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28 April 2021

Mr Stephen Barry
Director, Planning
Office of the Independent Planning Commission NSW
Level 3, 201 Elizabeth Street
Sydney
NSW 2000

Dear Mr Barry

Subject **Response to Questions from the Commission to the owner of MLC Building (former) North Sydney**

We are writing in response to your letter dated 21 April 2021 requesting the building owners assistance with several questions. A copy of that correspondence is included at **Annexure A**. Commentary on the questions is provided below:

(1) ***Cost Assumptions***

Refer Consultant Advice provided by WT Partnership in response to this query included at **Annexure B**.

Note that the direction to cost a design life of 50 years was provided having regard to a potential State Listing which requires the building to be refurbished to a higher minimum standard. The earlier cost plan, quoted in the SEE and prior to the potential listing, did not assume State Listing and therefore costed a refurbishment to a standard far less than would be necessary with a State Listing.

(2) ***North Sydney Commercial Leasing Market***

Refer Consultant Advice provided by Ethos Urban in response to this query included at **Annexure C**.

(3) ***Corporate and Ownership Structures***

IOF Custodian Pty Ltd *atf 105 Miller Street North Sydney Trust* became the registered proprietor of the MLC Building in February 2020, when it acquired the property in a related party transaction as part of an internal restructure from IOF Custodian Pty Ltd *atf Miller Street North Sydney Trust*.

Both the 105 Miller Street North Sydney Trust and the Miller Street North Sydney Trust are or were single asset trusts and were at least since July 2011. Prior to 2011 the building was not owned, operated or managed by Investa, and we do not have complete information about the ownership structure prior to that change in ownership.

(4) ***Tenant Flexibility and Building Services***

Refer Consultant Advice provided by NDY in response to this query included at **Annexure D**.

Should you require any further information please contact the undersigned at +61 02 [redacted] or [redacted].

Yours sincerely,

Ed Riches

Development Manager
Investa Property Group

ANNEXURE A – IPC LETTER TO INVESTA DATED 21 APRIL 2021

21 April 2021

Mr Ed Riches
Development Manager
Investa
Level 30
420 George Street
Sydney NSW 2000

Dear Mr Riches

PROPOSED STATE HERITAGE LISTING OF MLC BUILDING (former) NORTH SYDNEY

I am writing to advise you of an extension to the Commission's closing date for general public submissions on this matter to 30 April 2021. Consistent with previous advice, the building owner will be given an additional 7 days to make a final submission (i.e. 7 May 2021) to allow it to respond to any issues raised.

The Commission also has a number of questions for which it seeks your assistance in obtaining a response on behalf of the building owner. These are set out in the attachment to this letter. The Commission would appreciate a response to these questions by close of business on 28 April 2021.

Should you require any further information please contact me on [redacted] or via [redacted].

Yours sincerely

Stephen Barry
Director, Planning

ATTACHMENT

Questions from the Commission to the owner of MLC Building (former) North Sydney

1. The PTW and Urbis reports adopt the Order of Costs prepared by WT Partnership for the building owner in October 2020 (c$212M). However, as the Urbis report notes, the Ethos Urban SEE that was lodged with the development application included a significantly lower cost estimate (c$120M).

   Can the building owner clarify the differences in underlying assumptions in the two cost estimates to explain the discrepancy?

2. In its submission, the building owner stated that in its experience, B-Grade buildings in North Sydney are undesirable tenancies and therefore a refurbished MLC Building would be difficult to tenant. However, the statistical data presented in the Urbis report seem to indicate that B-Grade buildings actually dominate the North Sydney market and that recent vacancy rates (in the order of 10%) are trending downwards. It also identifies drivers for increased demand for buildings such as a refurbished MLC Building into the future.

   Is the building owner able to clarify why it may be that its experience of the North Sydney market appears to differ from the data presented by Urbis?

3. In its letter of 8 October 2020 to the Heritage Council, Investa indicated that 'The MLC Building is the owner's only real property asset' and that 'The MLC Building is owned by the 105 Miller Street North Sydney Trust (the registered proprietor is IOF Custodian Pty Limited as trustee for the 105 Miller Street North Sydney Trust) (Trust)'. Ms Townsend also made that observation in the owner's submission (Transcript page 4, line 40).

   The Commission requests that you provide a timeline that illustrates how these corporate and ownership structures have evolved over, say, the last 10 years. For example:
   - *When was the 105 Miller Street North Sydney Trust first constituted?*
   - *When did IOF Custodian Pty Limited become Trustee?*
   - *Who did 105 Miller Street North Sydney Trust acquire ownership of the MLC Building from and when?*
   - *Has it always been the case that the MLC Building is the 105 Miller Street North Sydney Trust's only asset?*
   - *If the Trust ever owned other real property, when did it sell that other property and to whom?*

4. In its submission and during the site visit, the building owner indicated that an upgrade is necessary for the building's air conditioning services, which has implications for the fire rating, floor thicknesses, and floor-to-ceiling heights. In its submission the building owner indicated that as part of the services upgrade it would be necessary to introduce a new and more flexible system to assist with 'future leasing' (Mr Vivian, transcript, page 8, line 20) and 'future tenant flexibility' (Powerpoint accompanying the owner's submission).

   Acknowledging that this may impact future tenancy flexibility, can the owner clarify whether it is nevertheless physically possible to replace the existing air conditioning services without significantly impacting the placement of the fire rating, the floor-to-ceiling heights and floor thicknesses? [Note that PTW considers that this appears to be the case (page 14) based on the DA drawings and information gathered from a 1998 refurbishment].

ANNEXURE B – WT PARTNERSHIP ADVICE ON COSTS

28 April 2021

Investa Developments
Level 30,
420 George Street
Sydney NSW 2000
[redacted]

Dear Ed,

105 MILLER STREET REDEVELOPMENT

PROPOSED STATE HERITAGE LISTING OF MLC BUILDING

Further to your recent email, where the IPC had requested clarification on a few items for consideration, which included the following question which was;

Question:

> *The PTW and Urbis reports adopt the Order of Costs prepared by WT Partnership for the building owner in October 2020 (c$212M). However, as the Urbis report notes, the Ethos Urban SEE that was lodged with the development application included a significantly lower cost estimate (c$120M).*
>
> *Can the building owner clarify the differences in underlying assumptions in the two cost estimates to explain the discrepancy?*

Answer:

The estimate prepared by WT Partnership (WT) in October 2020, was to address the likely capital cost to refurbish the building to comply with current building standards and extend the life of the asset to be comparable to a newly built asset (50-year design life).

The current building does not comply with fire standards. On the advice of structural engineers, WT included to remove the internal structure, strengthen the existing columns and foundations, and construct a new structure to meet current standards. This would also provide the building a design life equal to 50 years.

Structural engineering advice received indicates that the building also does not comply with the current earthquake codes. As the building does not comply, WT included strengthening to the building by way of an external lateral system, providing the most economical solution to achieve this strengthening. This again upgraded the design life of the building.

Due to the extent of demolition and rebuild, the consideration was given to update and improve primarily the Fire Engineering Services to code and all other engineering services to a standard to ensure the building is competitive in the North Sydney leasing market. This was included by WT within the costings.

In comparison to the other costs presented, where it appears as a refurbishment cost only with a limited design life substantially lower than 50 years, which we have assumed is maintaining existing infrastructure and with no major replacement of plant; except the chiller.

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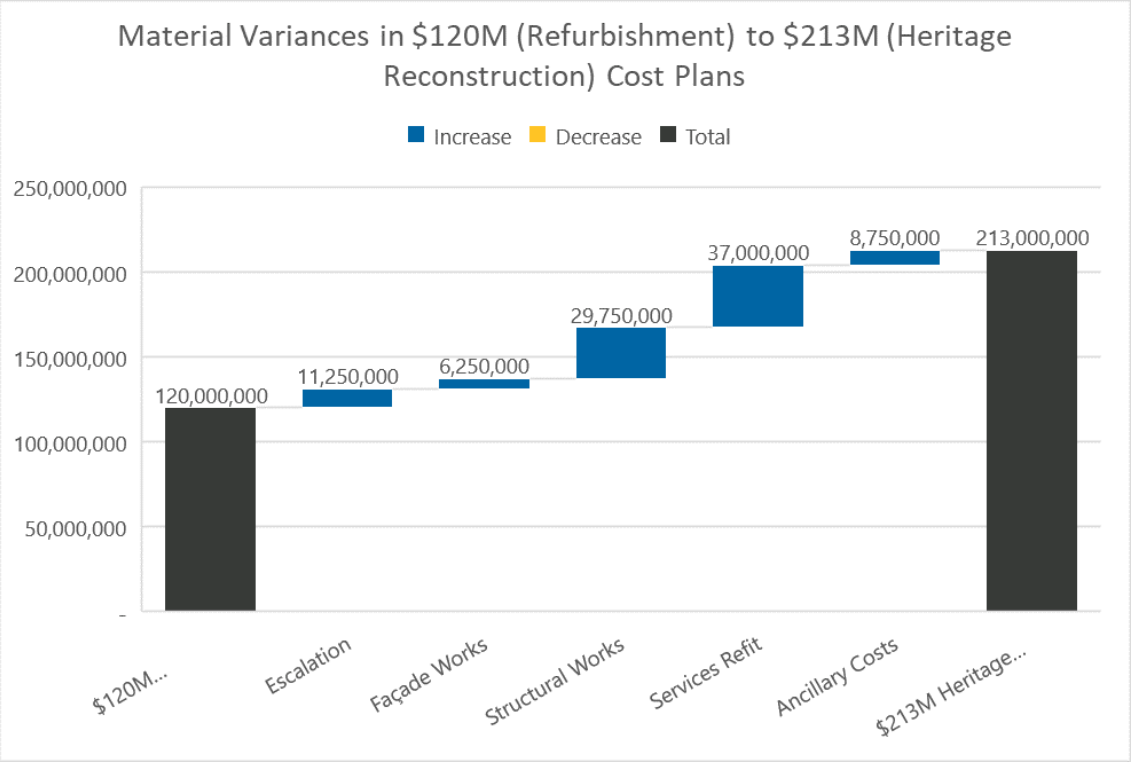
The Façade costing included for the removal and reconstruction as a faithful reproduction of the original, ensure it met all codes especially fire and Section J requirements.

In compiling the estimate, WT presented the costs to reflect a Design and Construct Contractor delivery, providing an indication of the total design and construct price could be, with the principals' costs shown separately. This approach was different to the other costings, where it represents a possible cost for the refurbishments works only with no consideration for principals' costs, such as design, project management and statutory fees.

The chart below illustrates areas of material difference between the two cost plans noted in the IPC query, illustrating the variances are in large part due to the extent of structural and services works required to ensure compliance with current codes and a design life of 50 years. Note the difference also includes an amount of escalation given the $120M estimate was prepared in 2017.



Yours faithfully

GARY MAYOR
State Director

WT

ANNEXURE C – ETHOS URBAN ADVICE ON NORTH SYDNEY LEASING MARKET

ETHOS
URBAN

28 April 2021

Stephen Barry
Director, Planning
Independent Planning Commission NSW

Level 3, Elizabeth Street
Sydney NSW 2000

PROPOSED STATE HERITAGE LISTING OF MLC BUILDING (former) NORTH SYDNEY

Dear Stephen,

This letter has been prepared in order to respond to questions raised by the Independent Planning Commission NSW (IPC) on 21 April 2021 and submitted to the owner of MLC Building (former) North Sydney. Specifically, this letter responds to the second question raised by the IPC and outlined below:

> *2. In its submission, the building owner stated that in its experience, B-Grade buildings in North Sydney are undesirable tenancies and therefore a refurbished MLC Building would be difficult to tenant. However, the statistical data presented in the Urbis report seem to indicate that B-Grade buildings actually dominate the North Sydney market and that recent vacancy rates (in the order of 10%) are trending downwards. It also identifies drivers for increased demand for buildings such as a refurbished MLC Building into the future.*
>
> *Is the building owner able to clarify why it may be that its experience of the North Sydney market appears to differ from the data presented by Urbis?*

Ethos Urban is suitably qualified to respond to this question having undertaken an economic assessment on the MLC Building and the North Sydney office market as well as a review of the Urbis documentation prepared for the Heritage Council. The information outlined in this letter draws on the analysis undertaken in the previous 2020 Economic Impact Assessment as well as a recent review of the North Sydney office market prepared in 2021 as part of the IPC assessment.

1.0 Response to Question 2.

The Urbis report referred to in Question 2 from the IPC relates to the *MLC Building North Sydney Economic Assessment* prepared by Urbis in February 2021 for the Department of Premier and Cabinet NSW (the **Economic Assessment**).

Key points to note that may account for the perceived difference in conclusions and analysis of the North Sydney office market between the owner's submission and the Economic Assessment include:

1) **The Economic Assessment was based on older data that has since been updated**

   The report was prepared in February 2021, however relied on data from July 2020. There were material changes in market conditions between July 2020 and February 2021. The owner's submission relies on current data in context of a longer term trend – also identified by Urbis in the Economic Assessment - towards higher quality assets in the North Sydney market.

   The most recent Property Council of Australia (PCA) data for the North Sydney office market indicates that the vacancy rate for B Grade office stock increased from 10% in July 2020 to 24.2% by January 2021.

   At 24.2% the vacancy rate for B Grade stock is the highest of all grades in North Sydney.

2) Conclusions reached are inconsistent with the body of the Urbis report, as well as other reports prepared recently by Urbis for other parties

Inconsistency within the report

While B Grade stock accounts for a large proportion of office stock in North Sydney it is not a sign of success of the segment, but rather reflects the lack of renewal in the market. The high proportion of B Grade stock has a negative impact on the desirability of the North Sydney office market to attract and retain major commercial office occupiers. This is noted in the Economic Assessment, with commentary such as:

- *"Vacancy rates for B Grade stock recorded 10% in July 2020 and has falling demand over the last five years."*
- *"The legacy of B Grade buildings has historically held North Sydney back from attracting or retaining large tenants."*

  (p.6 – Economic Assessment)

The implication is that demand is falling, not vacancy rates, which supports a negative outlook for B Grade stock rather than a positive outlook. The data used in the Urbis Report also outlines an increase in the B Grade vacancy rate over the period between July 2019 and July 2020 where the B Grade vacancy rate increased from 6.4% to 10.0% (PCA) (*page 14, Chart 4 – Economic Assessment*).

Reference to potential drivers for B Grade occupancy in the Urbis Report reflect high level commentary relating to displaced tenants and anecdotal evidence only, including:

- *"It is noted that a number of tenants how [sic] now been displaced from the secondary market due to buildings being withdrawn for development and conversion. This could continue to drive demand for buildings such as MLC." (p.15 - Economic Assessment)*

This conclusion is not supported by recent market data and is inconsistent with observations made elsewhere in the report such as:

- *"To motivate tenants to consider North Sydney it is important to match…contemporary Premium and A Grade buildings…" (pg. 15 – Economic Assessment)*
- *"Features needed to attract…tenants: Modern A Grade and Premium [space], generous floorplates, efficient floorplates that provide for contiguous available space…" (pg. 15 – Economic Assessment)*

Inconsistency with other Urbis reports

Urbis outlines the need for the North Sydney CBD to transform with modern, quality commercial office stock in a report submitted in support of a redevelopment of existing B Grade assets (the *North Sydney Office Market Report*). This report was prepared at, or about the time, of the Economic Assessment in January 2021, however it was prepared for a private client (Stockland) as part of the application for the 110-122 Walker Street development. Commentary by Urbis in this report includes:

- *"North Sydney CBD's potential has been stifled by a lack of quality supply"*
- *"Historically the lack of supply of contemporary A Grade stock in the North Sydney CBD has been a major constraint on attracting large scale occupiers and tenants from the Sydney CBD."*
- *"The legacy of B Grade buildings has held North Sydney back from attracting large tenants and pulling from the CBD…"*

  (p.31 - North Sydney Office Market Report, January 2021).

As a result of the above, it is our view that any perceived difference in the analysis of the North Sydney office market and the viability of B grade office stock is attributed to older office market data and high level commentary that was prepared by Urbis. It is clear through the latest available data, as well as other assessments prepared by Urbis in North Sydney, that B Grade office stock faces challenging conditions and is not a desirable product or preference for major occupiers which focus on modern, quality office space.

Yours sincerely,

Lee Cikuts
Director
[redacted]

ANNEXURE D – NDY ADVICE ON BUILDING SERVICES AND TENANT FLEXIBILITY

CONSULTANT ADVICE

Project:	105 Miller Street			CAN No:	G-002[1.0]
Date:	28 April 2021	Project No:	26644 - 015	Pages:	2

NDY Response to IPC Query

We have reviewed the query received from IPC via Investa Property Group and provide the following commentary on 105 Miller Street's existing mechanical engineering systems in relation to its limitations against current code requirements and provision of tenant flexibility.

IPC Query

- *Acknowledging that this may impact future tenancy flexibility, can the owner clarify whether it is nevertheless physically possible to replace the existing air conditioning services without significantly impacting the placement of the fire rating, the floor-to-ceiling heights and floor thicknesses? [Note that PTW considers that this appears to be the case (page 14) based on the DA drawings and information gathered from a 1998 refurbishment].*

NDY Response

Summary

The mechanical services would require a significant upgrade to comply with the requirements of PCA 3rd Edition Premium Building, NCC 2019 and Australian Standard requirements due to the existing design and age of the equipment. These services could be replaced by new, more efficient equipment, however the existing building fabric and building arrangement will limit the ability to install energy efficient services typical of new buildings.

The efficiency of the existing mechanical systems and the opportunity for tenant led changes are limited by the existing façade, floor-floor heights and the existing risers. For example, to upgrade the existing supply air ductwork on the occupied floors, this would entail removal of all penetrations through the fire rated slab which would affect the slab's fire rating.

NCC 2019 Requirements

The building would not comply with the current provisions of the NCC2019 and should upgrade works be considered, the building would be subject to substantial upgrades to achieve reasonable compliance with the current requirements and would impact the existing floor slabs, ceiling heights and the like.

PCA Requirements

The current mechanical services do not provide adequate zoning and provisions suitable for tenant's expectations of a PCA Premium & A Grade building. With the existing limitations of the façade, ceiling heights and slab structure, it would appear unfeasible for the mechanical services to meet majority of the PCA Grade requirements even if they were upgraded.

Conclusion

In conclusion, it appears unfeasible to upgrade or replace the existing air conditioning systems without significantly impacting the fire rating, floor-to-ceiling heights and floor thicknesses.

Should you have any queries, please do not hesitate to contact the undersigned.

NORMAN DISNEY & YOUNG

Ashish Kulkarni | Associate Director

[redacted]