Economic Contribution Analysis of the 14-30 Lee Street, Haymarket Redevelopment

Frasers Property Australia and Dexus Funds Management Limited

5 August 2019

Building a better working world

Notice

Ernst & Young was engaged on the instructions of Frasers Property Australia ("Frasers Property") and Dexus CPA Pty Ltd (Dexus Funds Management) to provide an economic contribution analysis of the 14-30 Lee Street, Haymarket Redevelopment ("project"), in accordance with the engagement agreement dated 4 July 2019.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 5 August 2019 (the "Report"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since 5 August to update it.

Ernst & Young has prepared the Report for the benefit of Frasers Property and Dexus Funds Management and has considered only the interests of Frasers Property and Dexus Funds Management. Ernst & Young has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

No reliance may be placed upon the Report or any of its contents by any recipient of the Report for any purpose and any party receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.

Ernst & Young disclaims all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of the Report, the provision of the Report to the other party or the reliance upon the Report by the other party.

No claim or demand or any actions or proceedings may be brought against Ernst & Young arising from or connected with the contents of the Report or the provision of the Report to any party. Ernst & Young will be released and forever discharged from any such claims, demands, actions or proceedings.

Ernst & Young have consented to the Report being published electronically on the Major Projects website for informational purposes only. Ernst & Young have not consented to distribution or disclosure beyond this. The material contained in the Report, including the Ernst & Young logo, is copyright and copyright in the Report itself vests in Frasers Property and Dexus Funds Management. The Report, including the Ernst & Young logo, cannot be altered without prior written permission from Ernst & Young.

Ernst & Young's liability is limited by a scheme approved under Professional Standards Legislation.

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Ms Amy Kiely
Development Manager, Frasers Property Australia
Suite 11, Lumiere Commercial, Level 12, 101 Bathurst Street
Sydney, NSW, 2000

5 August 2019

Dear Amy,

14-30 Lee Street, Haymarket Redevelopment – Economic Contribution Analysis

We refer to the contract between Frasers Property AHL Ltd (Frasers Property), Dexus CPA Pty Ltd (Dexus Funds Management) and EY (the "Contract"), through which EY has been engaged to provide an economic contribution analysis of the proposed 14-30 Lee Street, Haymarket Redevelopment Proposal (the "Project"). As part of this engagement EY has produced an Economic Contribution Analysis (the "Report"), attached to this letter.

The Report may only be relied upon by Frasers Property and Dexus Funds Management (the "Consortium") pursuant to the terms referred to in the Contract. Any commercial decisions taken by the Consortium are not within the scope of our duty of care and in making such decisions you should take into account the limitations of the scope of our work and other factors, commercial and otherwise, which you should be aware of from sources other than our work.

EY disclaims all liability to any party other than Frasers Property and Dexus Funds Management for all costs, loss, damage and liability that a third party may suffer or incur arising from or relating to or in any way connected with the provision of deliverables to a third party. If others choose to respond in any way to the Report they do so entirely at their own risk.

Our work commenced on 3 July 2019 and was completed on 2 August 2019. Therefore, our Report does not take account of events or circumstances arising after 2 August 2019 and we have no responsibility to update the Report for such events or circumstances.

In preparing this Report we have considered and relied upon information provided to us by Frasers Property. We do not imply, and it should not be construed that we have verified any of the information provided to us.

The work performed as part of our scope considers information provided to us by the Consortium and assumptions relating to future conditions, which may not necessarily represent actual or most likely future conditions. Additionally, modelling work performed as part of our scope inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility that the projected outcomes will be achieved, if any.

We highlight that our analysis and Report do not constitute investment advice or a recommendation to you on a future course of action. We provide no assurance that the scenarios we have modelled will be accepted by any relevant authority or third party.

If you would like to clarify any aspect of this Report or discuss other related matters, then please do not hesitate to contact me.

Yours sincerely,

Lars Rognlien
Associate Partner

Table of contents

1. Background and Introduction

1.1 Document purpose

EY was engaged by Dexus Funds Management Limited (Dexus) and Frasers Property Australia (Frasers Property) ("the Consortium") to prepare an economic contribution analysis for the redevelopment of 14-30 Lee Street, Haymarket ("the Site"). This analysis is intended to be used to support the Consortium's Planning Proposal.

1.2 Project Overview

The Consortium, as the long-term leaseholders of the Site are the only parties with the right to redevelop the Site or provide access for pedestrian, vehicle or service infrastructure. It is seeking to convert the Site from its current use into a mixed-use development comprising commercial, tech/start-up, and retail uses.

Figure 1: The Site at 14-30 Lee Street, Haymarket

Source: Frasers Property

As at 31 July 2019, the Consortium's plan is to develop 2 commercial towers with Gross Floor Area's (GFA)'s of 45,000 sqm and 40,000 sqm, as well as 5,000 sqm of retail GFA and a podium with 60,000 sqm GFA suitable for tech/start-up purposes. The analysis presented in this Report is based on the construction of and outcomes achieved by this development.

As part of the development, the consortium is planning to deliver significant public amenity and accessibility improvements as well as building facilities that are to be shared with the surrounding buildings.

This Report focuses on capturing the economic contribution associated with construction and incremental employment enabled at the Site. The net-additional benefits associated with shared facilities and improved amenity and accessibility are not captured by the analysis presented in this Report.

1.3 Inputs

The analysis included in this Report has been based on inputs provided by the Consortium and its consultants. Table 1 summarises these. EY has not reviewed or validated the inputs provided.

Table 1: Inputs table

Input	Value	Source
Project Costs	▶ $830.4 million	Altus Group
Construction Period	▶ Quarter 3 2021 to Quarter 2 2024	Frasers Property
Construction Profile	▶ FY2021: 30%; FY2022: 50%; FY2023: 20%	EY assumption agreed with Frasers Property
Existing GFA (SRA House Henry Deane Building & Gateway Building)	▶ Commercial: 35,328 m^2 ▶ Retail: 903 m^2	Frasers Property
Commercial GFA	▶ 45,000m^2 GFA Tower 1 – Commercial space ▶ 40,000m^2 GFA Tower 2 – Commercial space	Frasers Property
Tech/Start-up GFA	▶ 60,000m^2 GFA Podium – tech/start-up space	Frasers Property
Retail GFA	▶ 5,000m^2 GFA retail space on lower ground and ground floor	Frasers Property
Employment to floorspace Ratio	▶ Commercial: 1 job per 10m^2 ▶ Tech/start-up: Space 1 job per 10m^2 ▶ Retail: 1 job per 35m^2	Frasers Property
Development Type	▶ Single staged development	Frasers Property

Source: Frasers Property inputs

[1] Australian and New Zealand Standard Industrial Classification, 2006 (https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/5718D13F2E345B57CA257B9500176C8F/$File/12920_2006.pdf)

REMPLAN

Economic contributions analysis has been undertaken using REMPLAN software. REMPLAN is an economic analysis software package designed for use by economic development practitioners to estimate the direct and indirect impacts of infrastructure developments or policy changes. REMPLAN provides detailed economic data for single or combinations spatial levels and also incorporates a dynamic economic modelling capability to allow the analysis of 'what if' scenarios.

1.4 Assumptions

There are two components to the analysis – the economic contribution of the activity taking place during construction and that of the ongoing economic activity taking place at the Site once operational (i.e. employment through commercial, retail and tech/start-up activity). The key assumptions are outlined below.

Construction

The economic activity generated by construction is captured through the construction expenditure. Construction costs have been provided by Altus Group and have been aligned by EY into the ANZSIC[1] industries shown in Table 2.

Table 2: Costs aligned to REMPLAN Industry Groups (ANZSIC)

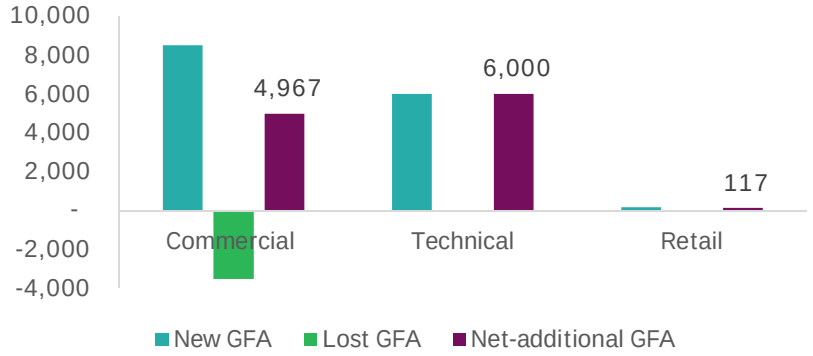
Input	Value ($m, 2019)
Non-Residential Building Construction	$770.0
Professional, Scientific and Technical Services	$60.4

Source: EY analysis of Frasers Property inputs

Ongoing activity

The economic value of the ongoing activity is quantified through the employment generated by the productive space on the Site (i.e. commercial, tech/start-up and retail GFA). Figure 2 shows the jobs enabled by the development when completed (based on the assumptions presented in Table 1). For the purpose of this high-level analysis, this assumes full occupancy.

Figure 2: Incremental jobs enabled on the Site



Source: EY analysis of Frasers Property inputs

The jobs generated have been aligned by EY into the following ANZSIC industries. For the purpose of this high-level analysis, retail jobs have been assumed to be half Retail Trade and half Food and Beverages Services, aligned with the surrounding area.

Table 3: Jobs aligned to REMPLAN Industry Groups

Industry Group	Sector
Professional, Scientific and Technical Services	► Commercial jobs ► Tech/start-up jobs
Retail Trade	► Retail jobs
Food and Beverage Services	► Retail jobs

Source: EY analysis of Frasers Property inputs

Project area

The economic contribution analysis quantifies the Project impacts for an area defined as the 'Southern CBD'. It includes the suburbs of Ultimo, Haymarket and Chippendale. This area is shown in Figure 3.

Figure 3: Southern CBD

Source: REMPLAN

1.5 Methodology

Economic contribution (or gross contribution) is a measure comprising all market-related output, value add and employment supported by a specified industry's activities. An economic contribution analysis focuses on capturing the direct effects of an industry (i.e. output or employees) and applies an economic multiplier to capture the flow-on effects of the industry's operations. These flow-on effects include:

- Production (industrial) effect – the indirect contribution/employment generated by an industry as it purchases input goods and services generating revenue for other businesses;

- Consumption effect – the induced contribution/employment generated by an industry as its employees spend their wages and salaries on household consumption, providing revenue for other businesses.

Note that these direct, production and consumption effects do not necessarily represent net economic gains to the Southern CBD economy – rather the effects are best described as the economic 'footprint'.

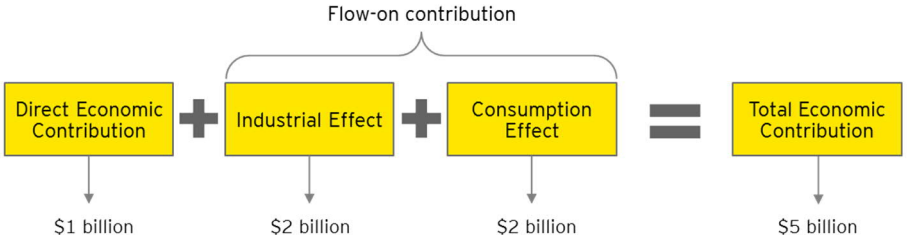
The economic multipliers are a series of figures which measure the total economic contribution in a region resulting from an increase in the 'direct' economic activity of (or expenditure on) an industry.

The multipliers incorporate the additional economic contribution generated by the 'direct' contribution, this includes the production effect and the consumption effect:

- The direct economic contribution is the total revenue plus value add taxes;
- The production effect is comprised of the flow-on contribution generated by an industry purchasing domestic inputs;
- The consumption effect is the flow-on contribution generated by an industry's employees purchasing domestic goods and services with their income.

Figure 4 shows the relationship between these effects and the total economic contribution.

Figure 4: Economic contribution and the effect of the multiplier



Source: EY analysis

As an example, a $1 billion-dollar direct contribution may result in an industrial effect (production effect) of $2 billion and a further consumption effect of $2 billion. So, an extra $1 billion in direct economic contribution would result in an extra $4 billion of flow-on (indirect) economic contribution and a total economic contribution of $5 billion. In this example, the total multiplier is 5.

We use an input-output table (IO) to measure the direct, production and consumption effects resulting from the construction and operation of the Project, and thus the size of the contribution to the local area economy. An IO table accounts for all of the transactions in the area's economy, making up total demand for and supply of goods, labour and capital.

We use several metrics to present the local economic contribution of the Project. These metrics include:

- Value add - market value of goods and services produced, after deducting the cost of goods and services used. This represents the sum of all wages, income and profits generated as a result of an economic activity;
- Income - total value of income earned through gross wages and salaries as a result of an economic activity;

- Employment – the number of individuals employed as a result of an economic activity. All jobs presented in an economic contribution analysis represent “job years” - one full time job supported for a full year. For instance, 100 jobs sustained over 5 years is 500 job-years.

The multipliers are presented in Appendix A. Output, value add, and income multipliers are calculated in terms of a unit of output (i.e. a unit of input into non-residential building construction has a direct income of 0.1 units). The employment multipliers are calculated in terms of jobs per unit of input (i.e. $1 million spent on construction generated 1.1 jobs).

1.6 Disclaimer

This economic contribution analysis was conducted over a short time period, and as such is considered to be a high-level analysis. With more detailed analysis the results could be different.

- EY did not verify economic model inputs provided by the Consortium. EY sourced additional historical data and economic statistics from REMPLAN.

- The analysis presented in this Report is an economic contribution analysis, not a cost benefit analysis. The results should be interpreted accordingly. This analysis does not indicate the feasibility or relative merit of the Project in comparison to other Projects.

- Importantly, the outputs of economic contribution analyses should not be taken to reflect the net incremental economic impacts on the economy of the development. A share of the additional economic activity on the site is likely to be displaced from elsewhere in Sydney or Australia, which is not considered by the analysis presented in this report.

These results are based on inputs that are correct as at 2 August 2019.

2. Results

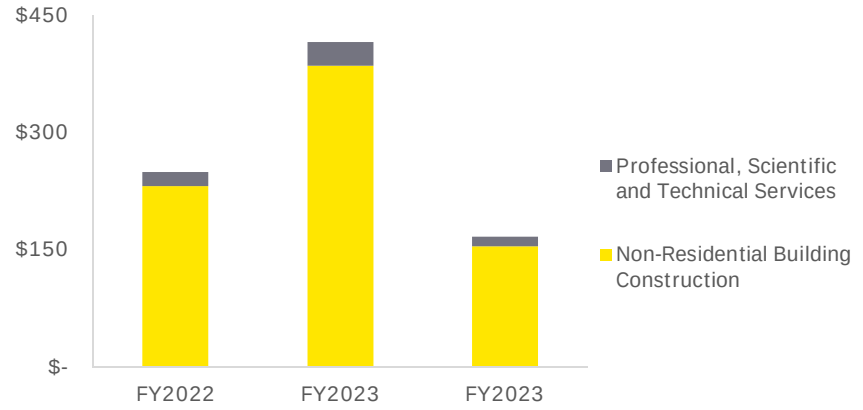
The analysis presented in this Report captures the impacts for both the construction of the towers and podium and for ongoing commercial, tech/start-up and retail employment enabled through the development. The results for each are discussed in this section.

2.1 Construction impacts

2.1.1 Construction expenditure

Construction expenditure for the development totals $830.43 million (undiscounted). The sector split and the 3-year development profile is shown in Figure 5 below ($million, real 2019 values).

Figure 5: Construction expenditure by ANZSIC industry group ($ million, 2019)



Source: EY analysis of Fraser Property inputs

Construction is assumed to take place over 3 years, with 30% of costs incurred in the first year, 50% in the second and 20% in the third.

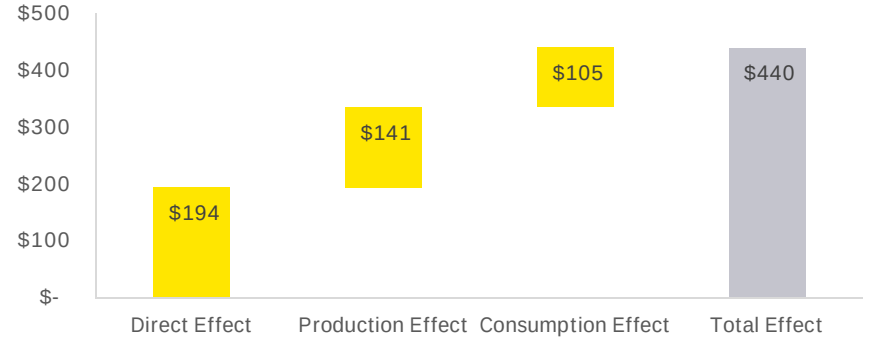
2.1.2 Value add

Value add can be defined as the total value of an activity net of expenditure on intermediate inputs. Value add, when combined across all sectors, form Gross Value Add, which is closely related to Gross Domestic Product.

Over the construction period the Project is expected to deliver $440 million (undiscounted) in value add to the economy of the Project area (defined in Figure 3). $194 million is a direct effect of the Project, $141 million results from the indirect production effect and $105 million results from the induced consumption effect.

Figure 6 summarises the total value add during the 3-year construction period.

Figure 6: Value add during construction phase ($ million, 2019)



Source: EY analysis

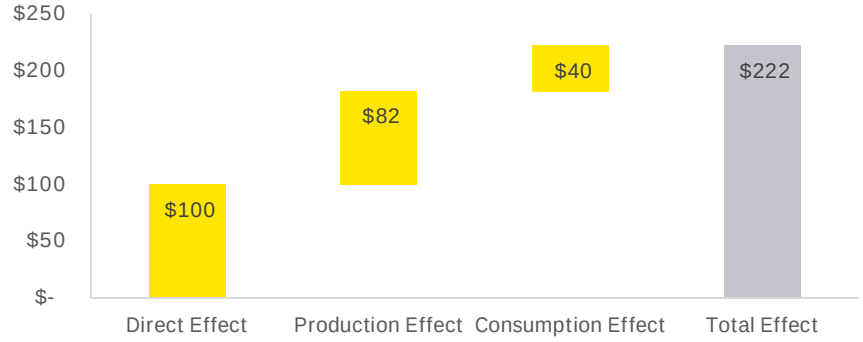
2.1.3 Income

The income effect can be defined as the share of value add that is return to labour, with the remainder being return to capital.

Construction activities have a direct income effect of $222 million (undiscounted), the indirect effect (both production and consumption) is a further $122 million.

Figure 7 summarises the share of value add allocated to income through wages during construction.

Figure 7: Income during construction phase ($ million, 2019)



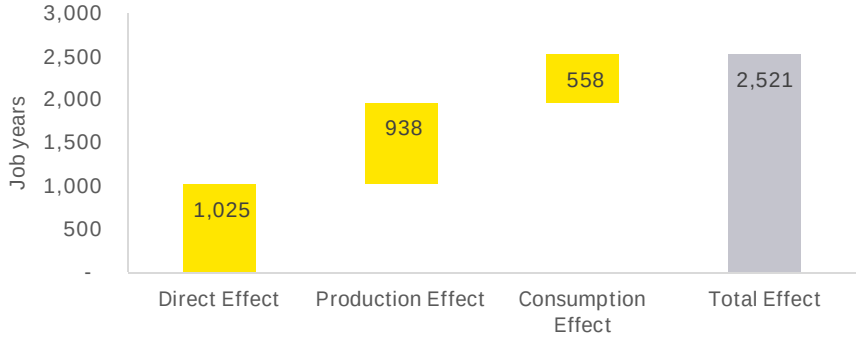
Source: EY analysis

2.1.4 Employment

Construction takes place over a 3-year period beginning in FY2022 and due for completion in FY2024. In total construction is expected to generate 1,025 direct job-years, comprising 512 jobs at the peak of construction in FY2023. A further 1,496 job-years result from the indirect and induced effects, at the peak this comprises 748 jobs.

Figure 8 shows the total job-years enabled by the 3-year construction period.

Figure 8: Job-years during construction phase



Source: EY analysis

2.2 Operations Impact

Upon completion the Project is expected to enable a total of 11,084 jobs on the site, over and above the current use. Of these, 4,967 are commercial jobs, 6,000 tech/start-up and 117 in retail. This section outlines the economic contribution to the 'Southern CBD' generated by this ongoing employment.

2.2.1 Value Add

The incremental jobs deliver $1.5 billion in direct value add each year. This increases to $3.2 billion per year when counting value add through the direct, indirect and induced effects.

Figure 9 shows the break-down of value add delivered to the local economy each year as a result of the development.

Figure 9: Annual value add during operations ($ million, p.a., 2019)

Source: EY analysis

2.2.2 Income

From FY2024 onwards, $2.0 billion per year is generated as a result of the direct, and indirect and induced income effects.

Figure 10 shows the share of value add returned to employees through the income effect.

Figure 10: Annual income during operations ($ million, 2019)

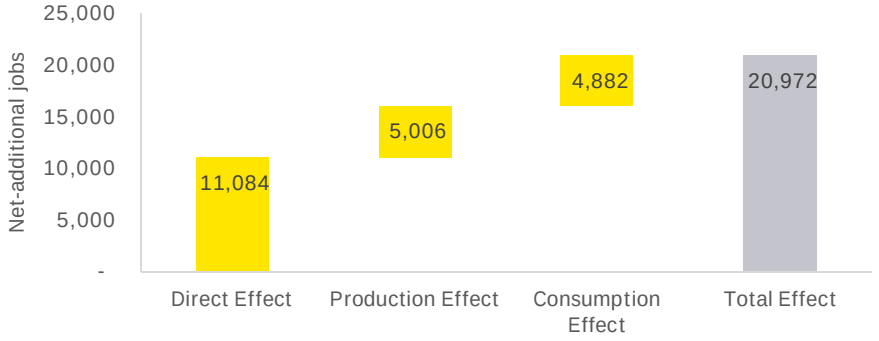
Source: EY analysis

2.2.3 Employment

When capturing all effects, the development supports 20,972 jobs in the 'Southern CBD'. 11,084 are directly enabled through the net-additional floorspace on the Site, the remaining 9,888 jobs result from the indirect and induced effects of production and consumption.

Figure 11 shows the number of jobs generated by the development.

Figure 11: Jobs generated during operations ($ million, 2019)



Source: EY analysis

3. Additional benefits

There are a number of potential Project benefits that are not reflected through the results of the economic contribution analysis. These benefits are driven by the development outcomes achieved on the Site and can accrue to the local area as well as contribute to the efficiency of NSW as a whole. Net additional economic benefits are likely to include:

- Shared basement – delivery of a shared basement will bring cost and efficiency improvements to surrounding developments.
- Improved public domain - These are benefits resulting from an increase in the size or improvement to the quality of open space. This benefit will capture the value of the improved public space delivered as part of the redeveloped plaza.
- Improved pedestrian accessibility – Improved pedestrian connectivity to Central Station and new Metro Station as a result of the development.
- Avoided Costs – The Project is able to deliver a number of station and amenity improvements as part of the bigger development. This means they can be delivered cheaper and more efficiently compared to if they were delivered independently.
- Productivity benefits from enabling a tech innovation precinct – The delivery of the Project will contribute to the likely success of the Central to Eveleigh tech/innovation precinct.
- Tourism – Central Station is seen as the Gateway to Sydney. The redeveloped plaza could provide a positive experience for tourists alighting at Central Station, improving their overall experience of Sydney.
- Higher value land use – the development of a new campus style tech/start-up precinct creates additional floor space, which captures direct benefit from increased commercial, retail and residential development that will generate both investment and economic activity.

There are a number of indirect benefits that result from the additional retail and commercial floorspace generated by the proposal. These benefits are briefly described below.

- Transport network efficiency - Improving the connectivity around Central Station through the pedestrian link will relieve congestion and improve access to and from Central Station, inducing travel time savings.
- Health - There is potential for health benefits from increased active transport use as a result of urban infill and a more efficient use of space. This is supported by data from the ABS census which suggests there are significant differences in the rate of active travel as part of travel to work in infill areas such as the Site and proposed Project.
- WEBs - There are two elements of wider economic benefits that could be captured; agglomeration and labour productivity benefits. There is a well-documented relationship between the density of cities and the productivity of the economic activity taking place there, which is identified in several NSW Government economic appraisal guidelines. These productivity benefits result from businesses and people locating near to one another together in cities and industrial clusters.

A. Appendix A

The economic multipliers presented are calculated using REMPLAN data for the 'Sydney Southern CBD'. They are presented for relevant industries in the following tables.

Table 4: Construction phase multipliers and effects

Industry	Direct	Production	Consumption
Output Multipliers			
Non-Residential Building Construction	1.0	1.4	1.6
Professional, Scientific and Technical Services	1.0	1.5	2.0
Value Add Effects			
Non-Residential Building Construction	0.2	0.4	0.5
Professional, Scientific and Technical Services	0.5	0.7	1.0
Income Effects			
Non-Residential Building Construction	0.1	0.2	0.2
Professional, Scientific and Technical Services	0.4	0.5	0.6
Employment Effects			
Non-Residential Building Construction	1.1	2.1	2.7
Professional, Scientific and Technical Services	3.6	5.2	6.8

Source: EY analysis of REMPLAN

Table 5: Operations phase multipliers and effects

Industry	Direct	Production	Consumption
Output Multipliers ($million per job)			
Professional, Scientific and Technical Services	0.28	0.43	0.57
Retail Trade	0.13	0.17	0.23
Food and Beverage Services	0.13	0.16	0.21
Value add Effects ($million per job)			
Professional, Scientific and Technical Services	0.13	0.21	0.29
Retail Trade	0.08	0.10	0.13
Food and Beverage Services	0.06	0.08	0.11
Income Effects ($million per job)			
Professional, Scientific and Technical Services	0.10	0.15	0.18
Retail Trade	0.05	0.06	0.07
Food and Beverage Services	0.04	0.05	0.06
Employment Effects (jobs per job)			
Professional, Scientific and Technical Services	1.0	1.5	1.9
Retail Trade	1.0	1.1	1.3
Food and Beverage Services	1.0	1.1	1.2

Source: EY analysis of REMPLAN

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.

ED 1217

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com