



**Revised Proposal
Attachment 5.20.2
JLL Project
feasibility
analysis - Oatley
Depot PUBLIC**

January 2019



Project *Feasibility* Analysis

Oatley Depot

Prepared for Ausgrid

November 2018



Table of Contents

1	Executive Summary	3
1.1	Scope.....	3
1.2	Key Findings & Recommendation.....	3
1.3	Report Authors	3
2	Introduction	4
2.1	Instructions	4
2.2	Ausgrid Property & Accommodation Strategy	4
2.3	Oatley Depot.....	4
3	Site Details	5
3.1	Location	5
3.2	Surrounding Developments.....	5
3.3	Legal.....	5
3.4	Landholdings.....	5
3.5	Improvements	6
3.6	Environmental.....	6
3.7	Planning Controls.....	7
4	Financial Analysis and Assessment	8
4.1	Scenarios	8
4.2	Key Inputs.....	8
4.3	Financial Outcomes	9
4.4	Non-Financial Outcomes	9
4.5	Recommendation.....	9
4.6	Assumptions and Limitations	10
5	Appendices	11
5.1	Oatley Depot Financial Model.....	11

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 Oatley depot.

1.2 Key Findings & Recommendation

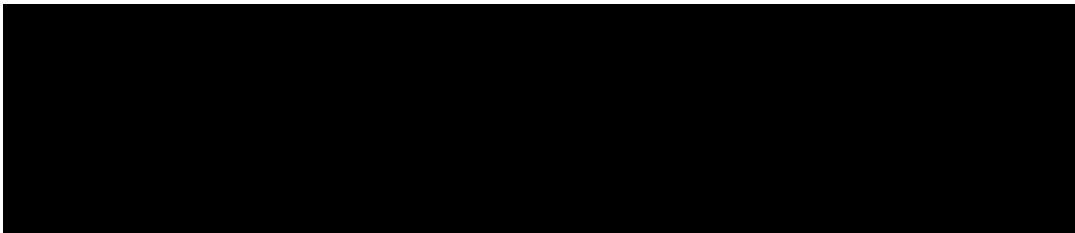
Based on the financial assessment we have undertaken, as well as our non-financial observations, we recommend proceeding with **Scenario 2 – Demolish and Rebuild – Existing Site**. This scenario results in the most superior financial outcome as well as results in the most non-financial benefits as described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

There are currently several issues with the existing facility at Oatley. 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 up to 60 years old, when the general industry standard for a maximum useful life of a building structure is 40 years i.e. 20 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 primary operational objectives to address future Ausgrid requirements for a new Oatley Depot include:

- Maintains proximity and capacity to support the Sydney South area
- Replaces a depot that is beyond the end of its life expectancy (fully depreciated)
- Provide a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of revised depot typology
- 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

3 Site Details

3.1 Location

Ausgrid’s Oatley Depot is located at 33-45 Judd Street, Mortdale NSW 2223.

Figure 1: Ausgrid’s Oatley Depot



Source: SIX Maps, NSW Globe

3.2 Surrounding Developments

The surrounding developments comprise predominantly single storey detached residential dwellings subject to ‘R2 –Low Density Residential’ zoning with some ‘R3- Medium Density Residential’ zoning. There is a small amount of ‘B2 – Local Centre’ zoning located to the north and south of the subject site.

3.3 Legal

Title Details	Lot 2, 4 (Pt 4) 559487
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))	3751256
VG Assessed Land Value	

3.4 Landholdings

Address	33-45 Judd St, Mortdale NSW 2223
Site Details	Irregular shaped allotment, which is highly accessible by Judd Street and an unnamed road connecting to Hurstville Road

Land Area (from DP)	The total site area of the lot is 4.461ha (calculated from Deposited Plans)
Services	All standard services (electricity, water, telephone and sewerage) are assumed to be available to the site

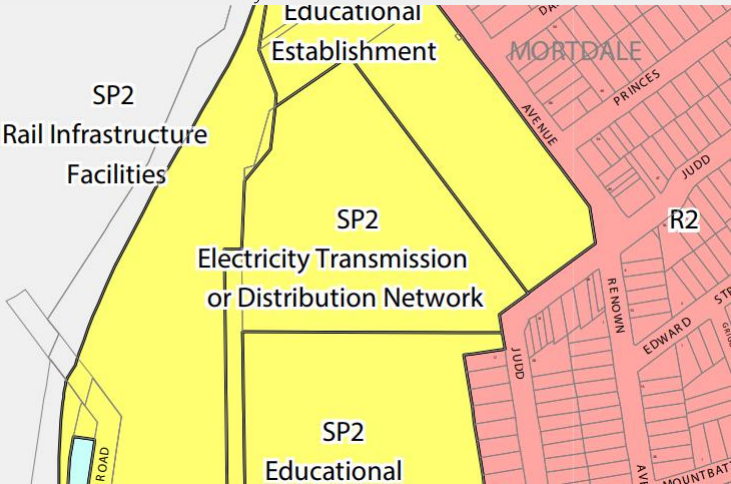
3.5 Improvements

Subject's Present Use	The Oatley Depot services Sydney's southern region with facilities including warehousing, an office component and associated stores
Year Constructed	~ 1960
Construction Materials	Brick structures
Gross Floor Area	12,000 sqm approx. (provided)
Condition	Poor – The building is facing end-of-life issues and accommodation constraints. Parts of the accommodation do not meet 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	<p>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 June 2018. Within this report 5 items were identified to have 'Moderate Priority Risk Rating' and a further 11 were identified to 'Low Priority Risk Rating'</p> <p>Further given the historic use of the site we consider there to be potential for additional contamination</p>
Flooding	JLL has had reference to the Kogarah 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	Georges River Council
Planning Instrument	Kogarah Local Environmental Plan (LEP) 2012
Zoning	<p>SP2 - Infrastructure : Electricity Transmission & Distribution</p> 
Objectives of Zone	<p>Infrastructure</p> <p>1. Objectives of zone</p> <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. <p>2. Permitted without consent</p> <ul style="list-style-type: none"> • Nil <p>3. Permitted with consent</p> <ul style="list-style-type: none"> • Car parks; Centre-based child care facilities; Commercial premises; Community facilities; Depots; Environmental facilities; Environmental protection works; Markets; Places of public worship; Public administration buildings; Recreation areas; Respite day care centres; Roads; Signage; The purpose shown on the Land Zoning Map, including any development that is ordinarily incidental or ancillary to development for that purpose <p>4. Prohibited</p> <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	<p>The site is primarily surrounded by R2 Low Density Residential and some R3 Medium Density Residential</p> <p>B2 Local Centre uses are located north and south of the subject site</p>

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 subdivision 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, as Ausgrid have no currently suitable sites under ownership. Additionally, finding an appropriately located and zoned site within the region would be significantly challenging with most industrial properties within the region are either small lot / strata type product or larger products are improved with facilities unlikely suitable to Ausgrid requirements which would incur significant acquisition cost followed by rebuild costs.

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 buildings. 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 (although after a five year period), in line with what is proposed in Scenario 2, 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 have proposed an amendment to this rebuild which maintains the existing warehouse type building. This has therefore resulted in other costs being accounted for in this scenario including 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, an allowance for some minor upgrading of the existing warehouse type building.

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 building incorporating a number of buildings into a single 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 **-\$46,700,000**
- Scenario 2 – Demolish and Rebuild - Existing Site NPV of **-\$45,300,000**

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 buildings. – 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. – 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 scenario 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 Oatley Depot Financial Model

Indicative Modelling

Baseline Info

Current Site	33-45 Judd Street, Oatley	
Site area	44,610	sqm (as per DPs)

Improvements

Building	sqm	type	total by type	sqm (as per BCA report)
Building 1 - Office	1,743			
Building 1A - Office	500			
Building 2 - Office, Gymnasium, Training	700			
Building 3 - Workshop, Training, Storage	5,000			
Building 4 - Workshop, Training, Storage	220			
Building 5 - Workshop, Training, Storage	500	Office	2,743	
Building 6 - Office	500	Office & Training	700	
		Workshop, Training,		
Building 7 - Workshop, Training, Storage	490	Storage	6,210	
Total Improvements	9,653		9,653	
Less Building 3	4,653			

Approx. Value \$	██████████	as per PRP valuation
\$/sqm site	████	
Existing non-field staff on site	72	as provided (Accommodation Strategy)

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

Oatley	Adopt		
Land Tax	\$192,841	100%	\$192,841
Rates	\$39,380	100%	\$39,380
Elec	\$223,747	100%	\$223,747
Water	\$21,263	100%	\$21,263
Total			\$477,230

Opex (17/18 - provided)

Oatley	
Opex	\$1,289,982

Rental Cost During Construction

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

*The above rate reflects the JLL Research Q2 2018 prime net rent for industrial and secondary 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	2,453	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Early works incl site preparation	2,453	m ²		
Allowance for upgrading building 3	5,000	m ²		
Condemned Building 1	1,743	m ²		
Condemned Building 4	220	m ²		
Condemned Building 7	490	m ²		
Program & Safety Management		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	2,200	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		

New Building (Area Requirement by Type)

Office	1,200
Office & Training	200
Workshop, Training, Storage	0
Total	1,400

New Building

Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Office & Training	
Workshop, Training, Storage	
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	4,653	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management	1	Item		
Allowance for upgrading building 3	5,000	m ²		

New Building (Area Requirement by Type)

Office	1,200
Office & Training	200
Workshop, Training, Storage	0
<i>Total</i>	<i>1,400</i>

New Building

Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Office & Training	
Workshop, Training, Storage	
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)	

Disclaimer

The material contained in this report is confidential and was provided by JLL to the party to whom it is addressed strictly for the specific purpose to which it refers and no responsibility is accepted to any third party.

Neither JLL nor any of its associates have any other interests (whether pecuniary or not and whether direct or indirect) or any association or relationships with any of its associates that might reasonably be expected to be or have been capable of influencing JLL in providing this report.

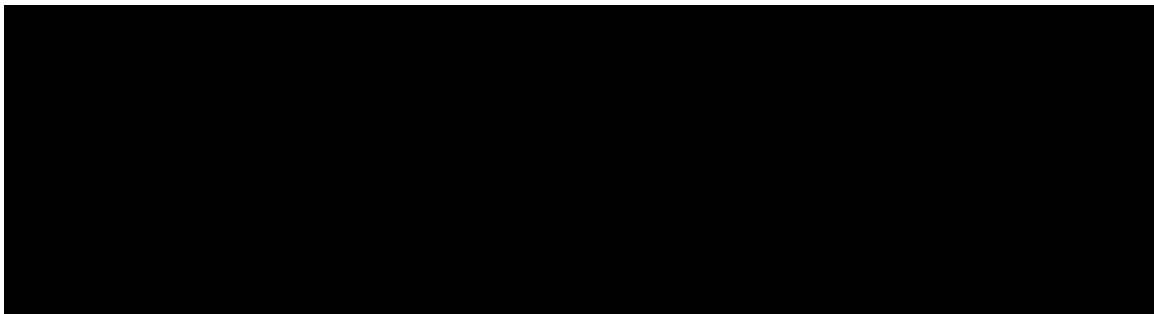
Neither the whole of the report nor any part or reference thereto may be published in any document, statement or circular or in any communication with third parties or distributed without JLL's prior written approval.

Whilst the material contained in the report has been prepared in good faith and with due care by JLL, no representations or warranties are made (express or implied) as to the accuracy of the whole or any part of the report.

JLL, its officers, employees, subcontractors and agents shall not be liable (except to the extent that liability under statute or by operation of law cannot be excluded) for any loss, liability, damages or expense suffered by any party resulting from their use of this report.

If a projection has been made in respect of future demand, business trends, property prices, rentals and projected take up rates, such a projection is an estimate only and represents only one possible result therefore should at best be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forward projections of such key elements involves assumptions about a considerable number of variables that are acutely sensitive to changing conditions and variations, and any one of which may significantly affect the resulting projections. This must be kept in mind whenever such projections are considered.

JLL is not operating under an Australian Financial Services Licence. The financial analysis and conclusions contained within this report do not purport to represent a valuation in the conventional sense. It is an exercise involving only relatively few variables, such as zoning information and a general knowledge of background market conditions; whereas, a valuation involves a detailed investigation of the property including, where appropriate, the nature of the locality, surrounding properties, full inspection, site peculiarities, the nature, quality and condition of improvements, comparable sales, market trends, yields, competition, design and layout and so on. The market value could be greatly affected by such factors, and by encumbrances, restrictions, or other impediments on Title which have not been considered in this report. Accordingly, the financial analysis contained herein is indicative only and not authoritative. It is merely a precursor to a formal valuation and should not be taken as a substitute for it.



COPYRIGHT © JONES LANG LASALLE IP, INC. 2018.

This publication is the sole property of Jones Lang LaSalle IP, Inc. and must not be copied, reproduced or transmitted in any form or by any means, either in whole or in part, without the prior written consent of Jones Lang LaSalle IP, Inc.

The information contained in this publication has been obtained from sources generally regarded to be reliable. However, no representation is made, or warranty given, in respect of the accuracy of this information. We would like to be informed of any inaccuracies so that we may correct them.

Jones Lang LaSalle does not accept any liability in negligence or otherwise for any loss or damage suffered by any party resulting from reliance on this publication.