

# Report on Reasonable or Economic Use

Redevelopment Project at 10 Little Chapel Street, Prahran  
(Former Rechabite Hall)

Report to Heritage Victoria

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SC Lennon & Associates

economics • planning • policy • strategy



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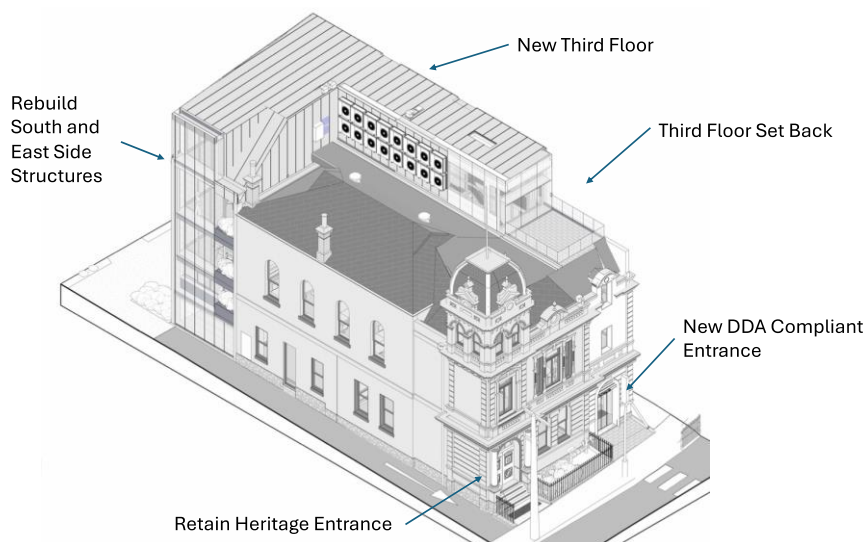
## Executive Summary

### This Report

SC Lennon & Associates was commissioned by Australiawide Melbourne Pty Ltd to prepare this report to Heritage Victoria on issues relating to 'reasonable or economic use' arising from Section 101 of the *Heritage Act 2017*. It relates to a proposal for a redevelopment project at 10 Little Chapel Street, Prahran (Former Rechabite Hall).

### The Proposal

The proposal is to fully refurbish the building's heritage fabric and to partially demolish and replace the 1980s additions on the south and east sides of the original building. A new third floor is proposed with a setback to Little Chapel Street. This will provide the additional floorspace that is necessary to achieve financial viability. Vertical circulation will be provided in the southern addition with Disability Discrimination Act (DDA) compliant access via a new entrance. The existing historical entrance will be retained.



### Heritage Significance

The subject site is included on the Victorian Heritage Register identification number H0575. The Former Rechabite Hall is of historical significance as a rare surviving example of a hall erected by one of the many friendly societies and Temperance movements, which played such an important role in 19th-Century Melbourne.

The building is of architectural significance as an outstanding example of the work of Colin Campbell, and, with its elaborately decorated facade, has been a notable local landmark since 1889, and an important component in the vista from Carlton Street. The interior of the main hall in general retains its original Keen's cement wall finish, trabeated wall surfaces and coffered ceiling, all of which contribute to its status as perhaps the grandest surviving Rechabite Hall.

### Development Options

Three development options or 'scenarios' may be compared based on a simple 'terminal return' method. This is based on estimating the value created in three scenarios and comparing it to the cost of the project.

The results of this analysis are:

- **Scenario 1 – Business as Usual** performs very poorly and is in fact an unsustainable outcome.
- **Scenario 2 – The Proposal** provides a substantially better result but is still negative.
- **Scenario 3 – The Proposal Minus Level Three** performs less well than Scenario 2 due to the reduction in leasable space.

Given all three scenarios are negative, an alternative approach was taken, based on assuming the development is done by a 'patient investor' - one who takes a long-term view relying on capital gains to achieve a return. Modelling of these scenarios was undertaken on a discounted cash flow basis where the test of viability is the Internal Rate of Return (IRR) on the profit/loss stream. Financial performance relies on an assumption of strong real rental growth over time. The results indicate that:

- **Scenario 1 – Business as Usual** has a negative IRR [REDACTED] and has a substantially negative cash flow for the life of the investment. This is clearly an unsustainable situation, and the investor would be in a better position by simply abandoning the building.
- **Scenario 2 – The Proposal** has an IRR of [REDACTED] which is an acceptable return [REDACTED].
- **Scenario 3 – The Proposal Minus Level Three** has an IRR of [REDACTED] which is well below the industry benchmark and indicates a project 'not worth doing'.

The analysis suggests that the proposal (with Level 3) is potentially financially sustainable and can achieve a highly beneficial conservation outcome. Deleting Level 3 would severely compromise the prospect of achieving this outcome and doing nothing is not an option as the building would inevitably fall into decay.

## On Reasonable Use

### Reasonable use is not affected by refusal if a place can be used without the proposed changes

The place can continue to be used for a boutique office in the hall and for low standard / low rent uses in the dysfunctional 1980s addition areas. However, non-DDA compliance is a major issue. Whether the place can continue to be used is an economic use issue – dealt with below.

### The historic, recent and current uses of the registered place or object

The historic use as a hall has ceased and the place has been used for offices for over 40 years. Currently the dysfunctional 1980s addition areas are let for short-term low-rent office and related uses. Vacancy rates for these spaces are high with high tenant turnover.

### Other compatible uses of the registered place or object

The historic use as a hall has ceased and while this could ostensibly be revived, the dysfunctional 1980s addition areas and the lack of DDA compliance pose major obstacles to this occurring.

### The context and setting within which the place or object is located

While the immediate site surrounds may be viewed as 'low amenity' the general area is considered to be of high value and is becoming more attractive to residents and businesses over time.

### Refusal to enable a change of use may affect reasonable use if the historic use is obsolete

Use of the place has already changed from a hall to office use. It is a reasonable proposition that this use be perpetuated as it affords opportunities for people to appreciate the building's heritage values.

### Refusal to upgrade facilities to meet standards may affect reasonable use

The extent of current DDA non-compliance is extreme including at the historic entrance and the near impossibility of persons with disabilities moving from one level to another. The proposal will address



these issues with a new DDA compliant entrance and lift access internally. The full footprint of the southern section is required to integrate these facilities.

### **Conclusion on Reasonable Use**

Continued use of the building for offices is a reasonable use but this requires a major upgrade of the spaces for functionality and DDA compliance.

### **On Economic Use**

#### **Is the Proposed Use Financially Viable?**

In terms of a conventional financial analysis, the proposal is not financially viable as the value created (based on projected rental income and yield rate) falls short of the investment. Only if the investment is viewed from the perspective of a 'patient investor' taking a long-term view, can a positive result be envisioned. Such a result relies on strong real growth (i.e. over inflation) in rental income. Investors of this type are a rare commodity; therefore, the proposal should be viewed as an opportunity to conserve a valuable heritage asset that might otherwise not occur.

#### **The Need for the Works as Proposed**

The works are needed to ensure that a valuable heritage asset is conserved. The current situation is that rental income does not cover costs, and this will result in under spending on maintenance and capital renewal, leading ultimately to deterioration of the building fabric.

#### **Will the Works Facilitate an Economically Sustainable Use?**

The works will enable the building to re-position itself in the local office market from low standard / low rent to 'A Grade'. Hence premium rents may be attracted, and strong real rent growth is anticipated. This is essential to ensure financial sustainability. The third-floor addition is an essential component of financial viability. Without this additional rentable floorspace financial viability is severely threatened.

#### **An Applicant May be Required to Provide Evidence of Economic Impact**

This report responds to Heritage Victoria's request for a 'statement' on economic or reasonable use.

### **Conclusion on Economic Use**

As has been stated above, in terms of a conventional financial analysis, the proposal is not financially viable as the value created (based on projected rental income and yield rate) falls short of the investment. Only if the investment is viewed from the perspective of a 'patient investor' taking a long-term view, can a positive result be envisioned. Such a result relies on strong real growth (i.e. over inflation) in rental income. Investors of this type are a rare commodity; therefore, the proposal should be viewed as an opportunity to conserve a valuable heritage asset that might otherwise not occur. The third-floor addition is an essential component of financial viability. Without this additional rentable floorspace, financial viability is severely threatened.

### **Striking the Right Balance**

Heritage Victoria has communicated the following:

*Heritage Victoria would require information regarding the economic viability of the building in its existing form and how any changes (such as the proposed additional floor) in form will ensure the future conservation of the heritage values of the place.*

A 'balance' must be struck between cultural heritage objectives and matters pertaining to reasonable and economic use. In the current case, a trade-off of heritage values is not required. The heritage outcome (based on the heritage assessment) is demonstrably appropriate. The development as proposed will achieve Heritage Victoria's objective to conserve the heritage values of the place.

# 1. Introduction

## 1.1 The Brief

SC Lennon & Associates has prepared this report on behalf of Australiawide Melbourne Pty Ltd to Heritage Victoria on issues relating to 'reasonable or economic use' arising from Section 101 of the *Heritage Act 2017*. This report relates to a proposal to upgrade and renovate and reconstruct part of the existing heritage-listed building at 10 Little Chapel Street Prahran for contemporary office use.

This report deals with the application as submitted and principally addresses matters arising from Part 5, Division 2 of the *Heritage Act 2017* pertaining to 'reasonable and economic use'. It also addresses the Heritage Victoria Policy on Reasonable or Economic Use (June 2021).

### ***Heritage Act 2017 No 7 of 2017***

#### **101 determination of permit applications**

(2) In determining whether to approve an application for permit, the Executive Director must consider the following:

(a) the extent to which the application, if approved, would affect the cultural heritage significance of the registered place or registered object.

(b) the extent to which the application, if refused, would affect the **reasonable or economic use** of the registered place or registered object.

## 1.2 The Subject Site

The subject site is located at 10 Little Chapel Street, Prahran (formerly 10 Clarence Street, Prahran) in the City of Stonnington (local government area). The former heritage listed Rechabite Hall located on the site was constructed in 1888-1889. Additions were made to the building in the 1980s on the south and east sides of the hall. These additions are dysfunctional, and the proposal is to replace part of the 1980s additions to create contiguous and more functional floor plates.

The buildings on the site are relatively isolated with tennis courts to the south and open carparking to the north – all owned and operated by the City of Stonnington. Civic buildings are located to the rear.

The main hall, which has been refurbished, is occupied by boutique offices, and there are miscellaneous tenancies and vacancies in the compartmentalised spaces in the 1980s additions.



Figure 1. Site Location



Source: trethowan Schematic Design, December 2024

Figure 2. Subject Building



Source: trethowan Schematic Design, December 2024



**Figure 3. Views from Upper Level to North and South**



Source: SC Lennon & Associates

**Figure 4. Interior Spaces – 1980s Section**



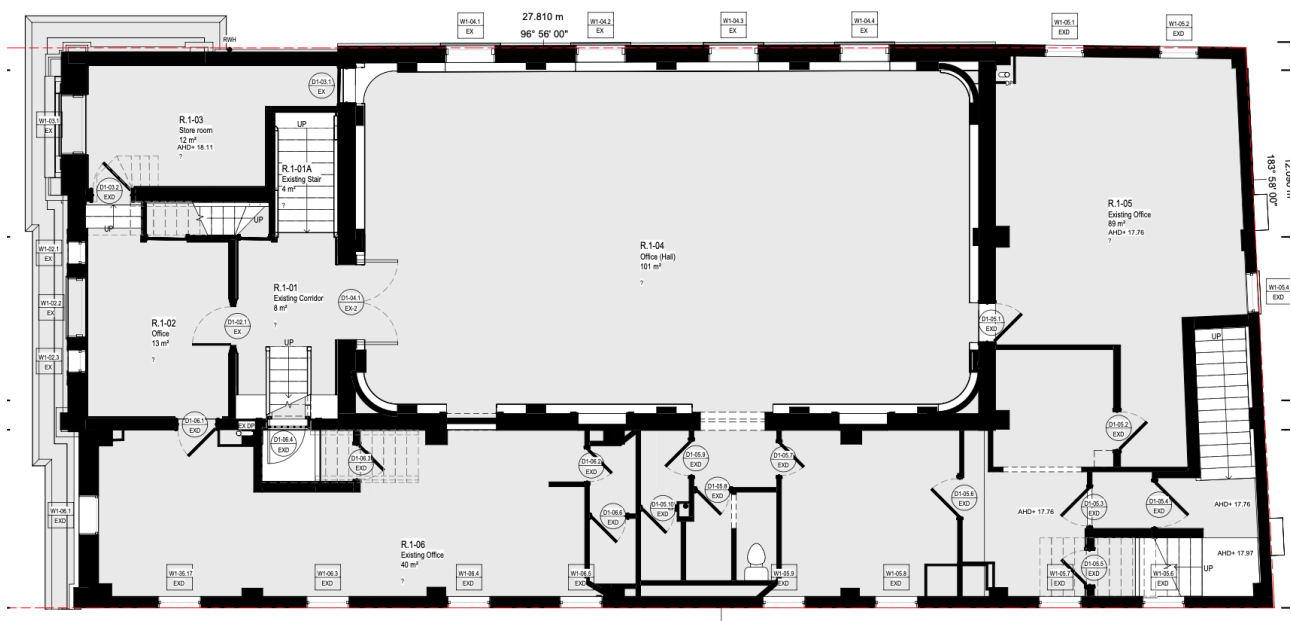
Source: SC Lennon & Associates

These photos show the restricted spaces and the level changes.

The existing building may be described as follows:

- At the basement level, there is car parking and storage with entrance from the north side.
- At the ground floor level, there is the original entrance stairs from the street and two office spaces with various stairs between and to other levels.
- At the upper ground floor level, there are various compartmentalised spaces.
- At the first-floor level, there is the original hall space (currently used for boutique offices) and on the south side and the east side there is the 1980s additions with compartmentalised spaces and various floor levels.
- At the second-floor level, there is a void over the hall and more compartmentalised spaces.

**Figure 5. First Floor Plan**



Source: trethowan Schematic Design, December 2024

### 1.3 History and Heritage Significance

The first benefit (mutual or friendly) societies formed in Australia during the 1830s by tradesmen and skilled workers in order to provide health, medical and funeral benefits. Victoria's first Tent of the Independent Order of Rechabites was opened in 1847. By 1856, the order claimed 856 lodges and over 56,000 members throughout Australia. In Victoria, in 1888, the order claimed 10,000 members. There have been 14 Rechabite Halls documented in Victoria in the 1880s.

The subject site is included on the Victorian Heritage Register as Former Rechabite Hall at 10 Little Chapel Street, Prahran (formerly 10 Clarence Street, Prahran) in the City of Stonnington - Property No B4686 and given the identification number H0575 on the Victorian Heritage Register.

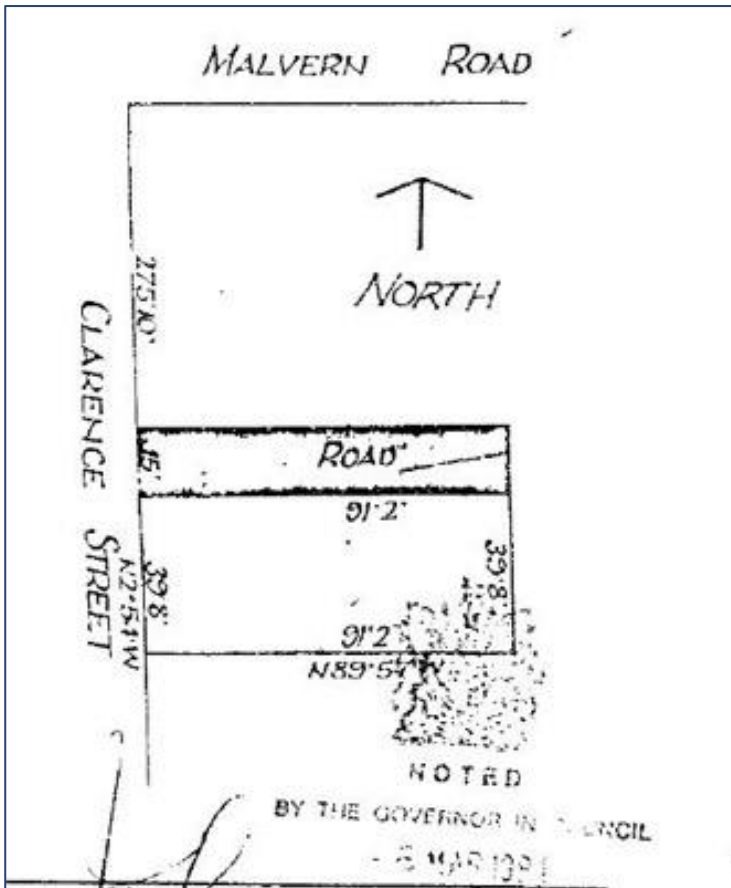
The extent of registration is to the whole of the building and the whole of the title, Volume 6480 Folio 915 (Victoria Government Gazette No. 32 14 March 1984 p. 822). Figure 6 overleaf shows the extent of registration for H0575.

The following Statement of Significance for H0575 derives from the Victorian Heritage Database:

**What is significant?**

*'The Former Rechabite Hall was constructed in 1888-1889 to the design of Colin Campbell by the builder Henry Slade. The Hall is a modest-sized building in the Second Empire style, with a large mansarded tower and typical elements such as heavily drafted render on the ground floor (resembling stone), an elaborate tripartite window on the upper floor, decorative elements such as consoles, pilasters and festoons and balustraded parapets broken by eclectic pediments. Bluestone was used for the base courses, and prominence is given to the entrance by a pair of highly polished Harcourt granite columns.'*

**Figure 6. Heritage Registration**



Source: Victorian Heritage Database

**How is it significant?**

*'The Former Rechabite Hall is of historical and architectural significance to the State of Victoria.'*

**Why is it significant?**

*'The Former Rechabite Hall is of historical significance as a rare surviving example of a hall erected by one of the many friendly societies and Temperance movements which played such an important role in 19th-century Melbourne. There is only a handful of such halls remaining in Victoria, and only two or three of them are Rechabite halls. This one is probably the finest surviving example, with particularly distinguished external and internal detailing, reflecting the wealth and influence of the Independent Order of Rechabites (IOR), which was reputedly the wealthiest and most famous of the Temperance organisations. In 1888 the IOR in Victoria claimed to have 10,000 members.'*

*The Prahran hall was constructed for the Perseverance Tent No.34 of the IOR at a cost of nearly £4,000. It replaced an earlier 1871 Prahran Rechabite Hall on the site. The Rechabites, like other similar organisations, served as a mutual assistance and moral improvement organisation, advocating abstinence, paying sick leave to its members, and arranging mortgages for members to help them purchase properties. The cooperative and supportive role of the Rechabites was emphasised by the fact that the contractor, Clerk of Works, designers of the furnishings and suppliers of the gasoliers and brackets for this building were all members of the Order.*

*The Former Rechabite Hall is of historical significance as a symbol of the influence of the temperance movement, and particularly of one of its most notable members, James Munro. By the late 19th century the temperance movement had a significant influence on Victorian political and social life, with a number of prominent politicians active in temperance organisations.*

*James Munro (1832-1908) was one such politician who used the Prahran Rechabite Hall as his power base in the Rechabite Order. One of the best known of the land boom generation of developers and politicians, Munro was premier of Victoria prior to the collapse of his personal fortunes and bankruptcy in 1893. As Victorian District Chief Ruler of the Order, his career exhibited the close ties between Temperance organisations, building societies and land speculation that underlay the boom of the 1870s and 1880s. The substance and style of the Prahran Rechabite Hall are clear indicators of the prominence of the Prahran Tent of the Order. When completed, it was claimed "that no Tent in the Order, or indeed any other order, meets in a more sumptuously furnished apartment".*

*The Former Rechabite Hall is of architectural significance as an outstanding example of the work of Colin Campbell, and, with its elaborately decorated facade, as a notable local landmark since 1889, and an important component in the vista from Carlton Street.*

*The interior of the main hall in general retains its original Keen's cement wall finish, trabeated wall surfaces, elevated stage and coffered ceiling, all of which contribute to its status as perhaps the grandest surviving Rechabite Hall.'*

The Former Rechabite Hall (File No. B4686) is also classified by the National Trust of Australia (Victoria), at the State level (Place ID 66707). There are no statutory implications associated with this listing. The building is also included in the Schedule to the Heritage Overlay of the City of Stonnington Planning Scheme as HO73. The extent of HO73 correlates with that of the Victorian Heritage Register listing.

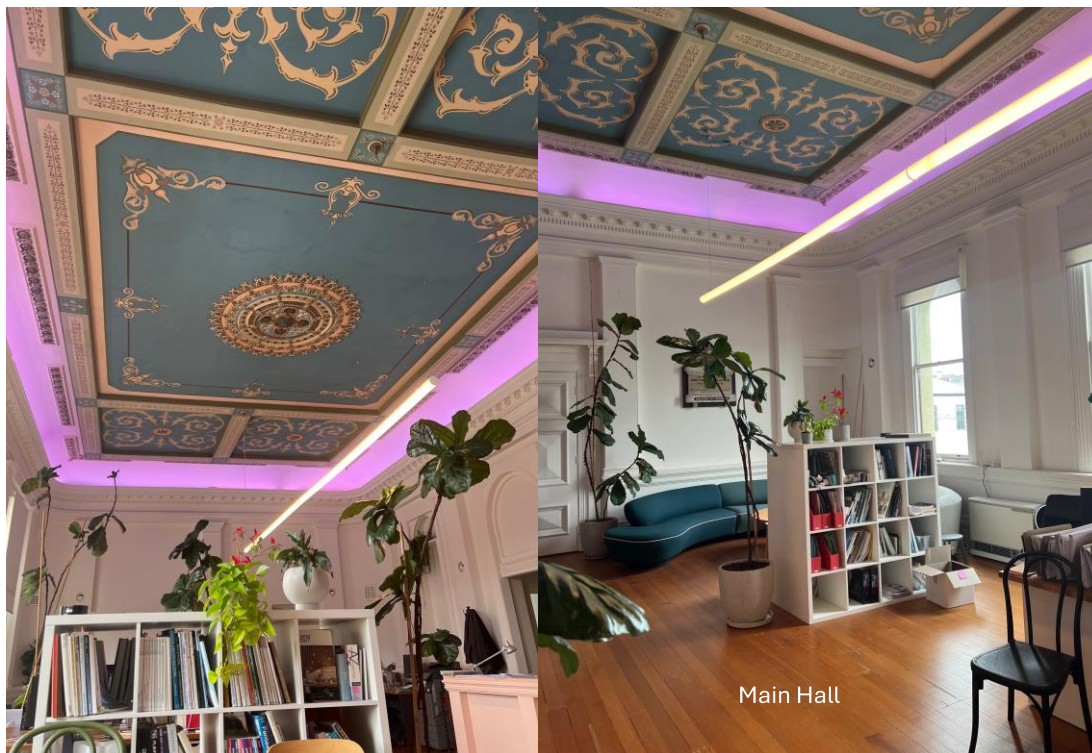


**Figure 7. Building Entrance and Memorial Stone**



Source: <https://storeyofmelbourne.org/2024/09/15/rechabite-hall/>

**Figure 8. Views of the Coffered Ceiling Showing Boutique Office Use**



Source: SC Lennon & Associates

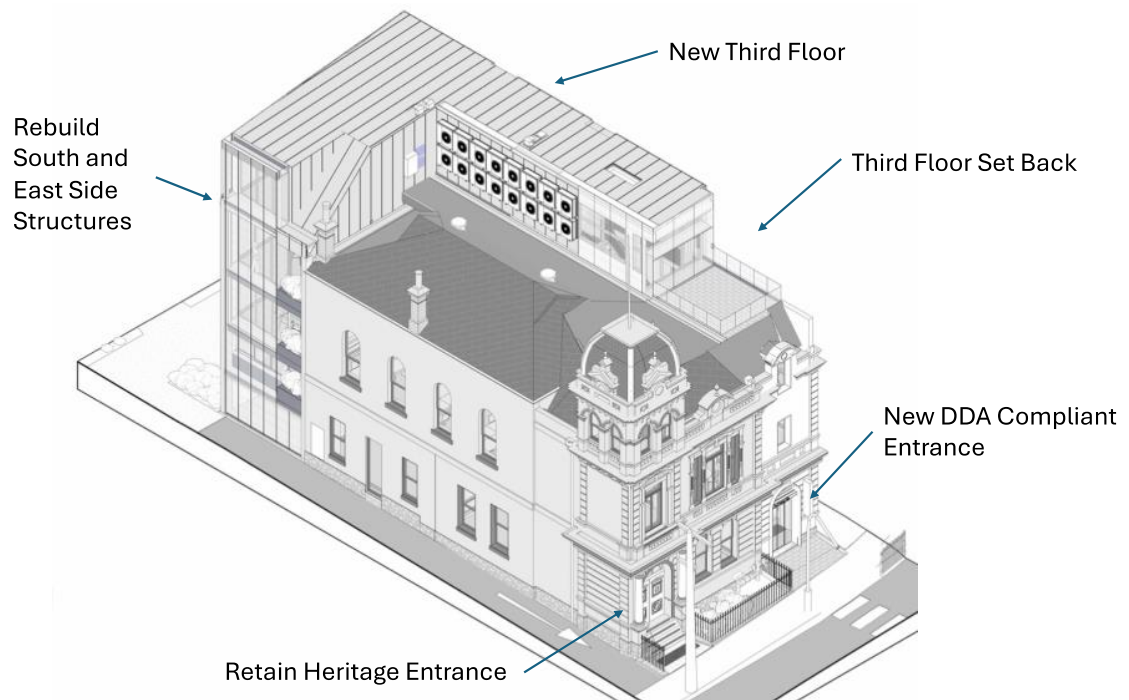


## 2. The Proposal

### 2.1 The Proposal

The proposal is illustrated in general terms in Figure 9.

**Figure 9. The Proposal**



Source: Source: trethowan Schematic Design December 2024 with annotations by SC Lennon & Associates

The scope of works is as follows:

#### Demolition

- A large portion of the 1980s fabric is to be demolished, but partial floor space and the skin of the 1980s building will be retained (except the 1980s facade to the north of the site will be replaced with a modern facade).

#### Basement

- New garage door.
- Reconfigured car parking.
- Water tank for grey water flushing.
- Bike storage.

#### Ground Floor

- Retain heritage entrance.
- New DDA compliant entrance.
- Commercial tenancies within original building footprint.

#### Upper Ground Floor

- Circulation.
- Storage.
- Amenities.

#### First Floor

- Retain heritage fabric – commercial spaces.
- New commercial spaces in the eastern section and south (including vertical circulation and services core).

#### Second Floor

- New commercial spaces in the eastern section and south (including vertical circulation and services core).

#### Third Floor

- Refurbish original roof.
- New commercial spaces in the eastern section and south (including vertical circulation and services core).
- Solar panels on roof.

#### External

- Refurbishment of heritage facades.
- Mesh screen to new build on third floor, south and east facades to be retained, with windows replaced with double glazed panes.
- Fenestration on south elevation consistent with existing.

## 2.2 Heritage Victoria 'Feedback' and Response

Heritage Victoria has provided advice (in response to early plans) on a without prejudice basis (02/02/2024) along the lines that the rationale for a third level is recognised, treatment of the façade of the 1980s addition should emphasise the dominance of the façade of the original building and original fabric should be exposed and interpreted where appropriate (and other matters). HV states, "...any application would need to include an analysis of how the proposed design is compatible with heritage building". This analysis is provided by others.

HV states, "Any application must be accompanied by robust reasonable or economic use rationale for the proposed works. These are matters that the Executive Director, Heritage Victoria must consider under s101(2)(b) of the Act. Heritage Victoria would require information regarding the economic viability of the building in its existing form and how any changes (such as the proposed additional floor) in form will ensure the future conservation of the heritage values of the place.

## 3. Financial Analysis

### 3.1 Development Options / Scenarios to be Tested

Taking a cue from the Heritage Victoria advice, the analysis proceeds based on examining from a financial viability point of view the following three scenarios:

#### Scenario 1 – Business as Usual

This scenario assumes an owner proceeds on the basis that no major improvements are made to the buildings. Tenants are sought for the compartmentalised spaces and maintenance proceeds on a 'fix on fail' basis. Minor upgrades may occur when building elements must be replaced. The office spaces in the 1980s sections would be regarded as 'Class C' (or lower) while the hall would continue to be 'boutique' office space. For viability the income from rents would need to cover:

- Recurrent maintenance costs.
- Capital renewal costs.
- Management costs.
- Cleaning.
- Security.
- Rates.
- Utilities.
- Land tax.
- Other taxes and charges.
- Other outgoings (e.g. insurance).

The owner would need the annual rental to exceed the annual costs by an amount that gives a commercial return on the capital invested. A sophisticated investor would model the cash flows over an extended period and would seek an 'internal rate of return' (IRR) in the order of 10%. A simpler approach is to target a long-term return equivalent to or exceeding the return generally expected by investing in the share market. A rule of thumb is that the share market returns in the order of 7% per annum in the long term.

The question arises – what is the appropriate capital base to use in the analysis? It is generally accepted that the government valuation is the appropriate benchmark, as what has been actually paid by an owner may sway the result. It is a reasonable proposition that an owner should be able to achieve a commercial return on the government valuation, upon which taxes and charges are based. In fact, government valuers base their valuations in large part on the income earning potential of assets.

#### Scenario 2 – The Proposal

In this scenario a significant amount of capital is invested to improve the rentability of the spaces and hence the income derived. The recurrent costs remain substantially the same except for capital renewal costs, which are lower due to the building elements being new. The question is – does this scenario deliver a commercial return on the original asset base plus the capital invested?

#### Scenario 3 – The Proposal Minus Level 3

In this scenario Level 3 is deleted and this involves less capital invested but also rental income foregone. The question is – is this floor space required for financial viability?

### 3.2 Simple Comparison of Scenarios

The three scenarios may be compared based on a simple ‘terminal return’ method. This method is based on the following steps (see Table 1):

- Building areas are documented in terms of overall building area, Gross Floor Area (GFA - excludes walls) and Net Leasable Area (NLA - excludes circulation and service areas).
- Floorspace efficiency is calculated based on  $NLA / \text{Building Area}$ .
- A rental rate (per sqm per annum of NLA) is estimated based on property reports. This provides an estimate of rental income.
- A 'yield' is estimated (proportion of rent income per annum to asset value). This enables an asset value to be estimated.
- The total investment is the Government Valuation of 'Capital Improved Value' plus the construction cost.
- The value of the finished development can be compared to the total investment.

In the table, the above steps are applied to the three scenarios:

### Table 1. Terminal Return Method Variables

[illegible]

Sources: As Noted, and SC Lennon & Associates

### Scenario 1 – Business as Usual

- In this scenario the floorspace efficiency is very low at [REDACTED] due to the current compartmentalised layout and multiple levels requiring stairs.
- The condition of the spaces, except for the hall, is poor, providing a low level of amenity. Australiawide Melbourne Pty Ltd have advised that the current average asking rent is [REDACTED] per sqm per annum. With vacancies factored in, this would be reduced to around [REDACTED] per sqm per annum.
- The yield rate adopted is [REDACTED] derived from 'Colliers Australian Metro Office Snapshot Q3 2024' factored up from [REDACTED] to reflect the poor standard of the offer.
- The resultant rental income yields a value for the asset of [REDACTED]
- When compared to the asset value this shows a deficit of [REDACTED]

## Scenario 2 – The Proposal

- In this scenario the floorspace efficiency is improved to 100%. This assumes a single tenant for the building, which maximises the NLA.
- The condition of the spaces post complete refurbishment will be of the highest standard, which will attract a relatively high rent. A rent of £100 per sqm per annum is adopted based on a 'Face Rent' estimate from 'Colliers'

Australian Metro Office Snapshot Q3 2024'. Face Rent is selected rather than Net Effective Rent on the basis that outgoings are borne by the landlord (in the modelling).

- The yield rate adopted is [REDACTED] derived from 'Colliers Australian Metro Office Snapshot Q3 2024'.
- The resultant rental income yields a value for the asset of [REDACTED].
- When compared to the asset value this shows a deficit of [REDACTED]

### Scenario 3 – The Proposal Minus Level Three

- In this scenario the floorspace efficiency is [REDACTED]. This assumes single tenant for the building which maximises the NLA.
- The condition of the spaces post complete refurbishment will be of the highest standard, which will attract a relatively high rent. A rent of [REDACTED] per sqm per annum is adopted based on a 'Face Rent' estimate from 'Colliers Australian Metro Office Snapshot Q3 2024'. Face Rent is selected rather than Net Effective Rent on the basis that outgoings are borne by the landlord (in the modelling).
- The yield rate adopted is [REDACTED] derived from 'Colliers Australian Metro Office Snapshot Q3 2024'.
- Relative to Scenario 2, the construction cost is reduced by [REDACTED] but the rental income is reduced by [REDACTED] per annum.
- The resultant rental income yields a value for the asset of [REDACTED]
- When compared to the asset value this shows a deficit of [REDACTED]

It may be concluded from this simple analysis that based on the measure of return on value:

- **Scenario 1 – Business as Usual** performs very poorly and is in fact an unsustainable outcome.
- **Scenario 2 – The Proposal** provides a substantially better result but is still negative.
- **Scenario 3 – The Proposal Minus Level Three** performs less well than Scenario 2 due to the reduction in leasable space.

The reason Scenarios 2 and 3 perform below market norms is because of the magnitude of the construction costs and the low floorspace efficiency ratios. In the table the building costs are [REDACTED] per sqm of building area, or [REDACTED] per square metre of NLA. By comparison, the cost of a 'new build' office building would be [REDACTED] per sqm of building area (source: Rawlinsons Construction Guide). Conservation works make up a large proportion of the total cost of the subject building.

The question arises – can this project proceed and under what circumstance can it be financially viable? To answer this, Australiawide Melbourne Pty Ltd has outlined its investment strategy, which is to take a long-term view and rely on capital gains to provide the return on investment. This is a strategy adopted by some 'patient' investors. The financial modelling below illustrates how this approach may be applied.

## 3.3 Financial Modelling Principles

Given all three scenarios are negative, an alternative approach was taken, based on assuming the development is done by a 'patient investor' - one who takes a long-term view relying on capital gains to achieve a return. Modelling of these scenarios was undertaken on a discounted cash flow basis where the test of viability is the Internal Rate of Return (IRR) on the profit/loss stream. Financial performance relies on an assumption of strong real rental growth over time. The principles applied in the modelling to represent the patient investor approach are:

- A 25-year time horizon is adopted.
- A fully financed development is assumed. This is shown as an interest only loan for the life of the investment (i.e. the site acquisition value based on CIV and the construction cost). In reality, there could be some equity injected but there would still be a non-cash opportunity cost on this.
- The landlord will incur operational costs (OPEX) and capital renewal costs over the life of the investment.
- Hence the total costs are the sum of interest on the loan for the total investment, plus OPEX costs and plus capital renewal costs.

- On the revenue side there is the capital gain, which is the increment in the value of the asset from Year 1 to Year 25. This is derived from the rent income estimates and the yield estimates.
- Also on the revenue side is the rental income each year.
- The profit/loss is the total income minus the total costs each year.
- The measure of investment performance is the calculated Internal Rate of Return (IRR) on the profit/loss stream. This is the annual rate of growth that an investment is expected to generate.

### 3.4 Financial Modelling and Results

The models for the three scenarios are included in Attachment B. The results indicate that:

- **Scenario 1 – Business as Usual** has a negative IRR [REDACTED] and has a substantially negative cash flow for the life of the investment. This is clearly an unsustainable situation, and the investor would be in a better position by simply abandoning the building.
- **Scenario 2 – The Proposal** has an acceptable IRR of [REDACTED].
- **Scenario 3 – The Proposal Minus Level Three** has an IRR of [REDACTED] which is well below the industry benchmark and indicates a project 'not worth doing'.

The analysis suggests that the proposal (Scenario 2) is potentially financially sustainable, given a long-term perspective, and can achieve a highly beneficial conservation outcome. Deleting Level 3 would severely compromise the prospect of achieving this outcome and doing nothing is not an option as the building would inevitably fall into decay.

### 3.5 Qualifications and Sensitivity Analysis

It must be noted that the outcome of the financial modelling is in large part driven by the estimate of future rent growth. Rent growth ██████ annum real is applied in the models and this is considered to be optimistic. The estimate has been provided by the client and is based on its analysis of the prospects for the area which it sees as being increasingly good. The client sees a trend towards the area becoming much sought after, but in a situation where new supply of office space will be limited due to development constraints. The building itself will be attractive in the market because of its heritage features and the quality of the proposed refurbishment.

By way of sensitivity analysis, Table 2 shows the sensitivity of the scenarios to changes in the rental growth estimates. The proposal (Scenario 2) is more robust than the Scenario 3, in that there is more scope for rents to fall short before a negative IRR occurs.

[illegible]



## 4. Reasonable Use

### 4.1 Meaning of 'Reasonable Use'

Heritage Victoria has published a policy on the relevant matters for the consideration of Section 101(2)(b) of the *Heritage Act 2017* relating to reasonable or economic use. About **reasonable use**, the policy contends:

- Reasonable use is not affected by refusal if a place can be used without the proposed changes.
- The Executive Director may consider:
  - the historic, recent and current uses of the registered place or object,
  - other compatible uses of the registered place or object,
  - the context and setting within which the place or object is located, and
  - other relevant matters.
- Refusal to enable a change of use may affect reasonable use if the historic use is obsolete.
- Refusal to upgrade facilities to meet standards may affect reasonable use.

### 4.2 Comments on Policy Aspects

#### **Reasonable use is not affected by refusal if a place can be used without the proposed changes**

The place can continue to be used for a boutique office in the hall and for low standard / low rent uses in the dysfunctional 1980s addition areas. However, non DDA compliance is a major issue. Whether the place can continue to be used is an economic use issue – dealt with below.

#### **The historic, recent and current uses of the registered place or object**

The historic use as a hall has ceased and the place has been used for offices for over 40 years. Currently the dysfunctional 1980s addition areas are let for short-term low-rent office and related uses. Vacancy rates for these spaces are high with high tenant turnover.

#### **Other compatible uses of the registered place or object**

The historic use as a hall has ceased and while this could ostensibly be revived, the dysfunctional 1980's addition areas and the lack of DDA compliance pose major obstacles to this occurring.

#### **The context and setting within which the place or object is located**

While the immediate site surrounds may be viewed as 'low amenity' the general area is considered to be of high value and is becoming more attractive to residents and businesses over time.

#### **Refusal to enable a change of use may affect reasonable use if the historic use is obsolete**

Use of the place has already changed from a hall to office use. It is a reasonable proposition that this use be perpetuated as it affords opportunities for people to appreciate the heritage values of the building.

#### **Refusal to upgrade facilities to meet standards may affect reasonable use**

The extent of current DDA non-compliance is extreme including at the historic entrance and the near impossibility of persons with disabilities moving from one level to another. The proposal will address these issues with a new DDA compliant entrance and lift access internally. The full footprint of the southern section is required to integrate these facilities.

### 4.3 Conclusion on Reasonable Use

Continued use of the building for offices is a reasonable use but this requires a major upgrade of the spaces for functionality and DDA compliance.

## 5. Economic Use

### 5.1 Meaning of 'Economic Use'

Heritage Victoria has published a policy on the relevant matters for the consideration of section 101(2)(b) of the *Heritage Act 2017* relating to reasonable or economic use. Regarding **economic use**, the policy contends:

- The financial circumstances of the applicant or owner are irrelevant, but the feasibility of the proposed development may be relevant insofar as it relates to the viability of an ongoing use.
- The question of whether works will facilitate an economically sustainable use is relevant.
- An applicant may be required to provide evidence of economic impact.
- Economic use may be affected if refusal would limit capacity to cover outgoings on a property.

### 5.2 Comments on Policy Aspects

#### Is the Proposed Use Financially Viable?

In terms of a conventional financial analysis the proposal is not financially viable as the value created (based on projected rental income and yield rate) falls short of the investment. Only if the investment is viewed from the perspective of a 'patient investor' taking a long-term view, can a positive result be envisioned.

Such a result relies on strong real growth (i.e. over inflation) in rental income. Investors of this type are a rare commodity; therefore, the proposal should be viewed as an opportunity to conserve a valuable heritage asset that might otherwise not occur.

#### The Need for the Works as Proposed

The works are needed to ensure that a valuable heritage asset is conserved. The current situation is that rental income does not cover costs, and this will result in under spending on maintenance and capital renewal, leading ultimately to deterioration of the building fabric.

#### Will the Works Facilitate an Economically Sustainable Use?

The works will enable the building to re-position itself in the local office market from low standard / low rent to 'A Grade'. Hence premium rents may be attracted, and strong real rent growth is anticipated. This is essential to ensure financial sustainability. The third-floor addition is an essential component of financial viability. Without this additional rentable floorspace financial viability is severely threatened.

#### An Applicant May be Required to Provide Evidence of Economic Impact

This report responds to Heritage Victoria's request for a 'statement' on economic or reasonable use.

### 5.3 Conclusion on Economic Use

As has been stated above, in terms of a conventional financial analysis the proposal is not financially viable as the value created (based on projected rental income and yield rate) falls short of the investment. Only if the investment is viewed from the perspective of a 'patient investor' taking a long-term view, can a positive result be envisioned.

Such a result relies on strong real growth (i.e. over inflation) in rental income. Investors of this type are a rare commodity; therefore, the proposal should be viewed as an opportunity to conserve a valuable heritage asset that might otherwise not occur. The third-floor addition is an essential component of financial viability. Without this additional rentable floorspace financial viability is severely threatened.

## 5.4 Striking the Right Balance

The Act requires the Executive Director to consider:

- a) the extent to which the application, if approved, would affect the cultural heritage significance of the registered place or registered object.
- b) the extent to which the application, if refused, would affect the reasonable or economic use of the registered place or registered object.

Heritage Victoria has communicated the following:

*Heritage Victoria would require information regarding the economic viability of the building in its existing form and how any changes (such as the proposed additional floor) in form will ensure the future conservation of the heritage values of the place.*

A 'balance' must be struck between cultural heritage objectives and matters pertaining to reasonable and economic use. In the current case, a trade-off of heritage values is not required. The heritage outcome (based on the heritage assessment) is demonstrably appropriate. The development as proposed will achieve Heritage Victoria's objective to conserve the heritage values of the place.

## References

Colliers (2024), *Australian Metro Office Snapshot Q3 2024*

Heritage Victoria (2024), *Victorian Heritage Database Report, Former Rechabite Hall* (report generated 10/10/24)

Heritage Victoria (June 2021), *Policy on Reasonable or Economic Use*

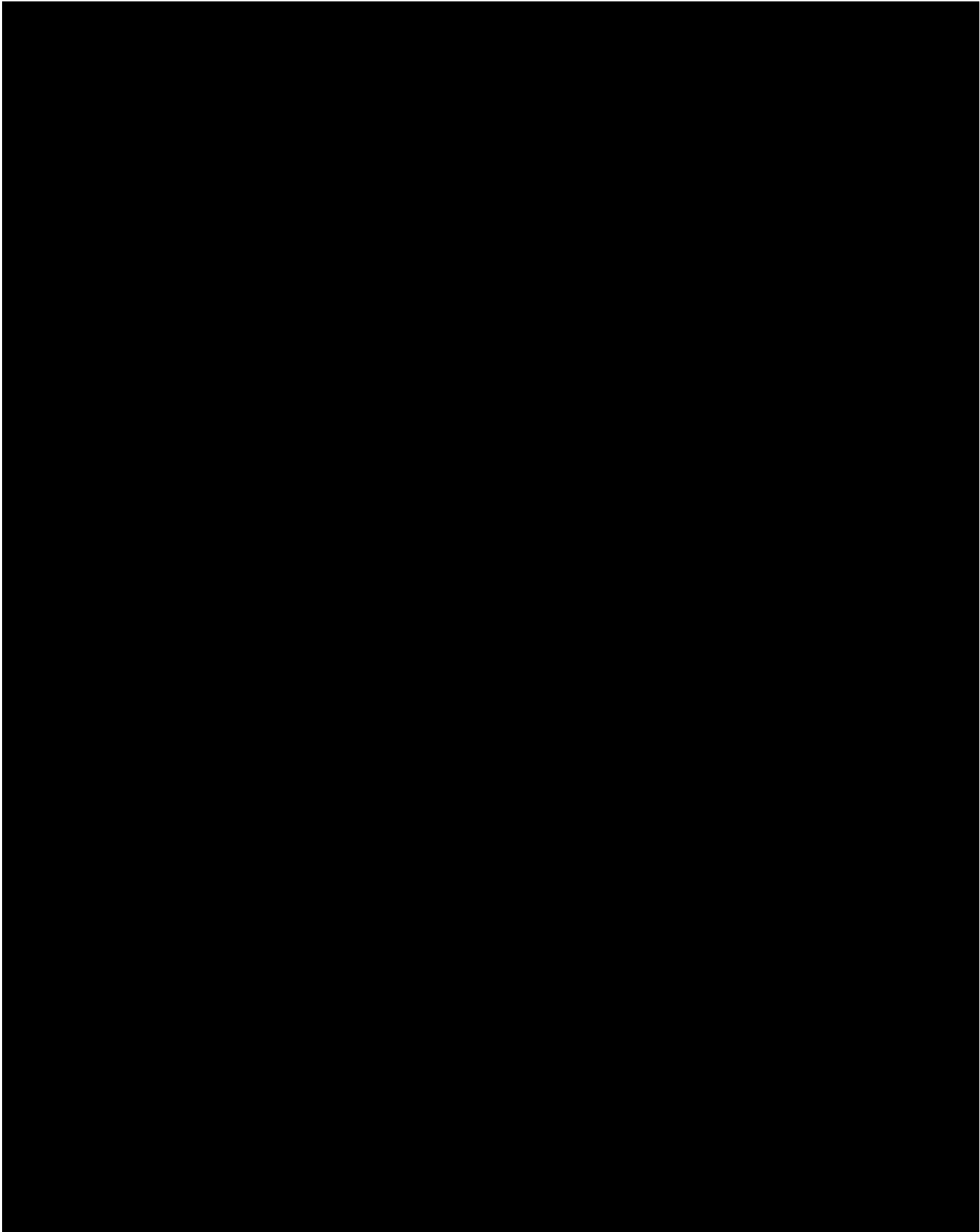
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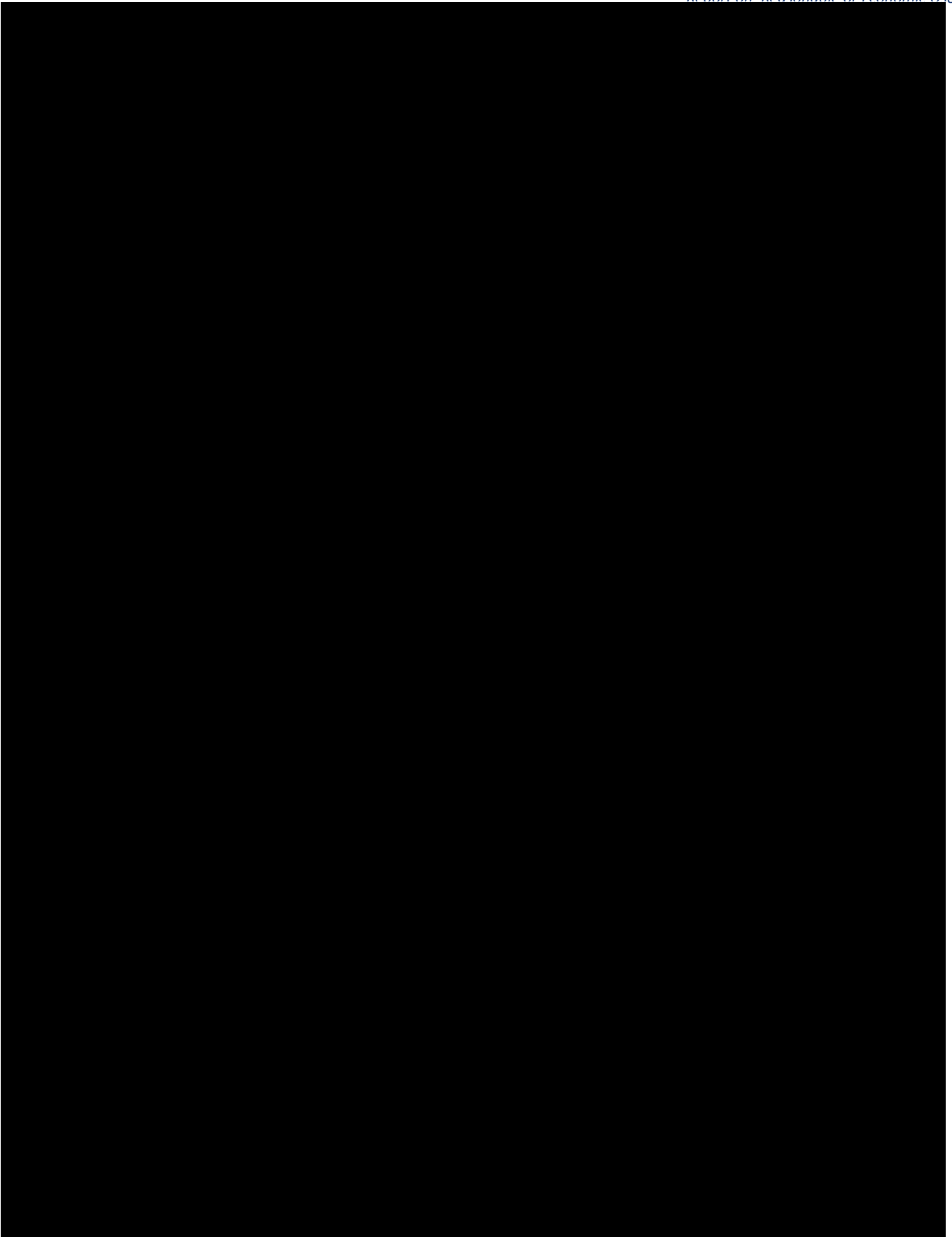
Rawlinsons (2024), *Construction Guide 2024 – Edition 32*

trethowan (December 2024) Schematic Design

<https://storeyofmelbourne.org/2024/09/15/rechabite-hall/>, viewed 10<sup>th</sup> October 2024

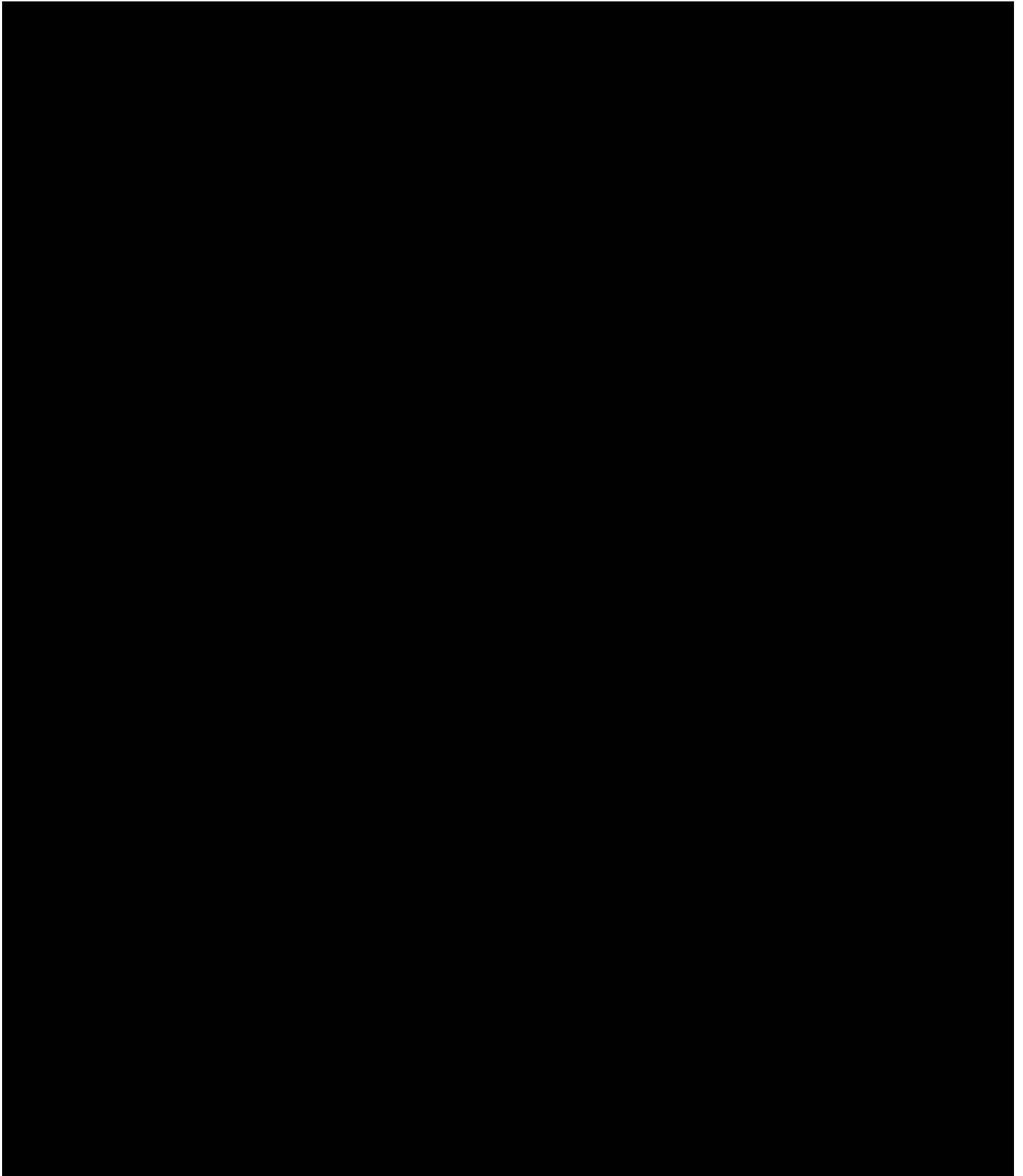
<https://vhd.heritagecouncil.vic.gov.au/places/66707>, viewed 10<sup>th</sup> October 2024



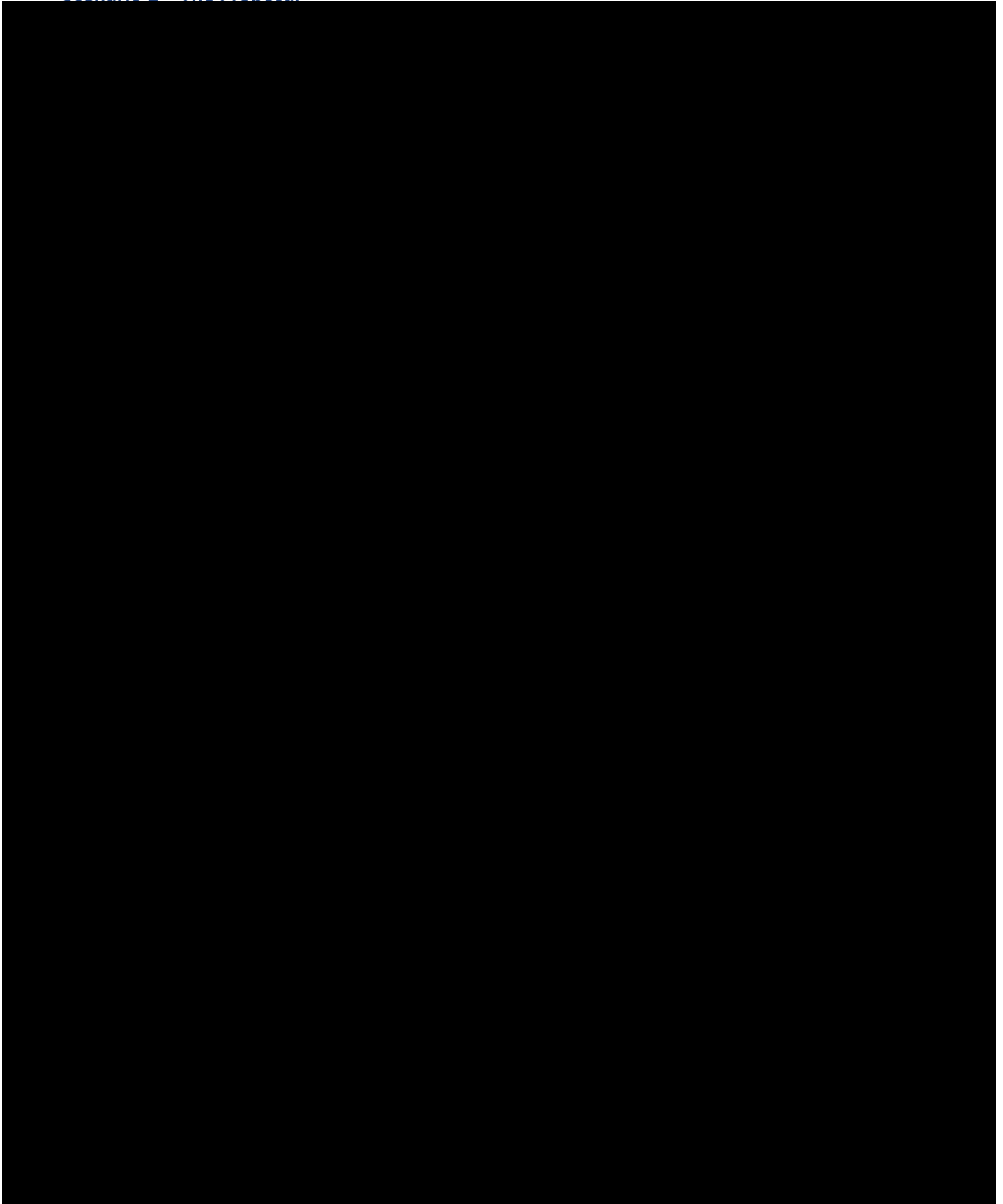




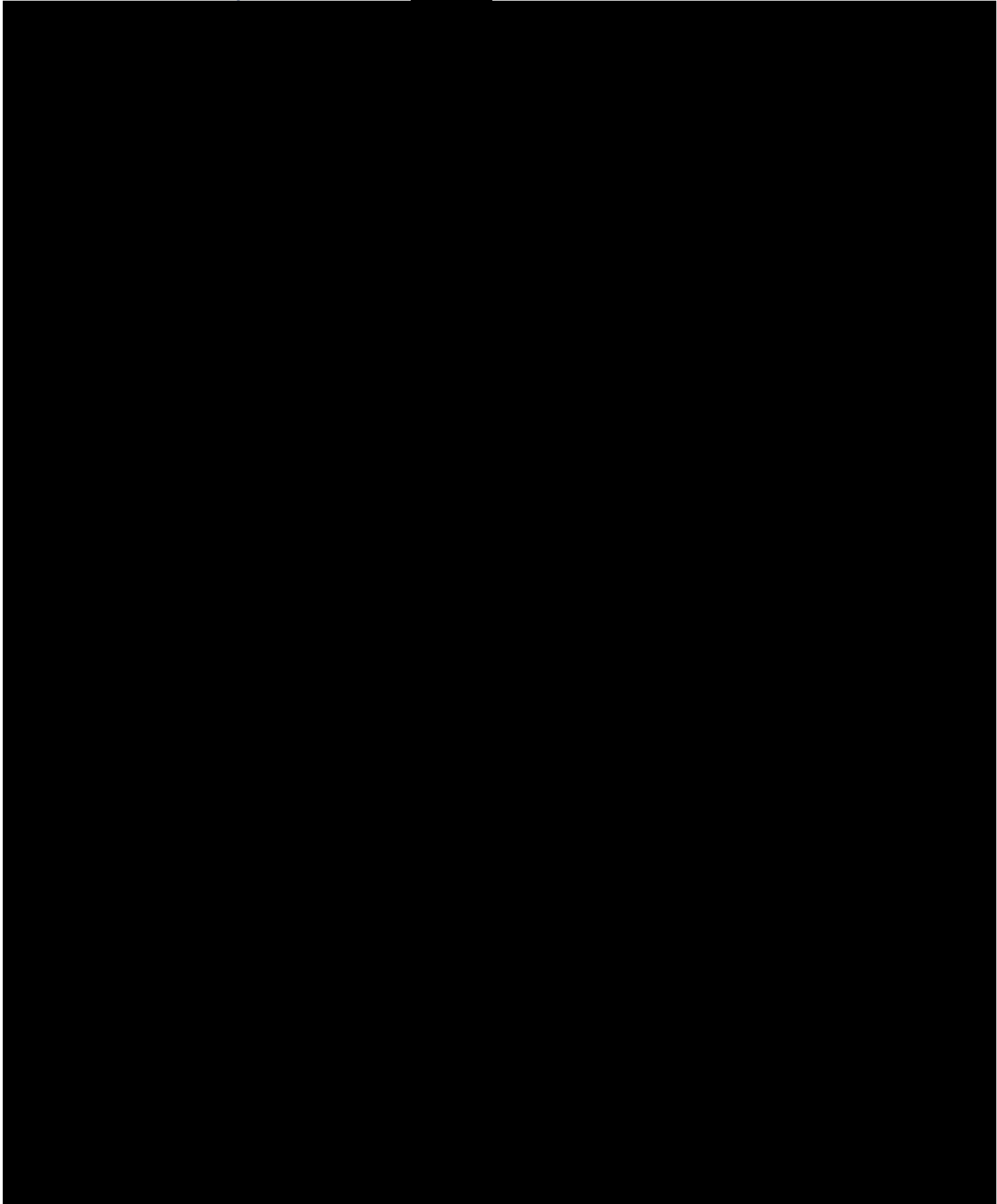
## **Attachment B – Financial Modelling**



## **Scenario 2 – The Proposal**



### **Scenario 3 – The Proposal with 3<sup>rd</sup> Floor**



## Attachment C – Qualifications and Experience of the Authors

### Rodger Gibbins, Associate, SC Lennon & Associates Pty Ltd

#### Qualifications

- Graduate Diploma Economics (La Trobe University)
- Master of Urban Planning (University of Melbourne)
- Diploma of Applied Science (Town Planning) (R.M.I.T.)



#### Expertise

- Cost-Benefit Analysis
- Business Case Preparation
- Reasonable or Economic Use Reports
- Economic and Social Impact Analysis
- Economic Development Strategies
- Investment Attraction Strategies
- Tourism Strategies
- Land Administration Policy
- Housing Policy and Program Evaluation
- Urban Systems Modelling
- Retail Needs Analysis
- Industrial Land Use Strategies
- Employment Forecasting
- Workforce Planning Strategies
- Public Policy Advisory

### Sasha Lennon, Director SC Lennon & Associates Pty Ltd

#### Qualifications

- Bachelor of Economics (La Trobe University)
- Graduate Diploma in Advanced Economics (La Trobe University)
- Master of Journalism (Queensland University of Technology)
- Australian Certified Economic Developer (ACEcD)



#### Expertise

- Economic Development Strategies
- Tourism Strategies and Destination Management Plans
- Investment Promotion Strategies
- Corporate Plans
- Cost-Benefit Analysis
- Reasonable or Economic Use Reports
- Regional Economic Impact Assessments
- Business Case Preparation
- Funding Applications
- Economic Studies
- Socio-Economic Research and Analysis
- Skills Audits and Workforce Planning Strategies

## **Selected Relevant Project Experience on 'Reasonable or Economic Use'**

- **Mecca (2024):** SC Lennon & Associates prepared an independent report to Heritage Victoria as a follow-up to a 2022 report that was prepared for Mecca (see below). The 2024 report relates to a proposed 'MECCAiversity' (a beauty and wellness education facility) on Level 1 within the heritage listed former David Jones store located at 299-307 Bourke Street, Melbourne. The space was allocated to back-of-house in a previous HV permit.
- **Rodd & Gunn (2023):** SC Lennon & Associates was commissioned to prepare an independent report to Heritage Victoria on issues relating to 'reasonable or economic use' arising from Section 101 of the Heritage Act 2017. The report relates to a proposed integrated retail and hospitality tenancy concept within the heritage listed former David Jones store located at 299-307 Bourke Street, Melbourne.
- **Mecca (2022):** SC Lennon & Associates was commissioned to prepare an independent report to Heritage Victoria on issues relating to 'reasonable or economic use' arising from Section 101 of the Heritage Act 2017. The report relates to a proposed retail tenancy concept within the heritage listed former David Jones store located at 299-307 Bourke Street, Melbourne.
- **Melbourne Racing Club (2022):** SC Lennon & Associates prepared an independent report to the Heritage Council of Victoria on the 'reasonable and economic use' of a development proposal for the Caulfield Racecourse. The report dealt in part with the implications of listing the site on the VHR after development had commenced in compliance with a planning permit.
- **Richmond Football Club (2021):** SC Lennon & Associates was commissioned by the Richmond Football Club to prepare an independent report to the Heritage Council of Victoria on the 'reasonable and economic use' of a development proposal for the Punt Road Oval. The proposal is to continue the use as an AFL venue with substantial modifications to bring the venue up to standard and to cater for the needs of the primary user - the Richmond Football Club. The work involved supporting a case that the project was a continuation of the process of adaption to accommodate the evolution of the game.
- **Community Venues (2021):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal to refurbish the heritage listed Festival Hall Building. The proposal is to continue the use as an entertainment venue with substantial modifications to bring the building up to standard and to cater for the needs of the primary user - the Hillsong Church. The work involved financial modelling of options depicting various levels of development intensity.
- **ISPT Pty Ltd (2020):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal to refurbish the heritage listed former Land Titles Office building to accommodate the world class Benaki Museum. The proposal was to build a 30 level tower over the strong rooms to bring the development onto a commercial basis, given the costs involved in the heritage works. This assignment involved a cost benefit analysis of the museum component where the main benefits are derived from the cultural and educational benefits of the museum and conservation of the heritage asset. An economic impact analysis was also provided including the employment uplift associated with increased tourism numbers.
- **Saint Columbans Mission (2019):** Rodger Gibbins was commissioned to prepare a report to Heritage Victoria on issues relating to 'reasonable or economic use' arising from Section 101 of the Heritage Act relating to a proposal to redevelop a site located at 45 to 69 Woodland Street Essendon. This report also addresses the 2012 'Heritage Guidelines' issued by Heritage Victoria and the Heritage Council of Victoria (still relevant to the current Act).

- **PDG Corporation (2018):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal for the Toyota Dealership site in Elizabeth Street Melbourne. The proposal was to demolish part of a registered building to accommodate multi-level commercial floorspace. The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.
- **RJ International (2017):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal ('Tea House' located in Clarendon Street South Melbourne) involving construction of a hotel adjacent to a registered building. The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.
- **Caydon Property Group (2016):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal (Malt Precinct in Cremorne – Silos and Nylex Sign) involving the potential demolition of registered buildings (pursuant to Section 73(1)(b) of the Heritage Act 1995). The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.
- **Victoria University (2015):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal (Maidstone former migrant hostel and munitions plant) involving the potential demolition of registered buildings (pursuant to Section 73(1)(b) of the Heritage Act 1995). The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.
- **Private Client (2015):** In the capacity of Consultant Director at Urbis: Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal (Wesley Church Site in Lonsdale Street) involving the partial demolition of a registered building – the Princess Mary Club (pursuant to Section 73(1)(b) of the Heritage Act 1995). The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.
- **Lend Lease (2014):** Preparation of an independent report to the Heritage Council of Victoria on the economics of a development proposal (East Melbourne Synagogue site) involving the partial demolition of a registered building (pursuant to Section 73(1)(b) of the Heritage Act 1995). The report addressed issues relating to the 'reasonable or economic use of the registered place' and is based on financial modelling of development scenarios.







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