

Former Cable Tram Engine House 253-259 Brunswick Road, Brunswick

Economic Use Assessment

Prepared for Bensons Property Group



'Gura Bulga'

Liz Belanjee Cameron

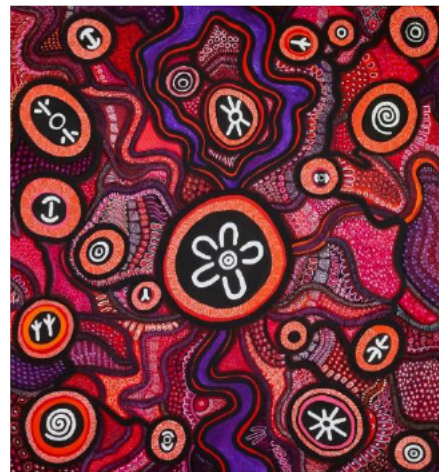
'Gura Bulga' – translates to Warm Green Country. Representing New South Wales.



'Dagura Buumarri'

Liz Belanjee Cameron

'Dagura Buumarri' – translates to Cold Brown Country. Representing Victoria.



'Gadalung Djarri'

Liz Belanjee Cameron

'Gadalung Djarri' – translates to Hot Red Country. Representing Queensland.

Ethos Urban acknowledges the Traditional Custodians of Country throughout Australia and recognises their continuing connection to land, waters and culture.

We pay our respects to their Elders past, present and emerging.

In supporting the Uluru Statement from the Heart, we walk with Aboriginal and Torres Strait Islander people in a movement of the Australian people for a better future.

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Executive Summary

Background

Bensons Property Group (BPG) owns the property at 253-259 Brunswick Road, Brunswick (the subject site). The subject site is included on the Victorian Heritage Register. Accordingly, it is subject to the Heritage Act 2017 and a permit is required to undertake works.

Section 101(2)(b) of the Heritage Act 2017 states that the Executive Director, in determining whether to approve an application for a permit, must consider the extent to which refusal would affect the reasonable or economic use of the registered place or registered object.

Accordingly, BPG has engaged Ethos Urban to provide an Economic Use report.

Subject Site and Development Context

Subject Site

The subject site is a significant site in Brunswick, approximately 4km north of Melbourne's CBD. The subject site occupies an area of approximately 1,010m², with direct frontage to Brunswick Road. The subject site's location benefits from strong public transport accessibility, with Jewell Station approximately 150m to the north-west and tram access on Sydney Road, approximately 100m to the east. The subject site is situated in the Commercial 1 Zone.

Heritage Significance, Current State and Recent History

The subject site is a heritage registered place listed in the Victorian Heritage Register as *H2332 Former Cable Tram Engine House and Tram Substation*. The extent of registration covers the entire subject site and is of historical and archaeological significance to the State of Victoria.

The Former Cable Tram Engine House was in operation until 1936 when the Sydney Road trams were converted from cable to electrical operation. In 1950 the building was occupied by McGrath Motors Pty Ltd, which remained there until at least 1970. The site was then subdivided into separate titles and the subject site became Sam's Tyres and Service Centre which is no longer in operation.

Proposed Development

The proposed development will deliver purpose-built student accommodation (PBSA), while retaining and restoring key elements of the heritage building. This includes the following works:

- Retention and restoration of the heritage listed building, including the addition of an atrium becoming level 1.
- Construction of a six-level purpose-built student accommodation (PBSA) development rising from within the heritage building.

The proposed development will deliver 111 rooms with 130 beds, comprising 99 studio rooms, 2 DDA studio rooms and 10 twin rooms. The ground floor, level 1 and level 3 will include internal and external communal facilities, comprising bike parking, laundry facilities, reception, café, communal living areas, gymnasium, library, communal dining and games room and outdoor courtyards.

Economic Use Assessment

Current Economic Functioning

At present, the subject site is not tenanted. The exterior of the heritage building presents poorly to the street and surrounding area, while the interior provides for little more than a light industrial or warehouse use, or a basic commercial use, such as a gym or wholesale retail use.

In its current state, potential tenants for the subject site are likely to be relatively limited. A rental return of approximately \$140,000 to \$160,000 per annum (exclusive of GST and outgoings) is considered achievable based on an analysis of comparable buildings with reference to their location, current state and size of the interior area.

The subject site is a valuable property at 1,010m² in size, proximate to public transport and in a vibrant activity centre undergoing significant urban renewal. The site was acquired for \$5.4 million in September 2022. This excludes stamp duty and other relevant holding costs. A rental of \$140,000 to \$160,000 per annum provides for an indicative rental yield of 2.6% and 3.0%.

This compares poorly to current industry benchmarks for industrial/commercial properties of approximately 5.5% - 6.0% per annum and does not represent a commercially viable proposition. Most importantly, the current economic functioning of the place does not provide any opportunity for the restoration of the heritage elements associated with the subject site.

Scenario 1: Heritage Building Restoration

Scenario 1 would involve the full restoration and refurbishment of the heritage listed building. This would provide for the heritage building to present as a more valuable and attractive proposition for tenants, for a higher order light industrial or commercial use. The total estimated construction costs for this scenario are approximately \$3.1 million (excluding cost escalation and GST). These costs have been provided by Napier & Blakeley.

A fully restored heritage building is considered likely to achieve a rental figure that reflects a lower order office outcome, or that of a showroom or higher end office/warehouse combination. Accordingly, it is considered that a rental return of approximately \$200,000 to \$220,000 per annum would be achievable.

As noted earlier, the subject site was acquired for \$5.4 million. Scenario 1 also includes a further \$3.1 million to fully reinstate the heritage building, amounting to a total investment of approximately \$8.5 million.

A rental of \$200,000 to \$220,000 per annum provides for a rental yield of 2.4% and 2.6%. Again, this compares poorly to current industry benchmarks for industrial/commercial properties of approximately 5.5% - 6.0% per annum and does not represent a commercially viable proposition for a landowner. Accordingly, it is appropriate to consider a more expansive redevelopment outcome.

Scenario 2: Proposed Development

This scenario considers the proposed PBSA development and also examines potential redevelopment options of the subject site other than PBSA.

Site Limitations

The area configuration of the subject site would make the provision of basement carparking difficult, if not impossible, from both a cost and practical perspective. It is also noted that the subject site is not located in a core retail area or recognised office precinct, further limiting potential development options. The limited scale of the subject site and its L-shaped configuration provide further limitations. The result is a limited development footprint and awkward floorplate configuration for upper levels that sit above the heritage building.

Development Options

In terms of redevelopment to a scale that provides for a commercial outcome that funds full restoration costs and any ongoing preservation and maintenance costs it is considered necessary to increase the development yield available from the subject site.

This necessarily means adding additional levels to the existing building. The extent to which this can be achieved is limited by the nature of the heritage building. These limitations narrow the potential uses in terms of a development outcome.

As noted, a retail outcome is not considered appropriate having regard for the location and poor performance of multi-level retail facilities. Office use is also considered unsuitable having regard for the subject site's location and the limited floorplate configuration available at upper levels.

This means that a residential focussed outcome represents the most suitable outcome. In theory, a residential outcome could be met by build-to-rent apartments, build-to-sell apartments, serviced apartments, a boutique hotel or as student accommodation. Under any of these scenarios, multiple levels would be required to achieve sufficient yield that produces a commercially viable outcome.

The proposed development outcome (PBSA) is considered most suitable having regard for:

- Walking distance to RMIT, Brunswick Campus and easy public transport access to the University of Melbourne, RMIT (City Campus) and other CBD campuses.
- The provision of car parking is not regularly provided in PBSA in inner urban areas.

- With typical rooms of studio apartments at 20m²-25m², PBSA is more easily accommodated within the small floorplates proposed.

PBSA Size Requirements

It is generally accepted that PBSA developments need to provide a minimum of approximately 100 rooms to deliver an efficient operational model that includes sufficient communal facilities. It is noted that most PBSA developments provide significantly more beds than the proposed development, which represents a relatively small PBSA outcome. The proposed development is therefore considered to be at the smaller end of the market, and any reduction in yield is likely to undermine the operational efficiency of the proposed PBSA development.

The need for PBSA

From a demand perspective, Melbourne benefits from several factors that support demand and growth in the PBSA sector. The following highlights the key drivers:

- The presence of high-ranking educational institutions and Melbourne's geographic proximity to Asia.
- A strong international student market, with consistently high enrolment numbers.
- A constrained supply of existing PBSA stock leading to a demand and supply imbalance.
- Broader rental market challenges, including affordability concerns and low vacancy rates.

Proposed Development Costs

Concept cost plans for the proposed development have been prepared by Napier & Blakeley, which include associated heritage and restoration costs. Estimated construction costs exclude all GST and development costs such as consultant fees, marketing, legal fees and finance costs.

The estimated construction cost, inclusive of the heritage component, totals [REDACTED]. Without the heritage associated works, construction costs would be in the order of [REDACTED]. Converting total construction costs into construction cost per bed assists at evaluating the costs associated with the heritage component. This analysis reveals that the heritage component adds approximately [REDACTED].

Implication

It is evident that the \$3.1 million of heritage-related costs represent a significant cost impost on the proposed development that, aside from demolition costs, would not be associated with a similar development of a non-heritage site. Accordingly, any return-on-investment measure from the proposed development will represent a sub-optimal outcome for the developer.

A further consideration is that having undertaken a full restoration of the heritage building (including compliance-related costs), the Napier & Blakeley cost plan notes that no foreseeable ongoing preservation and maintenance costs would apply to the heritage building, securing the building's future into the future. The only relevant cost identified in the Cost Plan at this point of time relates to graffiti cleaning costs, a cost likely to apply to most developments of this nature regardless of whether they contain a heritage component.

Impact of a Refusal

The heritage building is currently in relatively poor condition and is unsuitable for anything other than a very basic industrial or commercial tenancy. A basic tenancy of this nature does not represent a commercially viable outcome for the landowner and will not facilitate the restoration or ongoing preservation and maintenance of the heritage building. To restore and modernise the heritage building to a standard considered acceptable to a higher order use requires significant capital investment.

A refusal may see a re-evaluation of the landowner's position in relation to the subject site, and a future landowner is likely to leave the heritage building in its current state or seek approval for a redevelopment of the subject site.

The proposed development provides a development scale that is consistent with similar nearby developments, and sufficient to accommodate the PBSA development over a long-term period. The proposed development includes the full restoration of the heritage building and represents a long term sustainable economic outcome. The restoration works are of sufficient significance to mean that little to no ongoing preservation and maintenance costs will be required for the foreseeable future.

Introduction

Background

Bensons Property Group (BPG) owns the property at 253-259 Brunswick Road, Brunswick (the subject site).

The subject site is included on the Victorian Heritage Register and is known as the Former Cable Tram Engine House and Tram Substation (the heritage building). Accordingly, it is subject to the Heritage Act 2017 and a permit is required to undertake works.

BPG seeks approval for the redevelopment of the subject site, which includes:

- Retention and restoration of the heritage building.
- Construction of a six-level purpose-built student accommodation (PBSA) development rising from within the heritage building.

Section 101(2)(b) of the Heritage Act 2017 states that the Executive Director, in determining whether to approve an application for a permit, must consider the extent to which refusal would affect the reasonable or economic use of the registered place or registered object.

Factors to be considered in determining reasonable or economic use are outlined in the Heritage Victoria guideline titled 'Heritage Victoria Policy, Reasonable or economic use, Relevant matters for the consideration of section 101(2)(b) of the Heritage Act 2017 (June 2021)'.

Accordingly, BPG has engaged Ethos Urban to provide an Economic Use report.

This report should be read in conjunction with the Town Planning Report by Hayball (February 2025) and other documentation submitted with respect to this application.

This Report

This report contains the following chapters:

- | | |
|-------------------|--------------------------------------|
| Chapter 1: | Subject Site and Development Context |
| Chapter 2: | Heritage Considerations |
| Chapter 3: | Economic Use Assessment |
| Chapter 4: | Impact of a Refusal |

1.0 Subject Site and Development Context

This chapter provides a high-level overview of those factors which frame the subject site's background context. This includes its location, heritage significance, recent history and the proposed development.

1.1 Subject Site and Locational Context

The subject site is a significant site in Brunswick, approximately 4km north of Melbourne's CBD. The subject site occupies an area of approximately 1,010m², with direct frontage to Brunswick Road. The subject site's location benefits from strong public transport accessibility, with Jewell Station approximately 150m to the north-west and tram access on Sydney Road, approximately 100m to the east. The subject site is situated in the Commercial 1 Zone.

Surrounding uses include:

- **To the north**, a laneway that backs onto commercial and residential uses on Barkly Street.
- **To the east**, Black Street borders the eastern boundary, with the recent Sarah Sands redevelopment immediately opposite. This development included the restoration of the historic Sarah Sands Hotel, a new seven-storey building comprising 31 apartments and three commercial tenancies.
- **To the south**, Brunswick Road, with residential uses to the south.
- **To the west**, Simone Perele Australia is located in the adjoined building, with Kingdom Hall Jehovah's Witnesses and the Upfield Train Line beyond.

Brunswick is well known as a vibrant inner urban location, with cafes, restaurants, specialty retail and entertainment facilities near to the subject site. Sydney Road acts as the suburb's main north-south activity spine. Barkly Square is a prominent shopping centre and is a five-minute walk to the subject site.

The subject site is situated in the Brunswick Activity Centre, which has experienced significant high density residential development over the past decade and is expected to continue to play an important role in accommodating future population growth in the City of Merri-bek.

New development is expected to primarily occur through urban densification, particularly in areas close to public transport and services. However, limited urban renewal development sites present as a significant challenge to future development activity in both the short and long term.

An example of major development near the site includes Mirvac's Prince and Parade \$270 million mixed use development. This development is currently under construction and will comprise 160 apartments, ground floor café and some commercial space.

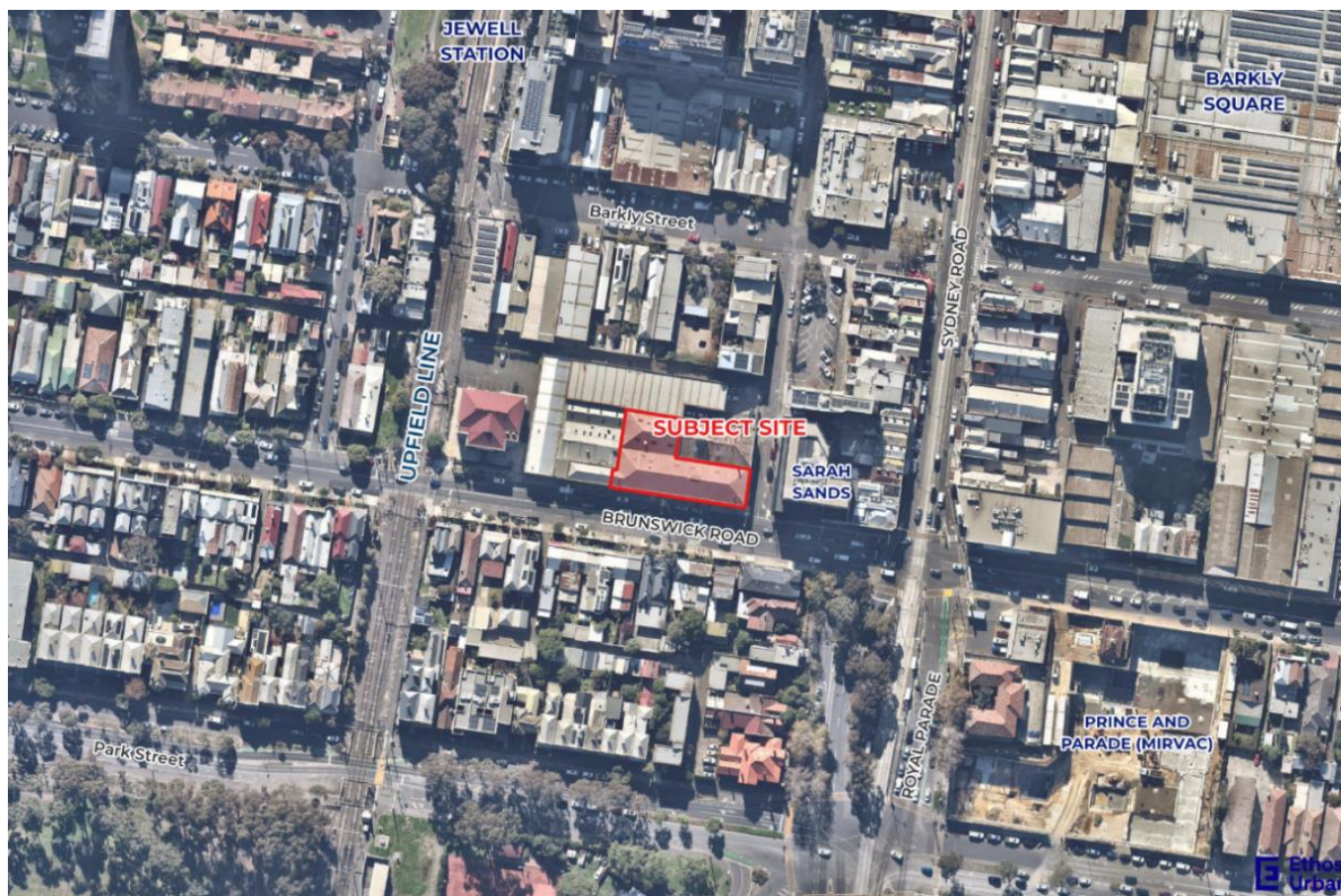


Figure 1.1 Subject Site and Local Context

Source: Ethos urban

1.2 Heritage Significance

The subject site is a heritage registered place listed in the Victorian Heritage Register as *H2332 Former Cable Tram Engine House and Tram Substation*. The extent of registration covers the entire subject site and is of historical and archaeological significance to the State of Victoria.

The Former Cable Tram Engine House and Tram Substation were built in 1887 and 1925, respectively.

Heritage Victoria identifies the following for its heritage-listed status:

- *'The Former Cable Tram Engine House and Tram Substation is historically significant for its association with the development of Melbourne's transport system in the nineteenth and early twentieth centuries. The building demonstrates two of the major stages in the development of Melbourne's tram system - the cable tram system developed from the 1880s and the electric tram system which began to replace it from the 1920s. The cable tram system played an important role in the development of Melbourne and its suburbs and was one of the largest and most complex in the world. The substation is associated with the electrification of the old cable tram routes from the 1920s. Its installation within the former engine house, rather than in a new free-standing building, is a reflection of the financial constraints imposed by the 1930s Depression, during which the Brunswick line was electrified.'*

1.3 Current State and Recent History

The Former Cable Tram Engine House was in operation until 1936 when the Sydney Road trams were converted from cable to electrical operation. In 1950 the building was occupied by McGrath Motors Pty Ltd, which remained there until at least 1970. The site was then subdivided into separate titles and the subject site became Sam's Tyres and Service Centre. This business operated under this name until 2022, and the building's exterior still carries this name.

Bensons Property Group acquired the site in September 2022.



Figure 1.2 Subject Site Exterior

Source: Ethos Urban

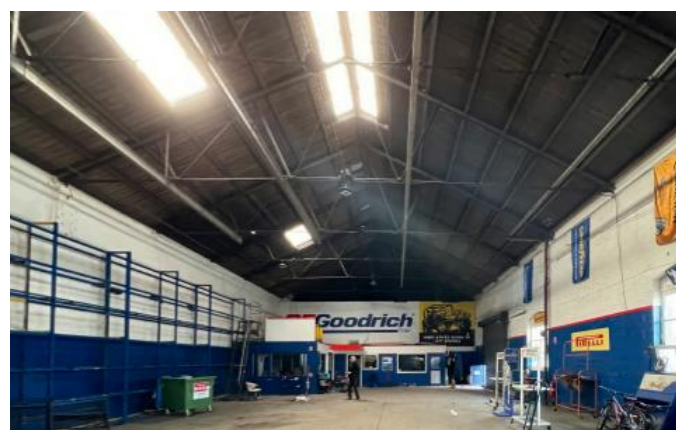


Figure 1.3 Subject Site Interior

Source: Hayball

1.4 Proposed Development

The proposed development will deliver purpose-built student accommodation (PBSA), while retaining and restoring key elements of the heritage building. This includes the following works:

- Retention and restoration of the heritage listed building, including the addition of an atrium becoming level 1.
- Construction of a six-level purpose-built student accommodation (PBSA) development rising from within the heritage building.

The proposed development will deliver 111 rooms with 130 beds, comprising:

- 99 studio rooms, at approximately 20.7m² to 25.5m² in size.
- 2 DDA studio rooms, at approximately 31.8m² in size.
- 10 twin rooms, at approximately 31.2m² in size.

The ground floor, level 1 and level 3 will include communal facilities, comprising:

- Ground floor bike parking for approximately 74 bikes, laundry room, reception, café, communal living area and an outside courtyard.
- Gymnasium, library, and communal dining and games facilities on level 1.
- Outdoor communal area and courtyard on level 3.

Table 1.1 *Development Summary*

Level	GBA (m²)	Internal Communal & Café (m²)	External Communal (m²)	Residential NLA (m²)	Beds (m²)	Rooms
Ground	1,006.6	508.9	105.0	105.5	5	5
Level 1	602.4	284.3		150.0	7	7
Level 2	234.4			150.0	7	7
Level 3	821.1		164.2	506.8	25	23
Level 4	656.6			506.8	28	23
Level 5	656.6			506.8	29	23
Level 6	656.6			506.8	29	23
Roof						
Total	4,634.3	793.2	269.2	2,432.7	130	111

Source: Hayball



Figure 1.4 *Proposed Southern Elevation*

Source: Hayball

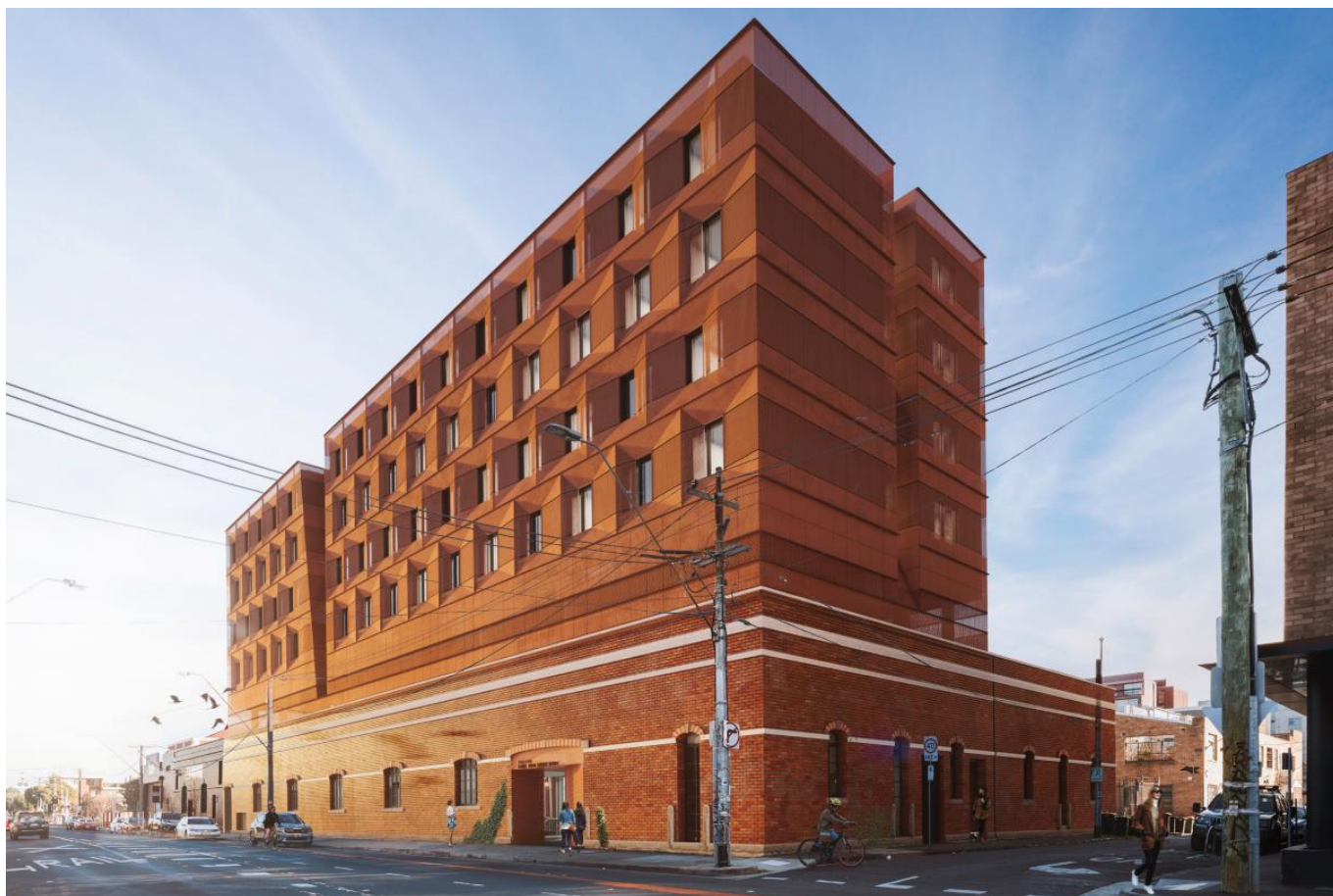


Figure 1.5 Proposed Development Vision Renders

Source: Hayball

2.0 Heritage Considerations

This chapter provides a summary of the Heritage Council of Victoria (HCV) policy guidelines to be considered when assessing the economic use of a registered heritage place or object. This chapter therefore provides the policy context for consideration in subsequent chapters.

2.1 Summary of Policy Guidelines

Section 101(2)(b) of the *Heritage Act 2017* states that the Executive Director, in determining whether to approve an application for a permit, must consider the extent to which refusal would affect the reasonable or economic use of the registered place or registered object.

Factors to be considered in determining reasonable or economic use are outlined in the Heritage Victoria guideline titled *Heritage Victoria Policy, Reasonable or economic use, Relevant matters for the consideration of section 101(2)(b) of the Heritage Act 2017* (June 2021).

Accordingly, the PHG has requested Ethos Urban to provide a fee proposal for an Economic Use report, noting that a Reasonable Use report will be provided by another firm.

The Policy guideline includes the following points regarding the consideration of economic use.

Economic Use

- *When determining a permit application, the Executive Director must consider the extent to which the economic use of the registered place or object would be affected by a refusal, as an alternative to the 'reasonable use' consideration or in addition if relevant.*
- *The 'economic use' consideration is concerned with the economic functioning of the registered place or object and is not focussed on the financial circumstances of the applicant or owner. The feasibility of a proposed development may be relevant insofar as it relates to the viability of an ongoing use or an adaptive re-use of the registered place or object.*
- *The Executive Director may consider whether the proposed works would facilitate an economically sustainable use of the registered place or object. An economically sustainable use could be one that can continue for the medium to long term, mitigating the possibility of continual proposed changes to the registered place or object.*
- *If the permit applicant contends that the future economic use of the registered place or object would be affected by refusal, they may be required to provide relevant information to support this contention for the Executive Director's consideration, pursuant to s98. This may include evidence of the forecasted impact, showing the degree of impact over a relevant timeframe with an explanation of assumptions used in the modelling.*
- *Refusal to issue a permit for works which would enable the use of the registered place or object to generate income critical to fund ongoing and future conservation and maintenance, may affect the economic use of the registered place or object, particularly if the historic, recent or current use is a commercial use. A permit refusal may affect the economic use of a registered place or object if it would limit the capacity of an existing or compatible commercial use to generate income necessary to cover the cost of:*
 - *Conservation and maintenance of the registered place or object; and/or*
 - *Rates and land tax directly associated with the registered place; and/or*
 - *Capital improvements to ensure the continued use of the registered place or object, where that use contributes to its significance (including reasonable debt repayment and interest costs). For example, improving infrastructure or services to ensure that an existing compatible commercial use continues to attract tenants and/or customers.*

In summary, Heritage Victoria must endeavour to find the right balance between conservation objectives and matters that relate to economic use.

3.0 Economic Use Assessment

3.1 Approach

This report considers and evaluates key issues relating to economic use. In doing so, the following approach is taken:

- Overview of the current economic functioning of the place.
- An evaluation of a scenario where the existing heritage building is fully restored and retained for a commercial/industrial use (Scenario 1).
- Consideration of how the proposed development provides for an economic outcome that provides for the restoration of the heritage building and its ongoing preservation and maintenance (Scenario 2).

3.2 Current Economic Functioning of the Place

At present, the subject site is not tenanted. The exterior of the heritage building presents poorly to the street and surrounding area, while the interior (refer images at Figure 1.3) provides for little more than a light industrial or warehouse use, or a basic commercial use, such as a gym or wholesale retail use.

To achieve a basic economic outcome for the subject site, based on the heritage building in its current state, rental figures are considered for comparable buildings with reference to their location, current state and size of the interior area. This data and evaluation is set out in Table 3.1.

Table 3.1 Comparable Properties – Rental Analysis

Property Address	Suburb	Building Area (m ²)	Annual Asking Rental (\$)	\$/m ²	Potential Use
36 Hope St	Brunswick	442	\$92,882	\$210	Warehouse/Commercial (presently wholesale retail)
35 Edward St	Brunswick	520	\$78,000	\$150	Warehouse/Commercial
16-18 Gale Street	Brunswick East	280	\$56,000	\$200	Warehouse
109 Brunswick Road	Brunswick	1,645	\$320,000	\$195	Commercial/Showroom
2/475 Church Street	Richmond	432	\$85,000	\$197	Warehouse/Showroom
418 Burnley Street	Richmond	690	\$160,000	\$232	Warehouse/showroom
42 Hope Street	Brunswick	280	\$60,000	\$214	Warehouse
Level 1/256 Church Street	Richmond	280	\$59,500	\$213	Commercial/Office

Source: Ethos Urban Research

The subject site is a valuable property of 1,010m², proximate to public transport and in a vibrant activity centre undergoing significant urban renewal. That said, in its current state, potential tenants for the subject site are likely to be relatively limited and a rental return of approximately \$140,000 to \$160,000 per annum (exclusive of GST and outgoings) is considered achievable. This is equivalent to approximately \$140/m² to 160/m².

The site was acquired for approximately \$5.4 million in September 2022. This excludes stamp duty and other relevant holding costs.

A rental of \$140,000 to \$160,000 per annum provides for an indicative rental yield of 2.6% and 3.0%.

This compares poorly to current industry benchmarks for industrial/commercial properties of approximately 5.5% - 6.0% per annum and does not represent a commercially viable proposition.

Most importantly, the current economic functioning of the place does not provide any opportunity for the restoration of the heritage elements associated with the subject site.

3.3 Scenario 1: Heritage Building Restoration

Scenario 1 would involve the full restoration and refurbishment of the heritage listed building.

This would provide for the heritage building to present as a more valuable and attractive proposition for tenants, for a higher order light industrial or commercial use.

The total estimated construction costs for this scenario are approximately \$3.1 million (excluding cost escalation and GST). These costs have been provided by Napier Blakeley and are provided in Appendix A).

Major works relating to the reinstatement of the heritage building include:

- Breaking up and carting away existing concrete floor slab in confined space.
- Allowance for removal of existing external paint to brick walls to expose original brickwork.
- Allow for new concrete slab on ground cast in confined space including concrete and reinforcement.
- Allowance for re-pointing existing external brick walls on Brunswick Road and Black Street facades to its original state.
- Allowance for re-pointing existing internal brick walls to its original state.
- Allowance to replace/repair existing roof where necessary including roof drainage plus allowance for repairs/upgrading/remove of existing skylights, chimneys, etc.
- Allowance for refurbishing and replacing where necessary existing timber ceiling battens to restore to original heritage look.
- New sprinkler installation to meet heritage requirements.
- Allow for re-wiring and new lighting installation to meet necessary requirements.

A summary of costs is provided in Table 3.2.

Note: these costs do not include interior fit out. As such, the heritage building would effectively remain a shell and further works to would need to be undertaken to provide for higher-order commercial use.

At the end of the above works, the outcome is one where the heritage building is restored and well-presented, however the use is likely to remain a light industrial or commercial one. It is noted that a floorplate of 1,010m² represents a significant area for either a retail or office-based tenant (in this location).

Table 3.2 Summary of Estimated Construction Costs, Heritage Building Reinstatement

Heritage Works	Value (\$)
Demolition and Preparatory Works	\$483,000
Heritage Reinstatement Cost	\$1,755,000
External Works	\$75,000
Preliminaries, overheads and margin	\$486,000
<u>Subtotal heritage works</u>	<u>\$2,799,000</u>
Design Contingency	\$285,400
Total	\$3,084,400

Source: Napier and Blakeley

Note: Excludes cost escalation prior to construction and construction contingency is not provided for.

Having regard again for the rental properties summarised in Table 3.1, the fully restored heritage building can be expected to command a higher rental return than the building in its existing state.

In this regard, a fully restored heritage building is considered likely to achieve a rental figure that reflects a lower order office outcome, or that of a showroom or higher end office/warehouse combination.

Accordingly, it is considered that a rental return of approximately \$200,000 to \$220,000 per annum would be achievable, equivalent to approximately \$200/m² to \$220/m².

As noted, the subject site was acquired for \$5.4 million in September 2022. This excludes stamp duty and other relevant holding costs. As noted, Scenario 1 also includes a further \$3.1 million to fully reinstatement the heritage building, amounting to a total investment of approximately \$8.5 million.

A rental of \$200,000 to \$220,000 per annum provides for a rental yield of 2.4% and 2.6%.

Again, this compares poorly to current industry benchmarks for industrial/commercial properties of approximately 5.5% - 6.0% per annum and does not represent a commercially viable proposition for a landowner.

Accordingly, it is appropriate to consider a more expansive redevelopment outcome.

3.4 Scenario 2: Proposed Development

This scenario considers the proposed PBSA development and also examines potential redevelopment options of the subject site other than PBSA.

3.4.1 Site Limitations

The area configuration of the subject site would make the provision of basement carparking difficult, if not impossible, from both a cost and practical perspective. It is also noted that the subject site is not located in a core retail area or recognised office precinct, further limiting potential development options.

The limited scale of the subject site and its L-shaped configuration provide further limitations. The result is a limited development footprint awkward floorplate configuration for upper levels that sit above the heritage building.

3.4.2 Development Options

In terms of redevelopment to a scale that provides for a commercial outcome that funds full restoration costs and any ongoing preservation and maintenance costs it is considered necessary to increase the development yield available from the subject site.

This necessarily means adding additional levels to the existing building. The extent to which this can be achieved is limited by the nature of the heritage building. These limitations narrow the potential uses in terms of a development outcome.

As noted, a retail outcome is not considered appropriate having regard for the location and poor performance of multi-level retail facilities. Office use is also considered unsuitable having regard for the subject site's location and the limited floorplate configuration available at upper levels.

This means that a residential focussed outcome represents the most suitable outcome. In theory, a residential outcome could be met by build-to-rent apartments, build-to-sell apartments, serviced apartments, a boutique hotel or as student accommodation. Under any of these scenarios, multiple levels would be required to achieve sufficient yield that produces a commercially viable outcome.

The proposed development outcome (PBSA) is considered most suitable having regard for:

- Walking distance to RMIT, Brunswick Campus and easy public transport access to the University of Melbourne, RMIT (City Campus) and other CBD campuses.
- The provision of car parking is not regularly provided in PBSA in inner urban areas.
- With typical rooms of studio apartments at 20m²-25m², PBSA is more easily accommodated within the small floorplates proposed.

3.4.3 PBSA Size Requirements

It is generally accepted that PBSA development need to provide a minimum of approximately 100 rooms to deliver an efficient operational model that includes sufficient communal facilities. It is noted that most PBSA developments provide significantly more beds than the proposed development represents a relatively small PBSA outcome. An analysis of PBSA operators' existing properties and the development pipeline indicates that, on average, PBSA developments have 466 beds (refer Table 3.3).

The proposed development is therefore considered to be at the smaller end of the market, and any reduction in yield is likely to undermine the operational efficiency of the proposed PBSA development.

Table 3.3 Top Operators of Student Accommodation, by Existing and Development Pipeline, Dec 2023

Operators	No. of Existing Properties	No. of Existing Beds	Average Size	No. of Properties in Development Pipeline	No. of Beds in Development Pipeline	Average Size
UniLodge	86	36,966	430	4	2,567	642
Scape	33	16,300	494	11	5,200	473
Iglu	13	5,341	411	6	2,811	469
CLV*	15	7,006	467	0	0	-
Y Suites	6	3,675	613	1	409	409
The Switch	3	1,471	490	3	1,100	367
Student One	3	2,352	784	0	0	-
Yugo	4	1,978	495	1	198	198
Journal Student Living	2	1,391	696	1	470	470
Dwell	2	896	448	1	732	732
Total	167	77,376	463	28	13,487	482

Source: Savills, Australian Student Accommodation 2023

3.4.4 The Need for PBSA

From a demand perspective, Melbourne benefits from several factors that support demand and growth in the PBSA sector. The following highlights the key demand drivers.

Melbourne's high-ranking education institutions and proximity to Asia

Melbourne boasts some of the world's highest-ranking universities, including the University of Melbourne and Monash University, both of which ranked in the global top 50 universities according to the QS World University ranking. RMIT (123), Deakin University (197), Latrobe University (217) and Victoria University (741-750) are also located in Melbourne.

In addition, Melbourne is proximate to Asia, with the increasing affluence of countries such as India, Vietnam and Sri Lanka. A drop-off in international enrolments from China have coincided with significant influxes of students from growing Asian economies.

Strong international tertiary enrolments

A rapid rise in overseas student numbers across Australia has led to strong demand for high-quality purpose-built student accommodation (PBSA) within metropolitan areas.

In the year-to-date December 2023, approximately 132,100 international students were enrolled in higher education in Victoria, a 20% increase in enrolments from the same period in 2022 (refer Figure 3.1). However, enrolments remain 15% lower than pre-pandemic levels in 2019. Comparatively, enrolments in higher education across Australia only remain one per cent below 2019 levels.

Although total enrolments remain below pre-pandemic levels, the commencement count for this period (63,070) is the highest on record. Approximately 29.0% of international student enrolments in higher education were from India, followed by 26.1% from China, 6.9% from Sri Lanka and 6.2% from Vietnam.

However, more regulatory oversight could dampen international student arrivals. From 2025 onwards, there is a potential cap on student numbers, although at these early stages no specific details are provided on the cap.

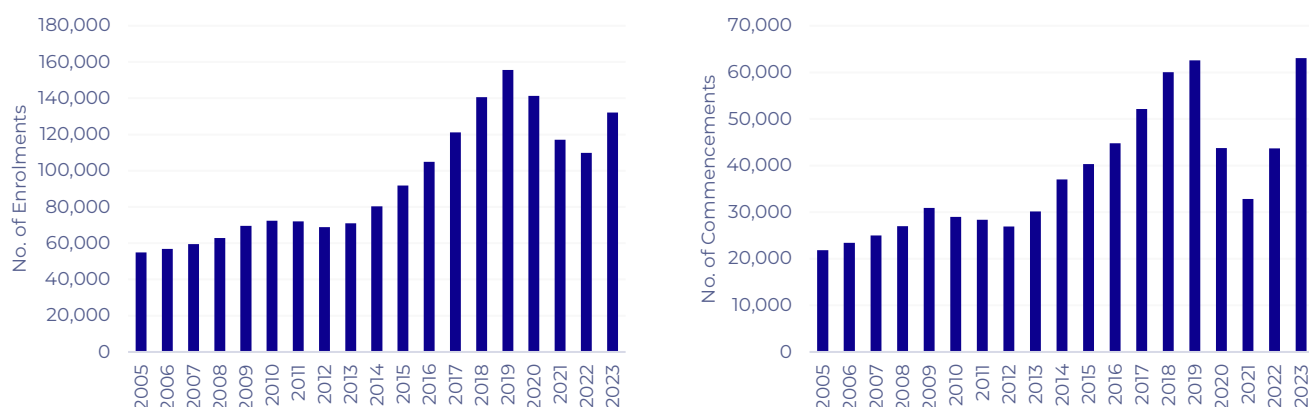


Figure 3.1 International Student Higher Education Enrolments (left) and Commencements (right), Victoria

Source: Australian Government Department of Education; Ethos Urban

Note: Year ending December.

Constrained PBSA Supply

Delivery of sufficient supply is the biggest challenge facing Australia's PBSA sector. Similar to the BTS and BTR markets, the solutions for the supply shortage are complex. Factors impacting the sector include elevated construction and labour costs, planning difficulties, limited land availability and high financing costs.

JLL forecasts an undersupply of approximately 7,000 beds per annum across Australia over the next five years based on international student arrivals and known existing and proposed supply.

Growing rental affordability concerns and record low rental vacancy rates

The rental market provides a strong indication of the balance of supply and demand, with rents and vacancy rates responding quickly to supply and demand dynamics.

Greater Melbourne's rental market remains tight, with dwelling vacancy rates currently 1.5% at June 2024. Melbourne's North rental market has historically been tighter than Greater Melbourne and has a current vacancy rate of 1.1% coming of a low of 0.7% in February 2024.

The low vacancy rate of the broader private rental market is expected to increase demand for PBSA.

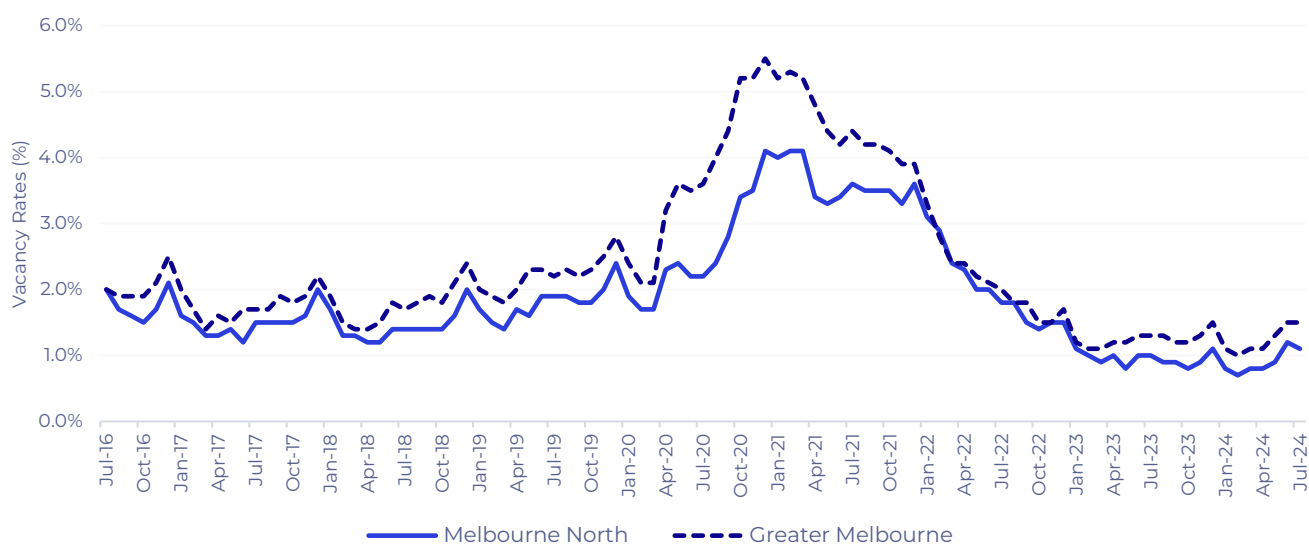


Figure 3.2 Residential Vacancy Rates, Units

Source: Ethos Urban; SQM Research

3.4.5 Proposed Development Construction Costs

Concept cost plans for the proposed development have been prepared by Napier and Blakeley, which include associated heritage and restoration costs. Estimated construction costs exclude all GST and development costs such as consultant fees, marketing, legal fees and finance costs. A concept cost plan is provided at Appendix B.

[REDACTED]
[REDACTED]
[REDACTED] This indicates that approximately 9.5% of the total construction costs are associated with heritage and restoration works.

Converting total construction costs into construction cost per bed assists at evaluating the costs associated with the heritage component. This analysis reveals that the heritage component adds approximately \$23,730 per bed on to construction costs (Table 3.5).

It is important to note that any potential reduction in yield (which, as noted, is problematic from an operational efficiency perspective) would increase the associated heritage-related construction costs as a proportion of total construction cost.

Table 3.4 Development Costs Summary

Cost Breakdown	Value
Heritage and Restoration Works	
Demolition & Preparatory Works	\$483,000
Heritage Re-instatement Works	\$1,755,000
External Works	\$75,000
Preliminaries	\$486,000
Design Contingency (5%)	\$285,400
Total Heritage and Restoration Works	\$3,084,400
[REDACTED]	
[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]
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Source: Napier and Blakeley
Figures rounded.
Note: Excludes cost escalation and construction contingency is not provided for.

Table 3.5 Construction Cost Per Bed

Category	Value
No. of Beds	130
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Cost per bed	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Difference	+\$23,730

Source: Ethos Urban; Hayball; Napier and Blakeley
Figures rounded

3.4.6 Implication

It is evident that the \$3.1 million of heritage-related costs represent a significant cost impost on the proposed development that, aside from demolition costs, would not be associated with a similar development of a non-heritage site.

Accordingly, any return-on-investment measure from the proposed development will represent a sub-optimal outcome for the developer. In short, the developer is absorbing approximately \$3.1 million in development costs that many comparable developments will not have to absorb.

A further consideration is that having undertaken a full restoration of the heritage building (including compliance-related costs), the Napier and Blakeley cost plan notes that no foreseeable ongoing preservation and maintenance costs would apply to the heritage building, securing the building's future into the future. The only relevant cost identified in the Cost Plan at this point of time relates to graffiti cleaning costs, a cost likely to apply to most developments of this nature regardless of whether they contain a heritage component.

4.0 Impact of a Refusal

In responding to matters considering economic use, the following points are noted:

- *Current economic functioning of the heritage building.*

Response: The heritage building is currently in relatively poor condition and is unsuitable for anything other than a very basic industrial or commercial tenancy. A basic tenancy of this nature does not represent a commercially viable outcome for the landowner and will not facilitate the restoration or ongoing preservation and maintenance of the heritage building.

To restore and modernise the heritage building to a standard considered acceptable to a higher order use requires significant capital investment, estimated in the order of \$3.1 million. The outcome of such an investment would provide for a higher order use, but not at a level that represents a viable commercial outcome.

- *The extent to which the proposed works will facilitate an economically sustainable use of the registered place, noting that an economically sustainable use may be one that could continue for the medium to long term and mitigate the possibility of continual proposed changes to the registered place or object.*

Response: It is understood that BPG intends to retain of the property for the foreseeable future. The proposed development will result in a sustainable economic use, including the full restoration of the heritage building. It is also understood that the extensive restoration works will result in an outcome where little to no ongoing preservation and maintenance costs will apply for the foreseeable future.

- *The extent to which a permit refusal is likely to affect the economic use of the registered place; specifically:*
 - *Whether a permit refusal would limit the capacity of an existing or compatible commercial use to generate income necessary to cover the cost of;*
 - *Conservation and maintenance of the registered place or object;*
 - *And/or rates and land tax directly associated with the registered place; and/or capital improvements to ensure the continued use of the registered place or object, where that use contributes to its significance (including reasonable debt repayment and interest costs).*
 - *For example, improving infrastructure or services to ensure that an existing compatible commercial use continues to attract tenants and/or customers.*

Response: A refusal may see a re-evaluation of the landowner's position in relation to the subject site, and a future landowner is likely to leave the heritage building in its current state, or seek approval for a redevelopment of the subject site.

The proposed development provides a development scale that is consistent with similar nearby developments, and sufficient to accommodate the PBSA development over a long-term period. The proposed development includes the full restoration of the heritage building and represents a long term sustainable economic outcome. The restoration works are of sufficient significance to mean that little to no ongoing preservation and maintenance costs will be required for the foreseeable future.

Appendix A 253-259 Brunswick Road, Estimate Heritage Building Reinstatement (Napier & Blakeley)

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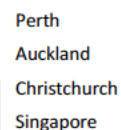
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napierblakeley.com

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