



# Ipswich Central Redevelopment – Nicholas Street Retail

Public Access

**Ipswich City Council**  
October 2019



**KPMG**

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**24 October 2019**

**Private and confidential**

Greg Chemello  
Interim Administrator  
Ipswich City Council  
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Dear Greg,

**Ipswich Central – Nicholas Street Retail**

We have been engaged by the Ipswich City Council (ICC) to undertake financial analysis and a market sounding of the Ipswich Central Redevelopment Nicholas Street Retail Project (the "Project") to assist ICC assess the scope, timing and delivery model for the Project.

We attach our report in connection with providing these services.

**Scope of Work**

Our work has been performed in accordance with our Engagement Letter dated 6 August 2019.

**Information**


In undertaking our work we have relied on information provided to us by ICC, Ranbury (project manager and retail leasing agent), RLB (cost estimators) and Savills (independent valuer), in addition to publicly available information, industry resources and KPMG analysis.

We have indicated in this report the sources of the information presented.

**Distribution**

This report has been prepared exclusively for ICC in relation to the Nicholas Street Retail Project. This report must not be used for any other purpose or distributed to any other person or party or as otherwise agreed by us in writing.

Yours sincerely,



Paul Morris  
**Partner**

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- In preparing this report, we have had access to information provided by ICC and its specialist advisors, and publicly available information. We have relied upon the truth, accuracy and completeness of any information provided or made available to us in connection with the Services without independently verifying it.
- Any findings or recommendations contained within this report are based upon our reasonable professional judgement based on the information that is available from the sources indicated. Should the Project elements, external factors and assumptions change then the findings and recommendations contained in this report may no longer be appropriate. Accordingly, we do not confirm, underwrite or guarantee that the outcomes referred to in this report will be achieved.
- We do not make any statement as to whether any forecasts or projections will be achieved, or whether the assumptions and data underlying any such prospective financial information are accurate, complete or reasonable. We will not warrant or guarantee the achievement of any such forecasts or projections. There will usually be differences between forecast or projected and actual results, because events and circumstances frequently do not occur as expected or predicted, and those differences may be material.
- We will perform certain tests on the Financial Model to satisfy ourselves that the Model is operating as per the specifications agreed with you during the initial model development phase of our work. However, this will not constitute a full integrity check of the Model. We will provide no representation or warranty of accuracy, completeness, reasonableness or reliability of the Information included (whether directly or by reference) in the Model, including the achievement or reasonableness of any plans, projections, forecasts, management targets, prospects or returns described (whether express or implied) in the Model.

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## Key Contact



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# Glossary

<b>AFL</b>	Agreement for Lease	<b>IRR</b>	Internal Rate of Return
<b>AV</b>	Asset Value	<b>NLA</b>	Net Lettable Area
<b>CGI</b>	Computer-generated imagery	<b>NOI</b>	Net Operating Income
<b>F&amp;B</b>	Food and Beverage	<b>NPV</b>	Net Present Value
<b>GLV</b>	Gross Land Value	<b>P&amp;R</b>	Profit and risk
<b>HoA</b>	Heads of Agreement	<b>Sqm</b>	Square metre
<b>ICC</b>	Ipswich City Council	<b>TDC</b>	Total Development Cost





# Introduction



# Background & Scope

## Background

ICC is currently progressing with the development of the Ipswich Central Business District (CBD), known as Ipswich Central. The project contains a number of assets owned by ICC and, when fully developed, will comprise retail, entertainment and leisure, food and beverage, commercial buildings, civic space and a community library.

A preferred tenderer has been selected to deliver the Civic Precinct, community library, streetscape upgrades and ICC Administration Centre. These components of the Ipswich Central Redevelopment are integral to the operations of ICC and will be retained in long-term ICC ownership.

The adjoining retail and mixed-use assets owned by ICC (collectively known as 'Nicholas Street Retail'), are largely vacant in advance of redevelopment.

ICC is seeking a pathway for development and divestment of the Nicholas Street Retail assets. In determining a preferred pathway, ICC is seeking to balance its primary objective of renewing the Ipswich CBD as a thriving precinct with a prudent financial and risk management overlay.

In June 2019, Ranbury (project manager and retail leasing agent) prepared a draft Business Case for the redevelopment of the Project. KPMG undertook a peer review of the draft Business Case and made a number of recommendations, including that ICC:

- establish ICC financial and commercial objectives for the Project;
- further progress design and obtain updated cost estimates;
- obtain updated valuations of the development;
- update the financial analysis for the Project; and
- undertake market sounding to better inform the optimum delivery pathway and divestment strategy.

## Scope

Post KPMG's review of the draft Business Case, ICC has engaged KPMG to undertake the following:

- *Market Sounding*: engage with real estate developers, investors and agents to seek insights on the Project including market and Project risks and appetite for end asset take out and participation in delivery.
- *Co-ordinate an Independent Valuation*: coordinate and manage an independent valuation to provide a valuation of the Nicholas Street Retail assets on an "As Is" basis and an "As If Complete" basis.
- *Establish Financial and Capital Management Objectives*: assist ICC define its key financial and commercial Project objectives.
- *Financial Analysis*: undertake financial analysis based on the updated Project inputs and assess the alternate development and divestment pathways.

At the same time, Ranbury progressed updated the Project designs and construction cost estimates.

## Sources of Information

In undertaking the scope of works, KPMG has relied upon the following sources of information:

- Draft Nicholas Street Retail - Business Case Report (Version 1.1), dated 27 June 2019 as prepared by Ranbury;
- Development costs prepared by RLB and Ranbury, transmitted to KPMG on 19 September; and
- Valuation report and calculations from Savills (report dated 27 August 2019, and issued in final on 22 October 2019).

We have indicated in this report the sources of the information presented.





# Project Overview





# Project Overview - Ipswich Central

## Overview

The Ipswich Central Redevelopment Project is a key project within Ipswich City's Economic Development Plan and is situated in the heart of the Ipswich CBD, bound by Bell Street to the east, Brisbane Street to the south, Ellenborough Street to the west and Bremer Street to the north.

The precinct is currently underutilised and largely vacant in advance of redevelopment. The Ipswich Central Redevelopment seeks to contribute to a re-enlivenment of the CBD by delivering an integrated entertainment, civic, retail and commercial precinct.

Development is underway for the civic assets within the Ipswich Central Redevelopment, which incorporate the following elements:

- a new council Administration Centre and office building over 8 storeys (target completion Q2 2021);
- a new Civic Precinct including a new Public Library and a versatile 14,500sqm public realm with water park features, that will host Ipswich City events, markets and activities (target completion Q2 2020);
- an upgraded street scape and public area along Nicholas Street and Union Place (target completion Q1 2020); and
- an upgraded 1,000 car undercover car park, with adjacency to the Ipswich Rail Station.

An events and marketing programme for the Civic Precinct is currently being developed by ICC. This programme will be essential to attract foot traffic and underpin activity in the Ipswich Central Redevelopment.

**Table 1: Ipswich CBD Redevelopment – Key Components**

ICC Civic Assets	Nicholas Street Retail Assets
Admin Building	Venue
Library	Metro A and B
Civic Precinct	Eats
Nicholas Street / Union Place	Commonwealth Hotel

Table 1: Components of the Ipswich Central Development

Source: Nicholas Street Retail – Business Case, 2019.

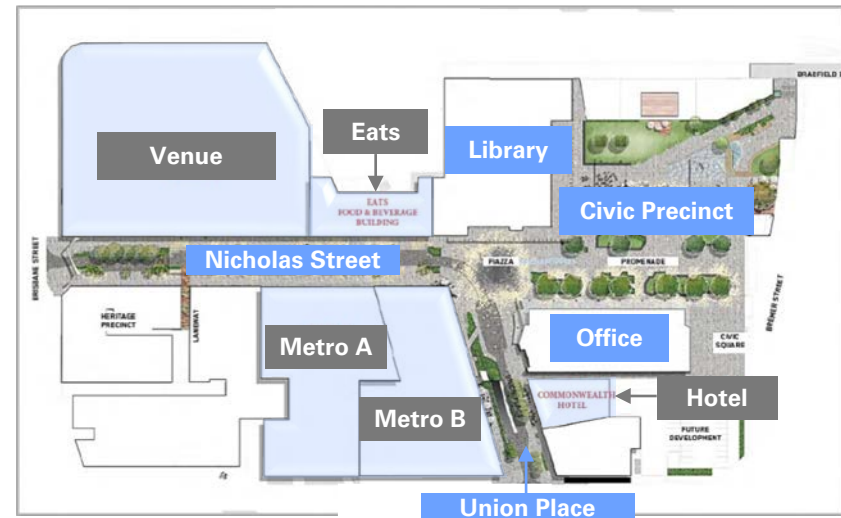


Image 1: Ipswich Central master plan

Source: Draft Nicholas Street Retail - Business Case Report (Version 1.1), dated 27 June 2019

# Project Overview - Nicholas Street Retail

## Overview

The Nicholas Street Retail Project components of the Ipswich Central Redevelopment comprises four separate 'precincts'. These precincts are outlined as follows and detailed further overleaf:

- Metro A and B – proposed for F&B offerings along the street frontage, in addition to mini-majors, general retail and medical uses internally and commercial uses above;
- Eats – proposed for F&B offerings along the street frontage, in addition to potential commercial uses on the upper level;
- Venue – proposed for entertainment and leisure uses, in addition to general retail; and
- Commonwealth Hotel (also known as Murphy's Pub) – a heritage listed building proposed for use as a pub style F&B destination.

## Current Status

The Project is in the early phases of the redevelopment life cycle and has been informed by a number of consultants. The current status is summarised below:

- concept and schematic designs have been developed by Buchan;
- master planning/design, research and retail mix review has been provided by Urbis and Brain & Poulter;
- RLB have provided cost estimates based on schematic designs (for replacing and re-using existing services);
- technical due diligence has been provided by Ranbury, WSP and McKenzie Group;
- marketing and leasing of the space is being undertaken by the Nicholas Street Project Leasing Team (Ranbury); and
- marketing commenced in November 2018 and eleven (11) Heads of Agreements (HOA) have been secured to date.

Table 2: Components of Nicholas Street Retail

Component	Intended uses
<b>Venue</b>	Entertainment, leisure & retail.
<b>Metro A</b>	Mini-majors, medical, health, office.
<b>Metro B</b>	Food & beverage, general retail, commercial office.
<b>Eats</b>	Food & beverage, commercial office.
<b>Commonwealth Hotel</b>	Hotel/pub.

Table 2: Components of Nicholas Street Retail



Image 2: Schematic Design – View along Nicholas Street, towards Brisbane Street

Source: Nicholas St, Ipswich Retail Presentation (Revision B) prepared by Buchan dated 4 September 2019.

# Project Overview - Metro A

## Overview

Metro A (also known as the Bell Street Link building) is situated around the centre of Nicholas Street, near opposite the proposed Eats building. The asset comprises three levels, with the middle level adjoining and providing internal access to the Metro B building. Metro A is of a dated condition and is currently fully vacant.

## Proposed Development

The internal layout of Metro A is proposed to be redeveloped to contain one large tenancy on the lower level, mini-majors and a medical precinct on the Nicholas Street level and a commercial/lifestyle tenancy (i.e. gymnasium) on the upper level. Accessibility to each level will be via escalators or internal lift.

The internal mall and connection between Metro A and B is proposed to be retained as part of the redevelopment.

A summary of the 'As If Complete' development is provided in Table 3 below, with CGIs shown in adjacent Images 3 and 4.

**Table 3: Metro A 'As If Complete' Summary**

<b>Tenure</b>	• Freehold
<b>Land Area</b>	• 3,772 sqm
<b>NLA</b>	• 5,124 sqm (retail); 737 sqm (commercial)
<b>Tenancies</b>	• 13
<b>Target Mix</b>	• Mini Majors, Medical, Health, Commercial
<b>Target NOI</b>	• Circa \$1.32m

Table 3: Metro A 'As If Complete' Summary  
Source: Savills Valuation, 27 August 2019



Images 3 and 4: Schematic Design – Metro A  
Source: Nicholas St, Ipswich Retail Presentation (Revision B) prepared by Buchan dated 4 September 2019.

# Project Overview - Metro B

## Overview

Metro B is situated on the corner of Nicholas Street and Union Place, directly opposite the proposed Civic Precinct and community library.

The asset contains a ground level along Nicholas Street and Union Place, plus one tenancy to the Bell Street frontage. In addition, a seven-storey commercial tower sits above the retail component. The asset is of an older standard and the retail component is fully vacant. The office component is currently occupied by various tenants on short term leases.

## Proposed Development

Metro B is considered to be situated on a high profile corner within the Ipswich Central Redevelopment. The asset is proposed to be redeveloped to maximise street activation, with food and beverage proposed along the perimeter of the ground level with generous outdoor dining areas.

The internal ground mall is proposed to contain a mix of commercial, specialty and convenience retail. The office component will not be refurbished as part of the redevelopment.

A summary of the 'As If Complete' development is provided in Table 4 below, with CGIs shown in adjacent Images 5 and 6.

**Table 4: Metro B 'As If Complete' Summary**

<b>Tenure</b>	<ul style="list-style-type: none"> <li>Leasehold (58.2 years remaining as at August 19)</li> </ul>
<b>Land Area</b>	<ul style="list-style-type: none"> <li>3,334 sqm</li> </ul>
<b>NLA</b>	<ul style="list-style-type: none"> <li>3,524 sqm (retail); 1,154 sqm (commercial)</li> </ul>
<b>Tenancies</b>	<ul style="list-style-type: none"> <li>25</li> </ul>
<b>Target Mix</b>	<ul style="list-style-type: none"> <li>F&amp;B, general retail , commercial office</li> </ul>
<b>Target NOI</b>	<ul style="list-style-type: none"> <li>Circa \$1.43m</li> </ul>

Table 4: Metro B 'As If Complete' Summary.  
Source: Savills Valuation, 27 August 2019



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Images 5 and 6: Schematic Design – Metro B  
Source: Nicholas St, Ipswich Retail Presentation (Revision B) prepared by Buchan dated 4 September 2019.



# Project Overview - Venue

## Overview

Venue is situated on the corner of Nicholas and Brisbane Streets and comprises a two-storey retail building, which is of an older standard. The building is currently occupied by a chemist and is otherwise vacant.

## Proposed Development

Venue is intended to be redeveloped to contain a mix of entertainment and leisure offerings that will serve to drive critical mass and activate the precinct as a strong destination appeal. In particular, this asset is intended to contain a cinema on the upper level and a leisure offering on the lower level (for example, indoor karting), in addition to general retail.

A summary of the 'As If Complete' development is provided in Table 5 below, with CGIs shown in the adjacent Images 7 and 8.

**Table 5: Venue 'As If Complete' Summary**

<b>Tenure</b>	<ul style="list-style-type: none"> <li>Freehold</li> </ul>
<b>Land Area</b>	<ul style="list-style-type: none"> <li>6,202 sqm</li> </ul>
<b>NLA</b>	<ul style="list-style-type: none"> <li>9,395 sqm</li> </ul>
<b>Tenancies</b>	<ul style="list-style-type: none"> <li>8</li> </ul>
<b>Target Mix</b>	<ul style="list-style-type: none"> <li>Entertainment (e.g. Cinema, Lasertag, Indoor Karting, Kids Play) and additional F&amp;B / general retail</li> </ul>
<b>Target NOI</b>	<ul style="list-style-type: none"> <li>\$1.60m</li> </ul>

Table 5: Venue 'As If Complete' Summary  
Source: Savills Valuation, 27 August 2019



Images 7 and 8: Schematic Design – Venue  
Source: Nicholas St, Ipswich Retail Presentation (Revision B) prepared by Buchan dated 4 September 2019.

# Project Overview - Eats

## Overview

Eats is situated to the centre of Nicholas Street, on the corner of a laneway known as 'Bottle Alley' and adjoining the proposed community library. The asset comprises a two-storey building, which is of an older standard and is fully vacant.

The building is currently situated over multiple tenures (leasehold and freehold), which may impact the marketability of the asset.

## Proposed Development

Eats is considered to provide a critical connection between the proposed Civic Precinct and the Venue building, along Nicholas Street.

The proposed development will incorporate reactivation of the Nicholas Street and Bottle Alley laneway frontages of the building with covered external dining areas for food and beverage uses and undercover foot traffic.

The asset is proposed to contain food and beverage uses of complementary cuisine on the ground level, in addition to commercial uses on the upper level.

A summary of the 'As If Complete' development is provided in Table 6 below, with CGIs shown in adjacent Images 9 and 10.

**Table 6: Eats 'As If Complete' Summary**

<b>Tenure</b>	• Mix of freehold and leasehold
<b>Land Area</b>	• 1,322 sqm
<b>NLA</b>	• 579 sqm (retail) and 755 sqm (commercial)
<b>Tenancies</b>	• 5
<b>Target Mix</b>	• F&B, commercial
<b>Target NOI</b>	• Circa \$0.58m

Table 6: Eats 'As If Complete' Summary  
Source: Savills Valuation, 27 August 2019



Images 9 and 10: Schematic Design – Eats  
Source: Nicholas St, Ipswich Retail Presentation, prepared by Buchan dated 4 September 2019

# Commonwealth Hotel

## Overview

The Commonwealth Hotel is a two-storey heritage listed building, which is situated on Union Place, opposite Metro B.

The asset is in a poor state of repair and foundation stabilisation works were recently undertaken.

## Proposed Redevelopment

As part of the proposed redevelopment, the asset will be rebuilt, refurbished and expanded, with the intention of procuring a hotel operator.

A summary of the 'As If Complete' development is provided in Table 7 below, with floor plans shown in adjacent Images 11 and 12.

**Table 7: Commonwealth Hotel 'As If Complete' Summary**

<b>Tenure</b>	• Freehold
<b>Land Area</b>	• 539 sqm
<b>NLA</b>	• 416 sqm
<b>Tenancies</b>	• 1
<b>Target Mix</b>	• Microbrewery, gastropub
<b>Target NOI</b>	• Circa \$0.18m

Table 7: Commonwealth Hotel 'As If Complete' Summary  
Source: Savills Valuation, 27 August 2019

## Ground Level



## Upper Level



Images 11 and 12: Floor Plans – Commonwealth Hotel  
Source: Draft Nicholas St Retail - Business Case Report (Version 1.1), dated 27 June 2019





# Project Objectives





# Project Objectives

## Introduction

ICC has established a range of project objectives for the Ipswich Central Redevelopment. These objectives guide decision making for the broader redevelopment and were set during the assessment of delivering the Civic assets.

Reflecting the overarching intent for the redevelopment to contribute to a re-enlivenment of the CBD, the supporting objectives established by ICC are set out below:

- deliver an enduring and activated Civic Heart (i.e. Civic Precinct);
- deliver cultural and entertainment activities that complement other activity centres;
- provide space for growth of key employers and service providers;
- relocate Council's administration centre and unlock Council land for Queensland Health;
- provide opportunities for private sector investment in the renewal; and
- project governance is robust, resilient and replicable.

## Nicholas Street Retail Project Objectives

To support assessment of the optimum development and divestment strategy for the Nicholas Street Retail, the Ipswich Central Redevelopment Project Objectives were refined to incorporate financial and commercial objectives. These refined Project Objectives seek to balance community with prudent financial and commercial considerations.

The Project Objectives were established by ICC through a workshop facilitated by KPMG, in conjunction with Ranbury, taking into account the following key considerations.

Key financial considerations:

- desired and minimum acceptable Project returns;
- funding gates / thresholds required to be achieved prior to commencing development; and
- finance strategy.

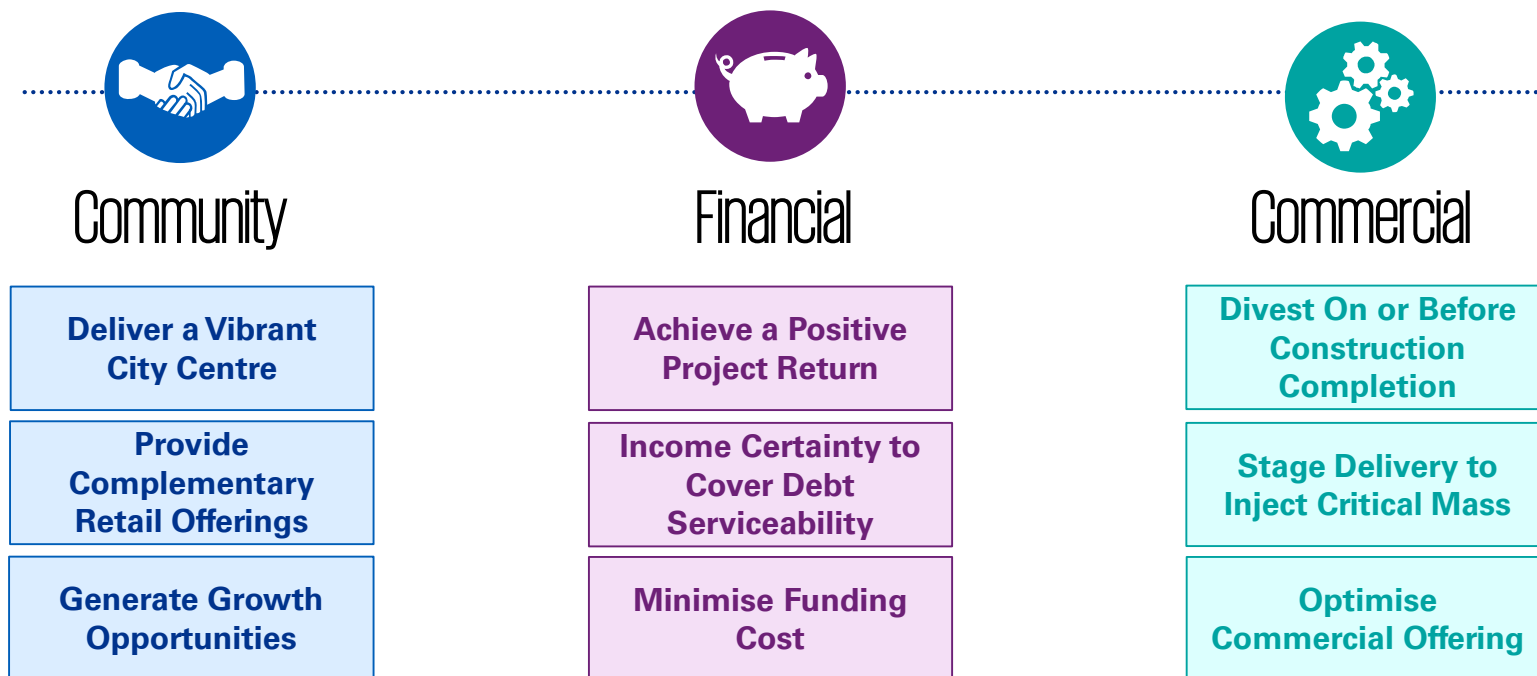
Key commercial considerations:

- desired staging strategy;
- preferred delivery strategy (private sector participation or ICC to deliver);
- willingness to consider alternate transaction structures to optimise divestment outcome (rental guarantees, pre-committing to accommodation); and
- divestment strategy (timing, portfolio or individual asset, Administration Centre to be divested or retained).

# Nicholas St Retail Objectives

## Overview

The strategic objectives established by ICC for the Project are identified below and further outlined on the following slides.



# Community Objectives

## Overview

Table 8 below outlines the community objectives adopted by ICC for the Ipswich Central project and updated to reflect the desired outcomes for the Nicholas Street Retail Project.

Table 8: Community Objectives		
Theme	Objective	Key Considerations
Community	<b>Deliver a Vibrant City Centre</b>	<p>Deliver retail and commercial offerings that complement the Civic Heart and generate critical mass in the precinct.</p> <p><b>Place making:</b> deliver retail and commercial offerings that create a 'destination' within the heart of the Ipswich CBD and supports activity in the Civic Heart.</p> <p><b>Connectivity:</b> optimise design to enhance pedestrian footfall, shop front activation and public transport connections to, and through, the redevelopment.</p> <p><b>Sustainability:</b> design solutions, offerings and mix ensure future-proofing concepts that deliver sustainability and smart technology integration to enhance customer experience over the long term.</p>
	<b>Provide Complementary Retail Offerings</b>	<p>Provide retail, cultural and entertainment offerings that supports and reinforces differentiation rather than competes with other more retail-focused centres such as Riverlink and Springfield.</p> <p><b>Support and reinforce:</b> uses within the precinct are aligned to community need, the civic / cultural / entertainment intent and drive place activation.</p> <p><b>Tenant attraction:</b> secure key anchor tenants and service offerings, such as a Cinema operator, that will drive momentum and secure further interest in the precinct, prior to delivery of the Project.</p> <p><b>Complementary:</b> attract a diverse range of operators that are differentiated from local competition.</p>
	<b>Generate Growth Opportunities</b>	<p>Provide an ecosystem of offerings that provide the foundation for future growth in the Precinct, including key employers and service providers.</p> <p><b>Retain capacity for growth:</b> maintain flexibility in the precinct to accommodate commercial tenants and higher density redevelopment.</p> <p><b>Tenant attraction:</b> develop a strategy to attract commercial tenants with a large or growing presence in the region to further support critical mass injection and place making.</p> <p><b>Amenity:</b> lifestyle amenity, such as food and beverage, is delivered in the initial stage of development. Scale is "right-sized" to market.</p>

Table 8: Community Objectives



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# Financial Objectives

## Overview

The financial objectives established by ICC for the Nicholas Street Retail Project are outlined in Table 9 below.

**Table 9: Financial Objectives**

	Theme	Objective	Key Considerations
Financial	<b>Achieve a Positive Project Return</b>	The financial return of the Project is to reflect a positive Net Present Value.	<p><b>Net Present Value (NPV):</b> An NPV &gt;\$0, including 'As Is' value but excluding sunk costs and the Commonwealth Hotel.</p> <p><b>Discount Rate:</b> 2.50% without adjustment for project specific risk.</p> <p><b>Loss Leader:</b> Catalyst Project components can be delivered at a loss, providing a positive NPV in aggregate.</p> <p><b>Current Value:</b> the current value of each Project component ('As Is') is to be incorporated in the financial assessment of the Project.</p> <p><b>Commonwealth Hotel:</b> considered a community obligation and the cost of redevelopment is to be considered 'below the line' from the financial returns of other Project components.</p>
	<b>Income Certainty to Cover Debt Serviceability</b>	The Project is to provide sufficient income certainty to cover ICC debt servicing at construction completion to minimise financial risk if the assets are not sold on or prior to completion.	<p><b>Pre-Commitment Threshold:</b> prior to commencing development, the committed net operating income (held via Agreements for Lease) must be no less than the forecast interest repayments on ICC debt finance.</p>
	<b>Minimise Funding Cost</b>	Utilise the low cost of capital available to deliver the Project, or leverage private sector involvement if the cost versus benefit is comparable to taking on delivery risk with internal funding costs.	<p><b>Funding Cost:</b> ICC will fund development utilising ICC's QTC funding facility. Modelling is to assume 80% gearing at ICC's cost of funds of 1.50%.</p> <p><b>Terms of Debt:</b> construction debt will be capitalised with interest only repayment following completion. Debt will be repaid from sale of the assets.</p> <p><b>Alternative Funding:</b> ICC may consider alternative sources of funding if the balance of cost, risk allocation and exit certainty outweighs traditional funding.</p>

Table 9: Financial Objectives



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# Commercial Objectives

## Overview

The commercial objectives established by ICC for the Nicholas Street Retail Project are outlined in Table 10 below.

Table 10: Commercial Objectives			
	Theme	Objective	Key Considerations
Commercial	Stage Delivery to Inject Critical Mass	Deliver all components of the Project if the financial outcome is positive, or stage delivery in a way that injects critical mass initially to drive broader precinct outcomes.	<p><b>Staging:</b> ensure that the staging of investment and design maximises the catalytic effect of the redevelopment on the use of the Civic Heart asset and surrounding retail / commercial offerings, whilst ensuring the sustainability of operators.</p> <p><b>Development Trajectory:</b> retail and commercial assets are developed in line with market demand to ensure viability and optimise value.</p>
	Divest on or Before Construction Completion	The Nicholas Street assets are to be divested on or before practical completion.	<p><b>Marketing:</b> the assets are to be taken to market during construction with the aim of effecting a sale prior to, or on construction completion.</p> <p><b>Strategy:</b> in considering delivery and divestment options, the preferable divestment strategy is a portfolio-wide transaction that minimises the risk of holding lesser desirable assets within the precinct. <b>[Note:</b> a flexible approach reflective of market conditions will be taken to divestment.]</p> <p><b>Timing:</b> approval to divest the assets is to be achieved prior to March 2020 (noting a sale process is unlikely to commence until after completion of construction).</p>
	Optimise Commercial Offering	Structure the asset offering to market in a way that maximises the net monetary outcome and exit certainty to Council in the shortest timeframe.	<p><b>Asset Value:</b> ICC will consider the option of rental guarantees if the value outweighs the cost and achieves other critical project objectives, such as timing of divestment.</p>

Table 10: Commercial Objectives



# Market Sounding



# Market Sounding

## Introduction

KPMG, in conjunction with Ranbury, established a list of key market participants including developers, institutions and commercial agents to conduct market sounding and engage with regarding the Project.

Each participant was contacted and offered the opportunity to be part of the market sounding exercise. The participants who responded and subsequently engaged are detailed in the adjacent table (Table 11). There were parties who were invited, although preferred not to participate in the market sounding exercise.

A market sounding pack was developed for the selected participants to provide context for the Project and give further detail on the development. Questions to participants were categorised under the following aspects:

- **General Views of the Market and Project:** gauge market perception of the Project, including considerations for a successful precinct and market views on retail and office assets in Ipswich.
- **End Asset Appetite:** ascertain market appetite to acquire the Nicholas Street Retail assets and potential precinct considerations, transaction structure and asset quality requirements to support market buy-in.
- **Project Delivery Appetite:** understand what risks the market would accept and if it would have the appetite to deliver the Project, including views on structuring and degree of project resolution.

The following slides outline the key themes established across the market sounding, as they relate to leasing, investment and delivery. All responses represent the views of participants and respondent's responses have been de-identified.

The participants in the market sounding were Sentinel, CBRE, First National, Cromwell Property, McConaghy Properties and Consolidated Properties.

# Key Findings – Leasing

## Overview

A summary of the feedback from the market sounding relating to the leasing strategy for the Project is provided below.



## Leasing

### **Reputable national anchors are critical (cinema, national brands).**

- In the absence of a supermarket or alternate retail anchor tenant to draw critical mass, reputable national anchor tenants (particularly a reputable cinema operator) are required to activate the Precinct and underpin the end value of the development.
- Nationally recognised anchor tenants will also help to attract F&B operators and other retailers into the Precinct.

### **Other entertainment/leisure offerings are needed to generate critical mass.**

- Delivery of Venue with entertainment and leisure anchor tenants is needed upfront and will support curation of a destination to support foot traffic through the Precinct.

### **Provide an incentive structure to support operators during the ramp-up period.**

- Provide a balance of fit-out contribution and rent-free period to retailers (particularly F&B tenants) to support stabilisation of operations whilst the Precinct is being established.

### **Lease covenants are critical to investment.**

- As part of lease negotiations, obtain bank guarantees with support from strong parent entities and where necessary, personal guarantees, for a minimum of 3 to 6 months rent.

### **Curate the tenancy mix to minimise competition and provide a point of difference.**

- The Project needs to provide a unique experience that will attract consumers from other city centres or retail offerings, such as Riverlink.
- Curate the tenancy mix to minimise inter-precinct competition and cannibalisation.

# Key Findings – Investment

## Overview

A summary of the feedback from the market sounding relating to the end asset appetite for the Project is provided below.



## Investment

### **Proven letting up and tenant trading performance is needed before investment.**

- Due to the history of the precinct, a history of proven trading performance (up to 24-months) will be important to support investment confidence (and pricing) from investors.
- The success of the precinct is contingent upon attracting critical mass through entertainment/leisure offerings, as opposed to servicing a neighbourhood. Therefore, proven up trading performance is more critical to support end asset appetite.

### **A continuous programme of high quality events for the Civic Precinct is important to drive activity.**

- ICC needs to invest in a high quality events marketing programme within the Civic Precinct to support a point of difference and establish a Precinct brand, as well as curating tenants during the establishment phase of the Project.

### **Quality of asset, including tenant covenant and long lease profile, is critical to support marketability.**

- Strong tenant covenant, a minimum occupancy of 80% to 90% with an attractive WALE, is required to support investment confidence.
- Bank guarantees, preferably equivalent to 6 to 9 months rent, will be critical for non-national tenants to support asset pricing.
- Quality of the end asset build will support marketability of the asset (i.e. if the services are not replaced, this may impact saleability and divestment outcome).

### **High occupancy is more desirable than rental guarantees (particularly retail).**

- Income certainty via rental guarantees (i.e. ICC underwriting income on vacant spaces) would not significantly support interest in the end assets.
- Low vacancy and sustainable rents (i.e. sustainable gross occupancy cost) are more critical to support market appetite.

### **There is otherwise limited appetite for retail and office assets in Ipswich. Leasehold tenure extension will be important.**

- Regional or secondary located assets are less desirable amongst institutional investors.
- There is demand from private investors and self-managed super funds, however asset quality is critical to support demand.

# Key Findings - Project Delivery

## Overview

A summary of the feedback from the market sounding relating to the delivery of the Project is provided below.



## Project Delivery

### **Stage the Project to deliver a sustainable quantum of retail initially.**

- Consistent with ICC's own studies on retail demand, the quantum of food and beverage offering is considered high for an unproven Precinct. Staging the Project to support retail operators and build trading history will support the long-term viability of the Precinct.

### **Co-timed delivery to the ICC Administration Centre will support retail trading.**

- Delivery of the ICC Administration Centre will inject critical mass into the Precinct, which supports a staged delivery of the F&B offering timed to delivery of the ICC Administration Centre.

### **Any private sector involvement in delivery will likely be highly conditional and unlikely to provide value for money to ICC**

- Participants indicated appetite for risk allocation would be low for an unproven Precinct and involvement in delivery would be highly conditional with long lead times for due diligence, requirement for termination rights etc.

### **There is limited interest from the market to deliver the Project**

- Due to the unproven nature of the Precinct and level of current Project risk (market, leasing, delivery etc.), there is limited appetite from Participants to be involved in the delivery of the Project.



# Implications for Nicholas Street Retail

## Overview

The implications from the market sounding feedback are summarised below as they relate to the leasing, investment, delivery, development and divestment aspects of the Project.

1	2	3	4
Leasing	Investment	Delivery	Development & Divestment
<ul style="list-style-type: none"> <li>Focus on securing a reputable cinema operator and / or other anchor entertainment / leisure tenants.</li> <li>Focus leasing campaign on quality tenant covenants (including bank guarantees).</li> <li>Provide a sustainable incentive structure that supports operators during the ramp-up period (i.e. rent relief or rent free periods) with a sustainable rent level.</li> </ul>	<ul style="list-style-type: none"> <li>Invest in Precinct activation to curate tenants during the establishment phase and build market awareness in advance of a future divestment.</li> <li>Although there is additional cost associated with replacement of services, it will support marketability and may alleviate potential for post-redevelopment downtime and cost from services failure.</li> <li>Co-ordinate an extended and diverse events programme to drive trade, critical mass and Precinct brand.</li> </ul>	<ul style="list-style-type: none"> <li>Stage delivery of the Project, particularly food and beverage offering, to enhance sustainability of the Precinct and retail operators and support long term viability.</li> <li>There is limited appetite to deliver the initial phase of the development based on the current Precinct status.</li> <li>Venue is critical to the Precinct's success as it will provide entertainment and leisure offerings.</li> </ul>	<ul style="list-style-type: none"> <li>Obtain binding agreements for a minimum rent income sufficient to cover finance costs prior to commencing development.</li> <li>Sustain the leasing campaign during, and post development, to secure a high level of occupancy and support end saleability.</li> <li>Plan on holding the assets for an extended period post completion as the assets are established and to maximise market interest in a future divestment.</li> </ul>



# Project Development Costs



# Project Development Costs - Overview

## Introduction

RLB have been engaged as Quantity Surveyor on the Ipswich Central Redevelopment and the Nicholas Street Retail Project.

Cost estimates were initially developed based on concept designs, which informed the draft Business Case.

These cost estimates have since been revised and a more detailed assessment undertaken by RLB and Ranbury based on schematic designs of the development and value management opportunities/efficiencies.

RLB and Ranbury have provided two cost estimates for the Nicholas Street Retail Project, as summarised below:

- **Replace services:** cost estimates based on full replacement of mechanical and fire services for all buildings.
- **Re-use services:** cost estimates based on re-use of mechanical and fire services for all buildings.

This section provides a summary of the development and project costs based on the schematic designs, relative to the cost estimates for the concept designs.

## Key Considerations

The following aspects are noted on the development costs shown in this section:

- the construction and development costs are reflective of those prepared by RLB and Ranbury, transmitted to KPMG on 19 September, and relate to Schematic Designs as at this date;
- the Project is in the early stages of redevelopment and therefore, design and costs are likely to be refined;
- costs spent to date are excluded;
- the cost estimates assume efficiencies and delivery of the Project in a single stage. Costs may increase if the Project is staged;
- a number of broader precinct costs that are not incorporated in the current tender for the Civic assets have been excluded (for example, 143 Brisbane Street awning);
- no allowance has been incorporated for the refurbishment of the Metro B commercial tower;
- the nature of redeveloping older style improvements generally entails unexpected costs during construction that may not have been accounted for during the design and cost estimate phases; and
- KPMG have allowed for a 5% contingency based on feedback from Ranbury.

# Construction Costs

## Overview

A summary of how the construction costs for each asset within the Nicholas Street Retail Project have changed from the Concept Design to the current Schematic Design is summarised below.

### Key Findings

- Construction costs for **re-using and replacing services is \$43.46m and \$47.14m respectively.**
- Revised construction costs based on the Schematic Design have increased relative to the Concept Design estimate.
- Re-using existing services results in a net increase in construction cost of **\$2.57m.**
- Replacing existing services results in a net increase in construction cost of **\$6.25m.**
- The largest contribution to the increase in construction costs has been Metro A and Venue,** with increases of \$3.63m and \$3.40m, respectively.
- Construction costs for Metro B have decreased, although currently exclude any works to the tower (including repainting of the exterior).
- Pursuing the re-use services may result in an increase in costs to fix or replace services during the operational period if Council hold the assets post completion.
- KPMG have incorporated an additional ~\$300,000 in Metro A costs based on feedback from Ranbury.

**Table 12: Construction Cost Overview (\$ millions)**

	Concept Design (Business Case)	Schematic Design (Re-use Services)	Schematic Design (Replace Services)
<b>Metro A</b>	10.37	13.65	14.00
<b>Metro B</b>	11.52	10.11	10.93
<b>Venue</b>	13.26	14.26	16.66
<b>Eats</b>	3.68	3.24	3.35
<b>Hotel</b>	2.07 <sup>1</sup>	2.20	2.20
<b>Total</b>	<b>40.89</b>	<b>43.46</b>	<b>47.14</b>

Table 12: Construction cost overview.

Note: (1) Hotel construction costs exclude costs spent to date.

All figures are exclusive of GST and contingencies.

Source: RLB and Ranbury, 19 September 2019; Draft Business Case (Version 1.1).

Construction costs have increased for the Project. Full replacement of services is an additional **\$6.25m** and re-using existing services is an additional **\$2.57m** relative to Concept Design estimates.

# Total Development Costs

## Overview

Development costs of the Project incorporate construction costs, professional fees and statutory costs. A summary of how these have changed for each asset within the Project from the Concept Design to the current Schematic Design is summarised below.

### Key Findings

- Project costs for **re-using and replacing services is \$49.39m and \$53.29m respectively.**
- Based on the concept design, the total development cost for the Project was estimated at \$46.77m. This excluded allowance for statutory costs.
- There has been a considerable increase in development costs under the 'full service replacement' scenario (**additional \$6.52m**), relative to the Concept Design.
- The 're-use services' scenario does not provide any savings relative to the Concept Design, with revised costs reflecting an **increase of \$2.62m.**
- Relative to replacing services, re-using existing services provides a **total saving of \$3.90m.** However, this saving may be eroded if services are required to be replaced before the asset is divested, or the impact to marketability (and end asset revenue) is greater than the savings.
- It is noted that Ranbury have only incorporated a 5% contingency into their cost estimates and consider this to be an appropriate contingency. At this stage of design (Schematic Design), additional design contingency may be required.

**Table 13: Development Cost Overview (\$ millions)**

	Concept Design (Business Case)	Schematic Design (Re-use Services)	Schematic Design (Replace Services)
<b>Metro A</b>	11.57	15.40	15.72
<b>Metro B</b>	12.57	11.44	12.30
<b>Venue</b>	14.17	16.14	18.76
<b>Eats</b>	4.04	3.67	3.77
<b>Hotel</b>	2.26	2.73	2.73
<b>Total (inc. 5% Contingency)<sup>1</sup></b>	<b>46.77</b>	<b>49.39</b>	<b>53.29</b>

Table 13: Development cost overview.

Note: (1) Contingency is calculated on construction cost for the Business Case and on construction cost and authority fees in the Re-use and Replace Services scenarios (noting that no statutory fees were incorporated in the Business case).

All figures are exclusive of GST.

Source: RLB and Ranbury, 19 September 2019; Draft Business Case (Version 1.1).

Development costs have increased for the Project.

Full replacement of services is an additional **\$6.52m** and re-using existing services is an additional **\$2.62m** relative to Concept Design estimates.





# Independent Valuation





# Overview

## Introduction

Ranbury (project manager and retail leasing agent) prepared a draft Business Case, which assessed rent, incentives and market value for the individual assets within the Project.

In order to obtain an independent assessment, KPMG in conjunction with Ranbury, managed the instruction of an independent valuation to inform rent, incentives and market value of the individual assets within the Project.

Three Tier 1 valuation firms were invited to submit a fee proposal. Savills were successful based on a balance of fee and timing proposition.

The scope of works was to carry out the following:

- 'As Is' – an assessment of the current value of the Nicholas Street Retail assets; and
- 'As If Complete' – an assessment of Nicholas Street Retail assets under three scenarios (vacant, based on current HoAs and fully leased).

This section provides a summary of the values as assessed by Savills. It is noted that KPMG have not undertaken any independent market research or analysis and relied upon the assessment undertaken by Savills to inform the financial analysis presented in this report.

The 'vacant' scenario has been excluded from the summary on following slides, however the associated financial assumptions adopted by the independent valuation firm under this scenario are detailed in the Savills valuation report dated 27<sup>th</sup> August 2019 and issued on 22 October 2019.

## 'As Is' Assessment

The 'As Is' assessment has been completed based on the current leasing status, improvements and condition of each individual asset.

It is noted that Council previously obtained a desktop valuation from JLL to inform the current 'As Is' values of each asset within the Project.

## 'As If Complete' Assessment

The 'As If Complete' assessment was completed based on a number of assumptions including:

- parking on-site is to remain free for patrons for the first 3 hours;
- refurbishment capital expenditure are treated as a development cost and have not been incorporated in the valuation;
- full replacement of services;
- the HoA scenario assumes that existing HoAs are binding and executed lease agreements;
- the HoA scenario assumes existing HoAs as at the valuation date (i.e. nine (9) HoAs. KPMG understand that two (2) additional HoAs have been executed since);
- divestment of each individual asset occurs on construction completion (i.e. the valuation assumes a hypothetical sale, as at the valuation date);
- the Eats building is assumed to be freehold (i.e. existing tenure is simplified and converted to freehold); and
- delivery of the project occurs in a single stage (as at the valuation date).

# 'As Is' Assessment Summary

## Overview

A summary of the 'As Is' assessment for each asset within the Nicholas Street Retail Project relative to JLL Desktop Valuation is summarised below.

### Key Findings

- The JLL Desktop Valuation indicates an 'As Is' value of **\$15.05m** for the Project.
- The Savills Valuation indicates an 'As Is' valuation of **\$18.85m** for the Project.
- Overall, the 'As Is' value has increased by **\$3.80m**.
- The variation is driven by Metro A (increase of \$1.80m), Metro B (increase of \$1.15m) and Eats (increase of \$1.16m).
- The 'As Is' value of Venue and Commonwealth Hotel have decreased by \$250,000 and \$60,000 respectively.
- KPMG consider that it will be difficult to market the assets on an 'As Is' basis and the Project objectives (particularly community based objectives) are less likely to be realised.

Table 14: 'As Is' Valuation Summary (\$ millions)

	JLL Desktop Valuation (Business Case)	Savills Valuation	Net Change
Metro A	3.20	5.00	1.80
Metro B	5.30	6.45	1.15
Venue	5.25	5.00	(0.25)
Eats	0.84	2.00	1.16
Hotel	0.46	0.40	(0.06)
<b>Total:</b>	<b>15.05</b>	<b>18.85</b>	<b>3.80</b>

Table 14: 'As Is' valuation summary.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

The Savills assessed 'As Is' value has increased by **\$3.80m** relative to the JLL Desktop Valuation.

# 'As If Complete' Net Asset Value Assessment Summary

## Overview

A summary of the 'As If Complete' assessment of the net asset value for each asset within the Nicholas Street Retail Project relative to the Business Case is summarised below.

### Key Findings

- The draft Business Case 'As If Complete' assessment reflects an aggregate net asset value of **\$61.02m**.
- The Savills 'As If Complete' assessment under the fully let scenario is **\$60.80m** for the Project.
- The Savills 'As If Complete' assessment under the HoA scenario is **\$52.25m** for the Project.
- The aggregate asset value of the Project under the independent HoA assessment is **\$8.77m below** the draft Business Case assessment under the HoA scenario, and **\$0.22m below** under the fully let scenario.
- The lower net asset value under the HoA scenario is largely driven by letting up allowances incorporated as a capital adjustment.
- It is noted that there are variances between investment metrics adopted (capitalisation rate), income and incentives. These are detailed in the asset by asset summaries.

**Table 15: 'As If Complete' – Net Asset Valuation Summary (\$ millions)**

	Business Case	HoA	Fully Let
<b>Metro A</b>	<b>13.50</b>	<b>13.60</b>	<b>16.20</b>
<b>Metro B</b>	<b>20.64</b>	<b>11.55</b>	<b>15.15</b>
<b>Venue</b>	<b>15.51</b>	<b>18.30</b>	<b>19.95</b>
<b>Eats</b>	<b>8.43</b>	<b>6.80</b>	<b>7.30</b>
<b>Hotel</b>	<b>2.94</b>	<b>2.00</b>	<b>2.20</b>
<b>Total:</b>	<b>61.02</b>	<b>52.25</b>	<b>60.80</b>

Table 15: 'As If Complete' valuation summary.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

The independent 'As If Complete' assessment is below the Business case assessment.

# 'As If Complete' Summary – Metro A

## Overview

A summary of the 'As If Complete' assessment of Metro A under the HoA and fully leased scenarios, which have been undertaken by the Independent Valuer, relative to the Business Case is provided below.

### Key Findings

- The independent assessment has adopted a **market net income of \$1.32m** for Metro A.
- The independent assessment has adopted an investment metric of **7.50% and 7.00%** for the HoA and fully leased scenarios respectively.
- The independent assessment has adopted a net asset value of **\$13.60m and \$16.20m** for the HoA and fully leased scenarios respectively.
- Net income for Metro A is slightly higher under the independent assessment relative to the draft Business Case due to an increase in the NLA of the building.
- Capital adjustments under the HoA scenario incorporate letting up allowances and outstanding leasing commissions.

**Table 16: Metro A 'As If Complete' Summary (\$ millions)**

	Business Case	Current HOA	Fully Leased
<b>Assumed Occupancy (%)</b>	100%	2.12%	100%
<b>Net Income<sup>1</sup></b>	1.22	1.32	1.32
<b>Capitalisation Rate (%)</b>	7.00%	7.50%	7.00%
<b>Gross Asset Value</b>	17.37	17.56	18.81
<b>Capital Adjustments<sup>3</sup></b>	(3.86) <sup>2</sup>	(3.92)	(2.66)
<b>Adopted Asset Value<sup>4</sup></b>	<b>13.50</b>	<b>13.60</b>	<b>16.20</b>

Table 16: Metro A 'As If Complete' valuation summary.

- Note:
- (1) After vacancy allowances.
  - (2) Incentives reflect those adopted in the draft Business Case, and may differ from those reflected in the current budget.
  - (3) All capital adjustments under the Current HoA and Fully Leased scenarios reflect the present value, as calculated in the independent assessment.
  - (4) Values adopted represent rounded value.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# 'As If Complete' Summary – Metro B

## Overview

A summary of the 'As If Complete' assessment of Metro B under the HoA and fully leased scenarios, which have been undertaken by the Independent Valuer, relative to the Business Case is provided below.

### Key Findings

- The independent assessment has adopted a **market net income of \$1.43m** for Metro B.
- The independent assessment has adopted an investment metric of **8.75% and 8.25%** for the HoA and fully leased scenarios respectively.
- The investment metric adopted by the independent assessment is **125 to 175 basis points softer** relative to the business case, which results in a substantially lower asset value. This is largely due to the risk associated with the office component of this asset and the 58.2 year leasehold interest.
- The independent assessment has adopted a net asset value of **\$11.55m and \$15.15m** for the HoA and fully leased scenarios respectively.
- Capital adjustments under the HoA scenario incorporate letting up allowances and outstanding leasing commissions.

**Table 17: Metro B 'As If Complete' Summary (\$ millions)**

	Business Case	Current HOA	Fully Leased
<b>Assumed Occupancy (%)</b>	100%	4.51%	100%
<b>Net Income<sup>1</sup></b>	1.64	1.43	1.43
<b>Capitalisation Rate (%)</b>	7.00%	8.75%	8.25%
<b>Gross Asset Value</b>	23.49	16.25	17.20
<b>Capital Adjustments<sup>3</sup></b>	(2.85) <sup>2</sup>	(4.77)	(2.05)
<b>Adopted Asset Value<sup>4</sup></b>	<b>20.64</b>	<b>11.55</b>	<b>15.15</b>

Table 17: Metro B 'As If Complete' valuation summary.

- Note:
- (1) After vacancy allowances.
  - (2) Incentives reflect those adopted in the draft Business Case, and may differ from those reflected in the current budget.
  - (3) All capital adjustments under the Current HoA and Fully Leased scenarios reflect the present value, as calculated in the independent assessment.
  - (4) Values adopted represent rounded value.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.



# 'As If Complete' Summary – Venue

## Overview

A summary of the 'As If Complete' assessment of Venue under the HoA and fully leased scenarios, which have been undertaken by the Independent Valuer, relative to the Business Case is provided below.

### Key Findings

- The independent assessment has adopted a **market net income of \$1.59m** for Venue.
- The independent assessment has adopted an investment metric of **7.50% and 7.25%** for the HoA and fully leased scenarios respectively.
- The independent assessment has adopted a net asset value of **\$18.30m and \$19.95m** for the HoA and fully leased scenarios respectively.

This information has been removed as it is commercial in confidence. Disclosure may influence ICC's commercial negotiations with tenants.

- Capital adjustments under the HoA scenario incorporate letting up allowances and outstanding leasing commissions.

**Table 18: Venue 'As If Complete' Summary (\$ millions)**

	Business Case	Current HOA	Fully Leased
<b>Assumed Occupancy (%)</b>	100%	48.22%	100%
<b>Net Income<sup>1</sup></b>	1.48	1.59	1.59
<b>Capitalisation Rate (%)</b>	7.00%	7.50%	7.25%
<b>Gross Asset Value</b>	21.12	21.17	21.90
<b>Capital Adjustments<sup>3</sup></b>	(5.46) <sup>2</sup>	(2.87)	(1.92)
<b>Adopted Asset Value<sup>4</sup></b>	<b>15.51</b>	<b>18.30</b>	<b>19.95</b>

Table 18: Venue 'As If Complete' valuation summary.

- Note:
- (1) After vacancy allowances.
  - (2) Incentives reflect those adopted in the draft Business Case, and may differ from those reflected in the current budget.
  - (3) All capital adjustments under the Current HoA and Fully Leased scenarios reflect the present value, as calculated in the independent assessment.
  - (4) Values adopted represent rounded value.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# 'As If Complete' Summary – Eats

## Overview

A summary of the 'As If Complete' assessment of Eats under the HoA and fully leased scenarios, which have been undertaken by the Independent Valuer, relative to the Business Case is provided below.

### Key Findings

- The independent assessment has adopted a **market net income of \$0.58m** for Eats.
- The independent assessment has adopted an investment metric of **7.00% and 6.75%** for the HoA and fully leased scenarios respectively.
- The independent assessment has adopted a net asset value of **\$6.80m and \$7.30m** for the HoA and fully leased scenarios respectively.
- The independent assessment adopted a lower market net income and higher capital adjustment, which is driving the lower net asset value relative to the Business Case.
- The assessments assume the asset holds a freehold tenure and makes no capital cost allowance to convert the current mixed tenure.
- Capital adjustments under the HoA scenario incorporate letting up allowances and outstanding leasing commissions.

**Table 19: Eats 'As If Complete' Summary (\$ millions)**

	Business Case	Current HOA	Fully Leased
<b>Assumed Occupancy (%)</b>	100%	30.13%	100%
<b>Net Income<sup>1</sup></b>	0.68	0.58	0.58
<b>Capitalisation Rate (%)</b>	7.00%	7.00%	6.75%
<b>Gross Asset Value</b>	9.64	8.29	8.60
<b>Capital Adjustments<sup>3</sup></b>	(1.24) <sup>2</sup>	(1.51)	(1.27)
<b>Adopted Asset Value<sup>4</sup></b>	<b>8.43</b>	<b>6.80</b>	<b>7.30</b>

Table 19: Eats 'As If Complete' valuation summary.

- Note:
- (1) After vacancy allowances.
  - (2) Incentives reflect those adopted in the draft Business Case, and may differ from those reflected in the current budget.
  - (3) All capital adjustments under the Current HoA and Fully Leased scenarios reflect the present value, as calculated in the independent assessment.
  - (4) Values adopted represent rounded value.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# 'As If Complete' Summary – Commonwealth Hotel

## Overview

A summary of the 'As If Complete' assessment of Commonwealth Hotel under the vacant and fully leased scenarios, which have been undertaken by the Independent Valuer, relative to the Business Case is provided below.

### Key Findings

- The independent assessment has adopted a **market net income of \$0.58m** for Commonwealth Hotel.
- The independent assessment has adopted an investment metric of **8.00% and 7.75%** for the vacant and fully leased scenarios respectively.
- The independent assessment has adopted a net asset value of **\$2.00m and \$2.20m** for the vacant and fully leased scenarios respectively.
- The independent assessment adopted a lower market net income and higher investment metric, which is driving the lower net asset value relative to the Business Case.
- Capital adjustments under the vacant scenario incorporate letting up allowances and outstanding leasing commissions.

**Table 20: Commonwealth Hotel 'As If Complete' Summary (\$ millions)**

	Business Case	Vacant	Fully Leased
<b>Assumed Occupancy (%)</b>	100%	0%	100%
<b>Net Income<sup>1</sup></b>	0.27	0.18	0.18
<b>Capitalisation Rate (%)</b>	7.00%	8.00%	7.75%
<b>Gross Asset Value</b>	3.87	2.26	2.34
<b>Capital Adjustments<sup>3</sup></b>	(0.93) <sup>2</sup>	(0.25)	(0.11)
<b>Adopted Asset Value<sup>4</sup></b>	<b>2.94</b>	<b>2.00</b>	<b>2.20</b>

Table 20: Commonwealth Hotel 'As If Complete' valuation summary.

Note: (1) After vacancy allowances.

(2) Incentives reflect those adopted in the draft Business Case, and may differ from those reflected in the current budget.

(3) All capital adjustments under the Current HoA and Fully Leased scenarios reflect the present value, as calculated in the independent assessment.

(4) Values adopted represent rounded value.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# Tenant Incentives

## Overview

A summary of the tenant incentives adopted in the independent valuation relative to the leasing budget that Ranbury have advised for each asset within the Nicholas Street Retail Project is summarised below.

Key Findings

This table contains information on estimated lease incentives.

This information has been removed as it is commercial in confidence. Disclosure may influence ICC's commercial negotiations with tenants.

Table 21: Tenant Incentives Summary (\$ millions)			
	Leasing Budget	Independent Valuation <sup>1</sup>	Net Change
Metro A	<div>This table contains information on estimated lease incentives.</div> <div>This information has been removed as it is commercial in confidence. Disclosure may influence ICC's commercial negotiations with tenants.</div>		
Metro B			
Venue			
Eats			
Hotel			
Total			

Table 21: Tenant Incentives Summary

Note: (1) The independent valuation figures are based on the fully leased scenario and incorporate incentives for current HoAs.

(2) No leasing budget has been established for Metro B office component.

Source: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

The independent valuation has adopted lower incentives relative to the leasing budget.

This variation could be larger if the leasing budget incorporated incentives for the office component of Metro B.



# Financial Analysis





# Overview

## Introduction

KPMG has undertaken financial analysis to determine the indicative return and commercial viability of developing the Project, in addition to each individual asset.

The financial analysis presented in this section reflects an industry accepted baseline development feasibility analysis, which assumes a hypothetical sale of the asset on construction completion.

The indicative return of development has also been analysed under the 'HoA' and 'fully let' valuation scenarios. In this regard, the analysis presents a potential range of development return outcomes.

Given that the Project is still in the early phases of development, the final return outcome could be lower, or higher, than the potential range presented in this report and will be dependent on:

- leasing outcomes (i.e. ability to secure quality anchor tenants, high pre-commitment prior to delivery, market rents and viable incentive structure);
- continued refinement and finalisation of design and construction costs; and
- future market conditions and success of the Precinct (i.e. Precinct brand curation, Civic Precinct marketing programme, tenant mix curation etc.).

## Modelling Approach

The key aspects of KPMG's modelling approach, which have been endorsed by ICC, are outlined below:

- the 'As Is' assessment for each asset is assumed to be a development cost (i.e. a land acquisition cost);
- all costs expended previously (i.e. sunk costs) have been excluded from the financial analysis;
- the Project is deemed to be 'development ready' and construction can start immediately;
- the 'As If Complete' values reflect the independent assessment, which in some cases reflects the present value of future costs (such as incentives and adjustments to asset value in a capitalisation analysis); and
- the feasibility assumes a hypothetical sale on construction completion.

## Sources of Inputs

KPMG have relied upon the following sources of inputs into the feasibility analysis:

- Construction and development costs have been sourced from RLB and Ranbury, as electronically transmitted on the 19 September 2019.
- 'As Is' and 'As If Complete' asset values, investment metrics, income, outgoings, tenant costs and income/outgoings growth rate assumptions have been obtained from the Savills valuation report, dated 27 August 2019.
- Discount rate, debt to equity ratio and the cost of capital has been sourced from ICC.

# Key Modelling Assumptions

## Overview

A summary of the key modelling assumptions is provided below.

Key Modelling Assumptions	
Item	Description
Land Value	<ul style="list-style-type: none"> <li>Land value has been incorporated as a development cost based on the 'As Is' independent assessment.</li> </ul>
Holding Costs	<ul style="list-style-type: none"> <li>Holding costs are incorporated in the development period, including statutory fees, insurance and pest control, based upon the independent assessment of outgoings 'As If Complete'.</li> </ul>
Development Cost	<ul style="list-style-type: none"> <li>Construction, professional fees and statutory costs have been sourced from RLB and Ranbury, and assume full replacement of services for each building.</li> <li>No other potential costs have been included (for e.g. development management, legal fees, stamp duty and selling costs).</li> </ul>
Contingency	<ul style="list-style-type: none"> <li>5% contingency on construction and statutory costs have been allowed based on feedback provided from RLB and Ranbury.</li> <li>KPMG consider that the contingency is low for a development project at the schematic design stage.</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>Incentives adopted reflect the greater of the independent Valuer's assessment and the current leasing budget.</li> </ul>
Debt	<ul style="list-style-type: none"> <li>80% debt funding is assumed at 1.50% interest, based on instructions from ICC.</li> <li>Debt Principle is only paid down on sale of the asset.</li> </ul>
Discount Rate	<ul style="list-style-type: none"> <li>Assumed discount rate of 2.50% for purposes of NPV calculation, based on instructions from ICC.</li> </ul>
Sunk Costs	<ul style="list-style-type: none"> <li>Costs spent to date have been excluded, based on instructions from ICC.</li> </ul>
Funding Cost Coverage	<ul style="list-style-type: none"> <li>The minimum approximate net operating income required to cover finance costs is after all outgoings (including statutory costs which may not be incurred whilst in ICC control).</li> </ul>
Timing	<ul style="list-style-type: none"> <li>The model start date is assumed to be 31 October and 1 November is construction commencement (i.e. development ready).</li> <li>The construction period is 10 months, as per feedback from RLB and Ranbury.</li> <li>Assumed hypothetical sale of the asset on construction completion to determine development returns.</li> </ul>

# Development Feasibility – Project Level (Fully Leased)

## Overview

A summary of the development feasibility assessment for the Project under the fully leased valuation scenario, relative to the Business Case is provided below.

### Key Findings & Considerations

- **The Project generates a loss of \$19.92m, with a negative NPV of \$20.45m.**
- The feasibility analysis incorporates the 'As Is' value of **\$18.85m** as a development cost.
- Metro A, Metro B and Venue all contribute to the loss of the Project.
- Venue is the largest contributor to the loss of the Project. Part of the loss is attributable to the large incentive that may be required to procure an anchor cinema tenant.
- The development of Eats is showing a positive return.
- Project costs that are not asset specific have been excluded from this analysis (such as common areas).
- Approximately 35% of the fully leased income is needed to cover finance costs.
- Peak negative cumulative cash flow of (\$~73.94m), assuming a sale on completion.

**Table 22: Project Level Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Fully Leased			
Total Asset Value	75.36	68.84			
Total Dev. Cost	(77.13)	(88.76)			
Development Costs (including land)	(61.67)	(72.66)			
Letting Up Allowance On Sale	-	-			
Tenant costs / capital adjustments	(15.46)	(15.63)			
Finance	-	(0.48)			
Dev. Profit	(1.7)	(19.92) <sup>2</sup>			
NPV	-	(20.45) <sup>2</sup>			
IRR (%)	-	-			
P&R (%)	(2.20%)	(11.57%)			
Development Feasibility - Per Asset Overview (\$ millions) <sup>1</sup>					
	Metro A	Metro B	Venue	Eats	Hotel
Dev Profit	(6.18)	(5.42)	(7.96)	1.40	(1.76)
NPV	(6.33)	(5.57)	(8.09)	1.29	(1.76)

Note: (1) The profit and NPV on a per asset basis differ slightly to individual asset results due to finance costs being apportioned at a project level.

(2) Excluding the 'As Is' land value, the Project development loss is \$0.88m (NPV: (\$1.42m)).

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

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# Development Feasibility – Project Level (Current HoAs)

## Overview

A summary of the development feasibility assessment for the Project under the HoA valuation scenario, relative to the Business Case is provided below.

### Key Findings & Considerations

- **The Project generates a loss of \$27.82m, with a negative NPV of \$28.19m.**
- The feasibility analysis incorporates the 'As Is' value of **\$18.85m** as a development cost.
- Metro A, Metro B and Venue all contribute to the loss of the Project.
- The development of Eats is showing a positive return.
- Project costs that are not asset specific have been excluded from this analysis (such as common areas).
- There is considerable letting up allowance (\$4.66 million) that would be applied as a capital adjustment if the asset was sold with current HoAs.
- A strong leasing campaign is needed to minimise letting up allowance capital adjustment that may be applied by a prospective purchaser on the sale of the asset and to enhance marketability.
- Approximately 35% of the fully leased gross income is needed to cover finance costs on construction completion.
- Peak negative cumulative cash flow of (\$73.22m), assuming a sale on completion.

**Table 21: Project Level Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HoAs
<b>Total Asset Value</b>	<b>75.36</b>	<b>65.54</b>
<b>Total Dev. Cost</b>	<b>(77.13)</b>	<b>(93.36)</b>
<i>Development Costs (including land)</i>	<i>(61.67)</i>	<i>(72.66)</i>
<i>Letting Up Allowance On Sale</i>	<i>-</i>	<i>(4.66)</i>
<i>Tenant costs / capital adjustments</i>	<i>(15.46)</i>	<i>(15.57)</i>
<i>Finance</i>	<i>-</i>	<i>(0.48)</i>
<b>Dev. Profit</b>	<b>(1.7)</b>	<b>(27.82)<sup>2</sup></b>
<b>NPV</b>	<b>-</b>	<b>(28.19)<sup>2</sup></b>
<b>IRR (%)</b>	<b>-</b>	<b>-</b>
<b>P&amp;R (%)</b>	<b>(2.20%)</b>	<b>(15.84%)</b>

Development Feasibility - Per Asset Overview (\$ millions) <sup>1</sup>					
	Metro A	Metro B	Venue	Eats	Hotel
<b>Dev Profit</b>	(8.48)	(8.83)	(9.48)	0.90	(1.94)
<b>NPV</b>	(8.57)	(8.90)	(9.58)	0.80	(1.94)

Note: (1) The profit and NPV on a per asset basis differ slightly to individual asset results due to finance costs being apportioned at a project level.

(2) Excluding the 'As Is' land value, the Project development loss is \$8.78m (NPV: (\$9.16m)).

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

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# Development Feasibility - Metro A

## Overview

A summary of the development feasibility assessment of Metro A under the HoA and fully leased scenarios, relative to the Business Case is provided below.

### Key Findings & Considerations

- **Development of Metro A generates a negative return.**
- The feasibility analysis incorporates the 'As Is' value of **\$5m** as a development cost.
- Additional incentives of \$1.09m has been incorporated to align with the leasing budget.
- Approximately **~40% of fully leased gross income is needed to cover finance costs** at construction completion.
- Costs associated with Bell Street link, which is a proposed connection between Metro A and the station (~\$600K) has been incorporated as a construction cost.

**Table 23: Metro A Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HOA	Fully Let
<b>Asset Value</b>	<b>17.27</b>	<b>17.56</b>	<b>18.81</b>
<b>TDC</b>	<b>(19.38)</b>	<b>(26.03)</b>	<b>(24.99)</b>
<i>Development Costs (including land)</i>	<i>(15.28)</i>	<i>(20.88)</i>	<i>(20.88)</i>
<i>Tenant Cost / Capital Adjustments<sup>1</sup></i>	<i>(4.10)</i>	<i>(5.02)</i>	<i>(3.98)</i>
<i>Finance</i>	<i>-</i>	<i>(0.13)</i>	<i>(0.13)</i>
<b>Dev. Profit</b>	<b>(2.11)</b>	<b>(8.47)<sup>2</sup></b>	<b>(6.18)<sup>2</sup></b>
<b>NPV</b>	<b>-</b>	<b>(8.57)<sup>2</sup></b>	<b>(6.32)<sup>2</sup></b>
<b>IRR (%)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>P&amp;R (%)</b>	<b>(0.90%)</b>	<b>(17.37%)</b>	<b>(12.87%)</b>

Note: (1) Variance between the HoA and fully let scenarios is largely attributed to letting up allowance.

(2) Excluding the 'As Is' land value, the development loss under the HoA and fully let scenarios is \$3.42m (NPV: (\$3.52m)) and \$1.13m (NPV: (\$1.27m)) respectively.

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.



# Development Feasibility - Metro B

## Overview

A summary of the development feasibility assessment of Metro B under the HoA and fully leased scenarios, relative to the Business Case is provided below.

### Key Findings & Considerations

- **Development of Metro B generates a negative return.**
- The feasibility analysis incorporates the 'As Is' value of **\$6.45m** as a development cost.
- Additional incentives of \$1.27m has been incorporated to align with the leasing budget, with incentives adopted for the office component from the independent assessment.
- Approximately **~40% of fully leased gross income is needed to cover finance costs** at construction completion.
- No allowance has been made for refurbishment of the office component of the building.
- The asset is assessed on the basis of the leasehold interest with 58 years remaining. There is the potential to compress the capitalisation rate should this lease be extended to 99 years.

**Table 24: Metro B Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HOA	Fully Let
<b>Asset Value</b>	<b>23.49</b>	<b>16.25</b>	<b>17.20</b>
<b>TDC</b>	<b>(21.74)</b>	<b>(25.10)</b>	<b>(22.63)</b>
<i>Development Costs (including land)</i>	<i>(18.45)</i>	<i>(18.89)</i>	<i>(18.89)</i>
<i>Tenant Cost / Capital Adjustments<sup>1</sup></i>	<i>(3.29)</i>	<i>(6.07)</i>	<i>(3.61)</i>
<i>Finance</i>	<i>-</i>	<i>(0.13)</i>	<i>(0.13)</i>
<b>Dev. Profit</b>	<b>1.75</b>	<b>(8.84)<sup>2</sup></b>	<b>(5.44)<sup>2</sup></b>
<b>NPV</b>	<b>-</b>	<b>(8.92)<sup>2</sup></b>	<b>(5.59)<sup>2</sup></b>
<b>IRR (%)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>P&amp;R (%)</b>	<b>7.40%</b>	<b>(19.25%)</b>	<b>(12.39%)</b>

Note: (1) Variance between the HoA and fully let scenarios is largely attributed to letting up allowance.

(2) Excluding the 'As Is' land value, the development loss under the HoA scenario is \$2.33m (NPV: (\$2.41m)). The development profit under the fully let scenario is \$1.08m (NPV: 0.93m).

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# Development Feasibility - Venue

## Overview

A summary of the development feasibility assessment of Venue under the HoA and fully leased scenarios, relative to the Business Case is provided below.

### Key Findings & Considerations

- **Development of Venue generates a negative return.**
- The feasibility analysis incorporates the 'As Is' value of **\$5m** as a development cost.

This information has been removed as it is commercial in confidence. Disclosure may influence ICC's commercial negotiations with tenants.

- Approximately **~40% of fully leased gross income is needed to cover finance costs** at construction completion.
- Potential additional development costs associated with acoustics and sound proofing may be required if the tenancy mix intent is to procure a cinema and a go-karting operator. These costs have not yet been fully quantified.

**Table 25: Venue Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HOA	Fully Let
<b>Asset Value</b>	<b>21.12</b>	<b>21.17</b>	<b>21.90</b>
<b>TDC</b>	<b>(25.79)</b>	<b>(30.63)</b>	<b>(29.84)</b>
<i>Development Costs (including land)</i>	<i>(20.07)</i>	<i>(23.94)</i>	<i>(23.94)</i>
<i>Tenant Cost / Capital Adjustments<sup>1</sup></i>	<i>(5.72)</i>	<i>(6.53)</i>	<i>(5.74)</i>
<i>Finance</i>	<i>-</i>	<i>(0.15)</i>	<i>(0.15)</i>
<b>Dev. Profit</b>	<b>(4.67)</b>	<b>(9.46)<sup>2</sup></b>	<b>(7.94)<sup>2</sup></b>
<b>NPV</b>	<b>-</b>	<b>(9.56)<sup>2</sup></b>	<b>(8.08)<sup>2</sup></b>
<b>IRR (%)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>P&amp;R (%)</b>	<b>(18.40%)</b>	<b>(16.01%)</b>	<b>(13.58%)</b>

Note: (1) Variance between the HoA and fully let scenarios is largely attributed to letting up allowance.

(2) Excluding the 'As Is' land value, the development loss under the HoA and fully let scenarios is \$4.41m (NPV: (\$4.52m)) and \$2.89m (NPV: (\$3.03m)) respectively.

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# Development Feasibility - Eats

## Overview

A summary of the development feasibility assessment of Eats under the HoA and fully leased scenarios, relative to the Business Case is provided below.

### Key Findings & Considerations

- **Development of Eats generates a positive return.**
  - The feasibility analysis incorporates the 'As Is' value of **\$2m** as a development cost.
  - Incentives reflect the independent assessment.
  - At the current level of HoAs, gross income covers debt.
- Approximately **~32% of fully leased gross income is needed to cover finance costs** at construction completion.
- The asset is situated over three separate titles with a mix of leasehold and freehold tenure, potentially impacting marketability. The current valuation and feasibility analysis assumes freehold and does not incorporate any additional costs to change the tenure.

**Table 26: Eats Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HOA	Fully Let
<b>Asset Value</b>	<b>9.64</b>	<b>8.29</b>	<b>8.60</b>
<b>TDC</b>	<b>(6.43)</b>	<b>(7.40)</b>	<b>(7.21)</b>
<i>Development Costs (including land)</i>	<i>(5.05)</i>	<i>(5.81)</i>	<i>(5.81)</i>
<i>Tenant Cost / Capital Adjustments<sup>1</sup></i>	<i>(1.38)</i>	<i>(1.56)</i>	<i>(1.36)</i>
<i>Finance</i>	<i>-</i>	<i>(0.04)</i>	<i>(0.04)</i>
<b>Dev. Profit</b>	<b>3.21</b>	<b>0.89<sup>2</sup></b>	<b>1.39<sup>2</sup></b>
<b>NPV</b>	<b>-</b>	<b>0.79<sup>2</sup></b>	<b>1.28<sup>2</sup></b>
<b>IRR (%)</b>	<b>-</b>	<b>28.19%</b>	<b>44.73%</b>
<b>P&amp;R (%)</b>	<b>49.90%</b>	<b>7.11%</b>	<b>11.11%</b>

Note: (1) Variance between the HoA and fully let scenarios is largely attributed to letting up allowance.

(2) Excluding the 'As Is' land value, the development profit under the HoA and fully let scenarios is \$2.91m (NPV: \$2.81m) and \$3.41m (NPV: \$3.30m) respectively.

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.

# Development Feasibility – Commonwealth Hotel

## Overview

A summary of the development feasibility assessment of the Commonwealth Hotel under the HoA and fully leased scenarios, relative to the Business Case is provided below.

### Key Findings & Considerations

- **Commonwealth Hotel does not generate a positive development return.**
- The feasibility analysis incorporates the 'As Is' value of **\$0.4m** as a development cost.
- Additional incentives of \$790K have been incorporated to align with the leasing budget.
- The final design and construction works are likely to reflect operator requirements.
- An operator would need to be procured to cover debt costs.

**Table 27: Commonwealth Hotel Development Feasibility (\$ millions, NPV 2.5% at October-19)**

	Business Case	Current HOA	Fully Let
<b>Asset Value</b>	<b>3.84</b>	<b>2.26</b>	<b>2.34</b>
<b>TDC</b>	<b>(3.79)</b>	<b>(4.20)</b>	<b>(4.09)</b>
<i>Development Costs (including land)</i>	<i>(2.82)</i>	<i>(3.14)</i>	<i>(3.14)</i>
<i>Tenant Cost / Capital Adjustments<sup>1</sup></i>	<i>(0.97)</i>	<i>(1.04)</i>	<i>(0.93)</i>
<i>Finance</i>	-	<i>(0.02)</i>	<i>(0.02)</i>
<b>Dev. Profit</b>	<b>0.05</b>	<b>(1.94)<sup>2</sup></b>	<b>(1.75)<sup>2</sup></b>
<b>NPV</b>	-	<b>(1.93)<sup>2</sup></b>	<b>(1.75)<sup>2</sup></b>
<b>IRR (%)</b>	-	-	-
<b>P&amp;R (%)</b>	1.32%	(23.58%)	(21.62%)

Note: (1) Variance between the HoA and fully let scenarios is largely attributed to letting up allowance.

(2) Excluding the 'As Is' land value, the development loss under the HoA and fully let scenarios is \$1.53m (NPV: (\$1.53m)) and \$1.35m (NPV: (\$1.35m)) respectively.

All return metrics are post finance.

Source: KPMG Analysis.

Development Revenue & Costs: Draft Business Case (Version 1.1); Savills Valuation, dated 27 August 2019.



# Delivery Analysis





# Overview

## Introduction

KPMG has undertaken financial analysis to determine the indicative return from developing and operating the assets (i.e. ICC retaining ownership of the assets on completion) under alternate initial staging strategies.

The analysis adopts similar assumptions to the development feasibility analysis presented in the previous section, although assumes a sale after a 24 month operational period, as opposed to a sale on construction completion.

The basis of the 24 month operational period assumption has been informed from market sounding (as detailed previously), which indicates that an established and successful precinct would support marketability and divestment outcomes.

It is difficult to predict the trajectory of Precinct outcomes, future operational circumstances and future market conditions. In this regard, the final return outcome from holding the assets is dependent on:

- the level of success in curating a Precinct brand with a strong events programme in the Civic Precinct;
- attraction of critical mass / foot traffic, that supports a sustainable day/night and 7-day retail trading environment;
- leasing status and curation of tenancy mix;
- effective and efficient management of the assets during the operational period; and
- future market conditions and investor confidence in the Precinct.

## Modelling Approach

In addition to the development feasibility aspects, key features of KPMG's modelling approach under the scenario analysis, which have been endorsed by ICC, are outlined below:

- KPMG have included two cash flow analysis under each delivery scenario, that either includes or excludes the 'As Is' asset value as a cash outflow.
- a minimum pre-commitment that will generate sufficient net operating income to cover all funding costs of development on construction completion is assumed to have been achieved prior to delivery of the assets under each staging scenario;
- the staging analysis presented incorporates initial delivery of:
  - Eats and Venue;
  - Eats, Venue and Metro B; or
  - all assets within the Project, with exception to the Commonwealth Hotel.
- incentives and leasing costs have been treated as a development cost and incurred prior to construction completion, to represent a 'sinking fund' from which tenant costs can be withdrawn during the operational period (i.e. rent relief or rent free period, fitout costs etc.);
- occupancy is assumed to grow to 100% fully leased during the 24-month holding; and
- fully leased investment metrics adopted in the independent assessment are assumed on sale of the asset.

## Sources of Inputs

The sources of inputs into the financial model that KPMG have relied upon are consistent with the development feasibility analysis detailed previously.

# Key Operational Assumptions

## Overview

A summary of the key operational modelling assumptions is provided below.

### Key Modelling Assumptions

Item	Description
Timing	<ul style="list-style-type: none"> <li>Assume a sale of the asset 24 months post construction completion.</li> </ul>
Occupancy Profile	<ul style="list-style-type: none"> <li>It is assumed that on construction completion, there is sufficient pre-commitment that net operating income approximately covers finance cost, including the finance costs for the 'As Is' asset value.</li> <li>The net operating income fully reflects the independent valuation's assumptions as they relate to income and outgoings.</li> </ul>
Occupancy Growth	<ul style="list-style-type: none"> <li>Assume fully-let at the end of the operational period (i.e. 24 month period to lease up, post construction completion).</li> </ul>
Incentives	<ul style="list-style-type: none"> <li>Incentives are assumed to incur as a lump-sum cost on construction completion to act as a sinking fund to draw down during the operational period, as per instruction from ICC.</li> </ul>
Escalation	<ul style="list-style-type: none"> <li>Assume 2.11% for revenues and expenses (noting an average would be achieved from existing and new leasing).</li> </ul>
Precinct Activation	<ul style="list-style-type: none"> <li>Marketing costs for the Precinct during the operational period and any holding costs associated with the broader Precinct (i.e. assets not delivered under alternate staging) has been excluded, as per instruction from ICC.</li> </ul>
Commonwealth Hotel	<ul style="list-style-type: none"> <li>Delivery of Commonwealth Hotel has been excluded from the delivery analysis due to the community and heritage aspect of the asset, as per instruction from ICC.</li> </ul>

# Delivery Analysis Summary

## Overview

A summary of the returns and cumulative cash flow from the alternate delivery analysis is provided below.

### Key Findings & Considerations

- The **NPV** of delivering the Project (excluding Commonwealth Hotel) is:
  - Including 'As Is' Values - (\$16.45m).
  - Excluding 'As Is' Values - \$4.01m.**
- The **net cash position** of delivering the Project (excluding Commonwealth Hotel) is:
  - Including 'As Is' Values - (\$12.43m).
  - Excluding 'As Is' Values - \$8.15m.**
- The **peak cumulative exposure** of delivering the Project (excluding Commonwealth Hotel) is:
  - Including 'As Is' Values - (\$84.73m).
  - Excluding 'As Is' Values – (\$66.12m).**
- The delivery analysis for alternate initial staging is outlined in the adjacent tables (Tables 28 and 29), in addition to the following slides.

**Table 28: Delivery Analysis Summary – Including 'As Is' Value (\$ millions)**

	Eats & Venue	Eats, Venue & Metro B	All assets (exc. Hotel)
<b>NPV</b>	<b>(5.29)</b>	<b>(9.71)</b>	<b>(16.45)</b>
<b>Net Cash Position</b>	<b>(3.41)</b>	<b>(6.74)</b>	<b>(12.43)</b>
<b>Peak Cumulative Cash Position</b>	<b>(37.12)</b>	<b>(59.74)</b>	<b>(84.73)</b>

**Table 29: Delivery Analysis Summary – Excluding 'As Is' Value (\$ millions)**

	Eats & Venue	Eats, Venue & Metro B	All assets (exc. Hotel)
<b>NPV</b>	<b>1.94</b>	<b>4.18</b>	<b>4.01</b>
<b>Net Cash Position</b>	<b>3.82</b>	<b>7.16</b>	<b>8.15</b>
<b>Peak Cumulative Cash Position</b>	<b>(30.06)</b>	<b>(46.17)</b>	<b>(66.12)</b>

Source: KPMG Analysis.

# Delivery Analysis - All Assets (with exception to Hotel)

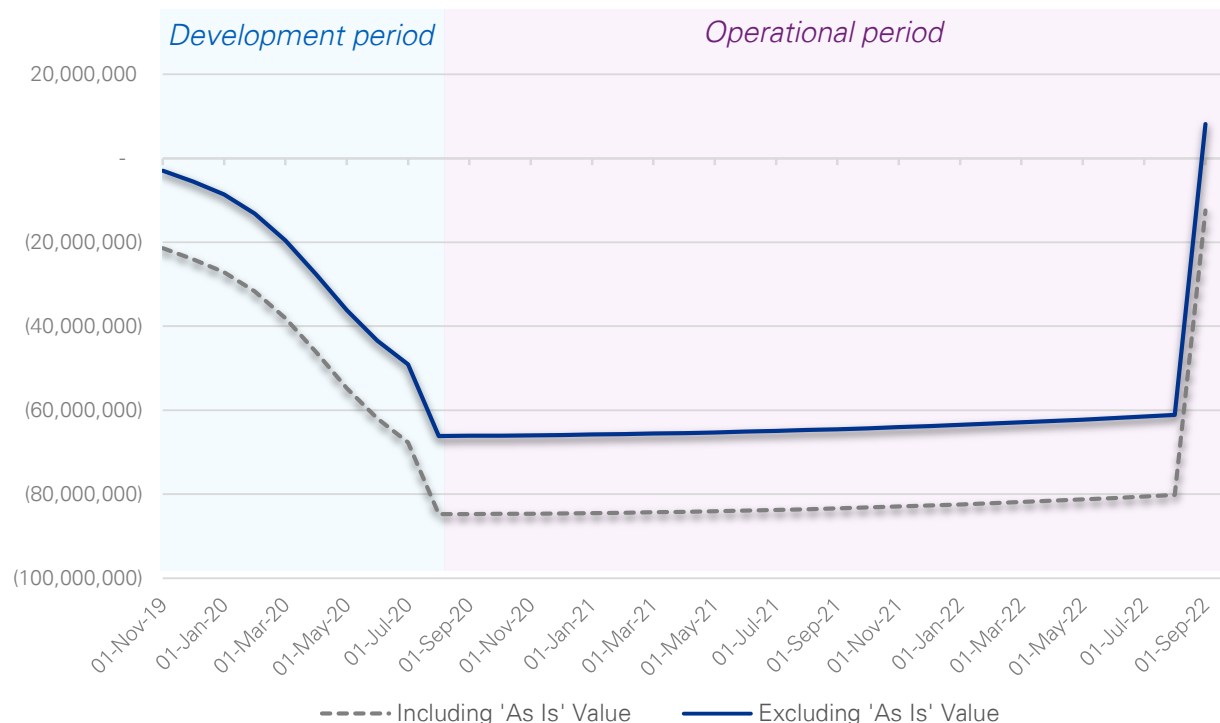
## Overview

A summary of the returns and cumulative cash flow and peak exposure from delivering all assets with exception to the Commonwealth Hotel, including and excluding the 'As Is' land value (\$18.45 million) as an upfront outflow for the development.

### Key Findings & Considerations

- Including the 'As Is' land value, this scenario delivers a **post-finance NPV loss of \$16.45m**.
- Excluding the 'As Is' land value, this scenario delivers a **post-finance NPV gain of \$4.01m**.
- **Peak negative cumulative cash flow is \$84.73m** when the 'As Is' land value is included.
- **Peak negative cumulative cash flow is \$66.12m** when the 'As Is' land value is excluded.
- Including the 'As Is' land value, **approximately ~40% of fully leased gross income** is required to cover finance costs at construction completion. This pre-commitment threshold is assumed constant for the alternate cash flow.

### Cumulative Cash Flow / Peak Exposure



# Delivery Analysis - Eats & Venue

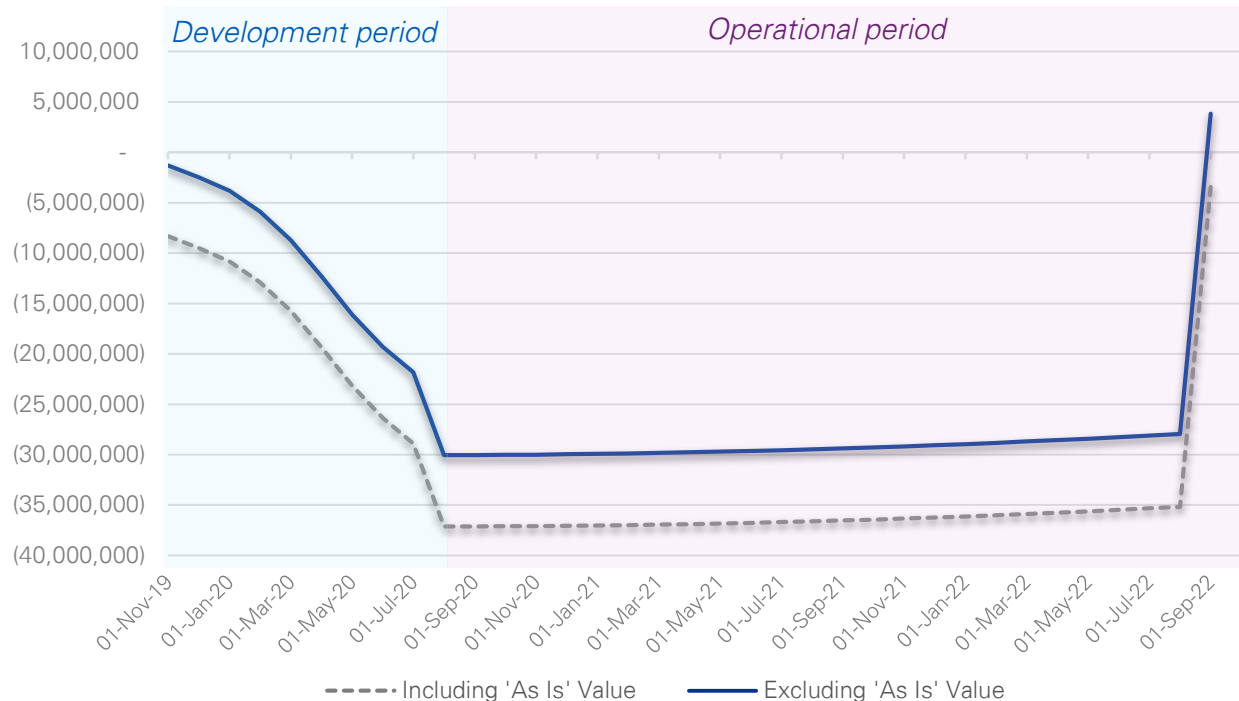
## Overview

A summary of the returns and cumulative cash flow and peak exposure from delivering Eats and Venue, including and excluding the 'As Is' land value (\$7 million), as an upfront outflow for the development.

### Key Findings & Considerations

- Including the 'As Is' land value, this scenario delivers a **post-finance NPV loss of \$5.29m**.
- Excluding the 'As Is' land value, this scenario delivers a **post-finance NPV gain of \$1.94m**.
- **Peak negative cumulative cash flow is \$37.12m** when the 'As Is' land value is included.
- **Peak negative cumulative cash flow is \$30.06m** when the 'As Is' land value is excluded.
- Including the 'As Is' land value, **approximately ~40% of fully leased gross income** is required to cover finance costs at construction completion. This pre-commitment threshold is assumed constant for the alternate cash flow.

### Cumulative Cash Flow / Peak Exposure





# Delivery Analysis - Eats, Venue & Metro B

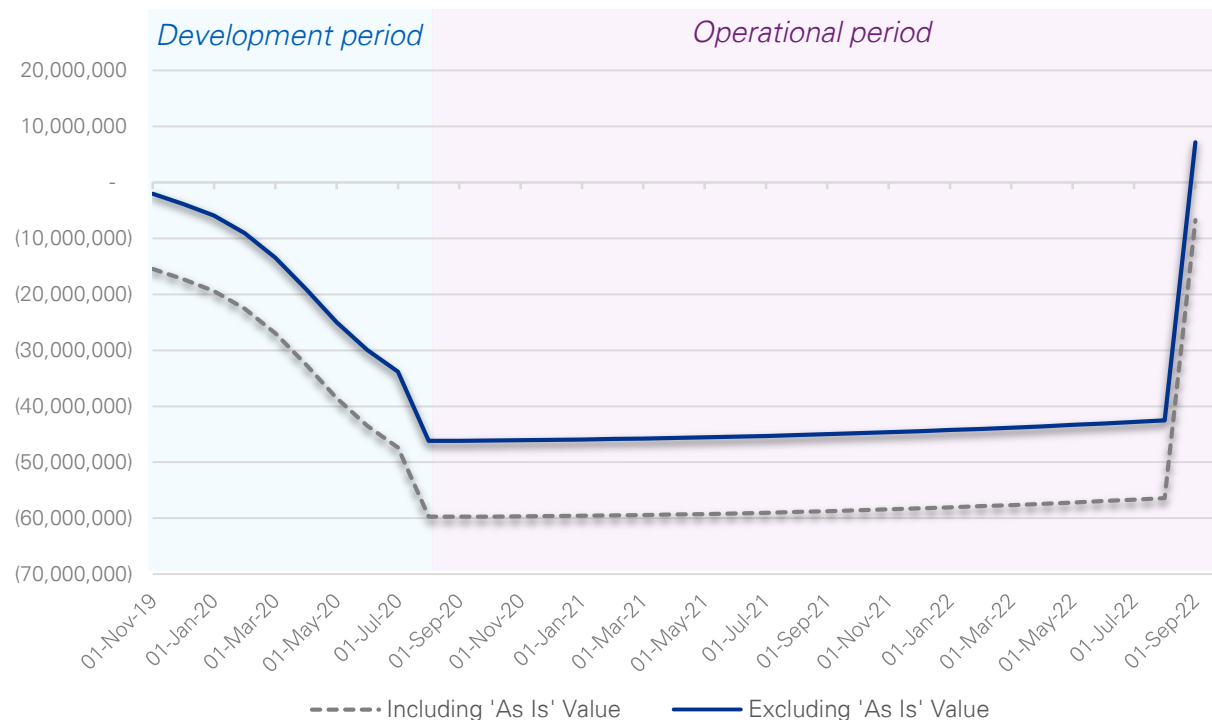
## Overview

A summary of the returns and cumulative cash flow and peak exposure from delivering Eats, Venue and Metro B, including and excluding the 'As Is' land value (\$13.45 million), as an upfront outflow for the development.

### Key Findings & Considerations

- Including the 'As Is' land value, this scenario delivers a **post-finance NPV loss of \$9.71m**.
- Excluding the 'As Is' land value, this scenario delivers a **post-finance NPV gain of \$4.18m**.
- **Peak negative cumulative cash flow is \$59.74m** when the 'As Is' land value is included.
- **Peak negative cumulative cash flow is \$46.17m** when the 'As Is' land value is excluded.
- Including the 'As Is' land value, **approximately ~40% of fully leased gross income** is required to cover finance costs at construction completion. This pre-commitment threshold is assumed constant for the alternate cash flow.

### Cumulative Cash Flow / Peak Exposure





# Conclusion & Key Considerations



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## Conclusion & Key Considerations

The development of the Nicholas Street Retail Project will serve to revitalise the Ipswich Central offering and deliver broader community outcomes.

However, the development of the Project does not deliver on ICC's objective for a zero or positive NPV return (when incorporating the 'As Is' Value of the Nicholas Street Retail).

Additionally, market sounding feedback indicates that investment confidence will be enhanced after the Precinct is rebranded and established with proven trading performance of tenants. In this regard, ICC should consider holding the assets for an extended period of time post-completion.

Acknowledging that ICC's objectives will seek to optimise community and financial components of the Project Objectives, on the following page we have summarised the key considerations for ICC in making a decision to proceed with delivery.

The Project is in the early phases of development, with continued design refinement and development cost resolution. Additionally, progressing the leasing campaign to convert existing HoAs to binding leases is critical prior to delivery.

As the Project evolves, continued revision and monitoring of potential return impacts from development is required to ensure Council's Project objectives are being met.

# Conclusion & Key Considerations

## Key Considerations for Project Delivery

1

### Leasing Considerations

- Commit anchor tenants into the Precinct pre-delivery, including a national / global cinema operator and / or other entertainment / leisure offerings, that enhance interest from other tenants and will complement the Civic Precinct.
- Focus leasing targets outcomes on sustainable rents (in line with the current leasing budget) and securing terms with quality covenants (national retailers or strong bank guarantees).
- Structure incentives to support tenants in the establishment phase by balancing upfront capital contributions with partial rent abatement.
- Consider expanding the leasing team to drive retail and office lease commitments. Consider inclusion of a local agent with office expertise and a national brand with retail expertise.

2

### Delivery Considerations

- Consider staging Project delivery to balance community and financial objectives (tied to a maximum peak exposure that is manageable within ICC's forecast financial capacity).
- Market feedback is that delivery of Venue as part of an initial stage is critical to support Precinct activation. This is a substantial driver of the Project development loss ((\$8m) to (\$9.5m) in NPV terms).
- Market feedback indicates that the number of food and beverage offering is too large for an unproven precinct. Food and beverage should be staged and aligned to opening of the ICC Administration Building.
- Set minimum leasing pre-commitment thresholds as a condition to development.

3

### Divestment Considerations

- Commit a budget to re-brand the Precinct, deliver events that complement the Civic Precinct and drive Precinct activation.
- Divestment of the Nicholas Street Retail assets post establishment of the Precinct and with strong trading history, will support market confidence to acquire the completed assets.
- Consider extending the leasehold tenure on Metro B and consolidating the tenure on Eats to support marketability.
- Procure an experienced team to manage the Precinct and tenants in the operational period.



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