasibility analysis

30 June 2020

Mr K Young
Neoscape

Email: kyoung@neoscape.com.au

Dear Kris

RE: FEASIBILTY ANALYSIS
72-106 DAWSON STREET, BRUNSWICK, VIC

We refer to your request for m3property to provide a feasibility analysis of the proposed development to assist with an application to the Heritage Council of Victoria. Our feasibility analysis cannot be relied upon for mortgage purposes and is to assist in the application to Heritage Victoria only. Specifically, we have been instructed to prepare feasibility analysis of the proposed development on the basis of four options, which are summarised below:

Option 1

- Demolish, remediate, and develop the site for a mixed-use development to comprise 59 apartments, a heritage interpretation centre, a café and commercial space.

Option 2

- Demolish, remediate, and reinstate/refurbish the existing building. Under this Option, we assume the building will be reinstated and refurbished to include 27 dwellings, a heritage interpretation centre and commercial space, in accordance with the endorsed plans dated October 2010.

Option 3

- Remediate with existing building in place. With respect to this option, in line with our instructions, we have not undertaken a feasibility analysis, given the option will not be feasible due to the extremely poor condition of the existing buildings and the extent of the remediation. Therefore, on this basis, this is not an option and we have not considered this Option in our analysis.

Option 4

- No action, with the feasibility to assume demolition of the building and remediation of the site. This Option does not allow any redevelopment of the site. On this basis, the buildings are demolished and the site remediated to provide a clean and vacant site, in line with the Environmental Protection Agency (EPA) clean up notice.

Assumptions

- We assume the accommodation and areas of the apartments and commercial spaces summarised in this advice are correct.
- We were not provided with proposed fixtures and fittings for the subject apartments, however, we have been advised by the developer, that these will be finished to a high standard. If this assumption proves to be incorrect, we recommend this advice be returned to us for comment.
- We have not searched a Certificate of Title for the purpose of this advice. We assume that there are no encumbrances, encroachments, restrictions, leases, or covenants negatively affecting the subject property. If any such matters are known or discovered, we should be advised and asked as to whether they affect our conclusions drawn by the feasibilities analysis.

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- Our advice does not represent a valuation and is on the basis of preliminary advice only to assist with the application as stated above.
- Our feasibility analysis has been completed on the basis of the preliminary costs provided. The costs outline a sum for remediation of the contamination on the site. If this sum proves to be insufficient, this will negatively impact our residual land analysis based on the feasibility studies prepared. The costs provided have been accepted as true and correct.
- The planning information set out in this advice has been obtained via the website of the Department of Environment, Land, Water and Planning. We have relied upon this information in preparing this advice. No responsibility is accepted for the accuracy of that information and if it is wrong in any significant respect, our advice may be different.
- To our knowledge, a planning permit is yet to be obtained for the proposed development. Our advice is made on the strict assumption that a planning permit is issued allowing for the proposed development to be completed within Option 1, and that the Heritage Council of Victoria approves the proposed use. Furthermore, our advice assumes that there will be no onerous conditions within the planning permit.
- A construction program has not been made available to us for the purpose of this advice. We have estimated construction timeframes for the purpose of our feasibilities. If expert advice is obtained in this regard, we recommend our advice be returned to us for reassessment, in line with the expert's opinion.
- The general scheme is adopted for assessing GST.

Property Details

Address	72-106 Dawson Street, Brunswick, VIC.
Title Details	Volume & Folio Number: 11402/352 Description: Lot S4 on Plan of Subdivision 63185H
Planning	**Zone:** Mixed Use Zone (MUZ) pursuant to the Moreland Planning Scheme. **Overlays:** Development Plan Overlay – Schedule 3 (DPO3) Environmental Audit Overlay (EAO) Heritage Overlay (HO63)
Planning Permit	We have previously been provided with a Planning Permit No. MPS/2008/313 which relates to the wider development, which the subject parcel forms a part of. The permit expired in January 2019 and is not definitive. The expired permit allows for the following: *"Construction of a four storey building for dwellings and development and use of food and drink premises (Building E), construction of a five storey building for dwellings (Building 6A), adaptive re-use of Building 5 and 6 for dwellings, office and interpretation space, adaptive re-use and restoration and development of Kilns 2 and 3 for dwelling and interpretation space, advertising signage and reduction in onsite car parking, in accordance with the endorsed plans."* Our feasibility analysis for Option 1 is based on development plans prepared by MGS Architects dated June 2020, while we have relied upon the endorsed plans (with the permit relating to these plans having expired) prepared by Span Architecture for Option 2. We emphasise that these developments are not currently permitted and would require Planning Permits be issued by Moreland City Council prior to construction. We assume for the purpose of our advice, relevant approvals are in place.
Description	The subject property forms part of an infill development being the former Hoffmans Brickworks. The subject property is one of the last remaining sites within the overall development to be developed. The site is located to the north-eastern corner of Dawson Street and Brickworks Drive, within the established inner north suburb of Brunswick, approximately five kilometres north of the Melbourne Central Business District. Our desktop review revealed that the property comprised a dilapidated building which was the former main factory, with a brick chimney constructed on part of the land. The overall parcel of land is irregular in shape and part of the land is not developable. In addition, an open paved car park has been constructed on approximately 400 square metres of land attributed to the subject title.

Aerial View of Subject Property

Architectural Package (June 2020)

Development Summary – Option 1

No. of Levels	Seven
Architect	MGS Architecture
Revision	TP01
Date of Plans	June 2020
Endorsed	Not yet endorsed.

The Development plans can generally be described as below:

- Two basement levels to include 65 car spaces, 68 bicycle parks (secure) and 59 storage cages;
- 135 square metres of retail space to the ground level, which will be located on the south-eastern corner of the site. This location is considered to maximise pedestrian traffic to the retail space;
- 632 square metres of commercial/co-working space to the ground level, which will allow for greater collaboration within the community;
- 380 square metres for a Heritage Interpretation Centre to the ground level, which will include a museum that will display the sites former use (both as a Brick and Pottery works);

- 59 apartments interspersed across the ground level to Level 6; and
- Approximately 600 square metres of communal rooftop garden, which will include an urban farm.

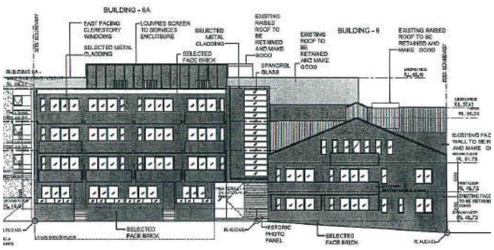
As per the above, there will be a relatively large amount of public space, which will provide for the broader community and residents of the proposed apartments. This is somewhat unique and may be attractive to potential purchasers.

A summary of the residential component of the proposed development is provided within the table below:

Apartment Type	Count	%	Average Internal Size (m²)	Average External Size (m²)	Total Internal Area (m²)
1 Bedroom 1 Bathroom, 1 Car	20	34%	52	11	1,030
2 Bedroom 1 Bathroom, 1 Car	17	29%	71	10	1,205
2 Bedroom 2 Bathroom, 1 Car	17	29%	82	14	1,393
3 Bedroom 2 Bathroom, 2 Car	5	8%	94	29	469
Total	**59**	**100%**			**4,097**

Development Summary – Option 2

No. of Levels	Four
Architect	Span Architects
Date of Plans	12 April 2010
Endorsed	Endorsed by Moreland City Council on 18 October 2010 – The Permit relating to these plans has subsequently expired.



The endorsed plans did not include specific areas. We have therefore undertaken our own measurements of the proposed commercial, residential and cultural heritage space. We emphasise that these are approximate only and should only be relied upon for the purpose requested within this advice. If these areas provide incorrect, it will impact on our feasibility analysis for Option 2 and this advice should be referred back to us for review.

While these plans are endorsed, they reflect an expired permit, with the residential and commercial application being pre Better Apartment Design Standards (BADS) introduced in December 2016. Under the BADS, the application would not comply with the requirements of the standards. Furthermore, we have been advised that the design consideration for the subject property under these plans was envisaged in the early 2000's and is therefore considered outdated and would not represent the Highest and Best Use of the site.

The endorsed plan can generally be described as below:

- Approximately 402 square metres of Historical Interpretation Centres;
- Approximately 830 square metres of commercial space over two levels, which as per the plans is split into 20 individual units. We have made our assessment on the basis of 20 individual units; and
- Twenty-seven apartments split over four levels.

A summary of the residential component of the proposed development is provided within the table below:

Apartment Type	Count	%	Average Internal Size (m²)	Total Living Area (m²)
Studio, 1 Bathroom	13	48	42	547
1 Bed, 1 Bath - Single Level	7	26	49	340
1 Bed, 1 Bath - Two Levels	6	22	57	340
2 Bed, 1 Bath - Two Levels	1	4	76	76
Total	**27**	**100**		**1,303**

For the purpose of our advice, we have not scaled each individual balcony and terrace for the residential component. We have assumed that each dwelling will include a minimum of eight square metres of private open space. In addition, we have been advised that there will be 17 at grade car spaces located outside of the building footprint, which will be available for purchases of the proposed apartments and commercial space. We have therefore assumed that each of the one and two bedroom apartments will include a single car space, while the studio apartments will not include a car space. Therefore, 14 car spaces will be available for the residential component, while the balance of the car spaces are assumed to be allocated to the commercial use (three car spaces).

The car parking is inferior to other developments, with car spaces allocated off site and open paved compared to other car parks that are generally secured. In estimating a value for the proposed apartments, we have been cognisant of this with the studio apartments having no car park and therefore are likely to take longer to sell and the inferior configuration of the car parks allocated to the one and two bedroom apartments.

Fixtures and Fittings

We have not been provided with a fixtures and fittings schedule for the proposed apartments, nor the commercial space. We have however been advised by the developer that the apartments will be completed to a high standard. We have therefore adopted this advice when assessing a Gross Realisation for Options 1 and 2. If this assumption proves to be incorrect, we recommend this advice be returned to us for review.

Project Costs

Feasibility	Prepared by the developer (undated)
Timeframe	We have not been provided with a construction program. We have therefore estimated a construction timeframe of approximately 15 months for completion of the Option 1 proposed development and a timeframe of 12 months for the construction of Option 2. We emphasise that we are not experts in this regard, and if these assumptions prove to be incorrect, we recommend our advice be returned to us for review.

Project Costs		Cost (Option 1)	Costs (Option 2)	Costs (Option 4)
Construction Cost		$17,005,000	$23,683,500	$0
Demolition		$906,205	$906,205	$906,205
Basement/Backfill		$2,368,000	$350,000	$350,000
Heritage Interpretation E/O		$1,809,750	$1,961,750	$0
Landscaping		$500,000	$300,000	$0
Total Construction Cost		**$22,588,955**	**$27,201,455**	**$1,256,205**
Other Costs		$146,147	$164,282	$31,427
Professional & DM Fees	7%	$1,864,231	$2,257,541	$437,873
Remediation Costs		$4,477,500	$4,477,500	$4,477,500
Remediation Contingency		$671,625	$671,625	$671,625
Total Development Costs (exclusive of GST)		**$29,748,458**	**$34,772,402**	**$6,874,630**
Add GST on costs @	10%	$2,974,846	$3,477,240	$687,463
Total Development Costs (inclusive of GST)		**$32,723,304**	**$38,249,642**	**$7,562,093**
Authority Fees/ Building Application Fees		$177,000	$100,000	$50,000
Headworks Fees - Sewer + Water Tapping		$50,000	$50,000	$0
Headworks Fees - Citipower		$50,000	$0	$0
Open Space Contribution		$150,000	$150,000	$0
Total Development Costs (inclusive of GST)		**$33,150,304**	**$38,549,642**	**$7,612,093**

Project Costs Breakdown (Option 1)	Analysis
$/m² of Saleable Area	$6,204/m²

Project Costs Breakdown (Option 2)	Analysis
$/m² of Saleable Area	$16,443/m²

Market Comment – Subject Locality

Brunswick is an inner metropolitan suburb located approximately six kilometres north of the Melbourne Central Business District and is incorporated within the Moreland Local Government Area (LGA).

Investigations with the Real Estate Institute of Victoria show the March quarter 2020 median unit price for Brunswick to be $567,500, against the Inner Melbourne Metropolitan median for the same period of $635,500. In comparison, the median unit price for Brunswick increased by 12% from the March quarter 2019, with a median reflecting $507,000. We emphasise that these measures are based on sales which have occurred pre COVID-19 and the impact of current events is yet to materialise or be reflected in key market indicators. The residential market is likely to experience a negative impact in the foreseeable future.

Approach

To determine a residual land value for each Option we have adopted a residual cash flow analysis. The cash flow will take into account the project gross realisation; but will not account for escalations in revenue or cost. A Profit and Risk (P&R) factor is applied to the net position derived after the deduction of selling/marketing costs and GST. This factor is a reflection of the required return and risk profile of the property. It is a static factor providing a required return for the life of the project, does not represent an annual return; and accordingly is useful for projects or stages of projects of relatively short duration. Relevant development, holding, interest and acquisition costs are then deducted from the net realisation resulting in an estimate of the residual land value for each Option.

The residual cash flow analysis requires the estimated gross realisation, As If Complete of the proposed development for each Option. To determine this input, we have adopted the Direct Comparison Approach. This approach when applied to residential units 'as if complete', gives consideration to living area, floor plan configuration, location and aspect/views achieved, and analysis is undertaken on a rate per square metre of living area basis and as a sum of money.

To estimate the As If Complete Value for the retail and commercial space, we have adopted the Capitalisation of Net Market Income and Direct Comparison approaches.

The Capitalisation Approach involves estimating the potential sustainable gross market income of a property from which annual outgoings are deducted to derive the net market income. This net market income is then capitalised at an appropriate rate derived from analysis of comparable sales evidence.

Adjustments to the capitalised value are then made for items including letting up allowance over vacant areas including foregone rental and outgoings over the assumed letting up period together with marketing expenses and leasing commissions, short term capital expenditure, outstanding lease incentives including rent free periods and committed Lessor contributions.

The Direct Comparison Approach involves applying a Value Rate to the selected unit of comparison which in this case is the value per square metre of GLA, with the adopted value rate derived from analysis of comparable sales evidence.

Apartment Sales Evidence

We have undertaken a search of both existing and proposed apartment projects within the Brunswick locality. From our research, the higher rates per square metre of living area have been achieved within developments located within close proximity of public transport and the Sydney Road retail precinct. The subject development, while being within reasonable proximity of amenity, is further removed than the projects which achieve rates above $10,000 per square metre of living area. We therefore consider rates towards the midpoint of the identified ranges to be appropriate for the subject apartments.

Apartment Type	Sale/Asking Price Range			Living Area Range (m²)			$/m² Living Area Range		
One Bedroom/One Bathroom	$331,000	to	$495,000	40	to	56	$6,768	to	$10,220
Two Bedroom/One or Two Bathroom	$450,000	to	$830,000	52	to	85	$6,159	to	$12,213
Three Bedroom/Two Bathroom	$595,000	to	$1,299,000	85	to	122	$7,000	to	$11,538

Outlined below are sales which have occurred within the wider subject development. While these were completed some time ago and are dated, we consider these to provide a guide to the lower level of estimated value for the proposed subject dwellings.

Address	Sale Date	Sale Price	Beds	Bath	Car	Living m²	$/m² Living Area
27/97 Brickworks Drive	Apr-20	$310,000	1	1	1	40	$7,750
20/97 Brickworks Drive	Mar-20	$550,000	2	1	1	85	$6,471
207/80 Dawson Street	Nov-19	$582,000	2	2	1	68	$8,559
3/6 Pottery Court	Sep-19	$510,000	2	1	1	68	$7,500
30/99 Brickworks Drive	Aug-19	$490,000	2	1	1	62	$7,903
12/97 Brickworks Drive	Aug-19	$595,000	3	2	1	85	$7,000

Gross Realisation – Option 1

Gross Realisation Assessment Summary - Residential

In assessing estimating a value for the proposed subject apartments As If Complete, we have had regard to the sales evidence and our comments of comparison. In particular, in assessing the individual values within our Gross Realisation, we have considered the following:

- The subject development is large for the locality, proposed to comprise 59 apartments and ground level commercial uses upon completion.
- We have assumed that the apartments will be completed to a high standard.
- The floor plans are functional with natural light provided to all bedrooms.
- The majority of the apartments will have outdoor space broadly in line with similar apartment developments within the locality, with an overall average of 13 square metres, ranging from eight to 63 square metres.
- We have assumed that each of the one and two bedroom apartments will provide a single standard basement car park, while the three bedroom apartments will provide two car spaces.
- Apartments located to the upper levels with an aspect to the south will achieve good views, with some achieving city views.
- Each apartment will have private storage at basement level.
- The location being in close proximity to recreational facilities, schools, public transport and retail amenity.

A summary of our estimated Gross Realisation for the residential component is detailed below:

Apartment Type	Count	Average Internal Size (m²)		Average Assessed Price	$/m² Living Area	Total
1 Bedroom 1 Bathroom, 1 Car	20	52	@	$465,500	$9,039	$9,310,000
2 Bedroom 1 Bathroom, 1 Car	17	71	@	$649,412	$9,162	$11,040,000
2 Bedroom 2 Bathroom, 1 Car	17	82	@	$756,471	$9,232	$12,860,000
3 Bedroom 2 Bathroom, 2 Car	5	94	@	$852,000	$9,083	$4,260,000
Total	**59**			**$635,085**	**$9,146**	**$37,470,000**

Retail/Commercial Evidence

We have undertaken a search of strata retail and commercial within Brunswick and the surrounding locality. In this regard, we were able to identify a number of strata retail premises within the area, however the majority of these provided a Gross Lettable Area of less than 100 square metres. Furthermore, with respect of the commercial units, there is limited available evidence of existing and proposed strata commercial space within Brunswick, with this market being relatively immature. We have therefore had to rely on dated evidence, in addition to evidence within inner northern suburbs such as Carlton, Fitzroy and North Melbourne to draw comparisons. We have provided the evidence within ranges as stated below:

Retail Units		Range	
Sale Price Range	$360,000	to	$535,000
Gross Lettable Area	37m²	to	152m²
Rent ($/m²)	$205	to	$600
Initial Yields	5.05%	to	6.12%
Direct Comparison ($/m² GLAR)	$5,114/m²	to	$10,288/m²

With respect to the above, the subject retail space provides a lettable area of approximately 135 square metres, which as previously mentioned, is larger than the majority of evidence obtained. Given the subject location is a secondary area within Brunswick, with the majority of evidence being closer to Sydney Road, we consider the subject would achieve a market income and yield towards the midpoint of the range. For the purpose of this advice, we have adopted the midpoint, being $400 per square metre of lettable area and a capitalisation rate of 5.5%.

Commercial Units		Range	
Sale Price Range	$170,000	to	$1,100,000
Net Lettable Area	40m²	to	369m²
Rent ($/m²)	$326	to	$541
Initial Yields	6.67%	to	7.33%
Direct Comparison ($/m² NLA)	$2,981/m²	to	$8,136/m²

Having regard to the available commercial evidence and the immature commercial market within Brunswick, we have adopted a rent of $300/m² on the commercial space, with an appropriate capitalisation rate of 7.0%.

Gross Realisation Assessment Summary - Retail/Commercial

With respect to the proposed commercial units, we have made the following assumptions for both the retail and commercial spaces:

- Let Up Period equivalent to 12 months rent;
- Rental Incentive equivalent to 10 months rent; and
- Leasing Commissions equivalent to 12% of rent.

Based on the above, our estimate utilising the capitalisation of Net Market Income is as follows:

Capitalisation Approach - Retail				
Net Annual Market Income	135m²	@	$400/m²	**$54,000**
Capitalised @			5.50%	$981,818
Adjustments				
PV of Let Up Period	12 months			-$52,007
PV of Rental Incentive	10 months			-$43,589
Leasing Commissions	12%			-$6,480
Total Adjustments				**-$102,076**
Indicated Value				**$879,742**
Adopt (rounded)				**$900,000**

Sensitivity Analysis		
Cap Rate	Value	$/m GLAR
5.25%	$930,000	$6,889
5.50%	$900,000	$6,667
5.75%	$840,000	$6,222

Our estimate under the Capitalisation Approach produces a capital value of $900,000. On a direct comparison rate basis, this equates to $6,667 per square metre of GLAR, which falls within the range provided by the sales evidence, albeit towards the lower end of the range, which is considered appropriate, given the subject provides a larger area when compared to the majority of the evidence.

Adopting the same assumptions for assessing the retail unit, our calculation for assessing the commercial space is as follows:

Capitalisation Approach - Commercial				
Net Annual Market Income	632m²	@	$300/m²	**$189,600**
Capitalised @			6.25%	$3,033,600
Adjustments				
Downtime	12 months			-$182,602
Incentives	10 months			-$153,047
Leasing Commissions	12%			-$22,752
Total Adjustments				**-$358,401**
Indicated Value				**$2,675,199**
Adopt (rounded)				**$2,700,000**

Sensitivity Analysis		
Cap Rate	**Value**	**$/m NLA**
6.00%	$2,800,000	$4,430
6.25%	$2,700,000	$4,272
6.50%	$2,600,000	$4,114

Our estimate under the Capitalisation Approach produces an estimated capital value of $2,700,000. On a direct comparison rate basis, this equates to $4,272 per square metre of NLA, which falls within the range provided by the sales evidence.

Gross Realisation – Option 2

Gross Realisation Assessment Summary - Residential

In estimating a value for the proposed subject apartments As If Complete within Option 2, we have applied a dollar per square metre rate to the average apartment size for each of the apartment types within the development. Given the preliminary nature of this Option and limited detail available, we consider this to broadly represent the appropriate Gross Realisation of the proposal. We have had consideration to the evidence previously outlined within this advice in forming our estimate.

A summary of our estimated Gross Realisation for the residential component is detailed below:

Apartment Type	Count	Average Internal Size (m²)	Total Living Area (m²)		Average Assessed Price	$/m² Living Area	Total
Studio, 1 Bathroom	13	42	547	@	$378,692	$8,250	$4,512,750
1 Bed, 1 Bath - Single Level	7	49	340	@	$412,857	$8,000	$2,720,000
1 Bed, 1 Bath - Two Levels	6	57	340	@	$453,333	$7,500	$2,550,000
2 Bed, 1 Bath - Two Levels	1	76	76	@	$589,000	$7,250	$551,000
Total	**27**		**1,303**		**$382,731**	**$7,931**	**$10,333,750**

Gross Realisation Assessment Summary - Commercial

Given the basic level of detail we have been provided, we have only utilised the Direct Comparison Approach in order to determine the value of the commercial space within Option 2. Having regard to the evidence previously outlined, we consider a rate of $5,000 per square metre of NLA to be appropriate. Our calculation is as follows:

Office Component	No of Units	Average Net Lettable Area (m²)	Total Net Lettable Area (m²)		Average Assessed Price	$/m² NLA	Total
Office Units	20	42	830	@	$207,500	$5,000	$4,150,000
Total	**20**						**$4,150,000**

Our estimate under the Direct Comparison approach produces a capital value of $4,150,000.

Feasibility Analysis – Option 1

Feasibility Assumptions

Our residual cash flow analysis has been prepared based on information provided. Our cash flow projections are forecasts based on available information and are exposed to fluctuating economic conditions. The cash flow analysis has been prepared on the following data:

Feasibility Assumptions	
Sale Assumptions	
Site Area	2,969m²
Indicated Density	1:50m²
Proposed No. of Residential Apartments	59
Retail Space (m²)	135m²
Commercial Space (m²)	632m²
Gross Realisation - Residential	$37,470,000
Gross Realisation - Retail	$900,000
Gross Realisation - Commercial	$2,700,000
Total Gross Realisation	**$41,070,000**
Sale Rate for Available Apartments (post completion)	8.0
Selling Costs (exclusive of GST)	3.91%
GST on Gross Realisations	General Scheme
Cost Assumptions	
Legal Acqusition Costs (exclusive of GST)	$10,000
Development Costs (exclusive of GST)	$29,748,458
Development Costs (inclusive of GST)	$33,150,304
Cost $/unit (exclusive of GST)	$504,211
Finance Costs	6.25%
Rates and Taxes	
Per Annum	Nil.
Timing Assumptions	
Lead in time (post land settlement)	1 month
Settlement on Hypothetical Land Purchase	3 months
Construction	19 months
Settlement on Presales	1 month
Selling Period (post completion)	8 months
Total Project Period (months)	29 months
Total Project Period (years)	2.42 years
Terms on Sale	
Deposit	10%
Balance	90%
Targets	
Developer's Margin	20.00%
Internal Rate of Return (incl. interest)	18.00%

For the purpose of this exercise, we have adopted a $1 Site Value to calculate Land Tax and Council Rates due to our feasibility reflecting a negative value.

We have adopted a target developer's margin of 20.00% based on the following reasons:

- A planning permit has been obtained for the proposed development, with the plans endorsed;
- The costs relied upon are based on estimates provided by the developer, with the costs not having been reviewed by a third party;
- The development is located within reasonable proximity of retail amenity, schools, public transport, recreational facilities and road linkages; and
- Current economic conditions, interest rates and buyer profile for the area.

Analysis

The following is a summary of our analysis which reflects the current status of the project assuming 100% debt funding.

Residual Cashflow Analysis - Option 1			
Gross Realisation			$41,070,000
Less			
Selling Costs @	4.30%	$1,767,480	
GST		$3,406,364	$5,173,844
Net Realisation			$35,896,156
Less Profit & Risk Factor @	20.00%		$6,009,549
Funds Available for Development			**$29,886,607**
Less			
Development Costs		$33,150,304	
Interest @	6.25%	$1,987,637	
Legal Acquisition Costs		$11,000	
Holding Costs		$0	$35,148,941
Add GST Input Credits			$2,923,945
Indicated Value (inclusive of GST)			**-$2,338,389**
Less GST			-$212,581
Indicated Value (exclusive of GST)			**-$2,125,808**
Rounded to (exclusive of GST)			**-$2,100,000**
Indicated Value excl. of GST			-$2,100,000
Profit After Interest			$6,009,549
Developer's Margin			20.00%
IRR Including Interest			16.35%
$/unit			-$35,593/unit
$/m² site area			-$707/m²

Based on the assumptions adopted and the scheme for Option 1, the residual cash flow produces a negative value for the land, indicating the scheme is not commercially viable. In order to achieve a positive value for the land at a 20% return for a developer, savings in the costs will need to be found or the realisations increased.

Adopting a residual land value of $1 would equate to a return to a developer of 9.03%. This is below the market returns required by a developer, however, it demonstrates a profit can be obtained for Option 1 on the basis the land was obtained for nil consideration. Whilst at nil consideration, it returns a profit, this profit does not adequately reflect the risk of the site, given the contamination and heritage issues.

Having regard to the above and the results, these can be summarised as follows:

- To achieve the desired return on costs of 20%, a developer would need to be paid $2,100,000 to complete this project. That is the owner of the site would need to pay someone to transfer the site to an alternate developer. This is in contrast to the norm where a developer would seek a cash consideration when selling a site.
- To pay a hypothetical developer to transfer the site to their name is highly unlikely and therefore we have assessed a return on the basis the property was transferred to a hypothetical party for $1. Essentially this reflects the developer giving the site away as is. On this basis, a developer still has the risk of completing the proposed development, with that return to reflect 9.03% being a profit of $3,591,400. This is in comparison to $6,009,549 assuming a developer was paid $2,100,000 to take on the project.

On the above basis, the site as is, is unlikely to attract a purchaser to develop the site if offered in the open market.

Project Related Site Assessment – Option 2

Feasibility Assumptions

Our residual cash flow analysis has been prepared based on information provided. Our cash flow projections are forecasts based on available information and are exposed to fluctuating economic conditions. The cash flow analysis has been prepared on the following data:

Feasibility Assumptions	
Sale Assumptions	
Site Area	2,969m²
Indicated Density	1:110m²
Proposed No. of Residential Apartments	27
Retail Space (m²)	-
Commercial Space (m²)	830m²
Gross Realisation - Residential	$10,333,750
Gross Realisation - Retail	$0
Gross Realisation - Commercial	$4,150,000
Total Gross Realisation	**$14,483,750**
Sale Rate for Available Apartments (post completion)	7.0
Selling Costs (exclusive of GST)	3.71%
GST on Gross Realisations	General Scheme
Cost Assumptions	
Legal Acqusition Costs (exclusive of GST)	$10,000
Development Costs (exclusive of GST)	$34,772,402
Development Costs (inclusive of GST)	$38,549,642
Cost $/unit (exclusive of GST)	$1,287,867
Finance Costs	6.25%
Rates and Taxes	
Per Annum	Nil.
Timing Assumptions	
Lead in time (post land settlement)	1 month
Settlement on Hypothetical Land Purchase	3 months
Construction	16 months
Settlement on Presales	1 month
Selling Period (post completion)	6 months
Total Project Period (months)	24 months
Total Project Period (years)	2.00 years
Terms on Sale	
Deposit	10%
Balance	90%
Targets	
Developer's Margin	20.00%
Internal Rate of Return (incl. interest)	18.00%

Assessment

The following is a summary of our analysis which reflects the current status of the project assuming 100% debt funding.

Residual Cashflow Analysis - Option 2			
Gross Realisation			$14,483,750
Less			
Selling Costs @	4.08%	$591,635	
GST		$939,432	$1,531,067
Net Realisation			$12,952,683
Less Profit & Risk Factor @	20.00%		$2,167,865
Funds Available for Development			**$10,784,818**
Less			
Development Costs		$38,549,642	
Interest @	6.25%	$283,471	
Legal Acquisition Costs		$11,000	
Holding Costs		$0	$38,844,114
Add GST Input Credits			$1,079,298
Indicated Value (inclusive of GST)			**-$26,979,998**
Less GST			-$2,452,727
Indicated Value (exclusive of GST)			**-$24,527,271**
Rounded to (exclusive of GST)			**-$24,500,000**

Indicated Value excl. of GST	-$24,500,000
Profit After Interest	$2,167,865
Developer's Margin	20.00%
$/unit	-$907,407/unit
$/m² site area	-$8,252/m²

Based on our assumptions and the proposal, Option 2 is not feasible at the required returns by producing a negative value. Adopting a residual land value of $1 would equate to a negative return to a developer of -132.74%. Given the conclusions, Option 2 in any form is not commercially viable.

In comparison to Option 1, Option 2 results in a much greater negative land value, due to the onerous cost of developing the site in this Option. In addition the development scheme is not efficient and would not be reflective of current market demands.

Analysis – Option 4

Under this Option, the developer would be required to remediate the site in line with the EPA clean up notice, with demolition of the building required in order to remediate the site. Upon completion of demolition and remediation, the site is assumed to remain vacant with no further development. On this basis, a clean and vacant site has been achieved, which we then assume can be sold in the open market. The price to be achieved for the site will be dependent upon any heritage restrictions put in place and any planning requirements in place in redeveloping the property.

This Option still requires the developer to outlay $6,674,630 ex GST which relates to the estimated cost of demolition and remediation for potentially no return. Based on the net developable land area of 1,822 square metres, the costs equate to $3,663 per square metre. Whilst we have not undertaken a land value comparing to site sales, adopting the assumptions and inputs from Option 1, however, excluding the cost to remediate and demolish the building results in a residual land value in the order of $4,200,000 to $4,300,000.

Based on Option 4, the current landowner remediates the site and demolishes the building, however, will not breakeven given the estimated results of the land value being below the cost to remediate the site. On this basis, Option 4 is not commercially viable to the developer.

Conclusion

Option	Description	Result
Option 1	Demolish, remediate and develop the site for a mixed-use development to comprise 59 apartments, a café and commercial space.	($2,100,000)
Option 2	Demolish, remediate and reinstate/refurbish and existing building. Assume the building has no higher and better use.	($24,500,000)
Option 3	Remediate with existing building in place. This option is not feasible, due to the existing condition of the building.	Not an Option
Option 4	No action, with the feasibility to assume demolition of the building and remediation of the site, with no further action after.	Would result in a negative land value

The above Options all produce negative land values. Whilst this is the case, we make the following conclusions and observations:

- Option 1, whilst returning a negative land value, does have the most prospect of being viable, subject to changes that create a savings in costs or increased realisations. Assuming a $1 residual land value, returns a profit in the order of 9%, which whilst still below market expectations, does reflect a return to the developer.
- Option 2 is not viable given the significant negative residual land value derived by the feasibility. Even with changes, this Option is not an Option given the losses a developer would sustain to complete the development.
- Option 3 as previously discussed is not an Option given the derelict and unsafe condition of the existing building.
- Option 4, whilst still can be completed, results in a negative return to a developer, as the time and cost taken to remediate the site and demolish the buildings is in excess of the estimated value of the site upon completion of the remediation and demolition of the buildings.

Having regard to the above, the most probable and beneficial outcome for the site, returning a profit assuming nil consideration for the land is Option 1.

Quality & Limiting Conditions

At this stage we have not conducted a formal valuation of the subject property and the Residual Land Values as produced by the feasibility analysis should be considered a preliminary view subject to further investigations being undertaken. This advice is for the private and confidential use of the addressee of this advice, and for the specific purpose for which it has been requested. No third parties are entitled to use or rely on this estimate in any way and neither the writer nor m3property have any liability to any third party who does.

We trust that this advice meets your requirements, however if you have any concerns or comments please do not hesitate to contact our office.

Yours sincerely
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