

13 July 2009

Mr Mark Maryska
Laing O'Rourke
Level 4, 100 Arthur Street
NORTH SYDNEY NSW 2060

Dear Mark,

DELMEGE/LAING O'ROURKE PROPOSED DEVELOPMENT
90-100 MOUNT ST, NORTH SYDNEY

Surfside (Mount Street) Pty Limited acquired 90 Mount Street, from Stocklands in an off-market transaction in 2004.

In 2005, Surfside (Mount Street) Pty Limited had a DA approved for strata subdivision of 90 Mount Street but did not proceed to have it registered.

In 2005, Surfside (Mount Street) Pty Limited was approached by a representative of the owners of 100 Mount Street, who at the time was the RBA to ascertain whether there was any interest in potentially purchasing as the vendors had lost their major tenant, an advertising company (Zenith Media) who occupied all the office levels. Surfside (Mount Street) Pty Limited wasn't in a financial position to acquire 100 Mount Street having acquired 90 Mount Street approximately 12 months prior and discussed the opportunity with a client of theirs, The Uniting Church. The Uniting Church proceeded to purchase the property and to have the property approved for strata subdivision, registering the strata plan and commencing a marketing campaign to sell strata title office suites in 2006.

In 2005, Surfside (Mount Street) Pty Limited was contacted by the vendors of 80 Mount Street and was informed of their intentions to sell the property. Surfside (Mount Street) Pty Limited and 80 Mount Street Pty Limited met to discuss the opportunity, but 80 Mount Street Pty Limited's expectations as to price were too aggressive. The property had an excessive amount of vacancies and required a substantial refurbishment. 80 Mount Street Pty Ltd then went to the open market and the property was acquired by the Aspen Diversified Property Fund.

In 2006, Surfside (Mount Street) Pty Limited approached the Uniting Church to ascertain whether the Uniting Church would sell 100 Mount Street to Surfside (Mount Street) Pty Limited instead of proceeding with the strata sell down. After a protracted negotiation, Surfside (Mount Street) Pty Limited agreed to purchase 100 Mount Street.

In 2007, Surfside (Mount Street) Pty Limited contacted Aspen Diversified Property Funds in relation to 80 Mount Street and there intention for the asset. Aspen Diversified Property Funds had undertaken a substantial refurbishment and leasing program and once again the Vendors expectation as to selling price were too aggressive.

In 2008, Surfside (Mount Street) Pty Limited again approached Aspen Diversified Property Funds to discuss how the sales campaign of 80 Mount Street was progressing. Surfside (Mount Street) Pty Limited was informed that there was strong interest in the property above the \$30M level. Surfside (Mount Street) Pty Limited examined the IM in detail however, the vendors price expectations and the properties lease expiries and extensive option periods were not compatible to 90 and 100 Mount Street.

Yours sincerely,

DELMEGE COMMERCIAL PTY LIMITED



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The tenancy expiry profile ignoring lease options is as follows:

	Year	NLA	%NLA
	Current Vacancy	54	0.8%
1	Jan-10	1643	25.9%
2	Jan-11	1162	18.4%
3	Jan-12	1663	26.3%
4	Jan-13	338	5.3%
5	Jan-14	669	10.6%
6	Jan-15	480	7.6%
7	Jan-16		
8	Jan-17	324	5.1%
			100%

Any acquisition of the 80 Mount Street for site amalgamation would have to be considered as a **staged development** to accommodate the above tenancy profile. After 6 years it might be possible to purchase out the remaining leases but any earlier buyout would be cost prohibitive.

Improvement Value/Redevelopment Potential

The sales history of 80 Mount Street is as follows

December 1986 \$11.5m

November 1987 \$20.8m

June 1992 \$18.9m

February 2001 \$22.5m

November 2005 \$31.0m

The most recent valuation for 80 Mount Street is \$30m. This is below the current owners purchase price and reflects adjustment to current economic conditions. Given a continued global financial crisis the disposal value could dip further to \$27m but we consider unlikely lower because of the existing income yield of 8%+. Even at this reduced purchase price **the highest and best use for the site remains a going concern as an investment property.**

As a development site, a viable purchase price should equate to a rate of \$700 to \$1,200 per sqm of potential gross lettable area. The higher rate would equate to the development of prestige building with harbour view while the lower rate to a secondary office building. For the subject site we consider the rate is close to \$1,000 per sqm of gross lettable area.

Based on the current gross lettable area of 80 Mount Street, the site value rate is \$4,738/sqm of GLA which would not encourage any redevelopment. The potential does however exist for 80 Mount Street to significantly increase its gross lettable area (GLA) under the new vision for North Sydney as part of the global city. Based on the master plan for the adjoining site we estimate the GLA could treble to an area close to 19,000 – 20,000sqm.

Based on this significantly increased GLA the site still remains non viable as a development site. The site value would have to fall significantly to \$20m to make it attractive as a development site. This is highly unlikely. A more realistic scenario is that post the current economic downturn, market confidence returns and the economics of redevelopment improve with increasing premium rentals and tightening of capitalisation rates to justify the demolition of the existing improvements and when the existing improvements reach a stage in their life cycle that they need to be refurbished or demolished.

Conclusions

The proponent has looked at the viability of site amalgamation but this is demonstrated not to be realistically possible because of existing tenancy commitments and valuation considerations. The proponent therefore has looked at design options that would permit a staged solution that would not sterilise the development potential of 80 Mount Street. These design solutions are detailed by Paul Reidy of Rice Daubney. Essentially they assume a staged development that permits 80 Mount Street to achieve its full development subject to market conditions. The design solution achieves the effective outcome of a site amalgamation desired by the Director General.

Should you require further clarification please do not hesitate to contact me by email (martin.hill@hillpda.com) or by my direct line 81967606.

Your sincerely

Martin Hill
Managing Principal Hill PDA
MR.E. UNSW, MProp. Dev. UTS, BSc (Hons)
Valuer Without Restriction, FAPI

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