24 January 2014

Objection to the Manly Council 2015 Masterplan

This submission has been supported by the following parties, each of whom has had long term land ownership and/or an association with The Corso and Manly in general:

- Henroth Investments Pty Ltd (John and Stanley Roth)
- Hilrok Properties Pty Ltd (Tim Peterson), and
- Humphreys Newsagency (John Humphrey)

We have previously objected to Council's Manly 2015 Masterplan. Now further independent expert studies have been produced by:

1. KPMG – Financial and Commercial Review
2. HillPDA – Economic Assessment, and
3. BITZIOS – traffic forecast study

Having studied these 3 reports we are even more concerned about the financial viability of Manly 2015 than we were previously. There are many errors and inconsistencies throughout the reports and in Manly Council's presentation of the reports.

Rather than go into immense detail we will focus on the more major problems with these reports and request a response from Manly Council on the points we raise.

The major problems we will refer to are the KPMG financial modelling which we consider is fundamentally wrong and the traffic Car Park Demand forecasts which rely upon building 47,000 m2 of new retail/commercial floor space in the Manly CBD within the next 20 years.

MANLY 2015 MASTERPLAN

The current Manly 2015 Masterplan web page states :
(http://www.manly2015.com.au/manly2015/independent-expert-studies/)

Financial and Commercial Review, KPMG, December 2013
The latest KMPG modelling concludes that the rate of return of 6.6% for the Manly Oval Car park is considered acceptable if Council's costs of funds are in the order of 5% (under the 100% equity model), and the project potentially exceeds the required returns.

The KPMG report does not conclude that the rate of return is acceptable. **KPMG does not positively recommend that the Plan should proceed, even under the Council model**.

The actual conclusion (Summary) is on page 12 and states in part –

> Under a Council funded model, which assumes the capital cost is funded entirely with equity, the financial analysis conducted shows a **20 year IRR of 6.6%**, based on the stated assumptions. This compares with a **20 year IRR of 1.9%** under the Private Sector funding model (where the private sector retrains ownership).
>
> Whilst the IRR for the project is higher under the Private sector funding model, this level of return would not be acceptable to a Private developer. Our experience with infrastructure projects of this nature indicates that a **minimum return of 18%-20% would be required in order for the project to be commercially feasible.**
>
> Given that Manly Council's cost of funds is 5%, under a 100% equity model, the project potentially exceeds the required return.

Note the statement that "*IRR for the project is higher under the Private sector funding model*". This is incorrect as Private sector IRR of 1.9% is obviously lower than the Council IRR of 6.6%.

Question to Manly Council – KPMG only states that "*the project **potentially** exceeds the required return"* so could you please advise where KPMG states that the Plan is *"acceptable"*?or indeed is it only Manly Council considering the Manly 2015 figures are acceptable? Your advice would be appreciated.

Manly 2015 Overview

To achieve Manly 2015 under the Council funded model, could Manly Council answer the following questions :

1. How much funding does Council have available?
2. What's Council's authority for assuming an interest rate of 5% ? and
3. What's Council's authority for assuming such rate will not increase by the commencement, or during the currency of, the project?

KPMG Modelling

In overview we were astonished to note that from a 12.9% return in May/July 2013, this revisedKPMG report states there will be a significantly reduced return of 6.6%. **So within several months, the revised return is now approximately half of the previous projection, surely a major point of concern to everyone.**

Item 1 – Page 3 table base figure

In relation to the revised KPMG report please refer to pages 3 and 4. The Page 3 table shows the detail of the items changed in the revised model whilst page 4 is an illustration of the page 3 table.

KPMG Returns for Manly 2015

	May 2013	December 2013	**Paying Users**
A. Council funds - 100% equity – no subsidy***Page 4** (Previous KPMG model)	12.9%		**100% (not current Council policy**)
B. Council funds - 100% equity – 50% subsidy***Page 4** (Previous KPMG model)	3.7%		**50%**
C. Council funds - 100% equity – 70% subsidy*Page 3 (Revised Model – 30% utilisation)		**6.6%**	**30%**

*Subsidy refers to the free 2 hour concessional parking and thereby how many car park users do not pay for parking, eg as per above, 50% subsidy means 50% of car park users do not pay for parking.

From figures A and B under the previous model, when 50% of the parking use becomes free, the return drops by over 9%.

However between figures B (3.7%) and C (6.6%), 50% free usage becomes 70% free usage, thereby the revised model loses 20% of paying users. Yet the return nearly doubles, increasingby approx. 3%. There is no apparent correlation between figures A, B and C. **Revised model Figure C appears to be an aberration whereby the return increases when it seems it should greatly decrease from 3.7%.**

<u>Now please note the page 3 table. The base as at May 2013is a return of 12.9%.</u>

However then note under revenue assumptions, **<u>Base Utilisation in May 2013 is stated to be 50%.</u>** Utilisation is (as per KPMG page 7), the percentage of car park users who pay for parking. Thereby Utilisation % (paying users) plus Subsidy % (free users) equals 100% of car park users.

In the previous models in May 2013 the KPMG model with 50% subsidy (or alternatively 50% utilisation) showed a base return of 3.7%, not 12.9%. The critical base return figure for this revised model is the wrong figure and should be the much lower figure of 3.7%. From this lower base there will be a major loss after the adjustments are made.

Thereby the table on page 3 showing the return of 6.6% is fundamentally wrong and needs to be recalculated.

<u>Item 2 – Page 3 table – Revenue Assumptions - Utilisation figure</u>

The revised utilisation figure is now 30% based upon *"Skidata 10-2012 10-2013"*(Page 7) for the Whistler St car park.

However please refer to pages 2 and 3 of the BITZIOS traffic report. Under Implementation (section 2.2), the traffic expert interviewed car park customers at three Council car parks, so this survey is a wider sample than just Whistler St car park.

On page 3 is figure 2.3 Amount Paid for Parking. Note that according to the traffic expert, free parking (Subsidy) is 85% on weekdays and 74% on weekends. This gives a daily average Subsidy of 82% (free users) and thereby a Utilisation of 18% (paying users).

According to the traffic expert's figures, the KPMG Utilisation figure of 30% in their model should be 18%, causing the KPMG return on Manly 2015 to diminish further.

<u>Item 3 – Page 3 table – Revenue Assumptions - $ per hour/stay figure</u>

The revised $ per hour/stay figure is now $14.00 per stay based upon *"Skidata 11-2012 10-2013"*(Page 7) for <u>the Whistler St car park only.</u>

However please refer to the attached Manly Council page titled Planning and Strategy Committee 5 August 2013. Based upon these figures we have extrapolated the following **<u>for the total of all four Council car parks</u>** :
Total Annual Throughput – Total Annual parking under 2 hours = Number of paying users
1,259,775 cars -927,469 cars = 332,306 cars

Total Revenue = $3,365,400

Thereby from Council figures, average $ per stay <u>for the four Council car parks</u> was actually $10.13, 28% less than the KPMG figure of $14.00. This figure is a better reflection of the real situation over the whole Manly CBD and will cause the return in the Manly 2015 reports to further diminish.

<u>KPMG Summary</u>
We consider that the KPMG revised report uses :

1. **the wrong base return figure, 12.9% should be 3.7%**
2. **the Utilisation (paying users) figure of 30% should be 18% and**
3. **the $ per stay figure of $14.00 should be $10.13**

We consider that the result of these adjustments would be that Manly 2015 Masterplan would result in a major loss for Council and thereby for the ratepayers of Manly LGA, even before the cost of funds of 5% was deducted.

<u>BITZIOS Traffic Report</u>

<u>Item 1 – Base Assumptions</u>

BITZIOS Parking Model Results (page 10) section <u>4.1.2 2033</u> states:

"*The parking demand forecast for 2033 has been based on the assumption that the current Manly CBD Commercial GFA of 111,124 m^2 would increase by 46,783 m2 (42%) to a total of 157,907 m^2. The same 42% increase was also applied to 2013 parking demand."*

We were unable to find verification in any of these reports for any of the figures in BITZIOS' **<u>base assumptions.</u>**

To increase the Manly CBD Commercial GFA by 46,783 m2 would mean building the floor space of three (3) new Stockland Balgowlah shopping centres (16,000 m2floor space) in the current CBD area within the next 20 years.

Could Manly Council give us their specific planned vision for where this massive increase in CBD commercial/retail floor space <u>will be built within the next 20 years</u>? It is not evident in the Manly 2015 Masterplan nor in any other Council originated report of which we are aware, nor remotely feasible according to current zoning, floor space and height restrictions in the Manly CBD!

Also please note the floorspace figures in the HillPDA report
HillPDA Page 6 – *"Manly Town Centre provides over 36,000 m2 of retail and commercial space"*
HillPDA Page 18 – Existing Floorspace in Manly Town Centre
"The Audit found ….. an estimated 67,034 sq m of floorspace"

The 30,000 m2 difference (36,000 vs 67,034) is attributed to floor space for community services, entertainment facilities, government services, hotels and commercial gyms and fitness facilities (see footnote page 18).

So HillPDA did an actual Manly Town Centre audit whereas BITZIOS has no basis for its assumptions disclosed in its report.

Could Council confirm which of the following areas of 67,000m2 (HillPDA) or 111,124 m2(BITZIOS) equals current CBD floor space in Manly? And what is the basis of BITZIOS' projection of 46,783 m2 of new floorspace being built within the next 20 years?

If HillPDA's floor space audit is correct then the current Manly CBD retail and commercial floor space will need to **<u>increase, not by only 46,783m2, a figure that is already totally unrealistic, but by in excess of 90,000m2, ie double that amount, and by approx. 140%, roughly 3 ½ times the 42% increase predicted by BITZIOS within 20 years</u>** in order to generate car parking demand sufficient to validate the need for a new Manly Oval car park.

Based upon these inconsistencies and the lack of evidence of the BITZIOS base assumptions we consider their Car Park Demand Forecasting Study is fundamentally flawed and the need for a new Manly Oval car park is not substantiated.

<u>Item 2 – Manly CBD Car Space numbers</u>

Also note that BITZIOS (Page 8) tested 3 parking model scenarios being:
High Scenario – remove 220 on street parking bays
Medium Scenario – remove 140 on street parking bays
Low Scenario – remove 62 on street parking bays

We were not aware from the previous reports that on street car spaces were to be removed. W**hy does Manly Council wish to remove large numbers of on street car park spaces?**

Cynically one could think that the removal of large numbers of on street car spaces is being proposed to increase the new Manly Oval car park financial return.

BITZIOS Section 6 (page 15) does not refer in their recommendation to a particular scenario so could Manly Council confirm which scenario has been applied in the modelling? And thereby how many on street car spaces are to be removed? And where is their location as we have not found the location of these 62, 140 or 220 car spaces to be removed?

WHISTLER STREET:
(http://www.manly2015.com.au/manly2015/current-site/three-key-components-to-manly-2015-going-forward/)

An artist's impression of how the Whistler street area will look after **MANLY2015** (note: Whistler St will carry two-way traffic). *Left:* a view looking north along Whistler Street towards Sydney Rd, with Market lane off to the right. *Right:* A view from Whistler street looking east down market lane towards the library. (The brown building on the right is where Whistler Street carpark is currently located)

Note the lack of driveways into Market Lane precinct for car access to new Whistler St development, thereby we assume that car space provision for this new development is in the new Manly Oval car park.

To summarise Manly 2015, we assume the car park situation will be as follows:

New car spaces			
New Manly Oval (MO)car park	760 spaces		
New Whistler St development parking to be provided in MO car park, so 50 new apartments and 2,000 m2 retail/commercial, say allow	- 125new car spaces required		
New spaces available	**635** spaces		

Car spaces lost	High	Medium	Low
Whistler St car park	342	342	342
On street parking	220	140	62
Total lost car spaces	**562**	**482**	**404**
Net Increase in car park spaces in Manly CBD	**73**	**153**	**231**

If the net result of this large financial risk to Council is the provision of as few as 73 new car spaces, surely it is not worthwhile pursuing this Plan.

Hill PDA Economic Assessment

HillPDA concludes on Page 7 that the demolition of the Whistler St car park will "go some way", by providing only 1,000m2 of retail space, towards meeting the forecast 28,650m2 shortfall in retail floor space. This seems to be a rather absurd comment.

How does HillPDA's figure of 28,650 sq m of new retail space correlate to BITZIOS' figure of 46,783 sq m of new retail/commercial space? Does anyone seriously think new floorspace of these quantities will be created within the Manly CBD within 20 years?

There is also the inconsistency in saying on Page 12 that such demolition will also help realize Gilbert Smith's vision of new public spaces and community uses, yet these spaces/uses could only be accommodated inside and upstairs, with the ground floor destined to be taken up by 1000 sq m of retail space and a possibly larger library.

Conclusion

Within these revised reports from HillPDA, KPMG and BITZIOS, we consider that there is no evidence to support the Manly 2015 Masterplan or the need for the new Manly Oval car park.

The Masterplan does not supply any detail of the 47,000 m2, let alone the 90,000m2 stemming from Hill PDA's figures, of new retail/commercial floor space which needs to be built in the Manly CBD in order to substantiate the new Manly Oval car park.

Also KPMG has made errors in their modelling and so the base return figure is overstated.

We again state that in our opinion Manly Council and KPMG have not produced a credible feasibility to prove that Manly 2015 Masterplan is even required, let alone viable.

If you wish to discuss this further please feel free to ring me or email me.

Regards,

Garry Brown

On behalf of Henroth Investments Pty Ltd, Hilrok Properties Pty Ltd and Humphreys Newsagency

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