Revised Proposal Attachment 5.20.4 JLL Project feasibility analysis - Hornsby Depot PUBLIC

January 2019

Attachment 4

Project Feasibility Analysis

Hornsby Depot

Prepared for Ausgrid

August 2018

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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 Hornsby 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 3 – Demolish and Build – Alternative 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 building and remediate the Hornsby site. 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		[redacted]					

1.3 Report Authors

[redacted]

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 Hornsby Depot

There are currently several issues with the existing facility at Hornsby. 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 80 years old, when the general industry standard for a maximum useful life of a building structure is 40 years i.e. 40 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 objectives to address future Ausgrid requirements for a new Hornsby Depot include:

- Proximity to support the Sydney Upper North Shore area
- Replace a depot that is beyond the end of its life expectancy
- Provide a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of revised depot typology
- Located to suit current and future growth demands of the Sydney Upper North Shore area
- Located in close proximity to major arterial road networks in the area
- Provide a least cost lifecycle solution

3 Site Details

3.1 Location

Ausgrid's Hornsby Depot is situated at 51-57 Bridge Road, Hornsby NSW 2077.

Figure 1: Ausgrid's Hornsby Depot

Source: SIX Maps, NSW Globe

3.2 Surrounding Developments

The surrounding developments comprise of a mix of residential dwellings, subject to 'R2 – Low Density Residential', 'R3 – Medium 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'.

3.3 Legal

Title Details	Lot 4/503347 Lot 1/504079 Lots C, D/416795 Lot B/324378 Lot C, D/357216 Lot 8 (Pt A)/3505
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))	3742042
VG Assessed Land Value	[redacted]

3.4 Landholdings

Address	51-57 Bridge Road, Hornsby NSW 2077
Site Details	Irregular shaped allotment, which is highly accessible by Denison Street and Bridge Road
Land Area (from DP)	The total site area of the lots is 16,744sqm (calculated from Deposited Plans)
Services	All standard services (electricity, water, telephone and sewerage) are assumed to be available to the site

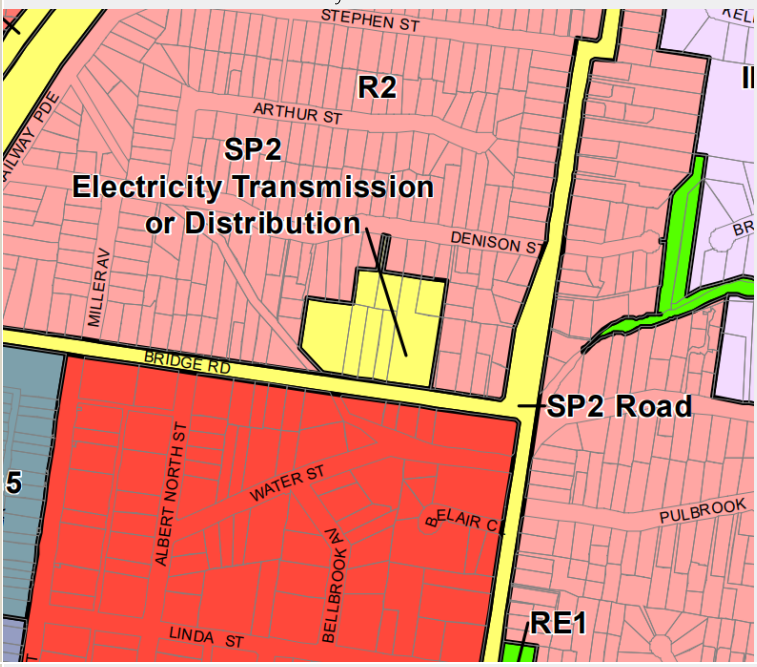
3.5 Improvements

Subject's Present Use	The Hornsby Depot serves Sydney's Upper North Shore region with facilities on the site including office accommodation, storage warehouses and workshops
Building Age	Range between 31 and 81 years
Construction Materials	Multi storey brick structure
Gross Floor Area	2,823 sqm (provided)
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	SP2 - Infrastructure : Electricity Transmission & Distribution 
Objectives of Zone	1. Objectives of zone • To provide for infrastructure and related uses. • To prevent development that is not compatible with or that may detract from the provision of infrastructure. 2. Permitted without consent • Environmental protection works; Roads; Water reticulation systems 3. Permitted with consent • The purpose shown on the Land Zoning Map, including any development that is ordinarily incidental or ancillary to development for that purpose 4. Prohibited • 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 R2 – Low Density Residential. R4 – High Density Residential uses are located immediately to the south

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. Unless any specific reason for continuing to locate at the current site exists, based on zoning, a relocation from the current site should be explored with the view to divest in line with highest and best use.

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 2.3.

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), as well as the removal of asbestos contamination as noted in the Asbestos and Lead Building Materials Audit. As noted in Section 2.3, 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) 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.

Scenario 3 – Demolish and Build – Alternative Site

Ausgrid own an appropriately located and zoned site in nearby Mount Ku-ring-gai. As such, this scenario assumes building of a new facility at this alternate site. This also enables a sale of the Hornsby site following completion and relocation to the 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 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 -$31,200,000
- Scenario 2 – Demolish and Rebuild - Existing Site — NPV of -$31,700,000
- Scenario 3 – Demolish and Build – Alternative Site — NPV of -$21,400,000

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	
– This scenario improves the current safety conditions of the site by addressing the Building Code of Australia requirements, as well as the asbestos contamination. – Continued operations at current site enables no disruption to current work patterns i.e. staff accessibility to location, public transport proximity, etc.	– This scenario will delay addressing the ongoing property end of life issues. – Due to the current facilities location, operations are partly restricted due to proximity of residential uses. We understand problems have arisen in respect of noise caused by out-of-hours operations. Additionally, as noted within the planning section of this report, there are overall compatibility issues between the operations and the surrounding / broader uses. – Continuing to operate from the Hornsby site means it cannot be released for its higher and better use in line with surrounding zoning. – Disruptions will occur with the proposed works while continuing to operate from the same facility.
Scenario 2 – Demolish and Rebuild - Existing Site	
– This redevelopment would deal with the existing property end-of-life issues. – In redeveloping the site, there is the potential to create a more efficient, fit-for-purpose facility. – Continuing operations at the current site ensures no disruption to current work patterns i.e. staff accessibility to location, public transport proximity, etc.	– Due to the current location, operations are partly restricted due to this proximity of residential uses. We understand problems have arisen in respect of noise caused by out-of-hours operations. Additionally, as noted within the planning section of this report, there are overall compatibility issues between the operations and the surrounding / broader uses. – Disruptions will occur with the proposed works while continuing to operate from the same location.
Scenario 3 – Demolish and Build – Alternative Site	
– This redevelopment would deal with the existing property end-of-life issues. – In building on an alternative site, there is the potential to create a more efficient, fit-for-purpose facility. – A relocation to Mount Ku-ring-gai avoids the challenges that have arisen as part of being located within a primarily residential locality. The property at Mount Ku-ring-gai is within an industrial area in Sydney's Upper North Shore. Being situated within an industrial only 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.	– A relocation to Mount Ku-ring-gai (8.5km from the current Hornsby site by road) may result in a disruption to current work patterns i.e. staff accessibility to location, public transport options, etc.

Advantages	Disadvantages
– A relocation from Hornsby provides the opportunity for a future divestment of the Hornsby site for its likely highest and best use, as a residential development (subject to re-zoning and council approval). – A development at Mount Ku-ring-gai enables works to be staged to minimise disruption to the current operations at the Hornsby facility.	

4.5 Recommendation

Based on the above financial and non-financial outcomes, we recommend proceeding with **Scenario 3 – Demolish and Build – Alternative 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		[redacted]					

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 Hornsby Depot Financial Model

Hornsby Depot

Indicative Modelling

Baseline Info

Current Site	51 Bridge Road, Hornsby			
Site area	16,744			sqm (as per DPs)
Improvements				sqm (as per BCA report)
Building	*sqm*	*type*	*total by type*	
Building 1 - Office	800			
Building 2 - Office	420			
Building 3 - Office	385			
Building 3 - Workshop	385			
Building 3 - Training Room	80	Office	1,605	
Building 4 - Workshop	250	Workshop	635	
Building 4 - Warehouse	250	Training Room	80	
Building 5 - Warehouse	204	Warehouse	454	
Total Improvements	2,774		2,774	
Appox. Value $	[redacted]			as per PRP valuation
$/sqm site	[redacted]			
Existing non-field staff on site	49			as provided (Accommodation Strategy)
Alternate Ausgrid Site	1 Woodland Way, Mt Kuringgai			
Site area	24,660			sqm (NSW Globe)
Appox. Value $	$0			Already owned, therefore no acquisition cost

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

Hornsby		Adopt	
Land Tax	$61,153	100%	$61,153
Rates	$11,825	100%	$11,825
Elec	$65,057	100%	$65,057
Water	$5,616	100%	$5,616
Total			$143,651
Mt Ku-ring-gai		Adopt	
Land Tax	$128,067	0%	$0
Rates	$23,560	0%	$0
Elec	$12,533	Hornsby	$65,057
Water	$1,758	Hornsby	$5,616
Total			$70,673

Opex (17/18 - provided)

Hornsby	
Opex	$401,836

Rental Cost During Construction

	$ / sqm pa			
Industrial Precinct	**Industrial**	**Office**	**Proportion (Office v Total)**	**Adjusted**
Northern Industrial Precinct net rent	[redacted]	[redacted]	[redacted]	[redacted]
Outgoings (assumed)	[redacted]	[redacted]	[redacted]	[redacted]
Total rental cost	[redacted]	[redacted]		[redacted]

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

Major Capital Works

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

Description of Works	Quantity	Unit	Rate	Amount
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management		Item		
Profesional 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	2,774	m²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		

New Building (Area Requirement by Type)

Office	1,605
Workshop	650
Training room	150
Warehouse	800
Total	*3,205*

New Building

Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Workshop	
Training room	
Warehouse	
Security for site and buildings	
Site infrastructure incl services diversions	
External Works - Landscaping	
IT and Change Management	
Profesional 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	2,774	m²	[redacted]	
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management	1	Item		

New Building (Area Requirement by Type)

Office	1,605
Workshop	650
Training room	150
Warehouse	800
Total	*3,205*

New Building

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

Scenario 3 - Build - Alternative Site - Remediation Capital Works

Description of Works	Quantity	Unit	Rate	Amount
Demolition of Existing Buildings	2,774	m²	[redacted]	
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management	[redacted]	Item		
Profesional Fees / Consultants	[redacted]	Perc		
Contingency	[redacted]	Perc		
Total Cost ($/sqm & total)				

New Building (Area Requirement by Type)

Office	1,605
Workshop	650
Training room	150
Warehouse	800
Total	*3,205*

Scenario 3 - Build - Alternative Site - New Build Capital Works

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

Model Inputs

Growth			Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Value - Adopt CPI + 1%			0.0%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Value, cumulative			100.0%	103.3%	106.7%	110.2%	113.8%	117.6%	121.4%	125.4%	129.5%	133.8%	138.2%
Costs - Adopt DAE 10 year average forecast of CPI			0.0%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Costs, cumulative			100.0%	102.3%	104.6%	107.0%	109.5%	112.0%	114.5%	117.2%	119.8%	122.6%	125.4%
Risk													
Discount rate (WACC)	6.60%	Regulated WACC											
Terminal cap	6.00%												
			FY 19	**FY 20**	**FY 21**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**FY 27**	**FY 28**	**FY 29**
			Yr 0	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Yr 6**	**Yr 7**	**Yr 8**	**Yr 9**	**Yr 10**

Scenario 1 - Defer Rebuild for 5 Years

Description: This option provides for remaining at the existing Hornsby Depot and addressing only BCA and asbestos issues in the short term with a rebuild after five years

51 Bridge Road, Hornsby															
							initial works				planning	planning	construction	construction	
Major Capital Works															
Initial Capital Works	[redacted]						[redacted]								
New Build Capital Works	[redacted]												[redacted]	[redacted]	
Ongoing Capital works															
Ongoing Capital works	x% less in 3 years leading to constr.			50%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Holding costs															
Land tax, council rates, elec, water (p.a.)	-$143,651	as provided			-$143,651	-$148,374	-$153,252	-$158,291	-$163,496	-$168,871	-$174,424	-$180,159	-$186,082	-$192,201	-$3,001,934
Opex (p.a.)	-$401,836	as provided	Only x% after build	50%	-$401,836	-$411,029	-$420,433	-$430,053	-$439,892	-$449,956	-$460,251	-$470,781	-$481,552	-$492,570	-$4,198,664
Rental Cost During Construction															
Rental Cost During Construction	50%	of sqm required	1,603								[redacted]	[redacted]			
Relocation Costs															
Allowance of $x per non-field staff	[redacted]	per	49	As staff moves twice							[redacted]	[redacted]			
Discount & NPV Rounded	6.60%			**-$31,200,000**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Scenario 2 - Demolish and Rebuild - Existing Site

Description: Demolition of existing improvements and rebuilding on the existing Hornsby Depot site

51 Bridge Road, Hornsby															
							planning	planning	construction	construction					
Major Capital Works															
New Build Capital Works	[redacted]								[redacted]	[redacted]					
Ongoing Capital works															
Ongoing Capital works	x% less in 3 years leading to constr.			50%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Holding costs															
Land tax, council rates, elec, water (p.a.)	-$143,651	as provided			-$143,651	-$148,374	-$153,252	-$158,291	-$163,496	-$168,871	-$174,424	-$180,159	-$186,082	-$192,201	-$3,001,934
Opex (p.a.)	-$401,836	as provided	Only x% after build	50%	-$401,836	-$411,029	-$420,433	-$430,053	-$439,892	-$224,978	-$230,126	-$235,391	-$240,776	-$246,285	-$4,198,664
Rental Cost During Construction															
Rental Cost During Construction	50%	of sqm required	1,603					[redacted]	[redacted]						
Relocation Costs															
Allowance of $x per non-field staff	[redacted]	per	49	As staff moves twice				[redacted]	[redacted]						
Discount & NPV Rounded	6.60%			**-$31,700,000**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Scenario 3 - Build - Alternative Site

Description: Replace Hornsby Depot at Mt Ku-ring-gai site, enabling a future sale of the Hornsby site.

Hornsby - 51 Bridge Road							planning	planning	construction	construction	remediation	sale						
Major Capital Works																		
Remediation Capital Works	[redacted]										[redacted]							
Holding costs																		
Land tax, council rates, elec, water (p.a.)	-$143,651	as provided			-$143,651	-$148,374	-$153,252	-$158,291	-$163,496	-$168,871								
Opex (p.a.)	-$401,836				-$401,836	-$411,029	-$420,433	-$430,053	-$439,892									
Divestment Value																		
Net divestment value	[redacted]											[redacted]						
New Site - 1 Woodland Way																		
Major Capital Works																		
New Build Capital Works	[redacted]							[redacted]	[redacted]									
Ongoing Capital works																		
Ongoing Capital works		x% less in 3 years leading to constr.		50%	-$391,010	-$357,164	-$71,618	$0	$0	$0	$0	$0	$0	$0	-$45,968	-$11,823,309		
Acquisition Costs																		
Total acquisition costs	$0																	
Holding costs																		
Elec, water (p.a.)	-$70,673										-$83,081	-$85,813	-$88,634	-$91,548	-$94,558	-$1,627,790		
Opex (p.a.)	-$401,836	as provided	@	50%							-$224,978	-$230,126	-$235,391	-$240,776	-$246,285	-$4,198,664		
Relocation Costs																		
Allowance of $x per non-field staff	[redacted]	per	49					[redacted]										
Discount & NPV Rounded	6.60%			**-$21,400,000**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]		

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