

Councillors' Briefing Note



Title of Councillors' Briefing: CROSS STREET CAR PARK REDEVELOPMENT

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Strategic Properties

Date of Briefing: 23 March 2022

At its meeting on 28 February 2022, Council resolved as follows:

- A. *THAT Council reaffirm Council's Commitment to carpark development and commitment to the cinema in Double Bay.*
- B. *THAT the Council notes the Confidential Report and Confidential Annexures.*
- C. *THAT the Council defers the appointment of the proponent at this time as development partner.*
- D. *THAT Council staff prepare a fully costed fleshed out report on the "go it alone option" costing and option.*
- E. *THAT a Councillor Briefing be held prior to the Council meeting in March 2022.*
- F. *THAT this matter be referred to the Council meeting in March 2022 (i.e. 28 March 2022).*

In accordance with Resolution E, a councillor briefing has been set for 23 March at which the required information in relation to the Go-It-Alone (GIA) option will be discussed with councillors. Representatives from Altus Group and CBRE who have prepared reports referred to and attached to this briefing note will be present to answer questions. The briefing will also recap the proponent redevelopment proposals and staff recommendation. Following the councillor briefing, the project will be reported to the Council meeting of 11 April 2022.

Go-It-Alone Scheme

The proposed GIA option is a theoretical scheme comprising the following land uses:

- Cinema of 2167m² located across basement and ground levels
- Retail of 1882m² located at ground level
- Commercial of 1626m² located at ground (lobby) and Level 1
- Car parking for 418 cars on Levels 1-5

The scheme would also include a community space of circa 120m² similar to the proponent schemes – this would result in the loss of 10-20 car spaces depending on configuration and some minor reduction in car parking revenue.

The scheme is 6 storeys in height, exceeding the current height control by one storey. This is lower in height than any of the proponent schemes being considered (which range between 7 and 8 storeys).

Construction Cost

A report has been prepared by Altus Group (**Attachment 1**) which assesses the construction cost of the GIA option. As outlined in the Altus Group report, the total gross construction cost of this scheme is \$68.77m, with a probable order of cost ranging from \$61.89m to \$75.65m.

As Council has no reserves to draw on, it would be necessary to entirely debt fund the project as there would be no developer or third party finance available to Council. While interest rates are at a historic low, there is broad market expectations of interest rate increases in the medium term which would be detrimental to Council going forward.

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Advice from Council's Director Corporate Performance and Chief Financial Officer is that borrowing the circa \$70m required to undertake the project would be difficult given Council's current financial position. It would also have a profound negative impact on Council's debt service ratios.

Cash flow

The other aspect to consider with the GIA option is the amount of annual income for Council which would be generated by the project from rental of the retail, cinema and commercial components, as well as income generated from the car park. This is also a relevant consideration for the proponent-led schemes. In this regard, a cash flow analysis has been prepared by CBRE (**Attachment 2**). This report is confidential as it contains commercial-in-confidence information.

The cash flow analysis shows that while the GIA option generates superior annual income when compared to the proponent schemes, this is more than offset by the cost of obtaining finance.

In Year 1, the GIA scheme after factoring in finance costs results in a negative cash flow of \$1m. This compares with positive cash flows [REDACTED] for the proponent schemes. When projected over the first 10 years post completion, the GIA scheme will lose on average \$2.7m per year whereas the proponent schemes will generate income [REDACTED]. The CBRE report indicates the GIA scheme will not break even (on a cumulative net cash flow basis) until after 22 years of the asset's operating life.

Comparison to Proponent Schemes

The table below provides a summary of how the GIA option compares to the proponent schemes on some key financial parameters. As can be seen, the Council GIA option is significantly inferior on all parameters.

	GIA Scheme	[REDACTED]	[REDACTED]	[REDACTED]
Value of assets to be provided to Council at no cost (construction cost)	Nil	[REDACTED]	[REDACTED]	[REDACTED]
Development rights payment	Nil	[REDACTED]	[REDACTED]	[REDACTED]
Net Present Value to Council	(\$22.3m)	[REDACTED]	[REDACTED]	[REDACTED]

Richard Pearson
Development Manager Strategic Properties

Attachments:

Attachment 1 – Altus Group – Cross Street Car Park Redevelopment Order of Cost – 11 March 2022

Attachment 2 – **CONFIDENTIAL** – CBRE – Cross Street Car Park Redevelopment Cash Flow Analysis – 21 March 2022