



Mark the Evangelist Futures

*Strategic Property Options Report
February 2016 (DRAFT)*

Contents

The contents of this document are:

Executive Summary

1. Options Explored & Status Quo
2. Heritage and Planning Advice
3. Building Concepts
4. Risk and Opportunity Analysis
5. Mission Objectives
6. Financial Feasibility & Assumptions
7. Site Development Program
8. Operational Cash flow Analysis
9. Overall Feasibility Assessment
10. Conclusion
11. Possible Relocation Option Alternatives
12. Next Steps
13. Appendices (in separate file as below)
 - A. Development Option Concepts – Interlandi Mantesso Architects
 - B. Estate Master Development Option Feasibility Reports
 - C. Operational Cash Flow Assessments
 - D. Draft Cost Plan – MC Cosulting
 - E. Sale Proposals – CBRE & Colliers International
 - F. Church Restoration Cost Plan - Di Mase
 - G. MtE Property Options Report
 - H. MtE Return Brief

Executive Summary

1. Options explored

A total of three main property options were explored: Option 1 to sell the whole site (and purchase, lease or amalgamate elsewhere); Option 2 to develop then sell the entire site (and purchase, lease or amalgamate elsewhere); and Option 3 to stay and sell, or develop and sell, two thirds of the site and renovate the Church. These options are set against the Status Quo option for Mark the Evangelist, that is the 'as is' position.

2. Heritage and Planning advice

Pre-application Heritage and Planning advice to inform the Property Options explored has been obtained from consultants who are experts in their respective fields. The preliminary advice received has been integrated into the proposed Property Options and has informed the assumptions used in this Strategic Property Options report.

3. Building Concepts

Concept designs have been prepared by Interlandi Mantesso Architects. The designs have been informed by the planning and heritage advice received which looks to maximise the development potential of the site where possible. Site measurements have been used to inform the opportunity to convert the heritage-listed buildings into alternative uses. Under Option 2 (develop whole site) 100 new homes and 112 car spaces (within a basement) are provided. Option 3 (develop two thirds of the site) would provide 81 new homes and 88 car spaces (within a basement). The concepts are subject to Heritage Victoria and City of Melbourne approval.

4. Risk and Opportunity Analysis

The common challenge applicable across all Property Options is that of not acting during this period of market buoyancy. Swift action is required to take advantage of the market opportunity, and the risk of not doing so is that maximum value may not be achieved from the Options proposed. Property Development is, by its nature, inherently risky. Development of the site carries a higher than usual challenge given the heritage value, size, and type of development proposed. Lengthy consultation periods with Heritage Victoria may be required and time will increase costs and reduce project viability. However the opportunity is to endeavour realise increased value through residential development.

Executive Summary

5. **MtE Mission Objectives**

The Mission Objectives confirmed (Aug 2015) relate to serving the community evangelistically through worship, spiritual expression and service, and using resources to make positive contributions to the wider UCA Church and community.

6. **Financial Feasibility of each Option**

Detailed financial feasibilities have been compiled and analysed by SEMZ. The feasibilities are the collective input of the consultant team including an architect for drawings, planning and heritage specialists, and a cost planner for cost estimates of the works. The financial analysis shows the outputs of each Property Option in terms of the net proceeds realised for Mark the Evangelist (MtE) upon the completion of a given Property Option. This analysis shows Option 1 and Option 3.2 to be the most likely Options given the financial performance results which emerge.

7. **Site Development Program**

Each Property Option has an indicative time line that shows a delivery date for the proceeds of that option to be realised. Where the Property Option is to sell, the proceeds are realised significantly earlier than under any Property Option that involves building development. Selling the site (including disposal of a portion) indicatively would involve a year long process. Alternatively a residential development could indicatively take up to four years until proceeds are realised (given the approvals and permits which would be required).

Executive Summary

8. Operational Cash Flow Analysis

The Operational Cash Flow Analysis overlays the proceeds from the Property Options onto the business operation of MtE. For each option, total income, total expenses and the net operating position are calculated. The purpose of this exercise is to show the impact of the proceeds of each Property Option on the operational performance of MtE. The financial objective is that the Property Option will generate sufficient proceeds to support MtE and their Hotham Mission expenses.

9. Overall Feasibility Assessment

Each Property Option has a number of financial criteria that must be met in order that it may be deemed viable. It must be commercially viable and meet UCA development criteria for internal Synod approvals. It must also achieve specified development return rates so that it is an attractive proposition for a bank to fund the large costs involved. The Strategic Property Option report rejects Property Options 2 (develop site and sell), 3.1 (sell 2/3 of the site and restore church), and 3.3 (develop site and restore church) on the basis that they are not viable and therefore would not receive Synod approval, or because it is unlikely a bank would provide the necessary debt funding.

10. Conclusion – the three Options for consideration

Following the investigation that was undertaken as part of the Strategic Property Options report, the Options for consideration are:

- Option 0 – Status Quo, remain as-is
- Option 1 – Sell the whole site then purchase, lease or amalgamate with another Congregation
- Option 3.2 – Stay, develop then sell two thirds of the site and renovate the Church from the proceeds

Executive Summary

11. Possible Relocation Option alternatives

It is still an open question whether MtE would be able to purchase or lease a building on the open market, including funding of the fitout costs, for the sole use of MtE for worship and mission. Possible additional options for alternative sites are:

- a. The lease of non-commercial premises (to retain MtE's distinctive identity); or
- b. A UCA or ecumenical merger.

12. Next Steps

- a. Strategic Property Options Report (SPOR) to MtE Church Council – 3 March 2016
- b. SPOR to Congregational Meeting for consideration – 20 March 2016
- c. SPOR to Congregational Meeting for its indicative decision – 1 May 2016
- d. MtE Church Council formalises Congregation decision – 5 May 2016
- e. Draft Business Case for consideration by MtE Church Council – 2 June 2016
- f. Business Case Report to PCG – 24 June 2016
- g. Business Case Report to MtE Church Council – 7 July 2016
- h. Business Case Report to MtE Congregation for indicative approval – 31 July 2016
- i. MtE Church Council approves Congregation indicative decision – 4 August 2016

1. Options Explored & Status Quo

The options considered in this report are:

- Option 0 – Status Quo. No redevelopment of the site, the congregation remain as-is
- Option 1 – Sell Site
 - Option 1.1 Sell site and purchase new site
 - Option 1.2 Sell site and rent alternative space
- Option 2 – Develop Whole Site and Sell
 - Option 2.1 Develop whole site, sell, and purchase new site
 - Option 2.2 Develop whole site, sell, and rent alternative space
- Option 3 – Stay and part sale/develop
 - Option 3.1 Stay, sell 2/3 site from manse to Queensberry, and renovate church
 - Option 3.2 Stay, develop and sell 2/3 site from manse to Queensberry, and renovate church
 - Option 3.3 Stay, develop, renovate church and retain whole site

1. Options Explored & Status Quo

Status Quo Position of Mark the Evangelist

The below table outlines the current financial position of MtE and their forecasted position over a five year period should they remain 'as-is'. The status quo position identifies the base case upon which each potential Property Option can be assessed to ensure financial sustainability for MtE and to achieve their missional objectives.

Type/Year	2016	2017	2018	2019	2020	2021
Fixed Revenue	\$136,000	\$137,200	\$138,418	\$139,654	\$140,909	\$142,183
Fixed Expenditure	\$164,000	\$167,615	\$171,338	\$175,174	\$179,124	\$183,193
Variable Income	\$463,500	\$471,900	\$480,552	\$489,464	\$498,642	\$508,097
UC Hotham Mission Expenditure	\$171,500	\$175,145	\$178,899	\$182,766	\$186,749	\$190,852
Congregation Expenditure	\$293,000	\$301,790	\$310,844	\$320,169	\$329,774	\$339,667
Total Variable Expenditure	\$464,500	\$476,935	\$489,743	\$502,935	\$516,523	\$530,519
Net Operating Position	(\$89,000) Includes Feasibility Study \$60K	(\$35,450)	(\$42,112)	(\$48,991)	(\$56,096)	(\$63,432)
Cumulative Cash Reserves	\$2,517,370	\$2,481,920	\$2,439,809	\$2,390,817	\$2,334,722	\$2,271,290

The above figures have been updated and provided to SEMZ by MtE on 21.12.15.

The table above forecasts that income will continue to increase in line with rental inflation, and costs and expenses escalate at a greater rate which results in MtE forecasting to lose on average circa \$55k per annum over the next 5 years. On this basis, the cash reserves will support MtE until approximately 2057 should the trend continue.

2. Heritage and Planning Advice

Heritage Advice – Green Heritage (Barry Green)

Green Heritage is a cultural heritage consultancy based in Melbourne and have provided professional heritage advice and services in relation to this project. Their core business is the delivery of all heritage works required for Cultural Heritage Management Plans (CHMPs) and Cultural Heritage Permits, Project Archaeologist services for Heritage Victoria Permits and Consents, and Professional Historian services. Should the project proceed to be implemented, the services of Green Heritage will be required for the liaison and reports required by Heritage Victoria for a project of this nature.

Green Heritage (Barry Green) is a professional archaeologist and historian with over ten years of industry experience in Europe and Australia. To date, Green Heritage (Barry Green) has attended project consultancy meetings, reviewed the existing site plans, attended a site meeting and conducted background research. From this Green Heritage has compiled the following requirements, advice and program items.

Requirements	<ul style="list-style-type: none">• All buildings and land on the site are registered on the Victorian Heritage register and City of Melbourne Overlay• Any development of the site will require a Heritage Permit from Heritage Victoria who will consult with City of Melbourne• A bond will have to be paid to ensure conservation works are carried out to Heritage Victoria's satisfaction. The bond will be returned once conservation works are complete.• Changing use of the buildings to residential/ commercial should be fine as long as the use does not impact the heritage value of the place• Removal of significant external fabric to facilitate change of use will be difficult to get approved.• Development options could range from the ambitious, such as the removal of the Edwardian terrace to the easy such as only the removal of non-significant elements.• There is an argument for the ambitious approach if it can argued that it is necessary in order to finance the conservation and restoration of the significant buildings. Initial research has indicated that a former service station is on the site.• Building height and placement will have to be considered carefully so as to not overwhelm existing buildings and so as to not have a visual impact on adjacent heritage buildings
Advice	<ul style="list-style-type: none">• It is advisable to prepare a Conservation Management Plan (CMP) for the entire site in tandem with an Architect when preparing to submit a Planning Permit• The CMP will accurately identify the heritage values and significant buildings and fabric on the site and will recommend appropriate conservation and management of significant elements.• The CMP will also identify the non-significant elements which can be removed or demolished.• The CMP will provide a recommended development footprint that respects the heritage values of the site. This document provides a blueprint for what you can and cannot do existing buildings and their fabric minimising time delays with Heritage Victoria.
Program	<ul style="list-style-type: none">• Once the CMP and finalised development options are complete a Heritage Permit can be applied for.• It is advisable to have a pre-application meeting with Heritage Victoria to discuss the preferred development option.• The CMP and a Heritage Impact Statement (HIS) will accompany the permit application. The HIS will assess the impact of works to the heritage values of the site and to adjacent heritage buildings/ places in the immediate area.• The permit will be issued with conditions likely including significant conservation works.

2. Heritage and Planning Advice

Planning Advice – Pro Urban (Tim Ryder)

ProUrban is a specialist urban planning consultancy that provides advisory and management services to property developers and land owners.

Tim Ryder has eleven years of international experience in urban planning, project management and development strategy. He has worked extensively in the urban development sector in Australia, the UK and New Zealand for a range of corporate clients, property developers and government agencies. Since being appointed, ProUrban has attended project consultancy meetings, reviewed the existing site plans and has also attended a site meeting. From this they have compiled initial advice regarding key opportunities, planning controls and constraints.

<p>Planning Controls</p>	<ul style="list-style-type: none"> • General Residential Zone – Schedule 1 • Heritage Overlay – Schedule 92. This is a site specific Heritage Overlay which relates to the “Former Presbyterian Union Memorial Church Complex, 49-61 Curzon Street, 2-22 Elm Street, 579-589 Queensberry Street, North Melbourne” • Parking Overlay – Precinct 12. This Overlay applies a ‘maximum’ car parking standards of one space per dwelling to new development. • The site is listed on the Victorian Heritage Register – Reference: H0007
<p>Site Constraints</p>	<ul style="list-style-type: none"> • The site features a number of significant heritage buildings which will require full or partial retention in any new development. • Future new development on the site will need to be appropriately sited, setback and scaled to ensure that the impact on the retained heritage buildings is not adversely affected. Advice from a suitably qualified heritage specialist will be required in this regard. • The development potential of the southern part of the site appears to be significantly limited by the existing heritage buildings and the need for new development to be setback from these buildings. • The open space in front of the central eastern portion of the site will likely need to be retained respect the heritage significance of the buildings to the west and south of this area. • The surrounding land to the north, east and west across Curzon St and Queensberry St is affected by Design & Development Overlay – Schedule 31. This planning control imposes a mandatory height limit of 10.5m that will restrict the number of storeys that will be permitted .
<p>Site Opportunities</p>	<ul style="list-style-type: none"> • The site is not affected by any planning controls which provide specific guidance regarding the future development of built form on the site. It is noted that ResCode would technically apply to development of four storeys or less, however given the scale of the site ResCode will become more of a guide, than mandating specific requirements. As such, the acceptable scale of future development will be primarily predicated on the surrounding context. • Development of three to four storeys is likely to be achievable in the north-western and central-western area of the site, to the south of the terraces fronting Queensberry St. A key determining factor in the allowable extent and scale of this development in this location will be the need to retain or demolish the terraces. • Development of four storeys should be acceptable in the north-eastern corner of the site where the existing commercial building is located. The fourth level may need to be recessed in order to reflect the prevailing three storey development potential of the surrounding area (which is controlled by the height limit associated with DDO31) • There may be an opportunity to seek approval for a fifth level if it can be demonstrated that the financial return associated with the additional yield is required to provide for the restoration of the existing heritage buildings and that it does not adversely affect the significance of the retained heritage buildings. • This principle could potentially be applied in other areas of the site (for example, to garner support for the demolition of the Victorian terraces fronting Queensberry Road) if a ‘master planned’ approach is taken to the redevelopment of the site. We understand from discussions with Barry Green of Green Heritage that Heritage Victoria have been supportive of similar approaches in the past

3. Building Concepts

	Option 0 Status Quo	Option 1 Sell Site (1.1 Purchase new site, 1.2 Lease new site)	Option 2 Develop Whole Site and Sell (2.1 Purchase new site, 2.2 Lease new site)
Key Assumptions	BOMAR has been included on the basis of MtE's interpretation of the BOMAR Policy that includes relocation costs and UCHM expenditure as 'mission works'		
	<ul style="list-style-type: none"> No Redevelopment Continued Church occupation within their current location MtEF operations and mission continue 'As-Is' 	<ul style="list-style-type: none"> Continue Church occupation throughout sales and marketing process Land sold 'as-is' without a development permit Assumes land area of 4,875 sqm to be sold Estimated Selling Price provided by Colliers International and CBRE is \$12m - \$15.5m. \$12m has been adopted as a conservative estimate based on the lower end of the estimates received Fees to be paid from sales proceeds <ul style="list-style-type: none"> Legal fees – Contract of Sales Marketing fees Valuation Land surveying Management Fee GST Sales Commission 	<ul style="list-style-type: none"> 81 apartments (over 4 levels) in new buildings 4 apartments in the converted Manse 3 townhouses in the converted Church Hall 12 apartments in the converted Church A total of 112 car spaces in the basement car park A total of 100 apartments/townhouses and 112 car spaces provided across the whole site Assumes demolition of 5 x Victorian cottages that are heritage listed buildings is permitted Assumes all heritage listed buildings can be converted to residential use Assumes equity contribution equal to input Land Value Planning permit approval (detailed planning advice to be obtained) Redevelopment to occur in two stages MtE relocate prior to construction commencing

3. Building Concepts

	Option 3.1 Sell 2/3 site	Option 3.2 Develop & Sell 2/3	Option 3.3 Develop & Retain 2/3
Key Assumptions	BOMAR has been included on the basis of MtE's interpretation of the BOMAR Policy that includes relocation costs and UCHM expenditure as 'mission works'		
	<ul style="list-style-type: none"> MtE continue to worship in the current Church Hall until such time that the Church Restoration is complete. 2 Elm Street to be continue to be occupied as office Land sold 'as-is' without a development permit Assumes land area of 3,080 sqm to be subdivided and sold \$9.219m has been adopted as a conservative estimate based on the lower end of the estimates received Fees to be paid from sales proceeds <ul style="list-style-type: none"> Legal fees – Contract of Sales Marketing fees Valuation Land surveying Management Fee GST Sales Commission 	<ul style="list-style-type: none"> 81 apartments (over 4 levels) in new buildings 4 apartments in heritage listed manse building A total of 88 car spaces in the basement carpark Assumes manse can be converted to residential use Assumes equity contribution equal to input Land Value at 2/3's of the site Planning permit approval (detailed planning advice to be obtained) Assumes demolition of 5 x Victorian cottages that are heritage listed buildings is permitted Redevelopment to occur in one stage Church Restoration is separate to the commercial development, and will occur once proceeds from the commercial are realised to avoid and minimise further debt requirements and costs. 	<ul style="list-style-type: none"> 81 apartments (over 4 levels) in new buildings 4 apartments in heritage listed manse building A total of 88 car spaces in the basement carpark Assumes manse can be converted to residential use Assumes equity contribution equal to input Land Value at 2/3's of the site Planning permit approval (detailed planning advice to be obtained) Assumes demolition of 5 x Victorian cottages that are heritage listed buildings is permitted Redevelopment to occur in one stage Assumes Church Restoration is separate to the commercial development, and will occur once proceeds from the commercial are realised to avoid and minimise further debt requirements and costs. Assumes average rent of \$437 per week Assumes occupancy rate of 90% Assumes 50% of 1bed and 50% of 2 bed – not market tested and TBC

4. Risk & Opportunity Analysis

	Option 0 Status Quo	Option 1 Sell site	Option 2 Develop whole site & sell	Option 3 Stay/part sale and develop
Common	<ul style="list-style-type: none"> - Market (current market is buoyant, risk of not acting) 			
Risk	<ul style="list-style-type: none"> - Maximum value may not be realised due to existing parcel potential - Financial position worsens - Buildings deteriorate further and increase liability 	<ul style="list-style-type: none"> - Sales price achieved - Lack of Interest - Niche developer market 	<ul style="list-style-type: none"> - Planning - Heritage approval - Sales - Delivery - Equity requirements - Contamination 	<ul style="list-style-type: none"> - Planning and subdivision - Heritage approval - Sales & Rental (3.3) - On going maintenance liability (3.3) - Delivery - Equity requirements - Debt serviceability (3.3) - Contamination
Risk Mitigation	<ul style="list-style-type: none"> - Act swiftly 	<ul style="list-style-type: none"> - Act swiftly - Ensure appropriately experienced & professional team to manage the sales and marketing process - Establish realistic sales budget and program - Fixed price contract 	<ul style="list-style-type: none"> - Act swiftly - Ensure appropriately experienced & professional team are appointed to manage high risk areas - Establish realistic planning & sales budget and program - Presales - Fixed price contract - Conduct thorough ground survey prior to implementing strategy 	<ul style="list-style-type: none"> - Act swiftly - Ensure appropriately experienced & professional team are appointed to manage high risk areas - Establish realistic planning & sales budget and program - Presales - Ensure rental cover is sufficient to service debt prior to implementing strategy (3.3) - Fixed price contract - Conduct thorough ground survey prior to implementing strategy
Opportunity	N/A	<ul style="list-style-type: none"> - Opportunity for early exit with minimum risk / equity - Early delivery of alternate solution 	<ul style="list-style-type: none"> - To realise increased value through development 	<ul style="list-style-type: none"> - To realise increased value through full development

5. Mission Objectives

The Mission Objectives were confirmed at PCG No.1 on 18th August 2015. The Mission Objectives confirmed are:

Mission No.	The MtE Mission Objectives		Property Objectives
1	Being Served: Faithful Christian Worship	<ul style="list-style-type: none"> To worship God publicly with all of our being, being fed and nourished by the Spirit of God, telling the story of God's love and grace as we have experienced this through our Lord, Jesus Christ. 	<ul style="list-style-type: none"> To provide a worship space for approximately 50 to 60 persons with options to increase capacity for events (i.e. Wedding, Funerals and Baptisms etc.) up to 200
2	Being Served: Diverse spiritual expressions	<ul style="list-style-type: none"> Develop diversity of opportunities to meaningfully connect with God and grow spiritually in addition to Sunday morning worship. To exercise pastoral approaches to formation and discipleship while equipping people for mission, mindful of the transition the congregation is undertaking. 	<ul style="list-style-type: none"> To provide a worship space and flexible meetings and community areas. (Size requirements to be confirmed by the MtE Space requirements.)
3	Serving the Community – Service	<ul style="list-style-type: none"> Through UnitingCare Hotham Mission, to provide support and accommodation for asylum seekers, homework's clubs and financial education assistance for children, food bank services for disadvantaged people, and funding local English-language programs for immigrants and asylum seekers. To sponsor public conversations on matters of public interest and develop other perspectives and community service activities at the local, national and international levels. 	<ul style="list-style-type: none"> To provide a base for the UCHM Community workers (Size requirements to be confirmed by the MtE Space Requirements) Provide a flexible community space with audio and visual equipment for activities and presentations To provide facilities to serve hot and cold food and beverages.
4	Serving the Community – Evangelism	<ul style="list-style-type: none"> To create or find appropriate spaces for dialogue – not necessarily in our own space – which is central to telling the story of God-in-Jesus effectively. To create ways for members to involve themselves in conversation relating to faith themes already taking place in the community. 	<ul style="list-style-type: none"> To provide flexible community space, divisible into smaller class rooms and meeting areas.
5	Serving the wider Church	<ul style="list-style-type: none"> Using resources within the congregation to make a positive contribution to the life of the UCA and the wider church. To resource and equip members for leadership of the church, and their participation in God's mission where they are. 	<ul style="list-style-type: none"> To provide flexible community space, divisible into smaller class rooms and meeting areas. Provide facilities to serve hot and cold beverages and food serving facilities.

5. Mission Objectives

Mission No.	Option 1	Option 2	Option 3.1	Option 3.2	Option 3.3
1	✓	✗	✓	✓	✓
2	✓	✗	✓	✓	✓
3	✓	✗	✓	✓	✓
4	✓	✗	✓	✓	✓
5	✓	✗	✓	✓	✓
Accruing Cash Reserve	✓	✗	✗	✓	✓
Positive surplus (balanced budget)	✓	✗	✗	✓	✗
A suitable site that meets the Space Requirements is required in order to meet the Mission Objectives		Grey shaded Option denotes an unviable project	All Space Requirements under 3.1, 3.2, and 3.3 are to be provided within the existing facilities site.		

6. Financial Feasibility and Assumptions

	COMMERCIAL METRICS	Option 1	Option 2	Option 3.1	Option 3.2	Option 3.3	
Grey shaded Option denotes an unviable project	Total Net Revenue	\$10,765,215	\$58,548,773	\$8,263,719	\$44,178,907	\$1,548,747	Option 3.3 produces a net annual profit from the rental of \$494,778, however it does not provide funds to pay for the cost of the church restoration or additional proceeds to generate revenue in an IOMF account for ongoing financial sustainability
	Total Costs (incl. finance)	\$133,676	\$52,841,840	\$611,587	\$37,000,209	\$1,159,436	
	Land Value	\$0	\$12,001,250	N/A	\$9,219,000	\$0	
	Net Profit	\$10,631,539	\$5,706,933	\$7,652,132	\$7,178,698	\$389,311	
Option 2 does not meet the required commercial and UCA set metrics to be a viable project. Option 2 would not be considered viable for approval by the UCA or for debt funding by banks.	Total Equity Required	-	\$12,001,250	\$611,587	\$9,919,000	\$9,219,000	
	Additional Equity Required	\$0	\$0	\$0	\$700,000	\$0	
	Project ROC	N/A	10.41%	N/A	18.77%	N/A	
	Equity IRR	N/A	8.08%	N/A	15.75%	N/A	
	Project IRR	N/A	5.98%	N/A	10.26%	N/A	
	Project NPV (Discount Rate 15%)	N/A	(6,007,062)	N/A	(2,396,287)	N/A	
	PROCEED METRICS	Option 1 Sell Surplus Land	Option 2	Option 3.1	Option 3.2	Option 3.3	
	Church Works	-	N/A	\$5,300,751	\$5,300,751	N/A	
BOMAR	\$2,681,573	N/A	\$0	\$3,783,701	N/A		
MtE Net Proceeds (Profit + Land – Church Works & BOMAR)	\$7,949,966	N/A	\$2,351,381	\$7,313,246	N/A		

- A detailed Feasibility is contained in Appendix B.
- ** Requires additional equity to be viable

6. Financial Feasibility and Assumptions

The table below outlines the key Development Assumptions used within the feasibilities attached and are subject to further investigations and verification following approval of the business case.

TYPE	ASSUMPTION
Land Sale	Estimated Selling Price (under Option 1 & 3.1) has been advised by Colliers International and CBRE as a reasonable assumption.
Planning	Upfront planning and heritage costs are a cost of the project and are funded and secured against the land.
	18 month planning period to include liaison and approval from Heritage Victoria
	Head works allowance of 1% of construction costs (UCA Formula)
	Development Contributions & Open Space Levy @ 5% of Land Value
Construction	Mix of Commercial, Domestic build and conversion of existing heritage listed buildings (apartments, residential and communal areas). Rates used are to be verified by a Quantity Surveyor
	Conversions @ \$3,000/ sqm (GFA) (provided by MC Consulting)
	Apartments @ \$2,400 / sqm (NSA incl. balconies) (provided by MC Consulting)
	Basement @ \$1,400 / sqm (provided by MC Consulting)
	Circulation @ \$2,400 / sqm (provided by MC Consulting)
Contamination	Remediation @ \$250,000 (estimated total works)
Refurbishment	Structural Repair work \$5.3 million (As per Di Mase Cost Plan inflated by 4% per annum for 4 years)
Sales & Marketing	Apartments @ \$9,500 / sqm (NSA) Estimate provided by Colliers

TYPE	ASSUMPTION
Sales & Marketing	Sales and Marketing commission and fees @ 5% of Gross Revenue (4% Commissions and 1% Marketing)
Project Financing	Loan to Cost Ratio (LCR) @ 75%
	Loan to Value Ratio (LVR) @ 65%
	Equity Contribution based on achieving the required LVR / LCR in the model, calculated by Estate Master on the basis of Project and Finance Costs Inc. Interest fee and net of GST.
	Development Interest @ 7% to include the Line Fee and Establishment below
	Line Fee (% of total debt) @ 0.5%
	Establishment Fee (% of total debt) @ 0.5%
Project Contingency	UCA Development Contingency between 5% of costs (UCA Formula - construction / Stats / Sales & Marketing / Selling Costs)
	Construction Contingency @ 5%
Financial Sustainability	Maintain a balanced budget
BOMAR	Using UCA calculator including UCHM and any relocation costs when applicable
Manse	The sale of the manse has been considered and since discounted as apartments would not meet manse specifications and purchase costs may not be less than current minister housing cost.

7. Site Development Program

A indicative program associated with each of the Property Options is shown below. In each scenario it is assumed that relocation (via purchase, lease, or amalgamation) and any Church Restoration (where applicable) will be carried out once proceeds from the commercial development have been realised in order to minimise additional debt required to fund the works.

MtEF Property Options - Preliminary Programs

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Option 1 - Sell Site							
Stage 1: Business Case							
Stage 2: Sales & Marketing Period (Until end of EOI)							
Stage 3: Evaluation, Approvals, Settlement & Legals							
Stage 4: Relocation (Purchase or Lease)							
Option 3.1- Stay, sell 2/3 site & renovate church							
Stage 1: Business Case							
Stage 1: Subdivision & Permit							
Stage 2: Sales & Marketing							
Stage 3: Evaluation, Approvals, Settlement & Legals							
Stage 4: Church works							
Option 3.2 - Stay and develop & sell 2/3, renovate church							
Stage 1: Business Case							
Stage 2: Design, Heritage & Permit							
Stage 3: Sales & Marketing							
Stage 4: Remediation works							
Stage 5: New Apartments & Manse (development)							
Stage 6: Settlements, Approvals and legals							
Stage 7: Church works							

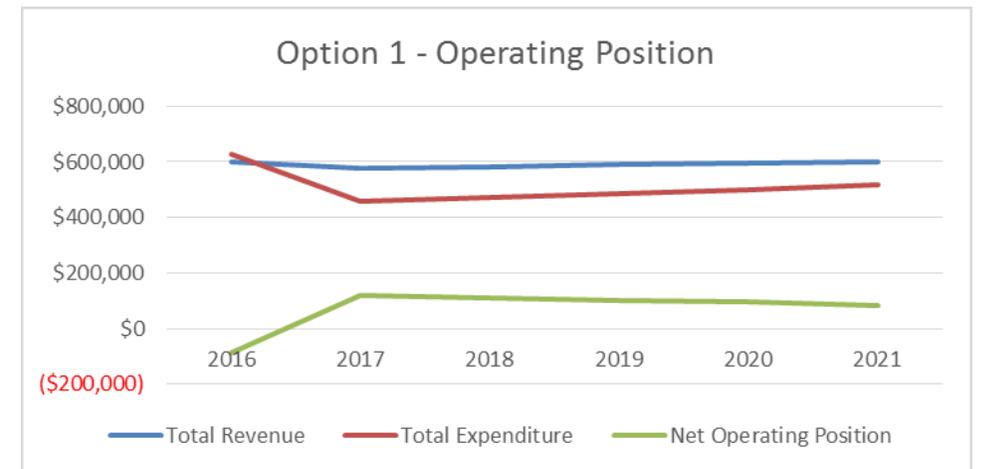
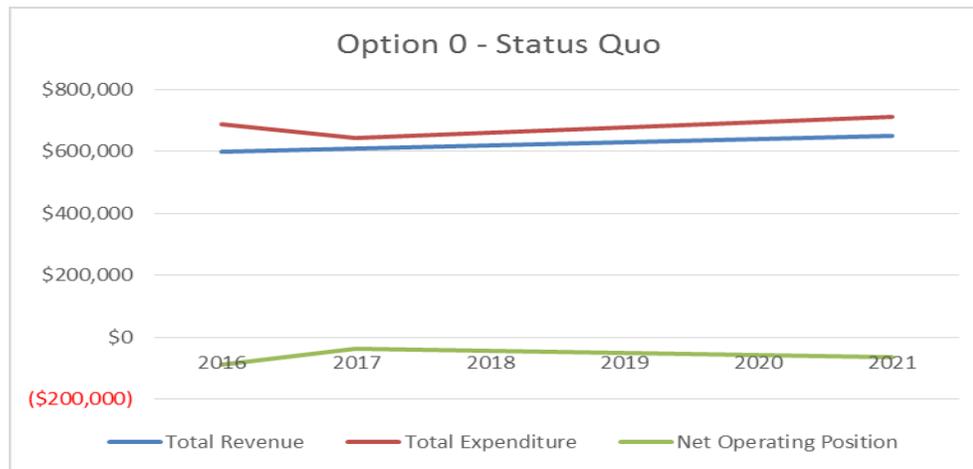
Grey box denotes unviable option.

8. Operational Cash flow Analysis

	Option 0 Status Quo	Option 1 Sell Whole Site
Net MtE Proceeds (Land + Project Profit – Church Works & BOMAR)	\$0	\$7,949,966
Cash Reserves (Year 2021)	\$2,271,290	\$3,027,387
Operational Surplus/(Deficit) (Year 2021)	(\$63,432)	\$84,626
Comments	Cash Reserves decreasing	Cash Reserves increasing at a decreasing rate

The table above outlines the key operational cash flow figures for each Property Option.

The graphs opposite demonstrate the operational cash flow position throughout the life of the project.

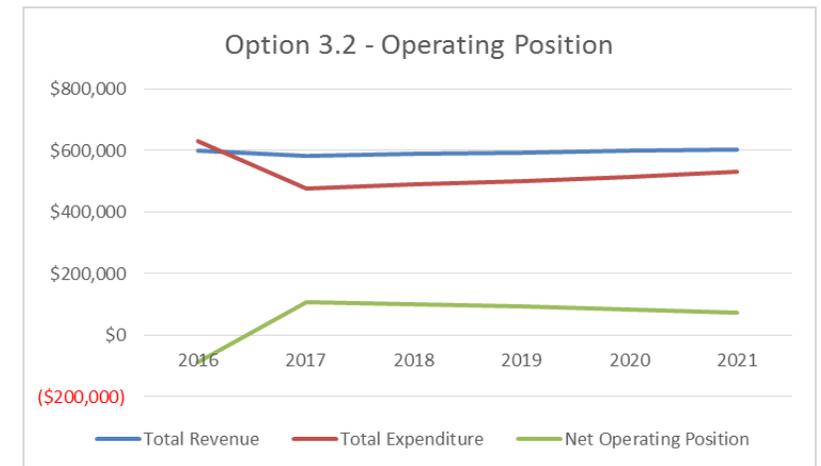
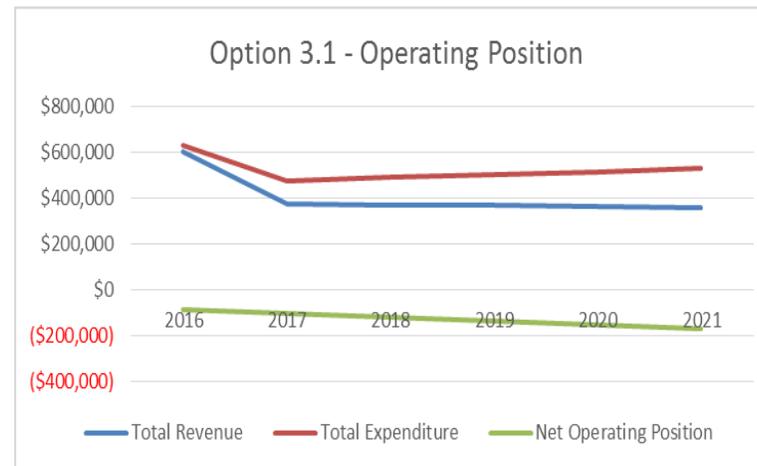


8. Operational Cash flow Analysis

	Option 3.1 Stay, Sell 2/3 site, renovate church	Option 3.2 Stay, develop 2/3 & sell. Renovate church
Net MtEF Proceeds (Land + Project Profit- Church Works & BOMAR)	\$2,351,381	\$7,313,246
Cash Reserves (Year 2021)	\$1,837,374	\$2,973,573
Total Operating Surplus/(Deficit) (Year 2021)	(\$172,384)	\$73,973
Comments	Cash Reserves decreasing	Cash Reserves increasing at a decreasing rate

The table above outlines the key operational cash flow metrics for each Property Option.

The graphs opposite demonstrate the operational cash flow position throughout the life of the project.



9. Overall Feasibility Assessment

The report identifies that should MtE remain 'as-is' (Option 0 – Status Quo) the Congregation will run out of surplus funds by 2057. Following analysis of the six Options outlined in this report, Option 2 (including 2.1 and 2.2) has been discounted from further analysis due to being unviable and not meeting commercial and UCA performance metrics (i.e. Return on Cost and Internal Rate of Return). Option 3.3 has also been discounted from further analysis due to the MtE's inability to generate sufficient funds from the rental income to provide financial sustainability and to cover the debt costs to fund the Church restoration.

Option 0 (Status Quo) produces an annual operating deficit of circa 35K, which increases to approximately \$71K by 2022. If MtE Congregation remains on this path, their overall cash reserve will continue to diminish at an increasing rate.

Option 1 produces the highest financial outcomes for MtE on a risk adjusted return basis. Under Option 1 MtE disposes of the entire site, which provides a low risk option that yields net proceeds of \$7.95m providing MtE with \$84,626 of on going operational surpluses in year 2021. There has been a notional allowance of \$100k per annum for relocation costs (lease or amalgamation)..

Option 3.1 returns a small profit after the Church restoration has taken place but does not provide sufficient proceeds for an ongoing surplus once the income producing assets (terrace cottages and commercial building) has been sold which see the forecasted operational cash flow produce a large annual deficit.

Option 3.2 produces comparable returns to Option 1 generating \$7.313m in net proceeds from developing and selling apartments on 2/3's of the site. However, the proceeds are not realised until two years later than Option 1, carries a much high risk profile (in terms of heritage, planning, construction and sales risk) and does not meet all of the commercial and UCA set performance metrics (i.e. IRR and NPV). Option 3.2 also requires MtE to provide an additional \$700k as equity to meet bank funding requirements.

Options for consideration	Commercial	Financial	Mission	BOMAR Contribution	Net Proceeds	Cash Reserves (2021)	Operating Surplus/(Deficit) (2021)	Comments	Delivery Date
Option 0 – Status Quo*				-	-	\$2,271,290	(\$63,432)	If the status quo remains, MtE will continue to reduce their cash reserve by circa \$70k increasing.	-
Option 1*				\$2,681,573	\$7,949,966	\$3,027,387	\$84,626	This option meets the commercial and financial needs of MtE. The only concern is relocating to a suitable facility.	March 2018
Option 3.2*				\$3,783,701	\$7,313,246	\$2,973,573	\$73,973	This option partially meets financial and mission objective. Commercially, it will be a higher risk.	September 2021

10. Conclusion

Conclusion

The Strategic Property Options report concludes that the most likely options include:

- Option 1 – Disposal of the site
- Option 3.2 – Stay & develop 2/3's as the preferred options in the Business Case.

Option 0 has been discounted on the basis that it produces an annual deficit on-going. It furthermore has been raised by the PCG that this option would not be approved by the Church Council or presbytery whereby MtE are left with a broken Church.

Options 2 and 3.1 have also been discounted from further review as these Options either don't meet the UCA set metrics or does not provide additional proceeds to generate revenue in an IOMF account.

From the detailed analysis completed, Options 1 and 3.2 present the most rewarding annual operational surpluses ongoing. These also best meet the UCA metrics, mission objectives and MtE financial sustainability objectives.

Option 1 provides a low risk option, however due diligence is required to identify and scope out possible options for relocation.

Option 3.2 provides a higher risk option given the nature of the development proposed, but allows MtE to remain on site.

Additional Options raised at MtE working group meeting are being reviewed and scoped out at a high level to see if any potential revenue stream can be realised.

Option 1 – Sell Site	
Development type / Number	Disposal of site
On-going Mission	Relocation to be determined
BOMAR Contribution	\$2,681,573
Net Funds to MtE	\$7,949,966
Operational Surplus (2021)	\$84,626
Cash Reserves (2021)	\$3,027,387

Option 3.2 – Stay, develop 2/3 and sell . Renovate Church	
Development type / Number	Develop
On-going Mission	Relocation to be determined
BOMAR Contribution	\$3,783,701
Net Funds to MtE	\$7,313,246
Operational Surplus (2021)	\$73,973
Cash Reserves (2021)	\$2,973,573

11. Possible Relocation Option Alternatives

It is still an open question whether MtE would be able to purchase or lease a building on the open market, including funding of the fitout costs, for the sole use of MtE for worship and mission.

Possible additional options for alternative sites are:

- a. The lease of non-commercial premises (to retain MtE's distinctive identity); or
- b. A UCA or ecumenical merger.

12. Next Steps

Items	When
Strategic Property Options Analysis Report (SPOAR) to MtE Church Council	March 2016
SPOAR to MtE Congregational Meeting for consideration	March 2016
SPOAR to MtE Congregational Meeting to identify the preferred option	May 2016
MtE Church Council formalises Congregation preference	May 2016
Draft Business Case for consideration by MtE Church Council	June 2016
Business Case Report to PCG	June 2016
Business Case Report to MtE Church Council	July 2016
Business Case Report to MtE Congregation for comment and support	July 2016
MtE Church Council approves Congregation indicative decision	August 2016

Disclaimer

This report has been prepared for the Congregation of Mark the Evangelist. SEMZ Property Group has taken all due care in the preparation of this report. However, SEMZ Property Group and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred herein.