

Project **Feasibility Analysis**

Sydney North Program

Prepared for Ausgrid

January 2023



Table of Contents

- 1. Executive Summary3
 - 1.1. Scope.....3
 - 1.2. Key Findings & Recommendation.....3
 - 1.3. Report Authors3
- 2. Introduction4
 - 2.1. Instructions4
 - 2.2. Ausgrid Property & Accommodation Strategy4
 - 2.3. Overview of the Proposed Projects.....4
- 3. Hornsby Depot.....5
 - 3.1. Location5
 - 3.2. Surrounding Developments5
 - 3.3. Legal.....5
 - 3.4. Landholdings6
 - 3.5. Improvements6
 - 3.6. Environmental6
 - 3.7. Planning Controls7
- 4. Thornleigh Depot9
 - 4.1. Potential Location9
 - 4.2. Site Requirements9
- 5. Financial Analysis and Assessment.....10
 - 5.1. Scenarios 10
 - 5.2. Key Inputs 10
 - 5.3. Financial Outcomes 10
 - 5.4. Non-Financial Outcomes 10
 - 5.5. Recommendation 11
 - 5.6. Assumptions and Limitations 12
- 6. Appendices.....13
 - 6.1. Sydney North Program Financial Model..... 13

1. Executive Summary

1.1. Scope

JLL has been engaged by Ausgrid to undertake feasibility analyses for a selection of major property projects. This project feasibility analysis relates to the Sydney North Program.

1.2. Key Findings & Recommendation

Based on the financial assessment we have undertaken, as well as our non-financial observations, we recommend proceeding with **Scenario 2 - Implement Sydney North Program**. This scenario results in a superior financial outcome compared with Scenario 1, as well as much more non-financial benefits being realised impacting operations, safety, land use conflicts and potential disposals of resulting surplus land.

Delivery of this scenario would result in the following capital expenditure (capex) over the FY25-29 period to deliver the new facilities. The capex shown in the table below includes the acquisition cost of a Thornleigh site, cost to construct new facilities and the relocation costs for the Sydney North Program. It does not include minor ongoing and reactive capital works required at the site in the lead up or post construction.

Table 1: FY25-29 Proposed Capex of Recommended Scenario

Nominal \$million	FY25	FY26	FY27	FY28	FY29	Total FY25-29
Capex						

1.3. Report Authors

2. Introduction

2.1. Instructions

JLL has been engaged by Ausgrid to undertake feasibility analysis related to their Sydney North Program (further details provided below in Section 2.3). The feasibility assessment in this report includes both financial and non-financial analysis. This information is targeted at informing Ausgrid of the least cost solution to addressing the risks associated with non-network property assets that are declining in condition as they reach an advanced age.

2.2. Ausgrid Property & Accommodation Strategy

Ausgrid are continuing a program of consolidating and modernising their non-network property portfolio. The priority is to ensure they provide safe, secure and fit-for-purpose workplaces for staff that allows for the provision of timely and reliable services to meet customer needs. Further, as a consequence of more agile working practices adopted during COVID-19 and a significant downsizing of the workforce over the last 10 years, Ausgrid's property footprint is currently under-utilised. Over the course of FY22 the transformation and strategic property teams have conducted a review of all Ausgrid sites being utilised to accommodate staff with the purpose of the review to:

- Maximise utilisation and improve financial outcomes;
- Maintain and improve operational performance and ensure Ausgrid's sites are set up for the future target operating model;
- Support improvements in Ausgrid's culture by enhancing the spaces their teams work in.

Ausgrid has identified the need for a number of projects involving the replacement, upgrading or refurbishment of property during the five-year forecast period. In particular, Ausgrid has an ageing property portfolio and priority has been given to those assets which are of greater safety and security concern and are in the most urgent need of replacement. A selection of these projects are the subject of the analysis we are now undertaking, as described in the instructions above.

2.3. Overview of the Proposed Projects

Ausgrid have developed a Sydney North Program which includes the delivery of new developments enabling concentration of uses and decommissioning of other sites. The following is a summary of the proposed interrelated works:

- Deliver a new Thornleigh Depot in the broad Thornleigh industrial area.
- A decommissioning and closure of the majority of the Hornsby Depot.

The key Ausgrid drivers for the proposed development of the Sydney North Program include:

- Accommodate the workforce and critical operations in suitable facilities that align with Ausgrid Accommodation Guidelines.
- The current Hornsby Depot is larger than required, in poor condition and not fit-for-purpose. Relocating Hornsby staff to a New Thornleigh Depot provides greater value for money for Ausgrid and its employees). This will provide a cost-effective solution to ensure service delivery is uninterrupted across the Sydney North and Hornsby regions). Further, this will result in reduced operational costs through reduction of property footprint
- This overarching strategy will help to improve the culture through better facilities, standardisation of practices, and grouping of teams to enhance collaboration (knowledge sharing, communication, problem solving)
- Appropriately manage lifetime property costs.
- Address current and future growth demands in the Sydney North / Hornsby region.
- Potential for surplus land to be disposed after the completion of works (re-zoning and Council approval would be required).

3. Hornsby Depot

3.1. Location

Ausgrid's Hornsby Depot is situated at 51-57 Bridge Road, Hornsby NSW 2077. Ausgrid also own an on-grade car park immediately opposite the site (50-56 Bridge Rd).

Figure 1: Ausgrid's Hornsby Depot



Source: SIX Maps,

3.2. Surrounding Developments

The surrounding developments comprise of a mix of residential dwellings, mainly subject to 'R2 – Low Density Residential' and 'R4 – High Density Residential' zoning. To the east of the site, there is industrial zoning consisting of 'IN2 – Light Industrial' and 'IN1 – General Industrial'. To the west and south, there is some 'B3 – Commercial Core', 'B4 – Mixed Use', and 'B5 – Business Development'. Ausgrid own a vacant parcel of land immediately opposite the site (50-56 Bridge Rd)

3.3. Legal

Title Details	Depot: Lot 4/503347, Lot 1/504079, Lots C, D/416795, Lot B/324378, Lot C, D/357216 & Lot 8 (Pt A)/3505 Car park: Lot 1 & 2/1082720 & Lot 6 & 7/22112
Registered Owner/s	Alpha Distribution Ministerial Holding Corporation
Encumbrances	We have not verified the existence or not of encumbrances on title
Property No. (NSW Valuer General (VG))	██████████ ██████████
VG Assessed Land Value	████████████████████ ████████████████████

3.4. Landholdings

Address	51-57 Bridge Road & 50-56 Bridge Rd Hornsby NSW 2077
Site Details	Depot: Irregular shaped allotment, which is accessible from Denison Street and Bridge Road Car Park: Irregular shaped allotment, which is accessible from Bridge Road
Land Area	Depot: 16,744 sqm Car Park: 2,989 sqm
Services	All standard services (electricity, water, telephone and sewerage) are assumed to be available to the site
PRP Online No.	820646

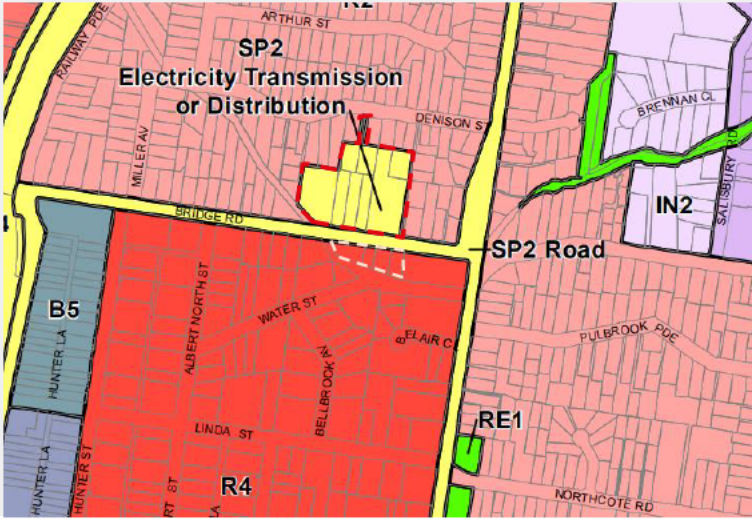
3.5. Improvements

Subject's Present Use	The Hornsby Depot serves Sydney's Upper North Shore region with facilities on the site including office accommodation, storage warehouses and workshops. 50-56 Bridge Rd is currently being used as a car park
Building Age	Range between 31 and 81 years
Construction Materials	Multi storey brick structure
Gross Floor Area	Depot: 2,774 sqm (BCA Report)
Condition	Poor –There are end-of-life issues and limitations in the accommodation and storage constraints and Building Code of Australia requirements
Other Structures	As noted above, there are various structures currently on the site used for a range of activities

3.6. Environmental

Contamination	JLL have been provided with some site-specific information on potential contamination risks with this site – we refer the reader to the report by Progressive Risk Management (PRM) titled 'Asbestos and Lead Building Materials Audit' dated July 2018. Within this report 21 items were identified to have 'Moderate Priority Risk Rating' and a further 51 were identified to 'Low Priority Risk Rating' Further given the historic use of the site we consider there to be potential for additional contamination
Flooding	JLL has had reference to the Hornsby Local Environmental Plan (LEP) 2013. The subject property does not appear to be impacted given it is not within a flood zone, nor a flood planning area

3.7. Planning Controls

Local Authority	Hornsby Council
Planning Instrument	Hornsby Local Environmental Plan (LEP) 2013
Zoning	<p>SP2 - Infrastructure : Electricity Transmission & Distribution, R4: High Density Residential</p> 
Objectives of Zone	<p>SP2 - Infrastructure : Electricity Transmission & Distribution</p> <ol style="list-style-type: none"> Objectives of zone <ul style="list-style-type: none"> To provide for infrastructure and related uses. To prevent development that is not compatible with or that may detract from the provision of infrastructure. Permitted without consent <ul style="list-style-type: none"> Environmental protection works; Roads; Water reticulation systems Permitted with consent <ul style="list-style-type: none"> The purpose shown on the Land Zoning Map, including any development that is ordinarily incidental or ancillary to development for that purpose Prohibited <ul style="list-style-type: none"> Any development not specified in item 2 or 3 <p>R4: High Density Residential</p> <ol style="list-style-type: none"> Objectives of zone <ul style="list-style-type: none"> To provide for the housing needs of the community within a high density residential environment. To provide a variety of housing types within a high density residential environment. To enable other land uses that provide facilities or services to meet the day to day needs of residents. Permitted without consent <ul style="list-style-type: none"> Environmental protection works Permitted with consent <ul style="list-style-type: none"> Boarding houses; Building identification signs; Business identification signs; Centre-based child care facilities; Community facilities; Dwelling houses;

	<p>Emergency services facilities; Flood mitigation works; Home-based child care; Home occupations; Neighbourhood shops; Oyster aquaculture; Places of public worship; Recreation areas; Recreation facilities (indoor); Recreation facilities (outdoor); Residential flat buildings; Respite day care centres; Roads; Shop top housing; Water reticulation systems</p> <p>4. Prohibited</p> <ul style="list-style-type: none"> Any other development not specified in item 2 or 3
Conformity	Upon a review of the applicable planning controls listed above, the subject site appears to conform to the LEP's controls
Heritage	JLL did not find evidence of the subject property being affected by heritage considerations
Surrounding Zones	The site is primarily surrounded by R2 – Low Density Residential and R4 – High Density Residential.

4. Thornleigh Depot

4.1. Potential Location

Provided in the figure below is the indicative location of interest for the Thornleigh Depot as identified by Ausgrid, being broadly within the Thornleigh industrial areas.

Figure 2: Potential Location – Thornleigh Depot (Required Zonings Highlighted)



Source: JLL MapIT

4.2. Site Requirements

The indicative site requirements for the Thornleigh Depot are summarised below:

- **Zoning:** IN1 General Industrial, IN2 Light Industrial, SP2 Infrastructure
- **Land Parcel Size:** Indicatively ~4,000 sqm
- **Greenfield/Brownfield:** Both acceptable

In addition, there will likely be other requirements related to transport connectivity, site access, security and infrastructure.

5. Financial Analysis and Assessment

5.1. Scenarios

In undertaking our analysis, we have had consideration to the scenarios described below. We believe these scenarios capture the appropriate and realistic options that could be undertaken to resolve the issues / achieve the benefits identified within Section 2.3.

Scenario 1 – Base Case

This scenario assumes the continuation of current operations at the Hornsby Depot. A refurbishment is assumed across Hornsby Depot given its age, BCA and hazard issues.

Scenario 2 - Implement Sydney North Program

This scenario assumes the development of a new depot at Thornleigh, enabling significantly reduced operations at Hornsby (with the retention of the substation). This scenario includes divestment of any surplus lands once operations are consolidated.

5.2. Key Inputs

Provided below are key inputs related to costs, values, as well as other model assumptions. For further details, refer to the full financial model within the appendices.

- Existing improvements and conditions – based on BCA and Hazard Reports (where available), as well as plans
- Fair value of sites – as assessed by Preston Rowe Paterson (PRP)
- Site acquisitions – indicative figures based on nearby evidence
- Major capital works – estimated by JLL and based on site conditions and future requirements
- Growth rates for both costs and values – costs adopting CPI forecasts provided by Ausgrid, values assuming a premium to CPI
- Discount rate – based on Ausgrid Regulated Weighted Average Cost of Capital
- Ongoing capital works – based on typical ongoing capital works for new facilities by broad use type and an assumed premium for existing facilities
- Operating Expenses (Opex) excluding land tax and council rates – for existing facilities based on historic charge, for new facilities utilising historic charge from recently completed Beresfield Depot
- Land tax and council rates – based on historic charges and proportion adjustments to land area where divestments are assumed

5.3. Financial Outcomes

Based on the assumptions outlined, the following rounded Net Present Value (NPV) financial outcomes have been derived by scenario.

- | | |
|--------------|-----------------------------|
| • Scenario 1 | NPV of -\$25,900,000 |
| • Scenario 2 | NPV of -\$16,200,000 |

5.4. Non-Financial Outcomes

In addition to the financial analysis undertaken, we have also had consideration to some of the non-financial implications. We have summarised the scenarios into advantages and disadvantages in the following table.

Advantages	Disadvantages
Scenario 1 – Base Case	
<ul style="list-style-type: none"> – This scenario improves the current safety conditions of the sites by looking to address the Building Code of Australia requirements and other hazard issues through refurbishments. – Continued operations at current site enables no disruption to current work patterns i.e., staff accessibility to location. – Maintains proximity and capacity to support the Sydney North Region. – Addresses current and future growth demands of the Sydney North Region. 	<ul style="list-style-type: none"> – The current property footprint exceeds operational requirements, is in varying states of repair and is no longer considered fit for purpose. – This scenario will not resolve ongoing property end of life issues. – This scenario will result in continued operation from not fit for purpose facility with a larger than required landholdings surrounded by conflicting uses i.e., residential. – Disruptions will likely occur with the proposed refurbishment works while continuing to operate from the same location.
Scenario 2 - Implement Sydney North Program	
<ul style="list-style-type: none"> – The developments of the Thornleigh Depot would provide the potential to create a more efficient, fit-for-purpose facility which will better meet the needs of Ausgrid in the short to medium term. – This scenario would address some of the property end-of-life issues. – A relocation to Thornleigh industrial area avoids the challenges that have arisen as part of being located within a primarily residential locality. Being situated within an industrial precinct also future proofs the facility from short to medium term residential rezoning pressure. The area also benefits from nearby access to major arterial roads including the Pacific Highway and the M1 Motorway. – This scenario provides the opportunity for a partial divestment of the existing depot in the medium term for its likely highest and best use (subject to re-zoning and council approval). – Maintains proximity and capacity to support the Sydney North Region. – Addresses current and future growth demands of the Sydney North Region. 	<ul style="list-style-type: none"> – Disruptions will likely occur as part of the relocation of operations.

5.5. Recommendation

Based on the financial assessment we have undertaken, as well as our non-financial observations, we recommend proceeding with **Scenario 2 - Implement Sydney North Program**. This scenario results in a superior financial outcome compared with Scenario 1, as well as more non-financial benefits being realised impacting operations, safety, land use conflicts and potential disposals of resulting surplus land.

Delivery of this scenario would result in the following capital expenditure (capex) over the FY25-29 period to deliver the new facilities. The capex shown in the table below includes the acquisition cost of a Thornleigh site, cost to construct new

facilities and the relocation costs for the Sydney North Program. It does not include minor ongoing and reactive capital works required at the site in the lead up or post construction.

Table 2: FY25-29 Proposed Capex of Recommended Scenario

Nominal \$million	FY25	FY26	FY27	FY28	FY29	Total FY25-29
Capex						

5.6. Assumptions and Limitations

We have been provided with various assumptions, historic costs and other information from Ausgrid, this includes future building size requirements, historic operational costs, valuation figures, amongst other information. Due to the nature of the sites, facilities and operations - it is challenging to independently verify these figures. As such, should any of these be proven incorrect this would have implications on the financial analysis provided.

6. Appendices

6.1. Sydney North Program Financial Model

Sydney North Program

Indicative Modelling

FY 21FY 22FY 23FY 24FY 25FY 26FY 27FY 28FY 29FY 30FY 31FY 32

Sites	Address	Lot Details
Hornsby Depot	51-57 Bridge Road, Hornsby	Lot 4/503347, Lot 1/504079, Lots C, D/416795, Lot B/324378, Lot C, D/357216 & Lot 8 (Pt A)/3505
Thornleigh Depot	TBD - Broadly Thornleigh area	N/A

Site Areas

Existing Sites	Existing Area				
Hornsby Depot	19,733 m2				
New Sites	From	Area to acquire	To	Adopt	
Thornleigh Depot	4,000 m2		4,000 m2	4,000 m2	Note: Estimated based on built form requirement
Sites to Divest	Divestible Area				
Hornsby Depot	15,933 m2				Note: Advised by Ausgrid

Built Form

Existing Sites	Office	Warehouse	Workshop	Total		
Hornsby Depot	1,685 m2		454 m2	635 m2	2,774 m2	Source: BCA Report
New Sites	Office	Warehouse	Spoil Bay	Total		
Thornleigh Depot	448 m2	944 m2	500 m2	1,892 m2	Parking (on-grade) Circulation 2,589 m2	Source: TOM Report.

Site Value

Existing Sites	Fair Value (FY19)	Fair Value (Escalated to FY21)	
Hornsby Depot			
New Sites	Area	\$/sqm of Land	Indicative Price
Thornleigh Depot	4,000 m2		
All Sites	Area	\$/sqm of Land	Land Value
Hornsby Depot			
Thornleigh Depot	4,000 m2		

Opex (excl. Land Tax, Council Rates)

Sites	Opex \$/sqm	Floor Area (sqm)	Opex \$	
Hornsby Depot	N/A	N/A	\$125,161	Source: Ausgrid - TOM Stage 2 File FY21 (total opex less land tax & council rates)
Thornleigh Depot	\$55	1,892 m2	\$103,520	Note: Utilised \$/sqm of Beresfield

Land Tax + Council Rates

Sites	Land Tax	Council Rates	
Hornsby Depot	\$57,256	\$10,144	Source: Ausgrid - TOM Stage 2 File FY21 (land tax & council rates)
Thornleigh Depot	\$64,000	\$9,600	Note: Have assumed 2% of land value for land tax and 0.3% for Council Rates
Hornsby Depot (reduced)	\$11,026	\$1,953	Note: Assumed reduction in land tax and council rates based on reduced land area.

Major Capital Works

Scenario 1	\$ Cost	
Refurbish Hornsby Depot		Note: Qualifications, inclusions and exclusions provided on separate tab. Rounded cost.
Scenario 2	\$ Cost	
Construct Thornleigh Depot		Note: Qualifications, inclusions and exclusions provided on separate tab. Rounded cost.

Ongoing Capital Works

Type	\$/sqm Cost (per annum)	
Office (New)	\$	Note: Indicative assumption of how much ongoing capex is required over a 10-year period
Warehouse/Workshop (New)	\$	
Premium for existing	%	Note: Indicative assumption of how much ongoing capex is required over a 10-year period
Office (Existing)	\$	Note: Assumed premium for existing buildings as these have not been maintained to the required standard
Warehouse/Workshop (Existing)	\$	

Hornsby Depot
Thornleigh Depot

§ 87(2)(b)

Note: Based on assumed cost outlined above.

Model Inputs

Growth

CPI (for opex)		Source: Ausgrid	3.5%	8.0%	4.8%	2.9%	2.9%	2.9%	2.9%	2.9%	2.5%	2.5%	2.5%
Cumulative		100.0%	103.5%	111.8%	117.1%	120.5%	123.9%	127.5%	131.1%	134.9%	138.3%	141.7%	145.3%
CPI (for relocation & capital works)		Source: Ausgrid		8.0%	4.8%	2.9%	2.9%	2.9%	2.9%	2.9%	2.5%	2.5%	2.5%
Cumulative		100.0%	100.0%	108.0%	113.1%	116.4%	119.7%	123.2%	126.7%	130.4%	133.6%	137.0%	140.4%
Value Growth (for divestments) - CPI + x%	1.50%		5.0%	9.5%	6.3%	4.4%	4.4%	4.4%	4.4%	4.4%	4.0%	4.0%	4.0%
Cumulative		100.0%	105.0%	115.0%	122.2%	127.5%	133.1%	138.9%	145.0%	151.3%	157.4%	163.7%	170.2%
Value Growth (for LV & acquisitions) - CPI + x%	1.50%		9.5%	6.3%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.0%	4.0%	4.0%
Cumulative		100.0%	100.0%	109.5%	116.3%	121.4%	126.7%	132.3%	138.1%	144.1%	149.9%	155.9%	162.1%

Risk

Discount rate (WACC)	3.44%	Source: Ausgrid
Terminal cap	1.47%	Source: Calculated (see Cap Rate tab)

Scenario 1 - Base Case

Description: This scenario assumes the continuation of current operations at the Hornsby Depot. A refurbishment is assumed across Hornsby Depot given its age, BCA and hazard issues.

[illegible]

Scenario 2 - Implement Sydney North Program

Description: This scenario assumes the development of a new depot at Thornleigh, enabling significantly reduced operations at Hornsby (with the retention of the substation). This scenario includes divestment of any surplus lands once operations are consolidated.

[illegible]

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