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Mr Henry Wong
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16 December 2013

Dear Henry

Manly 2015: Manly Oval Car Park – KPMG Financial & Commercial Review of Manly Council Analysis

Basis of preparation

KPMG was engaged by Manly Council to perform a financial and commercial review of Manly Council's analysis in relation to certain elements of its Manly 2015 Masterplan. This document contains a high level summary of our key observations.

Our work has been performed in accordance with our engagement contract dated October 2012. Our work commenced in October 2012 and was carried out up to 11 December 2013. We have not undertaken to update this summary report for events or circumstances arising after 11 December 2013.

We do not make any statement in this report as to whether any forecasts or projections included in this report will be achieved, or whether the assumptions and data underlying any prospective financial information are accurate, complete or reasonable. We do 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.

The information presented in this report is based on that made available to use in the course of our work. 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.

This summary report has been prepared exclusively for Manly Council in relation to its analysis of its 2015 Masterplan and is not suitable for use by any other party or for any other purpose.

No reliance

This summary report should not be regarded as suitable for use by any person or persons other than Manly Council.

No party, other than Manly Council, may rely on this summary report. If you are a party other than Manly Council, KPMG:

- owes you no duty (whether in contract or in tort or under statute or otherwise) with respect to or in connection with this summary report or any part thereof;
- will have no liability to you for any loss or damage suffered or costs incurred by you or any other person arising out of or in connection with the provision to you of this summary report or any part thereof, however the loss or damage is caused, including, but not limited to, as a result of negligence.

If you wish to rely upon this summary report or any part thereof you will do so entirely at your own risk.

Thank you for the opportunity to further assist Manly Council with the Financial & Commercial review of your analysis of the Manly Oval car park.

We have carried out a further Financial and Commercial Review of the Council analysis relating to the proposed car park beneath Manly Oval, including an update to the assessment of a Council funded option and also whether the car park could be delivered under a Public Private Partnership (PPP) arrangement.

1. Background – May 2013 Assessment

In May 2013, KPMG completed a Financial and Commercial Review of the proposed Manly Oval car park development based on information available at that point in time.

Our review as at May 2013 was based on KPMG's knowledge of typical suburban car park revenue information and utilised cost estimates provided by Altus Page Kirkland and Cardno; adopting our own cost assumptions where appropriate.

Under the Council funded option, Council was to fund the development entirely with Council funds ("equity"). Our modelling indicated that the total return over a 20 year period under this scenario would equate to approximately 12.9%. This return was 7.9% above the Councils assumed cost of funds of 5%, representing the profit on development, over and above the Councils cost of equity.

Our previous review indicated that a PPP arrangement would not be financially attractive for a developer/operator based on the resultant returns of 14.3% with the benefit of a terminal value in year 20, or 10.9% without the benefit of a terminal value in year 20.

The following table summarises the estimated returns for the project under the Council funded and PPP options as per our previous review in May 2013:

Scenario	Council IRR%	PPP IRR%
Council Funds car park with 100% equity	12.9%	
Private sector funds car park and retains ownership		14.3%
Private sector funds car park with ownership reverting to Council after 20 year concession period.		10.9%

2. Financial Summary – December 2013 Assessment

In undertaking our most recent analysis we have reviewed and relied upon the following documentation provided by Manly Council:

- *Manly 2015: Presentation to Little Manly Precinct*, 17 March 2011
- *Manly Oval Underground Car Park Budget Estimate Rev.2*, WT Partnership, 21 October 2013.
- *Skidata 11-2012 10-2013 by month day evening fractions*, Manly Council, November 2013.
- *Manly Oval Car Park Demand Forecasting Study*, Bitzios Consulting, November 2013.

On the basis of the above documentation, KPMG has updated its analysis of the development scenario proposed by Manly Council and analysed the cash flows to determine the financial feasibility and potential for private sector involvement.

Table 1: Changes to model assumptions and resultant movement in IRR for Council funded and PPP models

The table below indicates the changes that have been made to the Council funded and PPP models and also provides the resultant movement in the IRR for the Council funded model.

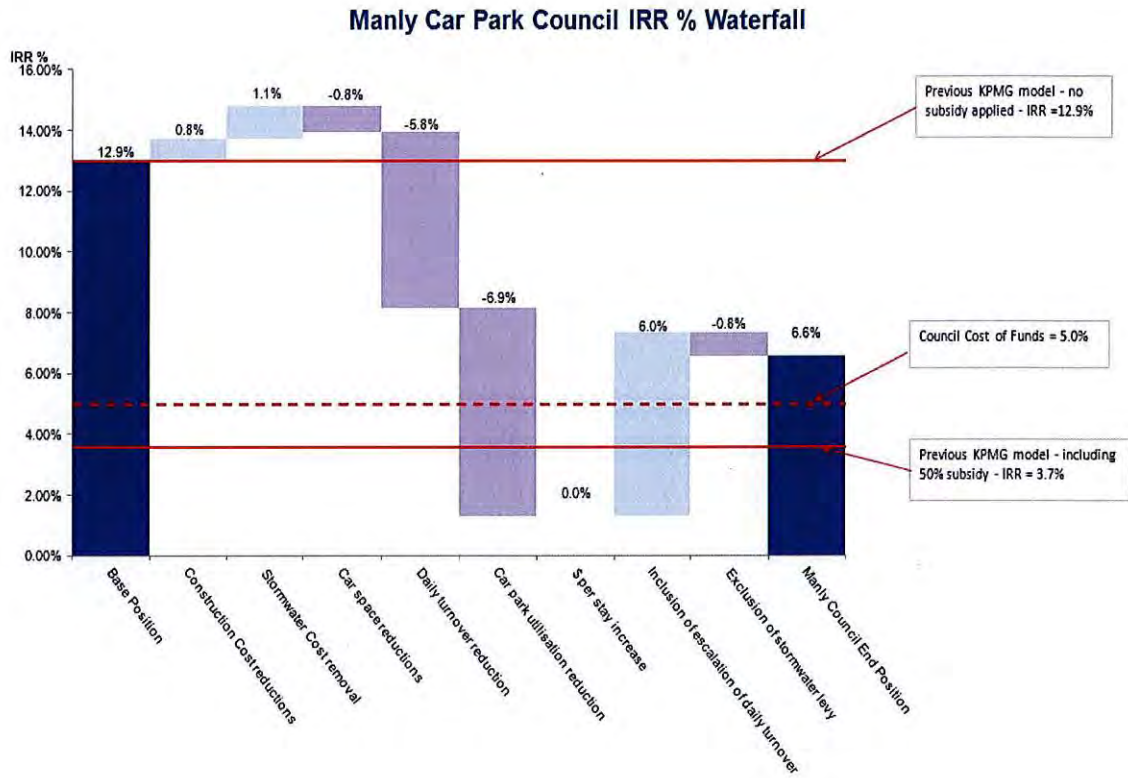
	Assumption	Change From	Change To	Council Funded Model		
				Shift in IRR	Resultant IRR%	movement
Base as at May 2013					12.9%	-
Timing	Model Start Date	1-Jul-13	1-Jul-14	No change	12.9%	0%
	Construction Start Date	1-Jan-14	1-Oct-14	No change	12.9%	0%
Cost Assumptions	Base Construction Cost	\$34.3 m	\$30.4 m			
	Professional Fees	\$1.71 m	\$1.375 m	Increase	13.7%	0.8%
	Contingency	\$3.43 m	\$1.86 m			
	Grant Funding	(\$3.43 m)	Nil			
	Stormwater cost	\$2.85 m	Nil	Increase	14.8%	1.1%
Revenue Assumptions	Car spaces	800	760	Decrease	14.0%	-0.8%
	Daily turnover	2.3 cars	1.55 cars	Decrease	8.2%	-5.8%
	Utilisation	50%	30%	Decrease	1.3%	-6.9%
	\$ per hour/stay	\$7 per hour	\$14 per stay	No Change	1.3%	0%
	Escalate Daily turnover	Nil	3.5% per annum	Increase	7.3%	6.0%
	Stormwater levy	\$200,000	Nil	Decrease	6.6%	-0.8%
End position for Council Funded model as at December 2013					6.6%	

Based on the updated cost and revenue assumptions presented in Table 1 above, the PPP models provide the following IRR results:

PPP Scenarios	Resultant IRR%
PPP model – ownership reverting to Council after 20 years	-5.8%
PPP model – private sector retains ownership	1.9%

Graph 1: Movement in IRR for the Council funded model

The graph below indicates the movements in IRR to the Council funded model as a result of the cost and revenue changes contained in Table 1 above.



3. Manly 2015 Masterplan

Manly 2015 is a strategic, forward thinking and sustainable Masterplan for the Manly CBD. The Masterplan aims to improve, renew and capitalise on Manly as a local town centre and international destination for the current and future community.

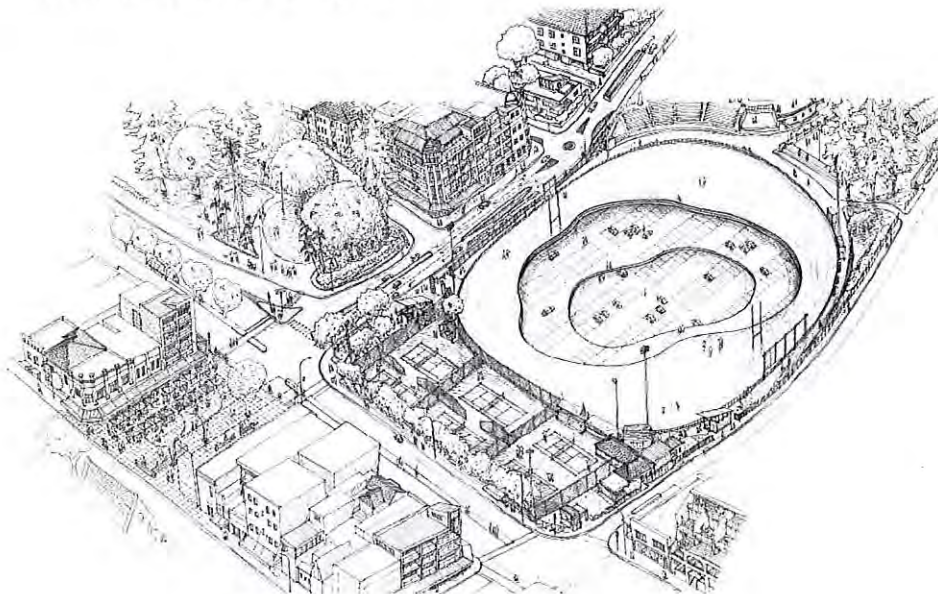
The plan is essentially a vision for improvements to the public domain and streetscape as well as a reconfiguration of traffic – all with the aim to renew the Manly Town Centre for the coming decades with long-term infrastructure benefits for the local environment, economy and community.

The Manly 2015 Masterplan is made up of seven key elements:

1. Gateway Plaza (current intersection of Sydney Road and Belgrave Street)
2. Grand Boulevard (Belgrave Street)
3. Village Centre (Market Place/Manly Library and Whistler Street)
4. North Quarter (incorporating Raglan Street, Central Avenue, Short Street and Henrietta Lane)
5. High Street (Sydney Road)
6. Beach Terrace (Ocean end of The Corso)
7. Manly Oval (incorporating a new underground car park)

4. Manly Oval Car Park – Project Overview

The focus of our analysis in this report is the Manly Oval car park. This component of the Manly 2015 Masterplan involves the relocation of the Whistler Street car park. The new purpose built car park incorporating 760 spaces will be located under Manly oval. Entry and egress points will be located on Sydney Road only – the below diagram shows two points of entry, however this has been updated since our last analysis.



5. Manly Oval Car Park – Construction Costs

5.1 Base Build

The base build cost for the car park, inclusive of preliminaries and site preparation has been estimated by WT Partnership at \$30.4M, which equates to an average build cost of **\$40,031 per space** based on the 760 spaces. This construction estimate is generally consistent with KPMG's experience with car park construction and the industry rule of thumb of \$45k per space for a sub grade car park over two levels.

We have been advised by Council that the adopted base build assumption of \$40,031 per space is supported by the fact that there is limited below ground risk on the subject property.

5.2 Professional Fees

WT Partnership has adopted **\$1,375,000** in total for Professional Fees, which equates to **approximately 4.5%** of construction costs. This rate is at the lower end of what would be considered an appropriate range for Professional Fees, but reflects the relatively simplistic design and delivery requirements.

5.3 Contingency

WT Partnership has adopted a contingency amount equal to **6.0%** of construction costs.

Construction contingencies generally range from 5% to 10% of total construction cost depending on the complexity of construction and the perceived risks involved with completing a development. The construction of a car park is relatively straight forward and we have been advised that there is limited risk associated with the proximity of the construction to the water table.

6. Manly Oval Car Park – Revenue

We have been provided with the following two documents to assist with obtaining more accurate revenue data for the proposed car park:

- *Manly Oval Car Park Demand Forecasting Study*, Bitzios Consulting, November 2013.
- *Skidata 11-2012 10-2013 by month day evening fractions*, Manly Council, November 2013.

Table 2: Revenue Calculation description

The table below provides the method for calculating the annual revenue for the proposed Manly Oval car park and also the description for each of the assumptions contained in the calculation

Item	Adopted rates	Cumulative Calculation	Description/Analysis
No. Of Spaces	760	760 car spaces	The total number of car parks to be provided in the proposed Manly Oval car park has been provided by Council.
Avg Daily Turnover	1.55	1,178 cars per day	<p>The <i>Manly Oval Car Park Demand Forecasting Study</i> provided information on the likely patronage in the proposed car park redevelopment. As at 2013, patronage has been estimated at 1,178 vehicles per day. Based on a 760 space car park, this is producing an Average Daily Turnover of approximately 1.55.</p> <p>The demand study also provided an indication of likely demand up until 2020 based on the uplift in retail and commercial Gross Floor Area in the Manly business centre. From this we have extrapolated out an average percentage increase in patronage and on this basis average daily turnover has been escalated by 3.5% per annum.</p>
Avg Daily Utilisation	30%	353 cars per day	<p>The <i>Skidata 10-2012 10-2013</i> provided sufficient information to determine an average daily utilisation for the existing Whistler Street car park, which resulted in approximately 30% of the total vehicles entering the car park contributing to revenue i.e. 70% of vehicles that enter the car park utilise the 2 hours free parking currently being offered by Council.</p> <p>This results in approximately 353 cars per day staying for longer than 2 hours</p>
Avg Revenue per stay	\$14	\$4,948 per day	<p>The <i>Skidata 11-2012 10-2013</i> provided the average revenue per stay currently being paid for the existing Whistler Street car park, including casual and contract users, which equated to approximately \$14 per stay or \$4,948 per da.</p> <p>Given that this is the most detailed and accurate revenue information that we have for the car parking in Manly, we have adopted this rate for the purpose of our analysis.</p>
Revenue per annum		\$1,805,874 per annum	No. Of Spaces x Avg Daily Turnover x Avg Daily Utilisation x Avg Revenue per stay x 365 = Revenue per annum

7. Funding Structure

Our financial modelling has assumed two alternative funding structures:

- 1 The car park is funded by Manly Council entirely by equity.
- 2 The car park is funded by the Private Sector using a mix of equity, senior debt and sub debt at commercial rates.

7.1 Council Funded (Equity)

This Council Funded scenario assumes the Manly Council funding the project entirely with equity.

Source of Funds	% of Capital	Term of Funding	Cost of Funds
Equity	100.0%	50 Years	5.00%

7.2 PPP Funded

The Private funding model assumes a mix of equity and debt as follows:

Source of Funds	% of Capital	Term of Funding	Cost of Funds
Equity	50%	N/A	18 - 20%
Senior Debt	50%	20 Year Average	7.75%

- A cost of equity benchmark hurdle rate of 18-20% based on our experience with privately funded infrastructure projects.
- Debt assumptions are consistent with industry standards and real examples of financing sector in the private sector for specialised assets of this nature.
- A main factor limiting the level of debt relates to the interest or Debt Service Cover Ratios imposed by banks. Our cashflows base this assumption on an IER of 1.5x in line with industry expectations.

7.3 Financing Fees

The following assumptions have been made regarding the costs to establish financing facilities and the ongoing fees associated.

Fee	Rate
Establishment Fee	1.5%
Commitment Fee	1.0%
Annual Fee	\$3,000 /p.a

These assumptions are consistent with industry standards and real examples of financing in the private sector.

7.4 Timing

The following table details the key dates used in the financial modelling. The timing of the construction and operating periods determines the funding requirements of the project.

	Start Date	End Date	Period
Construction Period	1 Oct 2014	30 Sep 2015	1 Year
Operating Period	1 Oct 2015	31 Dec 2033	(20 years cash flow only modelled)

8. Results and Findings

As noted in Section 2 of this report, there were changes made to the revenue and cost assumptions that formed the basis of our previous assessment in May 2013. This in turn has affected the resultant IRR calculations for the Council funded and PPP models.

Table 3: Description of Cost and Revenue Changes

The following table provides a brief description of each of the changes made to the models to derive the end position under the Council funded option and also the PPP models.

Assumption	Description of Change	
Construction Cost Reductions	Construction Cost	Updated costings were provided by WT Partnership for the base build, professional fees and contingency. The costings provided were adopted for the purpose of our analysis. Grant Funding has been taken out of the modelling assumptions at the request of Manly Council.
	Professional Fees	
	Contingency	
	Grant Funding	
Stormwater Cost Removal	Stormwater cost	We have excluded the cost of the stormwater retention tank at the request of Manly Council.
Car Space Reductions	Car spaces	We have been advised that the car park size has reduced to 760 spaces. Updated costing data is based on 760 spaces.
Daily Turnover Reduction	Daily turnover	Daily turnover has been derived from a car park demand study undertaken by Bitzios Consulting, which was provided by Manly Council. The analysis of this data indicated that a lower daily turnover rate should be applied to the proposed Manly Oval car park.
Car Park Utilisation Reduction	Utilisation	The utilisation has been calculated from existing car park data provided by Manly Council for the Whistler Street car park. The utilisation is a function of the number of cars entering the car park that stay longer than 2 hours.

Assumption		Description of Change
\$ per Stay Increase	\$ per hour/stay	Based on data provided by Manly Council for the existing Whistler Street car park, we have calculated the weighted average amount.
Inclusion of Escalation of Daily Turnover	Escalate Daily turnover	The utilisation has been calculated from existing car park data provided by Manly Council for the Whistler Street car park.
Exclusion of Stormwater Levy	Stormwater levy less operating costs	All costs and revenues related to the stormwater component have been removed from our updated analysis.

8.1 Council Funded Model

Under the Council Funded option, the Council funds the development entirely with equity. Our updated modelling indicates that the IRR over a 20 year period under this scenario would be approximately **6.6%**.

This return is **1.6% above the Council's cost of funds of 5%**, representing the profit on development, over and above the Council's cost of equity.

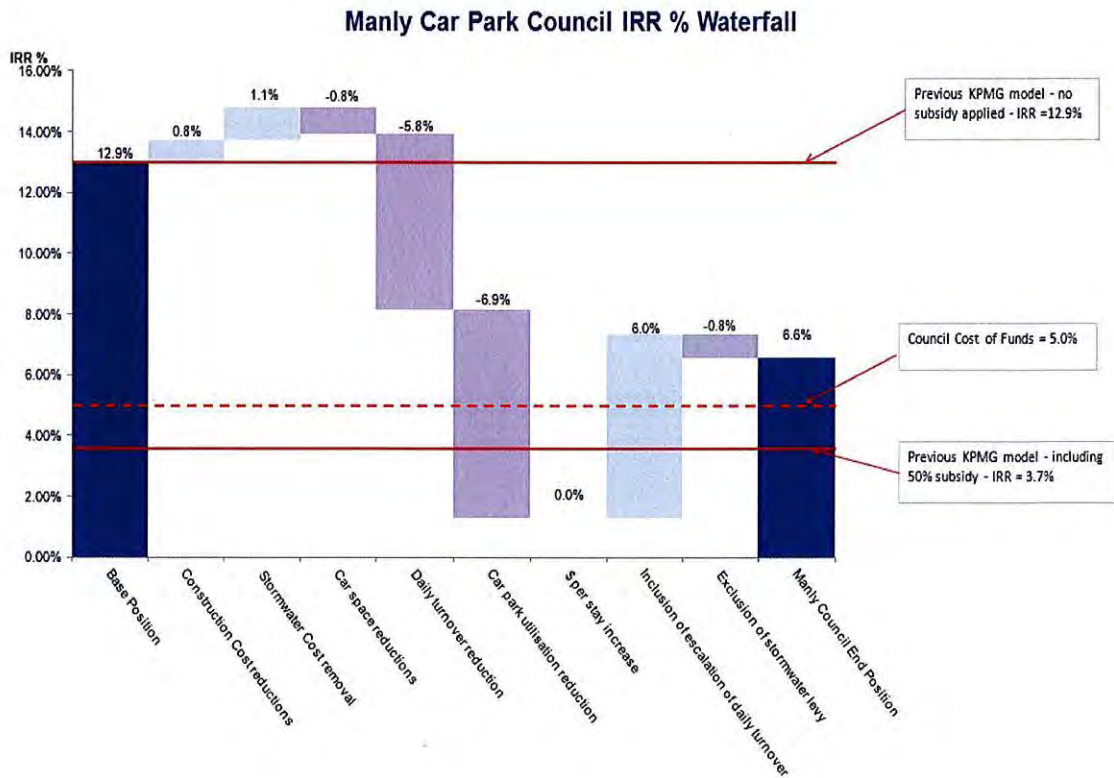
As previously mentioned in Section 2 of this summary report, the updated modelling produces a lower IRR for the Council funded model than that previously presented in May 2013. The breakdown of these changes in IRR is presented in the table below.

The table below shows the specific changes that occurred to the cost and revenue assumptions adopted and also the resultant movement in the IRR for the Council funded model.

	Assumption	Change From (May 2013)	Change To (December 2013)	Council Funded Model		
				Shift in IRR	Resultant IRR%	% movement
Construction Cost Reductions	Construction Cost	\$34.3 m	\$30.4 m	Increase	13.7%	0.8%
	Professional Fees	\$1.71 m	\$1.375 m			
	Contingency	\$3.43 m	\$1.86 m			
	Grant Funding	\$3.43 m	Nil			
Stormwater Cost Removal	Stormwater cost	\$2.85 m	Nil	Increase	14.8%	1.1%
Car Space Reductions	Car spaces	800	760	Decrease	14.0%	-0.8%
Daily Turnover Reduction	Daily turnover	2.3 cars	1.55 cars	Decrease	8.2%	-5.8%

	Assumption	Change From (May 2013)	Change To (December 2013)	Council Funded Model		
				Shift in IRR	Resultant IRR%	% movement
Car Park Utilisation Reduction	Utilisation	50%	30%	Decrease	1.3%	-6.9%
\$ per Stay Increase	\$ per hour/stay	\$7 per hour	\$14 per stay	Increase	1.3%	0%
Inclusion of Escalation of Daily Turnover	Escalate Daily turnover	Nil	3.5% per annum	Increase	7.3%	6.0%
Exclusion of Stormwater Levy	Stormwater levy less operating costs	\$200,000	Nil	Decrease	6.6%	-0.8%
End position for Council Funded model as at December 2013					6.6%	

The below graph, which is also presented in Section 2 of this summary report, indicates the movement in IRR to the Council funded model as a result of the cost and revenue changes.



8.2 PPP Funded Model

Our PPP modelling assumes potential commercial funding of the transaction – which is naturally a very difficult proposition in today’s market (especially when considering that both construction risk and demand risk would be key components).

We have modelled two PPP scenarios – one where the car park ownership reverts back to the Council at the end of the concession period, and one where the car park remains in private hands (which allows us to include a terminal value).

If applying commercial PPP funding assumptions, which assume the car park is funded 50% through debt, the return on equity to a private investor would be **-5.8%** (assuming ownership of the car park reverts to the Council at the end of the concession period) or **1.9%** (assuming the car park remains under private sector ownership at the end of the concession period)

These forecasted returns mean, quite simply, that this project would be highly unlikely to proceed as a “normal” PPP-type arrangement (given the **commercial requirement would be around 18 - 20%**). This conclusion is not unexpected and reflects our previous discussions with Manly Council.

Neither of the PPP funded options therefore prove to be commercially feasible in today’s market.

9. Summary

The following table presents the potential return to Council and the private sector:

Scenario	Council IRR	Private Sector IRR
Council Funds car park with 100% equity	6.6%	-
Private sector funds car park with ownership reverting to Council after 20 year concession period.		-5.8%
Private sector funds car park and retains ownership		1.9%

Under a Council funded model, which assumes the capital cost is funded entirely with equity, the financial analysis conducted shows a **20 year IRR of 6.6%**, based on the stated assumptions. This compares with a **20 year IRR of 1.9%** under the Private Sector funding model (where the private sector retains ownership).

Whilst the IRR for the project is higher under the Private sector funding model, this level of return would not be acceptable to a Private developer. Our experience with infrastructure projects of this nature indicates that a **minimum return of 18%-20% would be required in order for the project to be commercially feasible.**

Given that Manly Council’s cost of funds is 5%, under a 100% equity model, the project potentially exceeds the required return.

We are pleased to further assist Manly Council with the Manly Oval Car Park Analysis. Please do not hesitate to contact us if you require any further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Brooke', written in a cursive style.

Graham Brooke
Partner