



Revised Proposal
Attachment 5.20.6
JLL Project feasibility
analysis - Wallsend
office replacement
PUBLIC

January 2019



Project *Feasibility* Analysis

Wallsend Office Replacement

Prepared for Ausgrid

August 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	Wallsend Office.....	4
3	Site Details	5
3.1	Location	5
3.2	Surrounding Developments.....	5
3.3	Legal.....	5
3.4	Landholdings.....	6
3.5	Improvements	6
3.6	Environmental.....	6
3.7	Planning Controls.....	7
4	Financial Analysis and Assessment	9
4.1	Scenarios	9
4.2	Key Inputs.....	9
4.3	Financial Outcomes	9
4.4	Non-Financial Outcomes	10
4.5	Recommendation.....	10
4.6	Assumptions and Limitations	10
5	Appendices	11
5.1	Wallsend Office 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 Wallsend office.

1.2 Key Findings & Recommendation

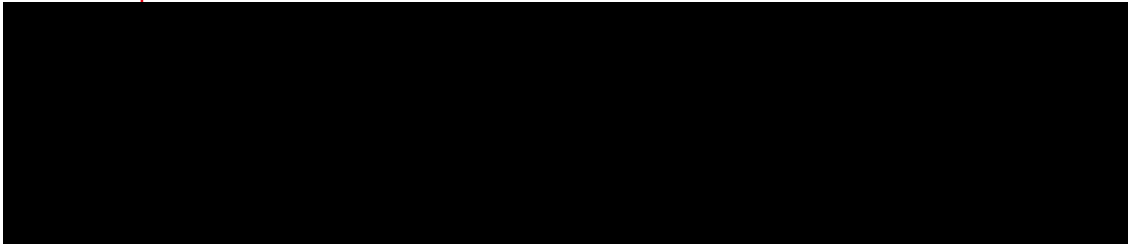
Based on the financial assessment we have undertaken, as well as our non-financial observations, we recommend proceeding with **Scenario 2 – Build – Alternative Site**. This scenario results in the most superior financial outcome as well as results in the most non-financial benefits as described within 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 depot and remediate the current Wallsend office 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							

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 Wallsend Office

There are currently some issues with the existing facility at Wallsend. The recent Building Code of Australia and Asbestos Audits identified a number of non-compliance areas / risks. Additionally the buildings on the site are in some cases up to 33 years old, when the general industry standard for a maximum useful life of a building structure is 40 years i.e. approaching their typical useful life. The key challenge with the facility is due to the age of the facility and changing workforce practices, it is inappropriate for the current needs of the Ausgrid business.

The key Ausgrid drivers for a proposed new Wallsend Office building include that it:

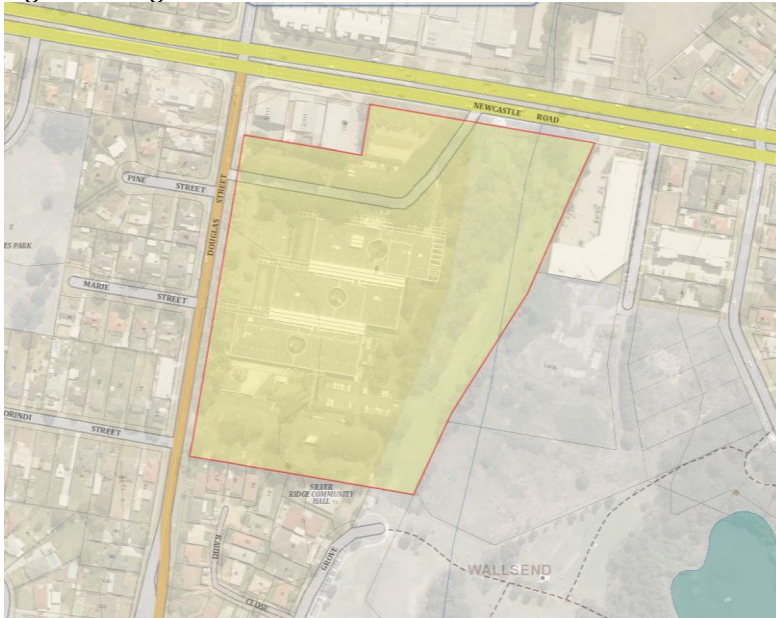
- Must support the corporate strategy of co-locating offices/depots with infrastructure
- Replaces an office that is nearing the end of its life expectancy
- Provides a fit for purpose facility with security of tenure
- Consolidates business unit activities in a location in proximity to existing network facilities
- Is located on or near a major arterial road network in the area
- Meets local resident concerns about the incompatibility of current operations
- Provides future opportunities to develop the site for other Ausgrid activities or external leasing

3 Site Details

3.1 Location

Ausgrid’s Head Office at Wallsend is located at 145 Newcastle Road, Wallsend NSW 2287.

Figure 1: Ausgrid’s Wallsend Head Office



Source: SIX Maps, NSW Globe

3.2 Surrounding Developments

The surrounding developments comprise predominantly single storey detached residential dwellings subject to an ‘R2 – Low Density Residential’ and ‘R3 – Medium Density Residential’ zoning. There is a significant amount of ‘B2 – Local Centre’ zoning located to the east of the subject site, containing Stockland Jesmond Shopping Centre, as well as some ‘RE1 Public Recreation’ land to the immediate south of the site.

3.3 Legal

Title Details	Lot 10/747038
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))	243954
VG Assessed Land Value	

3.4 Landholdings

Address	145 Newcastle Road, Wallsend NSW 2287
Site Details	Irregular shaped allotment, which is accessible via Newcastle Road and Douglas Street
Land Area (from DP)	The total site area of the lots is 5.275 ha (calculated from Deposited Plans)
Services	All standard services (electricity, water, telephone and sewerage) are assumed to be available to the site

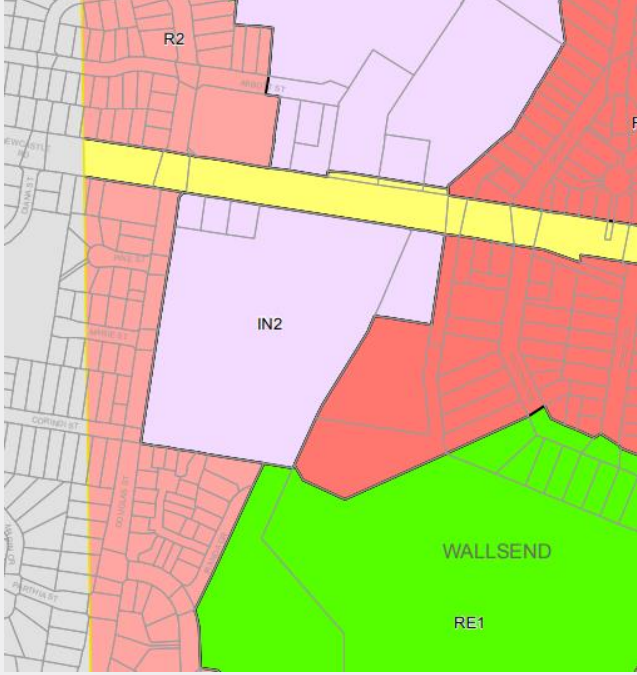
3.5 Improvements

Subject's Present Use	The Wallsend Head Office services the Newcastle and Hunter regions and has a two storey Administration building, divided into three blocks. There is associated car parking facilities for the building
Year Constructed	~ 1960
Construction Materials	Multi storey brick and concrete structure
Gross Floor Area	11,300 sqm (Provided)
Condition	Fair, commensurate with age – There are end-of-life issues and limitations in the accommodation and storage constraints and Building Code of Australia requirements
Other Structures	Nil

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 1 item was identified to have 'Moderate Priority Risk Rating' and a further 6 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 Newcastle 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	Newcastle Council
Planning Instrument	Newcastle Local Environmental Plan (LEP) 2012
Zoning	<p>IN2 – Light Industrial</p> 
Objectives of Zone	<ol style="list-style-type: none"> 1. Objectives of zone <ul style="list-style-type: none"> • To provide a wide range of light industrial, warehouse and related land uses. • To encourage employment opportunities and to support the viability of centres. • To minimise any adverse effect of industry on other land uses. • To enable other land uses that provide facilities or services to meet the day to day needs of workers in the area. • To support and protect industrial land for industrial uses. 2. Permitted without consent <ul style="list-style-type: none"> • Environmental protection works 3. Permitted with consent <ul style="list-style-type: none"> • Aquaculture; Boat building and repair facilities; Boat launching ramps; Car parks; Child care centres; Community facilities; Crematoria; Depots; Flood mitigation works; Freight transport facilities; Garden centres; General industries; Hardware and building supplies; Helipads; Heliports; Industrial retail outlets; Industrial training facilities; Jetties; Kiosks; Landscaping material supplies; Light industries; Mortuaries; Neighbourhood shops; Passenger transport facilities; Places of public worship; Plant nurseries; Recreation areas; Recreation facilities (indoor); Recreation facilities (major); Respite day care centres; Restricted premises; Roads; Service stations; Sex services premises; Signage; Storage premises; Take away food and drink premises; Timber yards; Transport depots; Truck depots; Vehicle body repair workshops; Vehicle repair stations; Vehicle sales or hire premises; Warehouse or distribution centres; Wholesale supplies 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 and R3 – Medium Density Residential B2 – Local Centre uses are located to the east 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 from a land perspective would likely be as a residential subdivision site, however, due to the existing value in improvements would likely continue as an existing office building.

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 existing site scenario, as future requirements for office are much lower than the current provision – as such a rebuild on a nearby site and sale of the existing facility is far more appropriate to test.

Scenario 1 – Do Nothing

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. While we note in Section 2.1 the facility is coming to the end of its economic life, we haven't accounted for a new building within the 10 year cash flow horizon.

Scenario 2 – Build – Alternative Site

Ausgrid owns two depot sites located nearby the existing facility. As such, this scenario assumes building of a new facility at one of these alternate sites. This also enables a sale of the Wallsend Office 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 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 financial outcomes have been derived by scenario.

- Scenario 1 – Do Nothing NPV of **-\$41,100,000**
- Scenario 2 – Build – Alternative Site NPV of **-\$35,600,000**

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 – Do Nothing	
<ul style="list-style-type: none"> – 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 the current site ensures no disruption to current work patterns i.e. staff accessibility to location, public transport proximity, etc. 	<ul style="list-style-type: none"> – This scenario would not address issues associated with the property coming towards the end of its economic life. – Continuing to operate from the Wallsend Office site means an inappropriately sized facility continues to be used when its value could be released.
Scenario 2 – Build – Alternative Site	
<ul style="list-style-type: none"> – This redevelopment would address the property end-of-life issues. – In building on an alternative site, there is the potential to create a more efficient, fit-for-purpose facility. This will better meet the current needs of Ausgrid staff. – A relocation from Wallsend Office also provides the opportunity for a future divestment of the site. With existing improvements under-utilised, the value in these could be realised. – A development at a nearby depot enables works to be staged to minimise disruption to the current operations at the facility. 	<ul style="list-style-type: none"> – A relocation to a nearby depot site may result in a disruption to current work patterns i.e. staff accessibility to location, public transport options, etc.

4.5 Recommendation

Based on the above financial and non-financial outcomes, we recommend proceeding with **Scenario 2 – Build – Alternative 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 Wallsend Office Financial Model

Indicative Modelling

Baseline Info

Current Site	145 Newcastle Road, Wallsend		
Site area	52,750		sqm (as per DPs)
Improvements			sqm (as per BCA report)
<i>Building</i>	<i>sqm</i>	<i>type</i>	<i>total by type</i>
Building 1 - Office	11,300	Office	11,300
Total Improvements	11,300		11,300
Approx. Value \$	██████████		as per PRP valuation
\$/sqm site	██		
Existing non-field staff on site	382		as provided (Accommodation Strategy)
Alternate Ausgrid Site	Nearby Depot		
Site area	Unconfirmed		
Approx. Value \$	\$0		Already owned, therefore no acquisition cost

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

Wallsend Admin	Adopt		
Land Tax	\$56,533	100%	\$56,533
Rates	\$47,920	100%	\$47,920
Elec	\$431,286	100%	\$431,286
Water	\$37,643	100%	\$37,643
Total			\$573,382
Nearby Depot	Adopt		
Land Tax		0%	\$0
Rates		0%	\$0
Elec	\$431,286	50%	\$215,643
Water	\$37,643	50%	\$18,821
Total			\$234,464

Opex (17/18 - provided)

Wallsend Admin	
Opex	\$778,720

Major Capital Works

Scenario 1 - Do Nothing - Initial Capital Works

Description of Works	Quantity	Unit	Rate	Amount
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management		Item		
Professional Fees / Consultants		Perc		
Contingency		Perc		
Total Cost (\$/sqm & total)				

Scenario 2 - Build - Alternative Site - Remediation Capital Works

Description of Works	Quantity	Unit	Rate	Amount
Demolition of Existing Buildings	11,300	m ²		
BCA Compliance	1	Item		
Asbestos Removal	1	Item		
Program & Safety Management		Item		
Professional Fees / Consultants		Perc		
Contingency		Perc		
Total Cost (\$/sqm & total)				

New Building (Additional Required Area by Type)

Office	4,000
--------	-------

Scenario 2 - Build - Alternative Site - New Build Capital Works

New Building	
Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
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)	

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 - Do Nothing													
Description: This option provides for remaining at the existing Wallsend Admin and addressing only BCA and asbestos issues													
145 Newcastle Road, Wallsend													
Major Capital Works		initial works											
Initial Capital Works		█											
Ongoing Capital works		█											
Ongoing Capital works		█	█	█	█	█	█	█	█	█	█	█	
Holding costs													
Land tax, council rates, elec, water (p.a.)		-\$573,382 as provided	-\$573,382	-\$592,235	-\$611,707	-\$631,820	-\$652,593	-\$674,050	-\$696,213	-\$719,104	-\$742,747	-\$767,168	-\$11,982,217
Opex (p.a.)		-\$778,720 as provided	-\$778,720	-\$796,536	-\$814,760	-\$833,402	-\$852,469	-\$871,973	-\$891,923	-\$912,330	-\$933,203	-\$954,554	-\$16,273,234
Discount & NPV Rounded		6.60%	-\$41,100,000										

Scenario 2 - Build - Alternative Site												
Description: Replace Wallsend Admin at nearby depot, enabling a future sale of the Wallsend Admin site												
145 Newcastle Road, Wallsend												
		planning	planning	construction	construction	remediation	sale					
Major Capital Works		█										
Remediation Capital Works		█										
Holding costs												
Land tax, council rates, elec, water (p.a.)		-\$573,382 as provided	-\$573,382	-\$592,235	-\$611,707	-\$631,820	-\$652,593	-\$674,050				
Opex (p.a.)		-\$778,720	-\$778,720	-\$796,536	-\$814,760	-\$833,402	-\$852,469					
Divestment Value												
Net divestment value		█										
Alternate Ausgrid Site												
Major Capital Works		█										
New Build Capital Works		█										
Ongoing Capital works		█										
Ongoing Capital works		x% less in 3 years leading to constr.	50%	█	█	█	█	█	█	█	█	█
Acquisition Costs												
Total acquisition costs		\$0										
Holding costs												
Elec, water (p.a.)		-\$234,464					-\$275,629	-\$284,691	-\$294,052	-\$303,720	-\$313,706	-\$5,400,344
Opex (p.a.)		-\$778,720 as provided @	50%				-\$435,987	-\$445,962	-\$456,165	-\$466,602	-\$477,277	-\$8,136,617
Relocation Costs												
Allowance of \$x per non-field staff		█	per	382	█							
Discount & NPV Rounded		6.60%	-\$35,600,000									

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.

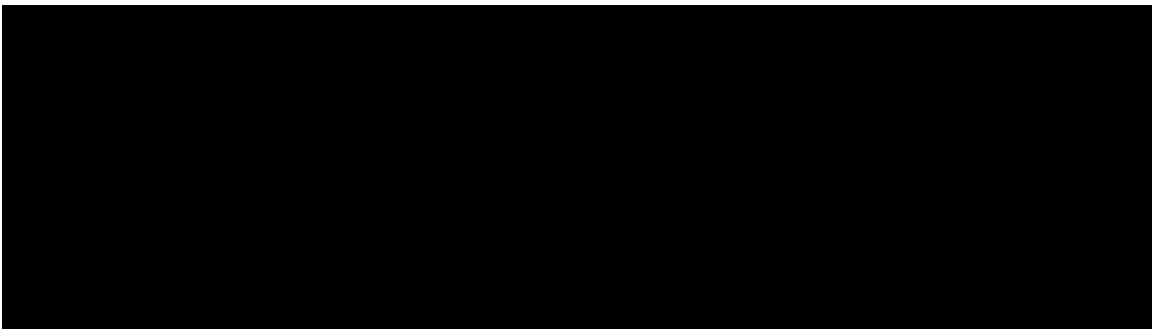
Neither the whole of the report nor any part or reference thereto may be published in any document, statement or circular or in any communication with third parties or distributed without JLL's prior written approval.

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.