7 June 2016

Raquel Casas Heulin
GroupGSA Pty Ltd
Level 7, 80 William St
East Sydney NSW 2011

Sent via email: RCHuelin@groupgsa.com

Dear Raquel,

RE: *REVISED* PRELIMINARY FEASIBILITY ANALYSIS OF 197 CHURCH STREET PARRAMATTA DESIGN COMPETITION SCHEMES BY GROUP GSA TEAM

AEC Group is engaged by Holdmark to carry out feasibility analysis on *revised* design schemes received from participants of a design competition for the site at 197 Church Street in Parramatta.

This feasibility analysis broadly seeks to:

1. Carry out property market research into the residential apartment market to understand price points, take-up and marketability of unit types, specifically incremental revenue potential of higher floors.
2. Conduct a feasibility analysis on the revised design scheme incorporating findings from above task and adopting cost estimates and construction programme advice received from consultants engaged by Holdmark.

The financial feasibility analysis will assist in the evaluation of the design competition schemes.

This letter outlines desktop research and feasibility analysis of a proposed design scheme. We have relied on indicative development yields provided by the **Group GSA team** and preliminary cost estimates by **Altus Page Kirkland**.

This letter is issued as an addendum to our previous findings dated 4 May 2016.

FEASIBILITY ANALYSIS

METHODOLOGY

The feasibility modelling adopts the Residual Land Value approach. This involves assessing the value of the end product of a hypothetical development, then deducting all of the development costs (including site acquisition costs, site demolition and/or clearance, construction costs, consultant fees for design and project management, statutory fees) and making a further deduction for the profit and risk that a developer would require to take on the project.

The modelling is carried out on a zero escalation basis, i.e. with revenue and costs inputted and maintained in today's dollars.

The land value is the 'residual' that remains, i.e. the amount a developer could afford to pay in exchange for the opportunity to develop the site. The residual land value (RLV) for each design scheme is then compared against the cost of land (historical purchase price and all holding costs/ income) to assess the extent to which each design scheme optimises site value.

In addition to the residual land value of the site, a range of performance indicators are relied upon in assessing the feasibility of each design scheme. These indicators include development margin and project internal rate of return (IRR). If these indicators exceed the target hurdles (assumed each at 20%), the scheme is considered feasible.

Design Scheme and Development Yield

The proposed scheme is comprised of an 80 storey tower (646 residential units) and a 24 storey building to Marsden Street (162 serviced apartment keys). At the lower levels of each building, retail/commercial space is proposed from Ground floor to Level 1 (serviced apartments building) and from Ground floor to Level 2 (residential tower). Residential units occupy the main tower building from levels 3 to 80. Plant/terrace space on the uppermost levels 81 and 82.

The **Group GSA team** design scheme envisages the following development yields.

Table 1: Summary of Development Yield

Land Use	Gross Floor Area (sqm)	Net Saleable Area (sqm)	% of Total NSA	Units
Retail	3,575	3,028	4.7%	-
Serviced Apartments	10,425	9,918	15.4%	162 keys
Residential Apartments	60,300	51,515	79.9%	646 apts
Total	**74,300**	**64,461**	**100.0%**	

Source: Group GSA

Modelling Results

Development yields in the revised design scheme were subject to feasibility modelling to test their performance against set parameters. These include:

- Residual land value measured against cost of land of $20.6m, capitalised interest assumed to offset against investment holding income until project start, thereafter investment holding income assumed until construction commencement.
- Project internal rate of return (IRR) measured against target discount rate of 20%.
- Project margin measured against target development margin of 20%.

The results of the feasibility modelling are summarised in Table 2.

Table 2: Summary of Feasibility Modelling Results

Description	
Revenues	
Gross Sales Revenue	$786,322,350
Less: Selling Costs	($32,868,274)
Net Sales Revenue	$753,454,076
Other Income	$5,250,000
Total Revenue (before GST paid)	$758,704,076
Less: GST paid on all Revenue	($69,279,850)
Total Revenue (after GST paid)	**$689,424,226**
Costs	
Land Purchase Cost	$20,600,000
Land Acquisition Costs	$1,495,790
Construction (including Contingency)	$499,806,733
Professional Fees	$40,603,111
Statutory Fees	$6,153,667
Land Holding Costs	$1,801,515
Finance Charges	$1,100,000
Interest Expense	$60,871,327
Total Costs (before GST reclaimed)	$632,432,142
Less: GST reclaimed	($52,226,493)

Description	
Total Costs (after GST reclaimed)	**$580,205,650**
Performance Indicators	
Development Margin[1]	17.81%
Project Internal Rate of Return[2]	13.33%
Residual Land Value (NPV)[3], excluding GST	**($13,608,680)**

1 - Development Margin: profit divided by total costs (including selling costs)
2 - Project Internal Rate of Return: discount rate where the Net Present Value equals zero
3 - Residual Land Value (based on NPV): purchase price for the land to achieve a zero NPV
Source: AEC

While the design scheme does not meet the target hurdle rates when measured against the specified criteria, we nevertheless make the following observations:

- The financial modelling assumes *zero* escalation, i.e. that costs and revenues remain constant for the development period. In reality, costs and revenues will increase over time in line with inflation and price expectations. Allowing for escalations over time, the financial feasibility results are likely to improve.
- The inclusion of a large amount of non-residential floorspace (14,000sqm GFA) reduces the financial attractiveness of the scheme, the residential floorspace effectively subsidising the provision of non-residential uses.
- As highlighted in our letter dated 4 May 2016, the success of non-residential floorspace on the site requires careful consideration particularly given it is not located within a part of Parramatta CBD that lends itself to a prime grade commercial building.

Please do not hesitate to contact the undersigned should you require clarification.

Yours sincerely,

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