



Revised Proposal
Attachment 5.20.1
JLL Project
feasibility analysis -
Homebush Depot
PUBLIC

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Project *Feasibility* Analysis

Homebush Depot

Prepared for Ausgrid

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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 redevelopment of Ausgrid’s Homebush depot.

1.2 Key Findings & Recommendation

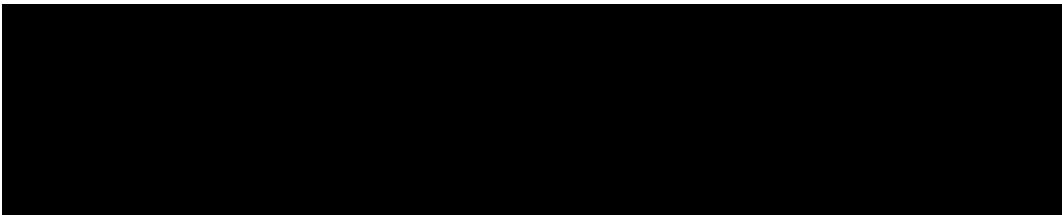
Based on the financial assessment we have undertaken, as well as our non-financial observations, we recommend proceeding with **Scenario 2 – Demolish and Rebuild – Existing Site**. This scenario results in the most superior financial outcome as well as results in the most non-financial benefits as described within this report.

Delivery of this scenario would result in the following capital expenditure (capex) over the FY19-24 period to deliver the new facility. The capex shown in the table below includes the cost to construct the new depot only. It does not include minor ongoing and reactive capital works required at the site in the lead up to construction.

Table 1: FY19-24 Proposed Capex of Recommended Scenario

Real FY19 \$million	FY19	FY20	FY21	FY22	FY23	FY24	Total FY19-24
Capex							

1.3 Report Authors



2 Introduction

2.1 Instructions

JLL has been engaged by Ausgrid to undertake feasibility analyses for a selection of major property projects, as set out below.

- Hornsby (Depot)
- Homebush (Depot)
- Oatley (Depot)
- Wallsend (Depot)
- Wallsend (Office)

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.

Within Ausgrid's Property & Accommodation Strategy, they have set out a five and 10-year view of the needs for non-network property, aligning to the five-year plan. The primary drivers of investment in non-network property over the next five years is the replacement of properties beyond their useful life in order to minimise risk and operational inefficiencies, as well as improve safety, security and employee working conditions.

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 Homebush Depot

There are currently several issues with the existing facility at Homebush. This is particularly evident in regards to recent Building Code of Australia and Asbestos Audits which identified a number of non-compliance areas / risks. Additionally the buildings on the site are in some cases over 50 years old, when the general industry standard for a maximum useful life of a building structure is 40 years i.e. 10 years past their typical useful life. As such, these buildings are dealing with significant end of life issues impacting safety, ongoing operating costs and workforce efficiencies.

The key Ausgrid drivers for the proposed re-development of Homebush Depot include:

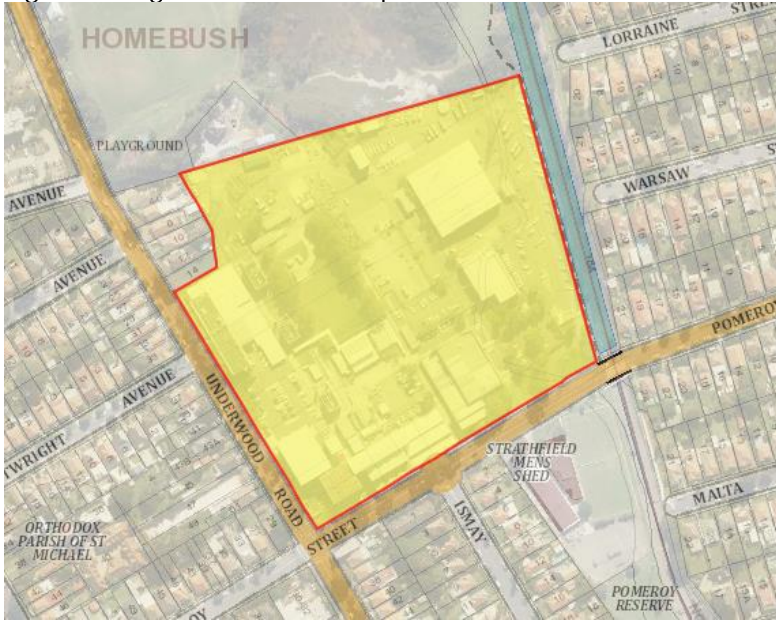
- Upgrade a depot that is beyond the end of its life expectancy (fully depreciated)
- Maintain the current location in close proximity to major arterial road networks and major transport hubs
- Appropriately manage lifetime property costs
- Address current and future growth demands in the inner western and southern suburbs of Sydney
- Address constraints in accommodation and storage areas
- Rationalise depot and administrative functions onto one site in line with Ausgrid policy
- Potential for surplus land to be disposed after the completion of works (re-zoning and Council approval would be required)

3 Site Details

3.1 Location

Ausgrid’s Homebush Depot is located at 16-30 Underwood Road and 25-27 Pomeroy Street, Homebush NSW 2140.

Figure 1: Ausgrid’s Homebush Depot



Source: SIX Maps, NSW Globe

3.2 Surrounding Developments

The surrounding developments comprise predominantly single storey detached residential dwellings subject to ‘R3 – Medium Density Residential’ zoning. There is a small amount of ‘B2 – Local Centre’ zoning located to the south of the subject site.

3.3 Legal

Title Details	Lots 2, 5/26/477 Lots 39, 40, 41, 42, 43, 44/834 Lots 1, 2/103964 Lot 1/380202 Lot 1/398650 Lot 1/825403 Lots A, B, C/974110
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))	3255385
VG Assessed Land Value	[REDACTED]

3.4 Landholdings

Address	16-30 Underwood Rd, Homebush NSW 2140 25-27 Pomeroy St, Homebush NSW 2140
Site Details	Irregular shaped allotment, which is highly accessible by Pomeroy Street and Underwood Road
Land Area (from DP)	The total site area of the lots is 6.435 ha (calculated from Deposited Plans)
Services	All standard services (electricity, water, telephone and sewerage) are assumed to be available to the site

3.5 Improvements

Subject's Present Use	The Homebush Depot currently provides accommodation to Ausgrid staff servicing the Sydney South area. Currently there are 350 field services and customer service staff operating from this depot. The site has several buildings used for a range of activities including truck/equipment storage, office tasks, mechanic/vehicle workshops, oil storage and waste storage
Year Constructed	~ 1960
Construction Materials	Multi storey brick and concrete structure
Net Lettable Area	8,789 sqm (provided)
Condition	Poor – the improvements on site are in a degraded state
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 August 2018. Within this report 4 items were identified to have 'High Priority Risk Rating', 5 items were identified to have 'Moderate Priority Risk Rating', and a further 73 were identified to 'Low Priority Risk Rating'
Flooding	JLL has had reference to the Strathfield Local Environmental Plan (LEP) 2012. 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	Strathfield Council
Planning Instrument	Strathfield Local Environmental Plan (LEP) 2012
Zoning	<p>SP2 – Infrastructure (Electricity Supply)</p>
Objectives of Zone	<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. To ensure that development does not have an adverse effect on adjoining land. Permitted without consent <ul style="list-style-type: none"> Nil Permitted with consent <ul style="list-style-type: none"> Roads; 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
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 R3 – Medium Density Residential B2 – Local Centre uses are located to the south of the subject site

Implications

Based on our review of the current planning controls we have made the following observations:

- There is a current lack of compatibility of existing / zoned land uses within the broader community / adjoining uses.
- Based on surrounding controls the sites likely highest and best use would be as a residential development site.

4 Financial Analysis and Assessment

4.1 Scenarios

In undertaking our analysis we have assessed the subject site under the scenarios described below. We believe these scenarios capture the appropriate and realistic options that could be undertaken to resolve the issues identified within Section 2.1. We have not tested a rebuild on an alternative site scenario given critical network infrastructure is currently located on the subject site.

Scenario 1 – Defer Rebuild for 5 years

This scenario reflects doing as little to the subject property as possible in the short term, notwithstanding the requirement to maintain a safe and functional working environment for Ausgrid employees. As such, we have included costs related to ensuring compliance under the Building Code of Australia (informed by the BCA Audit / Upgrade Report), the removal of asbestos contamination as noted in the Asbestos and Lead Building Materials Audit, as well as, demolition of existing condemned building. As noted in Section 2.1, due to the age of the facility a number of end of life issues are arising. As such, we have still accounted for a rebuild of the facilities in this scenario in line with the rebuild proposed in Scenario 2 (although after a five year period) as these works will still be required in the short to medium term.

Scenario 2 – Demolish and Rebuild - Existing Site

Demolish and rebuild a new facility at the existing site, although following feedback from the AER, Ausgrid reduced the size of the proposed new facility.

4.2 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 Asbestos Audit, as well as site plans
- Fair value of site – as assessed by Preston Rowe Paterson (PRP)
- Major capital works – estimated by JLL and based on site conditions and future requirements
- Growth rates for both costs and values – costs adopting DAE CPI forecasts, 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 required for the existing building and building proposed, adjusting for age of building
- Operating Expenses (Opex) – based on historic charge, assumption of a reduction with a new, more efficient and consolidated smaller premises
- Land tax, council rates, electricity and water – based on historic charges

4.3 Financial Outcomes

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

- | | |
|---|-----------------------------|
| • Scenario 1 – Defer Rebuild for 5 years | NPV of -\$97,200,000 |
| • Scenario 2 – Demolish and Rebuild - Existing Site | NPV of -\$97,100,000 |

4.4 Non-Financial Outcomes

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

Advantages	Disadvantages
Scenario 1 – Defer Rebuild for 5 Years	
<ul style="list-style-type: none"> – This scenario improves the current safety conditions of the site by addressing the Building Code of Australia requirements, asbestos contamination and condemned building. – Maintains proximity and capacity to support the Sydney South area. – Addresses current and future growth demands of the Sydney South area. – Located in close proximity to the major arterial road networks and public transport hubs in the area. 	<ul style="list-style-type: none"> – This scenario will delay addressing the ongoing property end of life issues. – This scenario will delay the provision of a fit-for-purpose facility, resulting in continued inefficiencies in the short to medium term. – Disruptions will occur with the proposed works while continuing to operate from the same location.
Scenario 2 – Demolish and Rebuild - Existing Site	
<ul style="list-style-type: none"> – Potential for consolidation of business unit activities through the implementation of revised depot typology. – This redevelopment would deal with the property end-of-life issues. – In redeveloping the site, there is the potential to create a more efficient, fit-for-purpose facility. This will better meet the current needs of Ausgrid in the short to medium term. – A redevelopment of the site provides the opportunity for a future partial divestment of the Homebush site in the short to medium term for its likely highest and best use, as a residential development (subject to rezoning and council approval). – Maintains proximity and capacity to support the Sydney South area. – Addresses current and future growth demands of the Sydney South area. – Located in close proximity to the major arterial road networks and public transport hubs in the area. 	<ul style="list-style-type: none"> – Disruptions will occur with the proposed works while continuing to operate from the same location.

4.5 Recommendation

Based on the above financial and non-financial outcomes, we recommend proceeding with **Scenario 2 – Demolish and Rebuild – Existing Site**. This scenarios results in the most superior financial outcome as well as providing the greatest number of non-financial benefits as described above.

Delivery of this scenario would result in the following capital expenditure over the FY19-24 period to deliver the new facility.

Table 2: FY19-24 Proposed Capex of Recommended Scenario

Real FY19 \$million	FY19	FY20	FY21	FY22	FY23	FY24	Total FY19-24
Capex							

4.6 Assumptions and Limitations

We have been provided with a number of 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.

5 Appendices

5.1 Homebush Depot Financial Model

Homebush Depot

Indicative Modelling

Baseline Info

Current Site	25-27 Pomeroy Street Homebush	
Site area	64,350	sqm (as per DPs)

Improvements

Building	sqm	type	total by type	sqm (as per BCA report)
Building 1 - Office & warehouse & Gym	3,052			
Building 2 - Office	1,663			
Building 3 - Workshop	3,624			
Building 4 - Workshop	3,450			
Building 5 & 6 - Workshop	4,000			
Building 7 - Warehouse	140	Office	4,715	
Building 8 - Warehouse	140	Workshop	11,074	
Building 9, 9A & 11 - Office & Training	900	Office & Training	900	
Building 12 - Warehouse	52	Warehouse	332	
Total Improvements	17,021		17,021	

Approx. Value \$	██████████	as per PRP valuation
\$/sqm site	██████████	
Existing non-field staff on site	167	as provided (Accommodation Strategy)

Land tax, council rates, elec, water (17/18 - provided)

Homebush				Homebush - Post Sale			
	Adopt						
Land Tax	\$182,400	100%	\$182,400	Land Tax	\$182,400	80%	\$145,920
Rates	\$59,418	100%	\$59,418	Rates	\$59,418	80%	\$47,535
Elec	\$371,927	100%	\$371,927	Elec	\$371,927	100%	\$371,927
Water	\$27,113	100%	\$27,113	Water	\$27,113	100%	\$27,113
Total			\$640,858	Total			\$592,494

Opex (17/18 - provided)

Homebush	
Opex	\$1,738,481

Rental Cost During Construction

	\$ / sqm pa			
Industrial Precinct	Industrial	Office	Proportion (Office v Total)	Adjusted
Inner West Precinct net rent	████	████	████	████
Outgoings (assumed & provided)	████	████	████	████
Total rental cost	████	████	████	████

*The above rate reflects the JLL Research Q2 2018 prime net rent for industrial and prime net and outgoings for office

Major Capital Works

Scenario 1 - Defer Rebuild for 5 Years - Initial Capital Works

Description of Works	Quantity	Unit	Rate	Amount
Demolition of Condemned Buildings	3,450	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Early works incl site preparation	3,450	m ²		
Condemned Building 4	3,450	m ²		
Program & Safety Management	1	Item		
Professional Fees / Consultants		Perc		
Contingency		Perc		
Total Cost (\$/sqm & total)				

Scenario 1 - Defer Rebuild for 5 Years - New Build Capital Works

Description of Works	Quantity	Unit	Rate	Amount
Demolition of Existing Buildings	17,021	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		

New Building (Area Requirement by Type)

Office	2,250
Workshop	5,400
Office & Training	1,350
Warehouse	3,000
Total	12,000

New Building

Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Workshop	
Office & Training	
Warehouse	
Security for site and buildings	
Site infrastructure incl services diversions	
External Works - Landscaping	
IT and Change Management	
Professional Fees / Consultants	
Contingency	
Total Cost (\$/sqm & total)	

Scenario 2 - Demolish and Rebuild - Existing Site - New Build Capital Works

Description of Works	Quantity	Unit	Rate	Amount
Demolition of Existing Buildings	17,021	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management	1	Item		

New Building (Area Requirement by Type)

Office	2,250
Workshop	5,400
Office & Training	1,350
Warehouse	3,000
<i>Total</i>	<i>12,000</i>

New Building

Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Workshop	
Office & Training	
Warehouse	
Security for site and buildings	
Site infrastructure incl services diversions	
External Works - Landscaping	
IT and Change Management	
Professional Fees / Consultants	
Contingency	
Total Cost (\$/sqm & total)	

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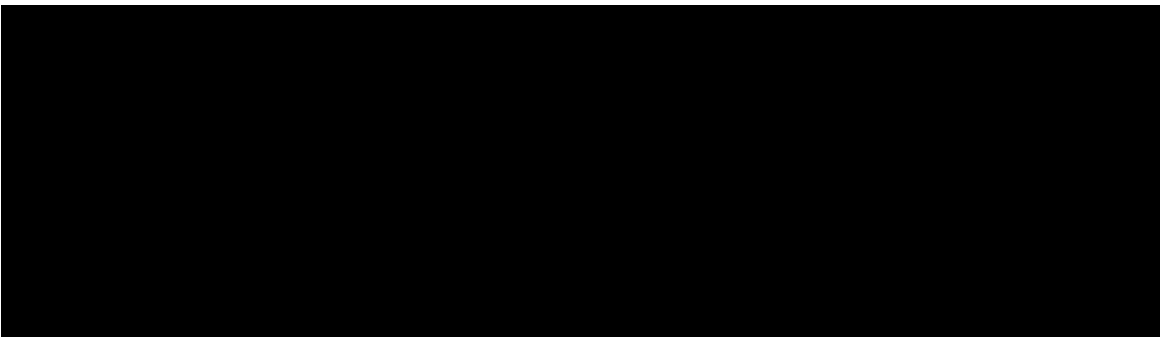
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