

# PART 3

## The Seven Chosen Case Studies

### Preamble

Part 3 of this Report constitutes the core analysis work of this consultancy project and comprises the greatest volume of the written material submitted, compared to any other Part within this body of work.

Each Case Study has been investigated through a detailed field research process, comprising at least one physical property inspection for each case in the series (and in some cases several repeated inspections). Contact was established in each case with either the direct owner / developer of the property concerned, or their nominated representative. Each was interviewed and the nature of their particular case scenarios was discussed in as much depth as individual circumstances permitted. Where appropriate, representatives within the local government and statutory heritage environment were also interviewed in an endeavour to collect further required information. In a background capacity, an additional series of property industry practitioners and consultants were also interviewed.

Each of the following case studies has been reported upon using a consistent format and headings basis. In the four redevelopment / adaptive re-use case studies the following headings layout has been adopted :

1. Introduction.
2. Heritage Status.
3. Developer's Objectives.
4. Approval Process.
5. Cost Versus Value.
6. Life Cycle Issues.
7. Conclusions.

In the three passive investment cases, where *existing uses* prevailed as opposed to adaptive re-uses, most of the formatted headings were retained, the only general exception being that of No. 5 'Cost Versus Value', which was in the main omitted because it basically pertained to redevelopment scenarios only.

# CASE No. 1

## **The Sydney General Post Office (GPO), Known Since 1999 As No. 1 Martin Place**

### **1. Introduction**

Our first case study involves an examination of the recent 1997-99 major redevelopment of what is one of the most well-recognised and most publicly-appreciated heritage assets in the State of New South Wales.

For some 125 years the Sydney GPO has enjoyed a premier status as one of the most significant public buildings within the Sydney Central Business District. The building is quite immense in its physical presence, being five storeys in height and occupying the whole of the southern side of Martin Place bounded by George Street and Pitt Street (Figure 1). The building literally dominates the streetscape in its immediate surrounding locality.

The GPO has served as a public landmark and central focal point for the City of Sydney since the completion of the first stage of the building in 1874. Complementing its fundamental and considerable architectural significance is the pre-eminent locational strength of the property, which has established a prime historical importance for the building in a socio-cultural and aesthetic



sense.

Figure 1: The GPO Martin Place façade.

It has also long been customary for reporting purposes within the property professions to measure the location and positioning of all other properties throughout the Sydney Metropolitan Area by reference to their direction and distance from the Sydney GPO.

The subject property sits adjacent to the western entrance to Martin Place in what for all intents and purposes amounts to the geographical and cultural heart of the City of Sydney. Martin Place is one of the CBD's most important public thoroughfares and gathering places for the users of the city - particularly during daytime business hours. In 1968 the thoroughfare was converted from a vehicular street into a broad public mall and pedestrian plaza, bisecting several other major city streets in a lengthy east-west direction. The elimination of vehicular traffic has served to intensify the pedestrian usage of the Martin Place thoroughfare over recent decades.

The focal point of Martin Place, however, begins at George Street and extends east to Pitt Street - precisely where the Sydney GPO building is located. This central public mall space contains the famous Sydney Cenotaph, which itself occupies a major socio-cultural and historical place in the hearts and minds of Sydneysiders and the people of New South Wales. Erected after World War One, the Cenotaph marks the starting point of the annual and solemn Anzac Day commemorative remembrance celebrations.

A clear sense of *'public place'* exists in the built-environment inter-se relationship which exists between the Cenotaph and the GPO building which overlooks it.

The current five-storey Sydney GPO building was erected in several stages between 1864 and 1905. The first stage of the building linking George and Pitt Streets was commenced in 1864 and was completed in 1874, amidst great public fanfare. A further extension of a wing fronting Pitt Street was completed in 1887. In 1891 a 73 metre-high clocktower was completed, sitting symmetrically at the centre of and soaring high above the GPO building's main Martin Place façade (Figure 2). During the period 1897 to 1905, fifth-level Mansard roofed additions were made to the George and Pitt Street building wings.

The original GPO site, prior to subdivision into front and rear allotments under the 1997-99 redevelopment scheme, was of very significant magnitude, having a total land area of approximately 7,202 square metres. This unusually large CBD site permitted the original addition of two further adjoining buildings to the rear of the main GPO structure, in 1927 and 1942 respectively.

For most of its history the Sydney GPO building was actively used and operated by the now Australia Post (formerly the Postmaster General's



Department) as a major postal and telecommunications facility. By the latter stages of the 20<sup>th</sup> Century however, and particularly during the 1980's, the property had fallen into a state of progressive disuse and disrepair, owing to various evolutionary technological, business-related and economic changes in the postal and telecommunications industries.

Figure 2: The GPO Clock Tower.

Commencing at about 1984, Australia Post, in recognition of the building's inherent heritage worth, embarked upon significant repair work to the main structure. At about the same time, Australia Post engaged the services of leading heritage architects Clive Lucas, Stapleton and Partners Pty Ltd, with a view to formulating comprehensive heritage conservation guidelines to safeguard the future preservation of the property. By 1991, firm guidelines had been developed.

In 1995 a Conservation Management Plan and Development Application for the adaptive re-use and redevelopment of the Sydney GPO property were submitted to Sydney City Council. This brought into play key involvements by the NSW Heritage Office, the NSW Heritage Council, and the Central Sydney Planning Committee of Sydney City Council, as specific stakeholders in the redevelopment and heritage restoration process for the Sydney GPO.

In broad terms, Australia Post's 1991 restoration and adaptive re-use proposals called for :

- the essential structural retention and restoration of the internal and external fabric of the entire main 1887 GPO building, in accordance with very detailed guidelines contained in the Heritage Conservation Management Plan prepared by Clive Lucas Stapleton.
- the demolition of the obsolete rear buildings built in 1927 and 1942, except for the 1927 Postal Hall structure, which was to be partly retained and restored. This demolition left the rear land available for major non-heritage commercial redevelopment.
- the creation of a new glass-roofed atrium, or 'grand courtyard', immediately behind the main 1887 GPO building. The former Postal Hall structure was to be enclosed within this new space, and this former inaccessible area opened up for public usage on a major scale.
- the erection of a new (as then undefined in 1991) 'multi-purpose building' on the rear parcel of land behind the GPO, to be linked to the main building by the atrium. A mixture of office, retail and hotel uses was originally envisaged in this building. In the final development configuration, two adjoining towers, not one, were built.
- The re-establishment of Postal facilities as a specific use within the restored main 1887 GPO building.

In May 1995 the Grocon construction group, representing the interests of the Melbourne-based Grollo family, emerged as the successful bidder in Australia Post's tender process for the comprehensive redevelopment of the Sydney GPO.

In its final configuration the development approval for the project provided for the comprehensive heritage retention and restoration of the original GPO



building (Figure 3). In addition, the redevelopment scheme provided for the erection of a completely new non-heritage 26 level, 40,000 sq. metre office tower and a 31 level, 369 room hotel tower on the rear land immediately behind the original GPO building.

Figure 3: Example of a restored section of the GPO interior.

A 1,200 square metre, glass-roofed atrium (Figure 4) and grand courtyard was constructed between the two new rear tower buildings and the original GPO building which fronted Martin Place. This courtyard was designed to link the two fundamental elements of the development scheme (old and new) and constituted the very heart of the newly-configured, integrated multi-use project.



Figure 4: Interior of the GPO development, including the glass-roofed atrium.

In essence, the GPO building was predominantly re-adapted to provide a very substantial integrated property use which was both supportive and complementary to the new non-heritage hotel tower which was erected behind it. However, a large component of the ground floor was devoted to a small-tenancy specialist retail use category, and other parts of the structure were adapted for major usage by the public at large, not necessarily connected at all to usage by hotel patrons.

In this regard, the outstanding feature of the adaptive re-use proposals for the original GPO building was the *multiplicity* of new commercially and community-oriented property uses within the structure, over every level from basement to the uppermost fourth floor. These uses covered categories as diverse as retail, food court / bistro / hospitality / providoring, heritage hotel rooms, heritage ballroom / function centres, and recreational / spa / pool / health club facilities.

This redevelopment project was an immense and hugely complex undertaking in terms of the magnitude of design, construction and cost.

Construction commenced in May 1997 and was completed in September 1999. The Total Project Cost was quoted by Mr Robert Young, Chief Property

Manager, No.1 Martin Place Pty Limited (personal communications, 18/12/00) at a sum of between \$600 to \$700 Million.

Having been in operation as a completed redevelopment scheme for some 15 months as at the end of 2000, the newly rejuvenated and much-enlarged Sydney GPO property holding can be seen as an outstandingly successful project, both in a heritage preservation sense as well as in a future ongoing commercial investment context.

## **2. Heritage Status**

The subject property is listed on Sydney City Council's Heritage Register under Inventory No. 2127 within the Central Sydney Heritage Local Environmental Plan 2000, Schedule 1.

The property is also listed on the State Heritage Register as Item No. 763 under the provisions of the New South Wales Heritage Act 1977. Additionally, the property enjoys a listing on the Register of the National Estate (AHC) and also the Register of the NSW Division of the National Trust.

The Sydney GPO building is also situated within the Martin Place Conservation Area as identified and documented by the National Trust.

The relevant Sydney City Council Heritage Inventory document records that the Sydney GPO possesses architectural significance as one of the finest 19<sup>th</sup> Century public buildings in Australia. The building features excellent Victorian carved stonework and is a '*monument*' to the work of important colonial architect James Barnet, who designed the building.

The property is also of environmental significance as the key element in the Martin Place streetscape.

The State Heritage Inventory database, maintained by the NSW Heritage Office, reveals further significance across a number of important domains. Together, these two documentary inventory sources, plus other sources accessed for the purposes of this report, provide the following more detailed information.

### **Historical Significance**



The Sydney GPO property comprises a significant place in the Australian National Estate. The site has been used for Post Office purposes since 1830.

Inherent to the site's significance is the presence of the Tank Stream, which runs underground through the middle of the subject parcel of land in a north-south direction. The Tank Stream, which today extends underground through the City of Sydney for several kilometres southwards from Sydney Harbour at Circular Quay, originally provided the fresh water supply for the First Fleet and the Sydney Cove Colony from 1788 onwards.

In 1866 the Tank Stream between King and Hunter Streets was enclosed in a brick sewer pipe. This facilitated the construction of Colonial Architect James Barnet's sandstone GPO building, which was erected in two main stages between 1864 and 1887.

A documentary video, *'Meet Me Under The Clock'*, created by No.1 Martin Place Pty Limited to commemorate the project completion in 1999, records that the GPO building since its main construction in 1887 has played a key role in the history of communications in Australia.

In 1928 the world's first large-scale mechanised mail sorting facility was installed in the building. During World War 2 the Sydney GPO housed much of the city's vital telecommunications equipment. A telegraph exchange was situated on the upper floor of the George Street wing and a telephone exchange on the upper floor of the Pitt Street wing.

As a wartime defence measure the central 73 metre high GPO Clock Tower was removed from the building in early 1942. Since its erection in 1891 the clock tower had dominated the sightlines of the building. Fears of Japanese bombers using the clock tower as a focal aiming point had driven the decision to demolish this structure. The clock tower was not reinstated until 1964.

A Postal Hall had been included in a larger 1927 building addition which was erected behind the main GPO structure. This addition was not visible from the street, however the retention of the significance of this Postal Hall was provided for in Australia Post's 1991 restoration and adaptive re-use guidelines.

### **Architectural Significance.**

The Sydney GPO is constructed of sandstone facades to all three of its street elevations. The sandstone was quarried at nearby Pymont. The ground floor on all three street elevations is dominated by an outside promenade area, covered overhead with domical vaulting and supported by large grey polished monolith columns faced

with granite, quarried from Moruya on the South Coast of NSW. The stonework facades feature inlaid decorative sculptures including royal, allegorical and heraldic figures and reliefs.

The architecture of the Martin Place GPO building is inspired by the Palazzi Communalis of Italy. In and of itself, the GPO constitutes the finest example of the Victorian Renaissance style of architecture in NSW.

Internal structural support is provided by load-bearing sandstone walls, over wrought iron beams and girders, with non-supporting cast-iron breeze arches between the beams. Suspended timber floors are provided, and ceiling joists support decorative lath and plaster ceilings. The roof frame is of timber joists and steel trusses, while copper and copper-alloy sheeting comprised the original roof cladding.

### **Aesthetic Significance.**

The Sydney GPO literally dominates the main western gateway to Martin Place in the central city block of this thoroughfare which is bounded by George and Pitt Streets. While the property sits very sympathetically and comfortably amidst a group of many other fine old stone buildings in the immediate surrounding built environment, in the minds of many it is the GPO building, in and of itself, which imparts the essential 19<sup>th</sup> Century architectural / aesthetic character and flavour to this immediate precinct of Martin Place, George and Pitt Streets.

As already mentioned, the inter-se relationship of the adjoining Cenotaph and the GPO building in this section of Martin Place is a mutually supportive one which generates a unique sense of 'public place' in this city block.

The immediate built environment at this western end of Martin Place thus enjoys a high identification factor in the community as a place of public meeting and gathering. The closure of Martin Place to vehicular traffic since 1968 has augmented this theme considerably.

## **3. Developer's Objectives**

The massive Sydney GPO redevelopment and restoration project was undertaken by the Melbourne-based Grocon Group. Upon project completion in September 1999 the property became known as No.1 Martin Place, and was thereafter held and on-managed as an orthodox commercial property investment asset by a Grocon-affiliated holding company known as No.1 Martin Place Management Pty Limited.

Grocon comprises the chief property development and construction business entity of the Grollo family. The firm possesses a well-established reputation within the commercial property development industry, having been responsible for several major projects within Sydney and Melbourne.

According to Robinson (Property Australia journal, August 1999, p. 26) :

*No. 1 Martin Place is the largest development undertaken by the Grocon Group on its own and represents a flagship effort for the developer in the Sydney market.*

According to information supplied by Mr Robert Young, Chief Property Manager, No.1 Martin Place (personal communications, 9/10/00), Grocon was first attracted to this particular redevelopment scheme in the mid 1990's for a number of reasons. Not unexpectedly, commercial and economic objectives, as opposed to specific heritage objectives, constituted the prime and over-riding motivation for the developer - as is the case, in fact, with most commercial investment development opportunities, be they heritage or non-heritage listed.

Initial market research findings and projections, coupled with the approach of the Sydney 2000 Olympics, disclosed market conditions and a property cycle environment which were deemed prima facie favourable from a commercial property development standpoint.

Commercial objectives notwithstanding, however, the particular attractions of the GPO adaptive re-use proposal, in and of itself, also constituted a considerable inducement for the developer in this case.

The subject property enjoys an outstandingly good CBD commercial location where opportunities for exposure and passing pedestrian trade presented clear attractions in their own right. The innovative multi-faceted and integrated adaptive re-use guidelines for the GPO project, already prepared by Australia Post and heritage architects Clive Lucas Stapleton, constituted a dynamic redevelopment opportunity which maximised the locational advantages of the site. The pre-existing high public recognition factor already inherent in the GPO heritage-listed property presented additional inducements for project commitment.

In particular, the commercial viability of the redevelopment scheme was underwritten by the ability to develop a large non-heritage commercial office tower (ultimately at 26 storeys) and a 369-room hotel tower (ultimately at 31 storeys) on the available land immediately behind the original GPO building. The proposal for an international-

grade hotel also attracted development incentives via Sydney City Council's Hotels Policy, whereby Floor Space bonuses in connection with hotel uses were available for application over the entire development project.

This policy was linked to State Government initiatives and financial inducements designed to provide sufficient hospitality accommodation in light of the approaching Sydney 2000 Olympics.

Moreover, the provision for some 5,000 square metres of retail space in the adaptive re-use scheme for the former GPO heritage building comprised a significant further attraction in terms of cashflow potential from a commercial and economic standpoint.

The sheer scale and volume of the total development opportunity constituted a commercial offering, the nature of which was rare and in many respects unique. The opportunity to undertake a comprehensive heritage restoration and reconstruction program for such a prominent landmark property as the Sydney GPO also doubtlessly carried the potential for enhancement of the prestige, reputation, and industry peer-recognition of the developer concerned.

Thus it can be seen that a series of major factors combined to provide considerable inducements for project commitment by the Grocon Group.

In 1996 Grocon and intending joint venturers Lustig and Moar responded to a call by Australia Post for expressions of interest and the submission of preliminary development tenders in respect to the GPO redevelopment scheme. The Grocon-Lustig Moar consortium was announced as the successful tenderers on 28 May 1996. Lustig and Moar later withdrew from the project in early 1997 (House, Australian Financial Review, 29/5/96 and Sydney Cityscope, August 2000), leaving Grocon as the sole developer.

The commemorative video *'Meet Me Under The Clock'* (op cit) records that Grocon was selected as the winning tenderer from 16 respondents, primarily because it met the requirements of Australia Post's adaptive re-use guidelines and paid particular attention to the heritage restoration aspects of the scheme.

Development consent for the Grocon development proposal was issued in December 1996. In May 1997 construction work commenced on the project. In December 1997 the land title and ownership interests were finalised whereby the original large GPO site was subdivided into two separate holdings. The site occupied by the original GPO building was designated as one allotment of area 3,437 square metres fronting Martin Place, while the rear land was subdivided into a second allotment of area 3,765 square metres fronting Pitt Street.

In respect to the site occupied by the heritage-listed GPO building, a 99 year leasehold agreement was entered into between Australia Post as the freeholder and No.1 Martin Place Pty Ltd (Grocon's holding company) as the leaseholder. The rear parcel of land, upon which the two new high-rise non-heritage towers were subsequently erected, was purchased by No.1 Martin Place in a freehold transaction dated December 1997 at a purchase price of \$80,080,000.

As reported by House (Australian Financial Review, 8/1/97), Macquarie Bank entered into a preliminary agreement with the developer in early 1997 to occupy the first 16 levels (out of a total of 26 levels) as anchor tenant in the new rear non-heritage commercial office tower. A 15 year lease agreement was arranged for commencement in January 2000. This leasing structure constituted a major coup for the developer because it secured a very substantial proportion of the overall potential cashflow obtainable over the foreseeable medium term from this very important office-building element of the redevelopment project.

Macquarie Bank constitutes a prime institutional grade tenant whose stated intent was to establish its corporate headquarters in this prestigious new building. This further presented significant marketing and remaining leasing opportunities for the developer as the overall redevelopment project proceeded towards full completion.

Somewhat later, but still well prior to project completion, the Australian Securities and Investment Commission (ASIC) was secured as the second major office tower tenant, with an agreement to occupy 7 of the residual upper levels of the tower, in a 10 year lease structure which commenced in July 2000.

In early 1998, well prior to project completion, the Westin Hotels Group was also secured as the operator of the adjacent rear hotel tower, the agreement for which was based on a management contract, with No.1 Martin Place Pty Ltd retaining the freehold interest.

In addition, Robinson (op cit, 1999, Property Australia journal) records that all retail, restaurant and basement-level commercial areas within the redeveloped GPO heritage building were pre-leased before project completion in September 1999.

The ability to have secured the pre-leasing of *all* commercial elements of the project prior to completion signified an outstanding achievement for the developer, in economic and financial terms. Mr Robert Young of No.1 Martin Place Pty Ltd (op cit, 9/10/00) remarked that the developer's success in securing the important objective of pre-commitment for all of the major tenanted precincts in the new development scheme aided considerably in reducing the development risk exposure in the project.

Moreover, the financier for Grocon's project was much relieved by this achievement.

Mr Young also emphasised that the key anchor tenants in this development scheme - Macquarie Bank and the Westin Hotels Group - came onboard as stakeholders at a sufficiently early stage in the construction process such that they were able to contribute markedly to the final design and fitout features of the major elements in the project.

Mr Young also commented that the development and construction process, once commenced, flowed very smoothly throughout the period 1997 – 99. Mr Young stated in particular that the mutual understanding, the working synergies and the overall good relations maintained between all of the stakeholders, from all sides in this project (including Sydney City Council, Australia Post, the NSW Heritage Council, the NSW Heritage Office, the developer, the developer's architects and the heritage architects Clive Lucas Stapleton), was responsible for the efficiency and tight timelines achieved during the construction phase of this project.

#### **4. Approval Process**

The December 1996 development consent was issued after much consultation between the various stakeholders in the scheme. In particular, the NSW Heritage Council and NSW Heritage Office provided considerable input into the specific heritage restoration provisions embodied in the consent.

Key aspects in the GPO heritage restoration requirements called for the preservation and repair of all external sandstone building facades, walkways and the clocktower, and the recreation of the former Grand Central Staircase inside the main building entrance in Martin Place, which had been destroyed in 1927 when the rear Postal Hall was built. In addition the lower half of the former 1927 Postal Hall was to be reconstructed and enclosed within the central atrium.

Mr Howard Tanner (Sydney Morning Herald, 1/9/99) and Mr Robert Young (No.1 Martin Place Pty Limited, op cit) referred to a series of additional heritage retention, reconstruction and adaptive re-use provisions contained in the consent for the restored GPO building, as follows :

- a major suite of 51 rooms on the GPO building's first and second floors, adaptively re-used for hotel accommodation in a specific heritage theme and decor, was retained to provide evidence of the building's original scale and form. These hotel rooms comprised a complementary component to the 369 rooms in the new 31-level

non-heritage Westin Hotel tower which was erected behind the GPO.

- the form and structural fabric of the vaulted east and west attics of the building were retained and adaptively re-used as a 250-person Heritage Ballroom (being the former telegraph exchange) and health club / pool facilities (being the former telephone exchange).
- the basement vaults were adapted for providing, dining and bar uses. The piped Sydney Tank Stream was also left exposed in a set-piece public viewing chamber within this basement area, to provide a permanent record of its historical significance for the general community.
- an Australia Post retail outlet was installed in the ground floor George Street wing, thus linking the building's past with its future.
- an impressive ornate Macquarie retail banking chambers was replicated on the ground floor Pitt Street wing. As reported by Neilson (1999) the reconstruction, internal finishes and décor of this area alone took 12 months to complete.

The ground floor of the GPO building has been devoted to small-area specialty retail uses, each tenancy of which opens inwardly onto the grand courtyard. The open-plan, glass-roofed 1200 square metre courtyard behind the GPO building contains restaurant, bar and lounge areas which connect and integrate the GPO heritage building with the hotel tower and office tower behind. Below the courtyard, a grand ballroom has been constructed, accommodating some 900 guests. A basement carpark below the new two rear non-heritage tower buildings accommodates 400 vehicles over 7 levels.

The design, height and site-positioning of the two new rear high-rise commercial buildings (office tower and adjoining hotel tower) were determined having regard to the shadowing and height controls contained in Sydney City Council's 1993 Martin Place 'Area of Special Significance' Study, which had been prepared by Denton Corker Marshall Pty Ltd.

The scale, form and fabric of the two rear buildings were designed by the Buchan Group (consultant architects for Grocon) so as to be in sympathy with the pre-existing scale, form and fabric of the GPO heritage building in front.

The records of Sydney City Council disclose that the December 1996 development consent for the Sydney GPO redevelopment project provided for a total Floor Space Ratio (FSR) which was not to exceed 12.75:1, calculated in accordance with the provisions contained in the Central Sydney LEP 1996. Assumedly the completed project was developed at or very close to this maximum permitted FSR volume.

The FSR limit was also determined having regard to Council's Hotels Policy under the LEP, and the '*public benefit gained in having accommodation of this nature available in time for the Sydney Olympic Games*'.

In effect, a cost-free FSR bonus of some 27.5% was provided to the developer under this pre-Olympics incentive mechanism (12.75:1 compared to the standard 10:1 FSR under Council's code). The Hotels Policy incentive provided for a project completion date no later than 30 June 2000, to coincide with the September 2000 Sydney Olympics.

A default provision applied whereby a failure to complete the project by 30 June 2000 would have required the developer to purchase the FSR differential between 12.75: and 10:1 as Heritage Floor Space, calculated at the then current market price for HFS.

## **5. Cost Versus Value**

There is some doubt prevailing over the exact figure which represents the Total Project Cost of the Sydney GPO redevelopment scheme.

Several reputable media articles which date from the early phases of the project (e.g. House, AFR, 21/3/96 and 29/5/96) made vague, unspecific mention of a sum of \$500 Million in respect to the cost of the project.

By 1999 however, a series of other media and journal articles (e.g. Dennis and Tanner, SMH, 1/9/99, Neilson, Sun-Herald, 5/9/99, Robinson, Property Australia journal, 8/99) referred vaguely to 'the \$700 Million Sydney GPO project'.

There is little doubt that this Project Costing element constitutes a somewhat sensitive domain for the current owners of the property. For the purposes of this report, Mr Robert Young (Chief Property Manager, No. 1 Martin Place, personal communications, 9/10/00 and 18/12/00) quoted an approximation range for Total Project Cost of between \$600 and \$700 Million.



In respect to the main heritage building at Martin Place, the direct total costs of the specific heritage restoration and adaptive re-use requirements are somewhat more concrete. The figure of \$40 Million has been cited in the Sydney Cityscope publication (April 28, 2000).

This estimate was confirmed by Mr Young of No. 1 Martin Place as an accurate 'ballpark' estimate for reporting purposes, however the true total project cost attributable directly to requirements embodied in the property's heritage listing appears to have fallen within a range closer to \$50 Million.

Mr Young has provided a somewhat detailed breakdown in respect to several of the major cost items associated with the heritage requirements of the redevelopment project. These are as follows :

* Diversion and Reinstatement of the Tank Stream	\$1,500,000
* Underpinning and Support of the GPO Building	\$900,000
* 3 Atrium Pedestrian Overhead Bridges	\$1,400,000
* GPO Fitout - Premium Above Normal Costs	\$13,800,000

The restoration work in the original GPO building was conducted in a meticulous, painstaking manner, with great attention to detail made to the replication of original ornate finishes and fitouts.

While the total costs of the heritage restoration and reconstruction work were not provided, Mr Young has reported that a premium in cost of materials and labour was incurred, to the order of approximately 30% above the equivalent comparative cost-as-new. This premium was quoted by Mr Young at a sum of \$13.8 Million (see above).

By interpolation, on the basis of the above information, a total reconstruction, finishes and fitout cost of some \$46 Million is indicated for the whole of the heritage GPO building. When other ancillary special construction requirement costs are factored in, it is not difficult to arrive at an all-up sum in the vicinity of \$50 Million as the cost attributable to meeting the specific heritage requirements of the Sydney GPO redevelopment scheme.

On this basis, and with a degree of reliable accuracy, a proportional cost of between 7% and 8% of all-up Total Project Cost can be attributed directly to

the additional amount incurred as a result of the heritage listing of the Sydney GPO and the various requirements associated therewith.

In respect to Total Project Value and Project Profitability, these areas also appear to constitute domains of sensitivity and confidentiality, as far as the owners (Grollo Family / No.1 Martin Place Pty Ltd) are concerned. In our investigations and research for the purposes of this report we were unable to obtain a statement as to estimated Value on Completion from the ownership interests associated with this project.

Mr Young did however divulge (personal communications, 18/12/2000) that Grocon, as the project developer, entered into the Sydney GPO scheme on the fundamental basis of a develop-and-hold investment scenario. Under this arrangement the holding company known as No. 1 Martin Place, representing the ownership interests of the Grollo family, commenced commercial property management operations for the new Sydney GPO complex immediately upon project completion.

While we understand that market interest was quietly tested by the new owners in late 2000 in a speculative manner, the owner's current underlying intention, per information supplied by Mr Young, is to retain the total redevelopment project as an orthodox top-end institutional-grade property investment holding for at least the medium term future (except of course in a scenario of a purchase offer at a price 'too good to refuse').

Mr Young also disclosed that the medium term profitability of the newly completed redevelopment scheme is essentially underpinned by the presence of the ground floor retail uses in the original GPO building, and more particularly, in the 26-level office tower, where the net lettable area amounts to some 40,000 square metres. The leasing structures, again particularly in the office tower, have been engineered to provide a security of longer-term tenancy and occupancy, thus strengthening the quality of the cashflow derived from this source.

It is envisaged that the optimum financial performance of the Westin Hotel tower (with a combined accommodation, inclusive of the GPO heritage hotel rooms, of some 420 rooms) will take some time to build up, and to achieve a peak. Such market syndromes in hotel-use categories are not at all unusual. However, over even relatively short term projections, anticipated occupancy room-rates above and beyond 85% were quoted by Mr Young.

In the current stage of the Post-Olympic economic and commercial property cycle, a period of income and cashflow consolidation would indeed seem to

be a sound investment strategy for the redeveloped property - along the lines already suggested by Mr Young.

## **6. Life Cycle Issues**

In respect to anticipated annual operating expenses and future life-cycle costing issues, Mr Robert Young (personal communications, op cit, 9/10/00) in the main expressed no concerns.

In the context of the two new rear non-heritage commercial towers (one an office building and one a hotel building), there appears little cause for concern in respect to either annual operating expenses or future life cycle issues.

Both buildings are brand-new state-of-the-art structures with high technology building services installed. Efficiencies in annual operating expenses can be expected for some time to come. Life cycle issues such as plant and equipment replacement programs and other mid-life refits lay a long way off into the future. Normal sinking fund deposits and a sound pro-active asset management program over time would be expected to eliminate any possible immediate concerns in these areas.

In respect to the restored GPO building, Mr Young similarly expressed few concerns. It is noted that the external form and fabric of the building was comprehensively restored, including the stonework and the copper roofing. Moreover, the building has been extensively remedied of any major structural defects - at considerable expense. Furthermore, the building was extensively remodelled internally and provided with completely new building services and facilities.

Accordingly, the building is in many respects equivalent to an 'as-new' building. This being the case, there is little immediate heritage-related impact upon either the annual operating cost or future life-cycle costing domains at the present time.

As a point of interest Mr Young did comment on what he described as the increased estimated annual maintenance costs pertinent to the restored Sydney GPO building. He described as an example how the external cleaning of the facades and window areas of the building has to be accommodated via a 'cherry-picker' crane from *ground floor* street level, at certain restricted times of the day, instead of the usual high-rise 'top-down' roof-crane and sling method (due to the delicacy and shape of the GPO's copper roof).

Mr Young provided an estimate of added annual maintenance costs for the GPO building to the order of approximately 20% to 25% extra per annum above otherwise normal benchmark rates.

However, it must be remembered that maintenance costs comprise but one element in a whole series of other annual operating cost components, many of which are invariably considerably more expensive on a pro-rata rate per square metre basis. Notably, it was only maintenance costs which Mr Young singled out for attention.

Moreover, as Mr Young has confirmed, the site occupied by the GPO enjoys the benefit of a heavily-discounted Heritage Land Value, which is applied to the calculation of annual Land Tax. We have sighted a NSW Valuer-General's Notice of Valuation in this regard which indicates a discount of almost 50% as measured through the Heritage Land Value, compared to the 'open market' Land Value for rating and taxing purposes.

When this discount to annual Land Tax is factored in, it can be seen that any increases in maintenance costs are more than likely compensated for, and in all probability counterbalanced well into a positive excess, by the Land Tax discount element.

In respect to other heritage-related financial incentives which have been identified in this case, it is clear that the cost-free FSR bonus of some 27.5% over the standard FSR limit has provided a very substantial financial compensation measure. Such a significant floor space bonus needs to be calculated and measured financially through the extra cashflow it generates, in order to fully appreciate its importance. The extra volume of leaseable or other income-generating floor space which has thus been facilitated in the office tower and hotel tower is a major consideration in this context.

It is clear that this Pre-Olympic Hotels Policy FSR incentive implemented by the relevant statutory authorities has played a fundamental part in underwriting the essential financial viability of this redevelopment scheme.

## **7. Conclusions**

### **7.1 The Heritage Perspective**

It is our understanding (from Mr Young, personal communications, op cit) that certain criticisms have been levelled at the completed Sydney GPO restoration and adaptive re-use scheme from some 'purist' elements within the heritage community.

In our opinion however it is difficult, on balance, to envisage how a *better* practical heritage outcome could have been achieved in this case, given the need to retain a realistic commercial perspective on the developer's interests in particular, while at the same time being mindful of the essential heritage preservation goals for the building. In our opinion *all* of the various stakeholder interests, from all sides, have been more than amply satisfied in this instance.

In short, we believe that this Sydney GPO redevelopment project represents an outstanding success from the pure heritage perspective, let alone any other perspective.

Both the major external and internal heritage-significant items in the building have either been restored or replicated / reconstructed - in many cases to a painstakingly and expensive detail and quality of workmanship. The central grand staircase on the ground floor, for example, has been completely reconstructed to its former grandeur after having been initially destroyed and absent from the building since 1927.

The skills of a wide variety of artisans and craftspersons - as opposed to 'mere' tradesmanship - have been applied to the internal décor, fittings and fixtures in the building, to achieve a faithful recreation of original forms and fabrics to the highest standards - none more noticeable, for example, than in the Pitt Street Macquarie retail banking chambers.

In essence, the GPO building has been principally re-adapted to provide a very substantial integrated supporting and complementary property use to the new non-heritage hotel tower which was erected behind it. This objective has been achieved with what we discern as no loss to the building's heritage integrity - in fact in our opinion, there is every argument in favour of an enhancement in heritage integrity.

The completed redevelopment of the Sydney GPO has successfully seen the rejuvenation of *public use*, involvement and interaction with the building. The quality and magnitude of public access and utility - both internally and externally - has been outstandingly well combined with the restoration of the building's inherent heritage significance elements, in their widest context, and with commercial success in a contemporary economic and investment-property sense.

In particular, the *magnitude* of public access and use into all parts of the newly-rejuvenated GPO building has been augmented, many times over, compared to the very restricted opportunities for public access and use - which was limited only to very confined parts of the premises - during the period when the building was used solely for postal and communications purposes. This prime objective of contemporary heritage policy has been very ably demonstrated, for all to see, in the beneficial outcomes which have been derived from the Sydney GPO redevelopment project.

A series of media and industry journal articles were published at the time of project completion in September 1999. These articles speak of the successful heritage-related outcomes of the project in the most laudatory of terms. Former NSW Heritage Council Chairman, Mr Howard Tanner (Sydney Morning Herald, 1/9/99, p.6, op cit), states that :

*A key virtue of the completed project is that it breathes new life and activity into both the historic building and the precinct generally.*

Similarly, Mr Leo Schofield, Master-of-Ceremonies at the grand opening of the completed project on 1<sup>st</sup> September 1999, stated in his keynote address (in the *Meet Me Under The Clock* commemorative video, op cit) that the GPO heritage restoration and adaptive re-use scheme has succeeded in :

*... honouring its [the GPO's] past while adapting it for the present and future.*

We find it difficult to disagree with the above comments.

## **7.2 The Economic Perspective**

We have already highlighted in this case study report the manner in which the FSR bonus of approximately 27.5% (compared to the standard code provisions) constituted a prime financial incentive in this redevelopment scheme, and how it has contributed considerably to future investment viability of this scheme. The direct monetary worth of this compensatory measure needs to be counterbalanced against the added Project Costs which we have identified as being attributable to the heritage listing and the associated requirements thereof.

Due to insufficient data we are unable to state a firm indication of the estimated Project End-Value in this case study. However, it is nonetheless clear that the proportional added capital value of the FSR bonus, which is pro-rata in the region of 27.5% of a hypothetical Total Project Value, far exceeds the added Project Costs (estimated at \$50 Million) attributable to the property's heritage listing and the requirements associated therewith. Even on a conservative, notional but demonstrably indicative 'thumbnail' financial calculation basis, the superiority factor of Added Value (via the FSR bonus) over Added Costs (due to heritage factors) is indicated at somewhere in the region of about 2.75 to 1, with every possibility that the actual 'true' superiority ratio might be higher again (perhaps surpassing 3 to 1).

Similarly, we are unable to provide a firm indication of initial Development Profit in this instance, due to insufficient available data. The available evidence is simply too insufficient to make any firm statement in this regard. However, in a develop-and-on-manage scenario, which is the case here, the importance of any initial development profit level (or even profit neutrality) is really of relatively little importance, compared to the far more important indicators and prospects for the *future* income / cashflow generation and capital growth for the property in an ongoing portfolio investment context. The future investment performance prospects for the project do appear to be favourably placed, based upon the evidence which is currently available.

In this regard, all of the key commercial elements in this project - office building, small-area up-market retail, and hotel use categories - are reported by Mr Young to be either already operating highly efficiently, or they possess the inherent capacity to do so in the near future.

For example, in respect to the performance of the GPO scheme's hotel component in particular, a series of recent media and market commentary articles (e.g. Cummins, Sydney Morning Herald, 4/11/00, 11/11/00, & 27/01/01, and Glendinning, SMH, 2/12/00) suggest a favourable outlook over the next 5 to 6 years for growth in the hotel and hospitality industries as a result of business investment, business conference and tourist growth in the wake of the September 2000 Sydney Olympic Games.

The completed project might possibly be seen by some in the property professions as a somewhat 'lumpy' asset (to use the common colloquial property industry phrase), by virtue of its sheer magnitude, scale and very high project cost. In other words, a prestige high quality commercial property investment asset such as this, worth several hundred million dollars, might well present opportunities limited to potential buyers only at the highest 'top-end'

institutional levels, on an affordability basis. On the other hand, this completed development scheme in reality constitutes three rather flexible commercial property assets in one - a prestige high-rise 26 level office tower, a 31 level 369 room international 5 star quality hotel, and a five storey completely restored heritage building which contains substantial prime small-area retail space. As such, it clearly presents as an attractive commercial offering in our view.

Apart from the FSR bonus factor which has already been highlighted, the economic and financial outcomes in this case really have to be examined in the context of the following additional factors, and taken as a whole 'package' of positive contributory elements :

- the essentially commercially-oriented nature of the GPO building's adaptive re-use provisions in this case, and the inherent integrated, innovative nature of the mixed use mechanism of the entire scheme.
- the ability to have been able to adapt the GPO building to an 'as-new' internal configuration in terms of the contemporary standard of building services contained therein.
- the ability to have been able to erect two large non-heritage commercial tower buildings on the *available rear land* behind the heritage building. This mechanism has worked very well in this case, and applications elsewhere in Australia might perhaps be based on this same fundamental type of conceptual opportunity in future.
- other significant compensation measures such as the Heritage Land Value assessment which flows through into an ongoing Land Tax discount of apparent considerable proportions in this case.

In respect to the impact of the heritage listing requirements on achievable rental and income levels in this scheme, we have arrived at the conclusion that there seems to be no major impact in either direction. In other words, the impact of the heritage listing presence and the requirements associated therewith seem, in the main, to have had a neutral impact on rental and income levels in this case.

The *one exception* which we were able to discern, however, is in respect to the tariff rates which are charged in the GPO building's Heritage Hotel Rooms,



when compared to the normal benchmark tariff for similar scaled accommodation in the non-heritage Westin Hotel Rooms at the rear.

The Westin Hotel charges a tariff of \$475 per room per night for its GPO Heritage hotel rooms, compared to \$432 per room per night for an otherwise equivalent (but non-heritage) room in the rear hotel tower. This represents a positive gross income premium differential of 10%, directly attributable to the heritage features present in the GPO building hotel rooms.

A more accurate measurement of this rather superficial, simplistic differential would however be obtained by comparing the *occupancy ratio* figures of the heritage and non-heritage hotel rooms in both buildings, and testing the buoyancy of the comparative occupancy rates thereof. Regrettably, however, this data is unavailable to us at the present time.

Mr Young has emphasised that the sheer scale of the project and the unique mix of diverse but interconnected uses is the underlying key to overall success of the redevelopment scheme. A physical inspection of this completed, now fully-operational project would in our opinion tend to confer an unchallengeable validity to Mr Young's viewpoint.

Finally, we would close on the following point. Mr Young has commented emphatically that the development, project management and construction processes flowed very smoothly and efficiently throughout the duration of this scheme. This can be put down to three key factors, according to Mr Young :

- (i) The Grocon Group brought much of their project management, design / construction, and consultancy team with them to this project, as a 'package'. Many of the private sector participants in this project had worked with one another on other commercial projects in the past.
- (ii) This successful project outcome constitutes an outstanding example of what can be achieved by a spirit of compromise and negotiation on the part of the various heritage-related, statutory planning, and commercial development interests involved in this case. The mutual understanding and respect which both sides (developer and statutory authorities) demonstrated towards each other in this scheme was, in the opinion of Mr Young, of a high standard.
- (iii) The prior heritage-related experience of the developer and the knowledge and understanding already acquired of the heritage

conservation system therefrom, also played no small part in the smooth operation of the development project in this case.

# CASE No. 2

## 60-64 Macquarie St, Parramatta

### 1. Introduction

The subject heritage property in this case comprises a freestanding two-storey Old Colonial style Georgian residential building known alternately as both 'Kia Ora' and 'Houison's Cottage'.

The residence was built in 1842 (Figure 5). Since 1979 it has been retained, owned and adaptively re-used as two-storey commercial offices, in conjunction with an adjacent seven-storey commercial office building development which was erected immediately beside and behind the subject property at that time.



Figure 5: Archival photograph of 'Kia Ora' or 'Houison's Cottage'.

The two properties are held in the same ownership but they exist on separate land titles. In a physical sense the 1979 office building is positioned in a 'wrap-around' configuration, to the side and rear, relative to the freestanding 1842 residence when viewed from the street.

For the purposes of this report the immediate focus is placed on the 1842 heritage residence. However in a commercial investment and adaptive re-use context this heritage property must also be considered in direct connection with the jointly-owned office building which sits beside and behind it.

The subject property at 60-64 Macquarie St occupies a strong central commercial location within the heart of the Parramatta Central Business District (CBD). The property is located approximately 20 kilometres west of the Sydney GPO and lies within an area administered by Parramatta City Council. In an economic, business and investment context the Parramatta commercial precinct constitutes one of the most prominent regional CBD's in the Sydney Metropolitan Area outside of the Sydney Central Business District.

In heritage significance terms the central Parramatta commercial precinct comprises one of the most prominent collections of heritage-significant properties in the Sydney Metropolitan Area outside of the Sydney Central Business District. The central Parramatta precinct contains many examples of fine, old, well-preserved architecturally and historically significant buildings, many of which date from the mid-19<sup>th</sup> Century through to the early 20<sup>th</sup> Century era.

In this context the subject 'Kia Ora' property enjoys a strong heritage presence and is listed under the 'Local Significance' category.

The 'Kia Ora' colonial residence was initially preserved as a condition of a July 1978 development approval on the property which allowed for construction of the current adjacent office building. Statutory heritage protection was then subsequently conferred on the historic residence under both the NSW Heritage Act 1977 and also later under both the Parramatta Local Environmental Plan 1996 (Heritage and Conservation) and the Sydney Regional Environmental Plan No. 28 (Parramatta) which superceded the Heritage LEP in August 1999.

As at early 2001 both premises continue to be used for commercial office purposes. Both buildings were recently considerably refurbished in early 1998 and are fully occupied, free of vacancies, under standard-type commercial leases.

Both properties were recently sold in June 2000 as a single fully-functioning commercial investment holding. The inclusion of the heritage-listed 1842 'Kia Ora' building in the combined investment offering, adaptively re-used for many years as commercial offices, was viewed by the market in very positive terms.

During the two-month marketing period in mid-2000, all interested prospective purchasers commented upon the presence of the heritage-listed colonial residence as a notable 'bonus' addition to the underlying investment value of the holding, particularly in its capacity as an additional, adaptively re-used, commercial income-generating vehicle.

The following report describes both the subject heritage property's recent preservation history, dating originally from 1974 in a commercial development context, and also its present status as a combined standing commercial investment.

## **2. Heritage Status**

In an historical context the current heritage status of the subject 1842 colonial residence is directly linked to the original commercial development proposal for the erection of the present adjoining seven-storey office building. The development scheme, which actually took place in 1978, was first mooted in 1974.

A report prepared in July 1987 by Order Architects Pty Ltd reveals the history of heritage protection in respect to 'Kia Ora', which is as follows.

Heritage preservation status was first conferred upon 'Kia Ora' in 1974, prior to the advent of statutory heritage protection in New South Wales which first commenced through the operation of the NSW Heritage Act 1977.

The Kia Ora property had at that point (1974) been in the ownership of Manufacturers Mutual Insurance Ltd since 1955. In 1974 it was proposed that the rear of the 'Kia Ora' site and the site immediately adjacent to the west, would be developed for a commercial office building use. When the original application for Development Approval was made in 1974, Parramatta City Council proposed that the property owners, Manufacturers Mutual Insurance Ltd (MMI), enter into a covenant aimed at preserving the historic residence for all time.

The original commercial development proposals by the owner were subsequently deferred until 1978, largely due to prevailing poor economic and property market conditions in the mid-1970's which at the time were deemed not conducive to development going ahead.

In July 1978 Development Approval was granted for the erection of the seven-storey commercial office building which now immediately adjoins the 'Kia Ora' heritage residence. Development of the office building was completed in 1979.

A specific condition of the 1978 approval for the development scheme required the permanent preservation of 'Kia Ora' historic residence. As part of the Development Approval, a deed was executed between MMI Ltd and Parramatta City Council which prevented the demolition of the residence. This deed confirmed the preservation proposals which were first proposed by Council in the original 1974 development application.

With the advent of the NSW Heritage Act 1977, a Section 130 Permanent Conservation Order was also placed over 'Kia Ora'. This statutory protection prohibited demolition or variation of the building without the approval of the NSW Heritage Council and the NSW Heritage Office.

In 1996 the subject property was listed in Parramatta City Council's Heritage LEP as an item of local significance. The relevant Heritage Inventory document (No. 356) discloses that the property was evaluated on the criteria of 'Historic, Representative, Associative', in accordance with an historical theme detailed as '2.2.4 Nineteenth Century Regional Town Building, Parramatta', and 3.2.3 'Private Housing'.

The property is significant as the site of an earlier building in which John Batman (one of Melbourne's founders) was born. This fact gives the site a degree of prominence in Australian history. Additionally, the 'Kia Ora' residence has a prominent position in the local history of Parramatta, having been built by colonial architect James Houison in 1842 as a residence for himself. The property remained in the ownership of the Houison family until the 1930's. Thus, the subject property today is also commonly referred to as 'Houison's Cottage'.

In architectural terms the property possesses significance as a fine, well-preserved representative example of a two-storey Old Colonial Georgian house, of rendered brick on sandstone foundations, with slate roof (Figure 6).



Figure 6: Macquarie Street façade of 'Kia Ora' at present.

Architecturally, the subject Inventory Listing notes the property's heritage significance embodied in the shuttered windows and the symmetrically placed front door and building entry, under a columned portico. Additional streetscape significance is conferred by the columned lamplights situated at each end of the building.

Internally, a physical inspection (31/7/00) revealed the heritage significance embodied in the ornate timberwork surrounding the window areas, the high ground floor ceiling height, and a symmetrically located sandstone semi-circular staircase leading from ground to first floor, with feature-polished timber handrails. Both floor levels contain two large fireplaces at each end of the building.

The building exudes a distinct charm and character which is truly representative of the mid-19<sup>th</sup> century architectural period in Australian colonial history. Based upon this writer's detailed physical inspection of the cottage it can be said that in a heritage context the internal ambience of the premises in particular has been excellently maintained.

Parramatta Cityscope (May 2000) also reveals that the subject property is classified by the National Trust, and that in May 1991 the Australian Heritage Commission entered the residence in the Register of the National Estate.

### **3. Objectives of the Owner**

Parramatta Cityscope records that the combined subject property (the two-storey historic residence plus seven-storey commercial office building) was purchased at auction on 29/6/89 by Mercantile and General Life Reassurance Co Australia. This firm is now known as Swiss Re Life & Health Australia Ltd. Prior to 1989, the subject property had been held by Manufacturers Mutual Insurance Ltd since 1955.

The ownership history of the subject heritage-listed building, combined with its involvement in the initial, greater development of the adjoining building as a mainstream commercial-office scheme in 1979, thus discloses that the current configuration of the property as an investment vehicle has existed in its present state for many years.

Likewise, during the period 1979 to mid-2000, the combined investment properties were held in ownership by Institutional-grade Investors (i.e. two separate life insurance companies over a period of twenty one years).

In mid 2000, the combined properties were marketed and sold by Jones Lang LaSalle Parramatta, on behalf of the owner Swiss Re Life and Health Australia Ltd. This disposal of the subject commercial property asset essentially constituted a normal, routine property portfolio management and re-alignment decision by the owner, in a manner which is not at all untypical of many investors holding large commercial portfolios at Institutional-ownership level.

The combined properties had been extensively refurbished in early 1998 as part of a 'mid-life' renewal and refit program for the investment asset as a whole. Subsequently, a new commercial leasing regime was then established in respect to this commercial investment scheme during 1998 and 1999.

Thus by the commencement of 2000, the asset had been given a physical 'mid-life' renewal via the extensive 1998 refurbishment program. Moreover, its prospects as an attractive income-generating investment vehicle had been augmented by the establishment of a completely new leasing regime, on favourable leasing terms and conditions, free of any vacancies.

In short, the combined properties were then considered to be 'ripe' for disposal and marketing, in a commercial investment context. Subsequently, the subject properties were successfully marketed in April-May 2000, and were sold to a local investor, who assumed ownership in June 2000.

#### **4. Approvals Process**

As already described in this report, the original commercial development proposals in respect to the subject property were postponed and re-examined throughout the period 1974 to 1978, largely as a result of prevailing poor economic conditions in the mid-1970's which were deemed not conducive to commercial development.

In 1978 the existing owners decided to proceed with a commercial office building development scheme on part of the subject land, whereby the existing 1842 colonial-era would be retained and combined in a single holding with the office building. The re-development was completed in 1979. Since 1979 the combined properties have been operated under single ownership as a standing investment.

In the property's overall economic context, significant efforts were made in the first instance in 1978 by Parramatta City Council to both secure the heritage protection of 'Houison's Cottage' while simultaneously endeavouring to achieve a commercial office development which was as economically feasible for its owners as possible.

The 1987 report by Order Architects Pty Ltd (p.10) evidences that Parramatta Council at the time of the 1978 development approval supported a successful appeal to the then Planning and Environment Commission by the owners, to circumvent certain provisions in the Section 130 Permanent Preservation Order on Houison's Cottage, in order to permit a seven storey height in the adjoining office development. The S.130 provisions would otherwise have had the effect of limiting the height of the office



building to *'not much more than 2 to 3 storeys'*, thereby limiting the economic feasibility of the project.

In effect the property was thus able to be developed in accordance with the prevailing commercial floor-space code, on a completely unfettered basis, and completely unaffected in any adverse manner by the presence of the adjoining heritage-protected 1842 residence.

## **5. Cost Versus Value**

There is no detailed information available in respect to the original development proposal which dates from 1979, due to the passage of time and successive change of ownership.

However, it is clear from a comparison of the original pre-1979 scenario (single heritage residence, suitable for adaptive re-use as commercial offices) with the post-1979 scenario (the addition of a separate seven-storey office building to the investment asset 'package') that the economic viability of the property has been enhanced considerably in cost-benefit analysis terms.

## **6. Life Cycle Issues**

Both the office building and the heritage-listed residence have been conjunctionally used as commercial office space for many years. Parramatta Cityscope, September 1994, confirms that past commercial-office tenants in the subject heritage-listed residence have comprised solicitors and doctors.

In an adaptive re-use context, a July 1987 report on the property prepared by Order Architects Pty Ltd (op cit, p.4) described the heritage-listed 1842 'Kia Ora' residence as having commercial tenancy attractions for small businesses such as solicitors, accountants, advertising agencies, and corporate and financial institutions. The report also cites a 1987 Jones Lang Wootten commentary that *'strong interest would come from architects, doctors, antique dealers, gallery proprietors and estate agents'*.

Both the office building and the residence underwent a major capital refurbishment program in early 1998. The proportional capital cost injected into the two-storey 'Kia Ora' historic residence was of the order of approximately \$125,000. A notable feature of the refurbishment was the use of multiple-colour paint schemes and tones throughout the premises internally, which emphasise the inherent colonial character of

the 1842 residence while simultaneously providing a sympathetic flavour to its adaptive re-use as commercial offices.

An Investment Report on the combined property holding, prepared by Jones Lang LaSalle Parramatta, dated March 2000, makes mention of the 1998 refurbishments to 'Houison's Cottage' in the following terms (p.10) :

*The recent refurbishment of the cottage has blended colonial craftsmanship with excellent joinery and the practicalities needed for the modern office. Some of the modern facilities of the cottage include male and female toilets, a kitchen and a lunchroom. The cottage is fully air conditioned and retains all its charm and character.*

The Investment Report also discloses that the 'Kia Ora' (Houison's Cottage) historic residence contains a total net lettable commercial floor area of some 196 square metres (106 sq.m on ground floor, 90 sq.m on first floor), which equates to an approximate gross building area of 206 square metres. Thus the capital cost of the 1998 refurbishment represents an expenditure in the order of approximately \$600 per square metre, on a gross building area basis. This represents a capital outlay of considerable magnitude, relative to the size of the heritage building, and denotes a refurbishment effort of significant importance.

The majority of the total property holding (most of the office building and the whole of the historic cottage) was rendered vacant in the preparations leading up to the major capital works of renovation in early 1998. Subsequently, upon completion, a significant re-leasing program was commenced, which extended progressively from 1998 into 1999.

The subject 'Kia Ora' heritage-listed property has been tenanted on a 4+4 lease by a private language school - known as Superior Learning Methods Ltd - since 1/9/99. Initial gross annual rental at lease commencement was \$70,000 per annum, with 3.5% annual increases (now \$72,450 p.a. after 1/9/00) and a market review at option date 1/9/03. The initial rental represented a rate of \$357.14 per square metre of Net Lettable Area on a gross rental basis.

The combined property holding (office building plus heritage-listed residence) was marketed for sale by public tender, commencing in April 2000. The property sold for \$7.5 million after tender in June 2000. Ian Gray, Sales and Leasing Manager, Jones Lang LaSalle Parramatta (personal communication, 19/9/00) reported that four tender submissions were received. The winning purchaser was a local investor.

Mr Gray remarked that the 'Kia Ora' heritage-listed property attracted a notably positive response from all prospective purchasers. During the marketing period, he

stated that there was no evidence of any negative response from the market by virtue of the heritage listing. All four tenderers saw the integration of old and new elements in this commercial investment scenario (refurbished seven-storey typical 'B' grade office building, plus refurbished heritage-listed residence adaptively re-used as two-storey commercial offices) as a positive factor.

In particular, the winning purchaser viewed the presence of 'Kia Ora' as a bonus in the property's total context as an excellent cashflow investment.

The March 2000 Investment Report on the combined subject investment property holding contains a schedule of outgoings for the year 1999. Discussions with Mr Gray have disclosed that the operating costs in respect to the 'Kia Ora' residence present no additional expense burdens attributable to its heritage listed status. In other words, the available evidence suggests that were the subject property to be hypothetically free of its heritage listing, then its annual operating costs would be about the same.

In any case, the subject heritage property constitutes only 5.27% of the total Net Lettable Area in the combined investment holding. Particularly on a proportional basis, the operating costs in respect to the 'Kia Ora' residence are of minor consequence only. The overwhelming bulk of annual operating costs for the entire investment holding are borne by the adjoining free-standing seven-storey office building, by virtue of the sheer magnitude of its predominating floor area (some 94.73% of the total in the combined property holding).

In a heritage incentive context, the subject property does not attract the kind of incentives such as Transferable Heritage Floor Space Rights which predominate in the Sydney CBD in larger, more significant properties. The greatest ongoing heritage-related economic concession and incentive in this case relates to the adaptive re-use of the residence as commercial offices, plus the original development rights which were conferred upon the subject property back in 1978, when the Development Application for the seven-storey office building was submitted. Hence in this context it can be seen that Parramatta Council's original favourable treatment of the allowable development floor space in the office building has conferred an ongoing economic feasibility to the property ever since.

## **7. Conclusions**

Together, the two combined properties in this case study constitute a successful commercial investment asset which combine both older and newer, and heritage and non-heritage buildings, in a manner which is considered to

be both innovative and most economically viable in a heritage conservation context.

The subject 1842 colonial residence enjoys significant local prominence in a heritage context. Its heritage status has not been excessively compromised by the adjacent development in 1978 of the seven-storey commercial office building. The fine, ornate mid 19<sup>th</sup> century colonial character of 'Houison's Cottage' has been successfully preserved, and in an economic context has been well combined with a contemporary adaptive re-use as modern commercial office space.

Together with the adjacent office building, the cottage underwent an extensive 'mid-life' re-fit and refurbishment capital-works program in early 1998. In life cycle costing terms this capital outlay, although considerable at the time, has effectively prolonged the economic life of the asset and has enabled an effective contemporary commercial leasing structure to be established.

The subject heritage building contributes some 5.27% of the total Net Lettable Area in the overall investment, yet it provides approximately 6.25% of the total Gross Rental derived from the entire property. The 1/9/99 \$357 psm gross rental rate achieved for Houison's Cottage compares favourably with rentals achieved for similar sized upper-floor space in the adjoining office tower - where rentals secured at or about the same time period in 1999 show gross rates of only \$275 - \$285 psm gross. This represents an income-superiority ratio for Houison's Cottage in the order of approximately 27% in economic terms.

The subject marketing program in mid-2000, together with the sale in June 2000 at a price of \$7,500,000, revealed economic outcomes which can be described as favourable.

An elementary financial analysis of the leasing structure indicates that, in an entirely hypothetical sense, the 1842 heritage-listed residence contributed a capital sales value to the entire investment holding in the approximate range of \$500,000 proportionally. This represents approximately 6.6% of the total property's June 2000 sale price of \$7,500,000. There is also little doubt that this heritage building's value in its adaptive commercial re-use configuration exceeds its equivalent value on a residential-use basis by a significant margin.

The selling agent commented that the commercial integration of old and new was seen by the market in mid-2000 as a most positive element in the property's investment profile. This market response is testimony to the successful configuration of the combined property holding in economic terms.

As a representative successful example of the combination of heritage preservation and economic viability, it is deemed that the conceptual nature and character this particular case study may possess considerable comparative worth for other potentially similar commercial development scenarios and proposals in other capital cities throughout Australia.

The commercial character of the Parramatta CBD is after all considerably more comparable to that which might be found in a number of other, smaller CBD's in Australian capital cities or regional townships - compared to that of the Sydney CBD, which is by far the biggest in Australia.

# CASE No. 3

## The Strand Arcade

412 - 414 George Street, Sydney

### 1. Introduction

The Strand Arcade (Figure 7) comprises a relatively small low-rise part three and five storey late 19<sup>th</sup> Century Queen Anne Revival style commercial building, situated in a prime retail location in the Mid Town Precinct of the Sydney Central Business District.

The property enjoys a prominent street-front presence to both George and Pitt Streets and in its configuration as a retail arcade provides a direct pedestrian linkage between George Street and Pitt Street, in the city block bounded by King and Market Streets.

The property currently contains 91 shops over 4 levels (Figure 7). The majority of tenancies comprise small-area specialty retail lettings with floor sizes limited to the range of approximately 15 to 45 square metres over the three main floors (ground plus levels 1 and 2). The basement floor area contains a somewhat larger main tenancy. The George and Pitt Street wings of the building contain two uppermost floor levels (levels 3 and 4) distinct from the three main lower retail floors. These uppermost wings are largely devoted to



subsidiary small-area office tenancies.

Figure 7: The Strand – interior.

The property was purpose-built in 1891 as a shopping arcade at the height of the era of sophisticated elegance and flamboyance of building design which characterised Sydney's late Victorian period. A Strand Arcade promotional brochure produced recently by the current owner (Ipoh Pty Limited, 2000) aptly describes the ambience of the era :

*When the Strand Arcade opened in 1892 ... Sydney was a Victorian City. Grandeur and elegance was the style of the day as the city's architects created landmarks that echoed the familiar traditions of home town London.*

It is generally accepted within both the commercial property and the heritage communities that the Strand Arcade today enjoys a high public recognition factor as a focal point for specialist boutique shopping within the CBD of the City of Sydney.

Moreover, the subject property enjoys a premier retail location immediately adjacent to Sydney's Pitt Street Shopping Mall. According to Cummins (Sydney Morning Herald, Commercial Property Supplement, 2/12/2000), the Pitt Street Mall is the third most expensive retail strip in world (in terms of achievable rental per square metre). This city block in Pitt Street, bounded by King and Market Streets, is indisputably the centre-piece retail location within the Sydney CBD.

The Strand Arcade is thus extremely well positioned to take commercial advantage of its close proximity to this pedestrian plaza.

The Strand Arcade was deliberately titled after the famous London Street of the same name to denote an air of elegance, fashion and sophistication with which shoppers would readily associate. The Strand in London links the City of London with the City of Westminster and at the end of the 19<sup>th</sup> Century was known as a hub of high society featuring fashionable theatre, hotel and shopping facilities.

The Strand Arcade's successive owners in recent times have taken due commercial advantage of its favourably perceived public reputation. The property's high-profile tenancy mix - including the Old Coffee Shop in occupation as a tenant since 1892 - constitutes a prime marketing vehicle in economic terms.

The major product categories offered within the centre include fashion, jewellery, gifts and food. Prominent tenants enjoying high public recognition levels include Tony Barlow Menswear, Strandbags, Strand Hatters, Harris Coffee, and Timberland.

The continued retention over time of the essential 'old world' charm and character of the property, both externally and internally, has enabled the arcade to maintain a very strong, long-standing reputation as a pleasing environment for 'cut above' fashionable shopping within the Sydney CBD.

When first opened in 1892 the Strand Arcade was the fifth and last of the shopping arcades of its type to be built in Victorian Sydney. At the beginning of the 21<sup>st</sup> Century it is the only one which remains in its predominating original style and form.

In an architectural and historical sense its heritage significance can thus begin to be appreciated. The property is in fact specifically referred to as a landmark building for its type in its formal heritage inventory listing.

The subject property was purchased by its current owner, Ipoh Strand Pty Limited, on 1<sup>st</sup> April 1999 at a price of \$66,500,000. Ipoh enjoys a strong reputation for heritage-related retail property management and investment expertise, having gained widespread praise in the early 1980's for its efforts in firstly helping to save and then to restore and operate Sydney's famous Queen Victoria Building.

Discussions with the current owner of the Strand Arcade have revealed that, in an economic and commercial investment sense, the property is currently operating in quite a satisfactory manner in its capacity as a retail property asset - particularly when related to its April 1999 purchase price. However plans are currently afoot to implement a refurbishment scheme focussing upon the upper retail levels.

This scheme is linked to a newly-implemented marketing strategy designed to further strengthen the financial performance and appeal of the property for the ultimate benefit of all the various interests, both public and private, who have a stake in the future ongoing existence and success of the centre.

In our opinion the Strand Arcade represents a most useful case study for the purposes of this Consultancy. Firstly, it is the only heritage asset in our seven-case series which is almost entirely devoted to a fully-tenanted prime retail investment use. The current use is *not* an adaptive re-use, in the sense that the property has been used continuously for some 108 years as a



shopping centre. Rather, this case study is examined purely in its context as a passive investment property.

Secondly, in heritage terms, the current historical, architectural, aesthetic and social significance of the building has been successfully maintained, despite having been almost destroyed by fire in May 1976 (this fire is cited in Sydney Cityscope, 28 April 2000) (Figure 8). Much of the interior form of the building now constitutes a reconstruction as a result of the loss of original features by severe fire damage at that time.

In a heritage conservation sense this reconstruction process has done nothing to detract from the aesthetic feel and old-world character of the property. The building stands as a fine example of what can be achieved by this form of heritage conservation - as opposed to the more 'authentic' forms of heritage management such as preservation and restoration, as those terms are defined technically under the provisions of the Burra Charter.

Thirdly, the subject property is only relatively small and narrow in terms of its plottage, size and shape. Its height and scale of development is limited to several floors only. This characteristic in our opinion confers a greater potential for comparison purposes, where heritage authorities and managers in other capital cities in Australia might derive more useful information from this relatively small-scale case study for applications in similar localised heritage scenarios.



Figure 8: Interior of the Strand, after the 1976 fire.

## 2. Heritage Status

The Strand Arcade is listed as Inventory No. 4033 on Sydney City Council's Heritage LEP 2000 under the Schedule 1 category. The property is also listed on the Register of the National Estate (AHC).

The Statement of Significance contained in Council's Inventory document makes reference to the building's inherent rarity as the best and last remaining example of the original five such shopping arcades built in Sydney during the Victorian era. The property is also constitutes the best known work in the portfolio of the architectural firm Spencer and Fairfax. The property reflects the importance of Pitt Street and George Street in the relevant city block as the premier retail precinct in Sydney.

The Statement of Significance includes the following notable description (page 2) which gives credence to the property's high public recognition factor :

*The Strand Arcade is one of Sydney's best known and much loved buildings and is significant for the continuity of occupation, and size of some of the tenants. It is significant as a landmark building.*

The building is furthermore significant for the presence of fine examples of late nineteenth century building construction contained within its internal fabric. These design and construction features are exemplified through the presence of the caged lift well structures at each end of the building as well as the cast iron structural framing, the cast iron curved roof trusses, coke breeze floors and tessellated ceramic tiling work.

The property enjoys graded historical heritage significance which is classified under the Rare State category. State-level Rare significance is also registered under the aesthetic, social and scientific criteria domains.

The external facades, the glazed atrium roof, the ground floor promenade, the lift surrounds, light wells, and all remaining internal original interior elements, all enjoy a High Significance registered grading.

Council's Inventory document makes additional reference to the Preliminary Conservation Policy for the Strand Arcade where it is stated that the overall form of the property should be retained and conserved. The building should be continued in use as a retail arcade only. There should be no vertical extension to the building which would be visible from George or Pitt Streets or which might negatively affect the inbuilt internal natural skylighting. The façade should be painted in appropriate colours.

All remaining intact exterior façades above the ground floor street awning should be conserved and door and window openings should not be enlarged nor closed in. All remaining intact internal building fabric should likewise be retained and conserved.

It is noted that the subject property was damaged by fire on two separate occasions - severely so, in May 1976, and then again to a less severe extent in March 1980. Thus a significant proportion of the building, particularly in its internal configuration, constitutes a replication and reconstruction of formerly original building fabrics, fittings, finishes and décor. Council records reveal that a sum of approximately \$40 Million was outlaid in capital reconstruction and restoration works on the property between 1979 and 1985.

Where major reconstructed elements exist, further adaptive re-use may be acceptable, according to Council's Inventory document, provided the interiors maintain compatibility with the original detail.

### **3. Owner's Objectives**

Sydney Cityscope, 28 August 2000, discloses that the subject property was purchased for \$66,500,000 on 1 April 1999 by Ipoh Strand Pty Limited.

Prior to the current ownership the property had been held in title by the Prudential Group between 1973 and 1998. However the Colonial Group acquired ownership of the subject property in August 1998 due to its corporate takeover of the Prudential Group of businesses.

Ipoh Pty Ltd, a Malaysian-based property group, possesses well-established credentials in the field of retail property management, investment and development within Australia and New Zealand, having built up a long background of industry participation since the early 1980's.

Moreover, the Ipoh Group possesses considerable experience and expertise in its dealings with heritage-significant property assets in both the development and commercial management domains. Ipoh is perhaps best known for its key initiatives and central involvement in the restoration projects for two of Sydney's most famous heritage assets - the Queen Victoria Building and Capitol Theatre.

Discussions with Ipoh's Operations Manager Mr Alan Champion (personal communications, 18/10/00) revealed the current owner's motivations for purchasing the Strand Arcade in 1999. Ipoh regarded the subject property as an ideal market

opportunity and a perfect candidate for addition to its existing portfolio of commercial investment and heritage-significant property assets.

The Strand Arcade had been extensively refurbished by its previous owners, the Prudential Group, during the period March to August 1998. The refurbishment program, which paid particular attention to the inherent heritage characteristics and requirements of the property, was subsequently completed throughout the remainder of 1998 by the Colonial Group following its takeover of Prudential in August 1998.

The records of Sydney City Council reveal that the total cost of these refurbishment works was approximately \$2,300,000 - denoting a refurbishment scheme of substantial magnitude.

Thus by early 1999 the property presented as an attractive market offering in the eyes of the Ipoh Group, having just been extensively renewed in a physical sense and enjoying both a prime retail location and a sound commercial leasing structure. Furthermore the Strand Arcade is situated in close proximity to Ipoh's chief heritage-listed investment asset, the Queen Victoria Building, which is located only several hundred metres to the south in George Street.

Reference to a Share Prospectus Report issued by the Ipoh Group dated 8 November 2000 reveals the attitude of the Strand Arcade's present owners towards this fine heritage-listed investment asset, and the group's future investment objectives in a corporate sense :

*The Directors are of the opinion that the property [the Strand Arcade] will require minimal capital expenditure over the next few years as the previous owner completed a heritage refurbishment programme before the sale.*

*Ipoh's strategy is to focus on investment in, and management of, prime CBD retail property. Implementation of this strategy will involve both growing a portfolio of CBD retail assets in both Australia and New Zealand and implementation of a non-core asset divestment program.*

*Ipoh's **trophy** retail property assets [bold by this writer] the Queen Victoria Building and The Strand, will continue to underpin the Company's earnings.*

#### **4. Approvals Process**

It is important to take note of the extensive refurbishment program which the former owners, the Prudential Group, initiated in respect to the Strand Arcade in early 1998

prior to the property being acquired by its current owner Ipoh Pty Limited in early 1999. This refurbishment program constituted a major mid-life renewal in a life-cycle costing sense. The nature of the capital works and the individual costs thereof are worthy of closer examination.

The property records held by Sydney City Council (inspected 4/01/01) disclose that development consent for Prudential's refurbishment scheme was granted on 17/3/98. The schedule of works and cost estimates is as follows :

* renew water and gas services in the building	\$429,232
* replace atrium roof glass and sunshading	\$392,000
* replace lighting facilities throughout the building	\$263,650
* replace electrical switchboards	\$224,912
* replace hydraulic services to basement	\$214,616
* replace basement floor and floor coverings	\$173,000
* repaint interiors completely (heritage emphasis)	\$154,630
* refurbish internal signage	\$98,869
* replace roofing ironwork	\$98,024
* replace air conditioning cooling tower	\$95,000
* repaint exterior facades (heritage emphasis)	\$79,160
* other works, plus contingencies	<u>\$87,310</u>
Total	\$2,310,403

Prudential submitted an application for an award of 10,505 square metres of Heritage Floor Space (HFS) concurrent with its refurbishment DA. Under the provisions of Sydney City Council's LEP 1996 and the HFS Policy therein, such an award in respect to heritage buildings can only be made in conjunction with a development application for conservation works, and in accordance with an approved Heritage Conservation Management Plan.

Prudential's refurbishment DA satisfied these eligibility requirements. Consequently, Council approved the award to Prudential of the said HFS. Prudential was subsequently permitted to allocate some 6,218 square metres of this HFS award to a redevelopment scheme for a property which it owned at 60 Castlereagh Street, Sydney. Additionally, some 1,046 square metres of HFS was allocated to a property at 37-51 Martin Place, Sydney.

Council's HFS register evidences that a residue of 3,241 square metres of HFS was retained in the ownership of the Prudential Group for sale at a later date. This HFS asset was subsequently assumed by the Colonial Group as part of its corporate takeover of the Prudential Group in 1998.

The outcome of these dealings meant that when Ipoh Pty Limited purchased the Strand Arcade for a price of \$66.5 Million on 1/4/99 there were no HFS rights which attached to the property (since HFS awards, unless sold off, generally attach to the owners of a given property, not the real estate asset itself). This information was confirmed by Mr Alan Champion of Ipoh Pty Limited (personal communications, op cit, 18/10/00).

## **5. Life Cycle Issues**

The operation of the Strand Arcade as a commercial investment property asset is governed to a very considerable degree by the requirements embodied in the property's heritage listing and the conservation policy which attaches thereto.

In practical terms, all items of a structural nature and most of the existing cosmetic décor and detailing are required to be retained within the building, both internally and externally. No additional vertical extensions to the building are feasible, either in a non-heritage practical redevelopment sense nor in the general context of its heritage listing.

Mr Alan Champion (op cit) disclosed that the internal columns, voids and common areas which currently exist within the building dictate the size and layout of the retail tenancies throughout all floor levels. The existing design, finishes, décor and floor-plan layouts of all shop-fronts and common areas, particularly on the ground floor, constitute items of considerable heritage significance.

Accordingly, the opportunities for what Mr Champion refers to as *'inter-tenancy penetrations'*, as desired by some tenants, are very restricted, in the opinion of the present owner. In other words, according to information supplied by Mr Champion,

despite the preferences of some tenants within the building, the ability for flexible adaptation of retail tenancy floor plans, sizes and shapes, either horizontally or vertically, is extremely restricted due to the requirements embodied in the current heritage listing for the building.

It should be noted that the above opinions are those of the present owner. In our field investigations we have not tested nor investigated this issue of 'inter-tenancy penetrations' from the standpoint of the relevant environmental planning and heritage management authorities, and so it must remain as somewhat of a 'grey area' at present.

Access to the upper retail floors - levels one and two - is currently provided via multiple staircases and lifts situated at each end of the building. However in the opinion of the current owner (Alan Champion, personal communications, op cit) the access opportunities to the upper retail floors are inadequate and require improvement via the installation of escalators.

The current owner believes that the retail trading performance of the two upper shop floor levels - as measured by pedestrian traffic volumes and sales turnover - is somewhat mediocre, compared to its potential, and is in need of substantial improvement. It is felt that the installation of escalators to the upper retail floors from the ground floor promenade would substantially enhance the retail trading potential of both upper floors. However we are advised by Mr Champion that the relevant statutory authorities have indicated that such a proposal would not be permitted, principally on heritage conservation grounds.

We must point out that we have not had the opportunity to investigate this matter nor confirm the non-approval contention from the standpoint of the relevant planning authorities concerned. There would however appear to be substantial merit in the commercial arguments put forward by the owner where the installation of escalators is concerned. On two occasions late in 2000 we conducted a physical inspection of the Strand Arcade. On both occasions very vigorous levels of pedestrian trade were observed in the basement and on the ground floor retail areas. However, the passing pedestrian trade occurring on the two upper retail floors was noticeably weak - not to the point of being non-existent, but nevertheless at levels which were considerably less than that occurring on the main retail floors below.

Moreover, this was at a time of pre-Christmas consumer spending when retail trade would normally be expected to be above the normal prevailing activity levels.

It is clear in our assessment that an element of consumer resistance exists in respect to the use of the existing staircases and older-style lifts in the Strand Arcade. For



time-poor shoppers who are often 'in a hurry', escalators do indeed provide an easy, quick, low-exertion access to vertical shopping facilities.

A precedent comparative example can be taken from the nearby heritage-listed Queen Victoria Building (QVB). There, the installation of multiple escalator access to the upper floors has resulted in an ease and speed of access for shoppers which has flowed through into very buoyant levels of upper-floor consumer activity. For example, the retail trading performance of the large ABC Shop retail tenancy, on the uppermost floor level of the QVB, was observed on 19 December 2000 (the same date as one of our Strand Arcade inspections) as being extremely vigorous. This can be put down almost entirely to the ease and speed of access provided for shoppers via the escalators installed therein.

The situation in the much smaller Strand Arcade by comparison presents a major difficulty however. The biggest limiting drawback of the Strand Arcade lies in its inherent small size and limited scale of development. In short, the Strand Arcade lacks sufficient spare space to successfully accommodate the installation of escalators. The site is very narrow, being only 20 metres wide on average. The ground floor promenade is correspondingly of a relatively narrow width.

The installation of escalators on the ground floor common-area promenade would indeed seem to have the potential to cause significant interruption to the fine heritage appeal and integrity which is currently embodied in the internal form and fabric of the building - particularly on the ground floor, where the heritage appeal is the strongest.

Substantial and valid arguments exist on both sides (heritage preservation versus perceived economic enhancement) regarding the issue of escalator installation in this case study. This case study thus presents an excellent example of the types of complex and difficult issues which can sometimes arise from a commercial investment perspective in heritage-listed retail properties.

The issue of upper-floor escalator access aside however, Ipoh Pty Limited nevertheless have plans for the refurbishment of the upper floor retail and office areas, which we believe are currently before Council. At a projected cost of approximately \$600,000 to \$700,000 the plans call for a substantial upgrade of floor coverings, air conditioning facilities and improvements to common areas and shop-fronts. It is anticipated that this refurbishment program, which in our opinion is most appropriate, will substantially lift the potential for better upper-floor retail trading performance.

Plans also exist for a program of tenancy precincting during 2001, in line with Ipoh's pro-active property management approach.

In respect to the levels of annual operating costs, Mr Champion (op cit) expressed no concerns. The Strand Arcade is fundamentally a small low-rise commercial investment property, severely limited in its scale of development by its narrow site plottage. As such, a certain level of inefficiency pre-exists in terms of operating costs such as lift operations, lift maintenance, air conditioning costs, and other facilities which service a low volume of building area.

The extent to which the requirements of the heritage listing add to the cost of annual outgoings is difficult to identify. The available evidence suggests that the direct additional impact due to specific heritage requirements is probably of only minimal proportions.

In terms of future life cycle costs there appears to be similarly little potential for difficulties, given the recent major refurbishment program which the former owner Prudential carried out on the property in 1998. Mr Champion reports that all building services (air conditioning plant and equipment, light and air ducts, electrical, fire safety and so on) are in good condition and meet contemporary requirements. This factor also assists in keeping annual outgoings costs down, in a relative sense.

Mr Champion also disclosed a series of very positive aspects relating to the Strand Arcade. Rental levels in the building are reported to be healthy, particularly on the ground and basement floor levels where retail turnover and pedestrian trade is greatest. The property, while not constituting a retail 'ant track' in the orthodox colloquial industry sense, nevertheless benefits considerably from its outstanding retail location adjacent to Pitt Street Mall - which comprises the busiest and most expensive strip shopping facility in the Sydney CBD.

The available evidence suggests that the direct impact of the subject heritage listing upon achievable rentals is completely neutral. In other words, the achievable rentals in the building are neither enhanced nor adversely affected by the impacts of the heritage listing.

While premium rentals are not capable of being secured in the Strand Arcade, according to Mr Champion, the tenants' response to the heritage character of the building is reported to be very positive. Tenants like locating their retail businesses in this property.

Mr Champion emphasised that good marketing and promotion of the Strand Arcade as a prime retail centre is a very important and essential factor from the owner's standpoint.

## **6. Conclusions**

It must be borne in mind that Ipoh Strand Pty Limited's purchase price of \$66,500,000 for the Strand Arcade in April 1999 was determined on the basis of a full awareness of the physical limitations of the property. Similarly, other crucial factors such as the nature of the leasing structure, the cashflow position, and the sound condition of the property following the 1998 refurbishment, were equally important considerations.

Likewise, the nature of the subject heritage listing and the requirements attaching thereto constituted one of the most important considerations for Ipoh as a prudent purchaser.

From the commercial and economic perspective, and in light of the price paid, Mr Champion (op cit) reported that the current owner is well satisfied with the financial performance of this retail asset.

The property enjoys a sound leasing structure with full occupancy on the strongly performing basement and ground floor levels. Only several minor vacancies currently exist on the more weakly performing upper retail floors. The property appears to be very well marketed, it enjoys an outstandingly good retail CBD location, and the recognition and goodwill factor amongst the shopping public appears to be high.

Ipoh possesses a sound background of expertise in the pro-active management and portfolio asset management of its stable of prime CBD retail properties, several of which include heritage-listed properties of major significance.

As pro-active commercial investment managers of the Strand Arcade, Ipoh Pty Limited are taking positive steps to improve the economic performance of the upper two retail floors in the building.

The only real potential problem which we have been able to identify in this case study relates to the arguments and debate over the merits or otherwise of installing escalators on the ground floor promenade, in an attempt to enhance the retail trading potential of the upper floors via better, quicker, easier pedestrian access.

Sound, legitimate arguments exist on both sides (economic enhancement versus heritage integrity and its preservation). As at the commencement of 2001, this problem has not yet been resolved to the satisfaction of the current owner. This problem highlights, probably better than many other examples, the type of complexities and difficulties which can arise in the management of heritage-listed commercial investment property assets, particularly perhaps of a retail nature.

Much of the subject building comprises a reconstruction of the items of heritage significance which were previously destroyed by fire on two occasions, in 1976 and 1980. However, the aesthetic character and old world charm of this much-loved property have been very well retained through this process.

In summary, the Strand Arcade can be seen as a successful and impressive property asset both from its heritage conservation and economic perspectives. The goals and objectives of the relevant statutory heritage managers and the owner-investor alike have in the main been successfully met - the issue of the escalators notwithstanding.

# CASE No.4

## The Medina Apartments Project, Ex Parcels Post Office, Lee Street and Railway Square, Sydney

### 1. Introduction

This case study comprises an analysis of the recent 1998 – 2000 adaptive re-use and commercial redevelopment of the former Parcels Post Office building at Railway Square (Figure 9), in the southern sector of the Sydney Central Business District immediately adjacent to Sydney's historic Central Railway Station complex.



Figure 9: Northern façade of the former Parcels Post Office, now Medina Apartments.

The subject property consists of a substantial freestanding sandstone and brick building, originally erected in 1913 as a major government owned public utility asset. At the completion of its original construction this building rose to a height of six storeys and its architectural characteristics were such that it added a commanding new dimension to the visual and aesthetic quality of the Railway Square and Central Railway Terminal built environment.

The subject site is situated immediately to the west of the Central Railway Station complex and its associated pedestrian concourses and tunnels. In this context, the Parcels Post Office on its southern site boundary abuts the well-known Devonshire Street Pedestrian Tunnel which leads westerly from Central Railway's Suburban Rail Platforms through to the nearby Railway Square Bus / Rail Interchange. In a visual and streetscape sense, the subject building

dominates and overlooks the immediately adjacent Railway Square Transport Interchange facility.

The character of the western side of the Central Railway Precinct is such that the subject property occupies a site which is positioned on all four sides in isolation from any other immediate surrounding structures of any significant height and magnitude. This relative isolation factor in a built-environment sense has imparted a visually dominating presence to the Parcels Post Office building throughout its history. The subject building enjoys particularly good lines of sight from local thoroughfares when approached from the west and the north.

The combination of all of the property's abovementioned characteristics - the building's prominent architectural features, its sheer bulk, and solid, imposing, square shape (a length of approximately 30 metres on all four sides and a six-storey height), its isolated positioning relative to other local buildings, and line-of-sight advantages - have conferred a commanding landmark status to the building ever since its erection in 1913.

In the vicinity of the subject property, heavy pedestrian and vehicular traffic flow occur constantly on the western side of the Central Railway Precinct. In addition to an east-west pedestrian movement from the Railway Square bus interchange to Central Railway Station, nearby Broadway constitutes the main vehicular entry and exit route for traffic entering and departing the southern end of the Sydney CBD.

Additionally, the major tourist destinations of Chinatown and Darling Harbour are located only a short distance to the west and northwest of the property. Major tertiary education facilities are also situated in nearby Harris Street and Broadway. All of these nearby facilities in fact generate much of the passing pedestrian flow from Central Railway Station via the Devonshire Street Tunnel.

In short, the property's locational advantages are considerable, and from a commercial standpoint they featured prominently, right from the outset, in the current developer's decision to commit to this particular redevelopment scheme in 1997.

During the period 1998 – 2000 the building was the subject of a major recent redevelopment project and substantial adaptive re-use conversion to a serviced apartment hospitality use. Project construction began in early 1999 and was completed in mid 2000, in time to capitalise upon the advent of the September 2000 Sydney Olympics. The building now comprises a functioning serviced apartment and retail mixed-use asset, rated at 4.5 stars quality,

operating under the trading name of Medina Executive Serviced Apartments – Sydney Central.

In its redeveloped configuration the building accommodates some 98 serviced apartments, together with supporting facilities comprising bistro, function rooms, spa, sauna, gymnasium, swimming pool and basement carparking. A substantial ground-floor retail component has also been incorporated into the overall completed project.

The property was developed by the Toga Group, which is an enterprise with well-established credentials and major property portfolio holdings in the hospitality industry. The subject property constitutes the latest addition to its stable of hospitality accommodation assets, all of which operate under the banner trading name of Medina Serviced Apartments.

The fine original external sandstone and brick facades of the former Parcels Post Office building have been retained and restored as the centrepiece of the property's heritage conservation and adaptive re-use scheme. As part of the property's recent redevelopment, however, a somewhat controversial two storey Mansard roofed penthouse area has been constructed atop the original building.

Despite being set back marginally to a depth of some 1.2 metres on all four of the building elevations, this roof-top addition is very prominent in terms of line of sight from all surrounding directions. The new Mansard roof addition departs significantly from the architectural style, character, form and fabric of the original 1913 building which lies beneath it. In this particular case, this feature of the project constitutes a favourable outcome for the developer (since it was exactly what the developer sought), at the expense of perhaps an otherwise greater sympathy with the visual and heritage integrity of the original building facades.

The Total Project Cost of the Parcels Post Office redevelopment project was in the order of some \$27 Million. From the outset the project was intended to be developed in a complementary and sympathetic manner relative to the immediate surrounding built environment. This project was merely one component of a much greater, major public infrastructure upgrading scheme known as Central 2000, which involved the rejuvenation of the whole of the Central Railway Precinct in the lead up to the Sydney Olympic Games which occurred in September 2000.

In summary, this redevelopment project comprised both a favourable hospitality-based commercial opportunity for the developer, completed on terms which

were favourable for the developer, combined with a successful heritage preservation scheme which was centred upon the retention and restoration of the original masonry facades of the building.

## **2. Heritage Status**

The subject property is listed in the Heritage Register maintained by Sydney City Council as Inventory Number 5043 within the Central Sydney Heritage Local Environmental Plan 2000, Schedule 1.

The property is also listed on the Register of The National Estate which is maintained by the Australian Heritage Commission under the provisions of the Australian Heritage Commission Act 1974. Additionally, the property enjoys listings on the Register of the National Trust of Australia (NSW) and the Register of Twentieth Century Architecture maintained by the Royal Australian Institute of Architects.

The relevant Sydney City Council Heritage Inventory document records that the Parcels Post Office building enjoys heritage significance in an aesthetic and architectural sense as a prominently located major public institutional building constructed in the Federation Academic Classical style.

In an architectural and visual sense the four-sided external facades of the building constitute its most striking characteristic. While predominantly built of rusticated brickwork, the facades are also constructed with substantial sandstone balustrades, cornices, arches and lintels, particularly on the northern, western and southern sides where the building's visual impact is greatest.

This elegantly designed and strategically located stonework breaks up the visual impact of the main brickwork and imparts a most pleasing variation to both the horizontal and vertical sightlines in the building. In particular this is a feature of the main western elevation fronting Lee Street and Railway Square, where a recessed bay extends centrally through the first, second, third and fourth storeys of the building. Imposing marble columns guard this recessed area on both sides, topped by an arched prominent sandstone lintel.

Combined with its architectural significance the property possesses major historical and locational significance for its contribution to the early Twentieth Century public infrastructure and public utility character of the Railway Square / Central Railway Precinct. The building was designed by the NSW Government Architect's Office and constitutes a rare example of a major government



owned postal institution, being the only extant example of such a large purpose-built building of its type in Sydney.

The property's Post Office based historical theme is also integrally connected with the rail-transport theme, which itself is so prominently interwoven into the historical development of this particular section of the southern end of Sydney's CBD.

The property accordingly enjoys an overall cultural heritage significance which is classified in the rare State-level category in respect to both its historic and aesthetic elements.

A Preliminary Conservation Policy statement prepared in 1995 is contained in Sydney City Council's Heritage Inventory document. This policy declared that the overall external form, fabric and design of the building facades on all four sides were to be retained, preserved and restored as a pre-emptive condition in the consideration of any new redevelopment and adaptive re-use proposals.

A 1995 Central Railway Station Conservation Management Plan prepared by the NSW Department of Public Works and Services is cited in Council's inventory document. This Plan records that by the mid 1990's very little of the internal fabric of the original Parcels Post Office remained intact.

An unauthored *Property Australia* journal article (Property Council of Australia, August 1999, p.39) states that the subject building had been '*unoccupied for more than a decade*'. Descriptions appearing elsewhere in Council's inventory document also give the impression that most of the internal integrity of the original building had by the mid 1990's been lost through a combination of building alterations, neglect, physical deterioration and disuse over time.

Thus in a heritage conservation sense the visually striking and well-intact exterior facades of the building form the center-piece of its retention and restoration policy. The available evidence confirms that for all practical intents and purposes the building retained very few, if any, internal features worthy of preservation.

Accordingly, in the 1999 – 2000 Medina Apartments redevelopment and reconstruction scheme, the heritage-significant external facades of the former Parcels Post Office were retained and restored. In a major bonus for the developer, however, the whole of the interiors of the building were demolished, virtually back to the bare structural shell, and then completely rebuilt.

### **3. Developer's Objectives**

The subject redevelopment project comprises the most recent addition to the stable of hospitality-based property interests held throughout Sydney and other Australian capital cities by the Toga group of companies. The Toga Group, based in corporate headquarters at Surry Hills on the south-eastern extremity of the Sydney CBD, specialises in the niche Serviced Apartments sub-market sector of the hospitality industry.

The Toga Group promotes all of its serviced apartment assets to appeal to an entirely alternate target-market sector, compared to the type of clientele which gravitates to the orthodox hotel accommodation market. The group operates all of its property assets under the overall Medina Apartments commercial banner. Under this umbrella three separate marketing themes are utilised, these being the brand names of Medina Grand, Medina Classic, and Medina Executive.

The subject newly-completed serviced apartments scheme at Railway Square has been promoted since its completion in mid 2000 as the Medina Executive, Sydney Central. It comprises the only asset within Toga's property portfolio which inherently contains a major item of heritage significance.

Essentially, the major difference in the Serviced Apartment theme of hospitality accommodation compared to the standard hotel style of accommodation, lies in the self-contained nature and lifestyle benefits offered to clients.

In the subject ex-Parcels Post Office redevelopment scheme, some 98 serviced apartments in a mix of studio, one and two bedroomed units have been incorporated into the completed project. Each apartment is promoted by the operator as containing 'state of the art' modern design and technology.

Each serviced apartment has a fully equipped kitchen and laundry, plus lounge and dining areas. Supporting lifestyle facilities - ground floor and basement level shops, bistro, conference rooms, spa, sauna, gymnasium and pool - are integrated into the completed development project.

Mr Allan Vidor, Managing Director of the Toga Group of Companies (personal communications, 29/8/00) disclosed that in the mid 1990's his organisation conducted comprehensive preliminary market research with a view to identifying a suitable development opportunity within the general southern extremity of the Sydney CBD.

The market analysis conducted by Toga revealed a gap between consumer demand and available supply in the niche serviced apartment sector within the immediate locality of the Central Railway Precinct. Ongoing demand was assessed as being buoyant and a commercial redevelopment opportunity was identified in respect to the subject property, by virtue of its outstanding locational advantages and its future use potential from the serviced apartment perspective. A shortage of existing and likely future competing local supply was similarly identified.

Underlying market conditions in the hospitality accommodation sector as at the mid 1990's were also seen to be favourable due to the onset of the Sydney Olympic Games scheduled for September 2000. Thus in a property development context, the all-important factor of correct timing in the relevant sub-market property cycle was seen to be very conducive to project commitment by the Toga Group.

Moreover, concurrent with Toga's market investigations a major refurbishment scheme known as Central 2000 had been formulated by the NSW Department of Public Works and Services, for the complete pre-Olympics integrated redevelopment and upgrading of the public infrastructure facilities within the entire Railway Square Interchange / Central Railway Precinct. Various government agencies and statutory authorities were centrally involved in this scheme.

Provisions for the restoration, refurbishment and hospitality-related adaptive re-use of the Parcels Post Office building were contained within the Central 2000 master plan. Plans were also formulated for the redevelopment of a government owned office building located slightly to the south of the subject property along Lee Street. Both buildings were to become part of what would be known as the Henry Dean Place and Western Gateway sub-precinct.

The Western Gateway plan was one part of the overall Central 2000 master plan, and it called for the creation of a series of public plazas between these two buildings. The adjoining Devonshire Street Pedestrian Tunnel and the nearby Lee Street / George Street pedestrian underpasses were also to be comprehensively upgraded, along with the Bus / Rail Interchange at Railway Square. Central Railway Station was similarly comprehensively upgraded as part of the overall Central 2000 master plan.

The presence of these substantial upgrades to the immediate surrounding environment at Railway Square and Central Station constituted a considerable enhancement in the future commercial potential of the local precinct. These comprehensive Precinct proposals, plus the creation of specific guidelines by

the Department of Public Works and Services for the heritage restoration of the Parcels Post Office Building, contributed significantly to Toga's decision to commit to the subject redevelopment project, according to Mr Vidor.

#### **4. Approval Process**

Plans for the integrated redevelopment of the western side of the Central Railway Precinct were designed during the period 1995-96. Pursuant to Clause 17 of the Central Sydney LEP 1996, a western-side master plan was adopted by Sydney City Council in February 1997.

Working under the auspices of the master plan, the Heritage Group, State Projects Division of the Department of Public Works and Services, on behalf of the NSW State Government, was responsible for preparing the detailed conservation and restoration guidelines for the redevelopment of the Parcels Post Office. The final draft of the Conservation Plan was issued in July 1997.

Mr Allan Vidor (op cit, personal communications, 29/8/00) advised that the commissioning of a developer for the Parcels Post Office refurbishment scheme was conducted via a publicly advertised tender process which commenced in late 1996. Toga Pty Limited submitted its preliminary development tender in December 1996, and in March 1997 was announced as the winning bidder. Toga subsequently assembled a comprehensive development application and heritage conservation management plan, using the guidelines contained in the DPWS July 1997 conservation plan. The subject development application was submitted by Toga in January 1998 and included a corresponding application for an award of Heritage Floor Space.

Notably, Toga's redevelopment proposals provided for the addition of a two-storey Mansard roofed structure on top of the existing six storey building, accommodating some 20 serviced apartments and plant rooms. This proposal for the rooftop addition subsequently constituted perhaps the most controversial and debated element of the redevelopment scheme.

The consideration of Toga's development application required substantial input and commentary from a number of statutory authorities. A series of concerns, objections and suggestions for amendments were expressed by various parties, both public and private, in respect to the exact design and magnitude of the two-storey roof-top addition to the building. The chief concern was that the design, form and fabric of the Mansard-roofed addition was seen by many to

be significantly unsympathetic, in a heritage context, to the integrity of the pre-existing characteristics of the building beneath it.

It was not until 14 July 1998 that Sydney City Council issued its development consent. Council's consent provided for the inclusion of a two-storey rooftop addition to the former Parcels Post Office building, 'in principle'. Ultimately, the redevelopment of the Parcels Post Office building went ahead largely on the basis of Toga's original proposal for the two-storey Mansard roof addition. In effect, the subject developer possessed considerable bargaining power in negotiations for this particular scheme, which was able to be brought to bear.

Reference to the subject property records of Sydney City Council (inspected 4/01/01) reveals several reasons for this course of events :

- The State Government, in its pre-Olympic planning, had ear-marked the Parcels Post Office site as one which should be made available to the market for tourist-related development for the 2000 Olympics.
- The Toga Group was the only respondent in the 1996 development tender process to include in its submission a '*strong commitment to a Hotel / Serviced Apartment redevelopment scheme*'.
- During the period mid 1995 to early 1996 a series of preliminary hypothetical financial feasibility studies had been commissioned by a number of statutory authorities in respect to the Parcels Post Office site. These studies had disclosed the necessity to provide extra roof-top floorspace additions to the building in order to enhance the expectations for essential viability of a hospitality-based project.
- Abandonment of the controversial roof-top additions would have entailed the loss of some 25% of the total gross floorspace and some 20% of the total number of proposed serviced apartments. The retention of the roof-top additions, in principle at the very least, was deemed necessary to ensure the financial viability of the redevelopment scheme in a commercial context.
- The former Parcels Post Office building was in a very run-down condition prior to redevelopment. From the standpoint of the statutory approving authority, in light of the heritage conservation benefits to be gained for the remainder of the building, regardless of the eventual style of roof-top additions, it was still in the best public interest to approve the development proposal as it then stood.

Thus it can be seen that in this particular case the development outcome amounted to a cost-free FSR bonus for the developer, to the order of approximately 25% in gross terms, and some 20% in terms of the extra number of apartments permitted. Moreover, the approval incorporated a roof-top design which was very favourable from the developer's standpoint, at the expense, perhaps, of a more sympathetic design in heritage terms. This demonstrates the important point that on some occasions, the developer can indeed hold considerable sway in the development approval negotiation process where heritage properties are the subject of a redevelopment proposal.

In return for this conferral, Council records show that the developer withdrew their application for an award of Heritage Floor Space in July 1998.

An interim period ensued between development approval in July 1998 and commencement of project construction in early 1999. During this period Toga Pty Limited entered into negotiations for a 99 year lease over the former Parcels Post Office property, the freehold interest for which was retained by the NSW State Government. This leasehold agreement subsequently commenced in September 1998.

NSW Heritage Office documents provided for our perusal reveal that this authority endorsed a series of major heritage restorative works to the external facades of the building. These capital works included the removal of former unsympathetic additions to the rear eastern elevation where a former external elevator had been located, and a comprehensive refurbishment of all exterior stone and brickwork.

The 1998 development consent provided for a substantial retail adaptive re-use on the ground floor, to complement the main serviced apartment use in the upper floors. Furthermore, a single storey retail addition to the rear ground floor area on the southern side of the building was approved. This addition provided for the exposure of several shop tenancies directly to the refurbished Devonshire Street Pedestrian Tunnel, which abuts the property's southern site boundary.

In its final permitted configuration, the redevelopment scheme comprised a total FSR of 4.25:1, which was still below the maximum 5:1 FSR permitted by Council's code for serviced apartment uses. The gross building area (GBA) of the scheme, including the two new roof-top floor level additions containing 20 of 98 serviced apartments, was some 7,646 square metres. This GBA included approximately 979 square metres of retail and ancillary recreational uses,

predominantly located in the ground and basement floor levels. Some 38 basement car parking spaces were further included in the overall scheme.

## 5. Cost Versus Value

An August 1999 *Property Australia* journal article (unauthored, the Property Council of Australia, page 39, op cit) cites the Total Project Cost (TPC) for the Parcels Post Office redevelopment scheme at \$27 Million. This sum was confirmed as reliably accurate by Mr Allan Vidor, Managing Director, Toga Pty Ltd (personal communications, op cit, 29/8/00).

Mr Vidor also cited a cost of 'several million dollars' out of the \$27 Million TPC as the sum attributable to the direct cost of restoring and preserving the extensive brick and stone work facades of the building. As previously mentioned within this report, these works comprised the centre-piece of the heritage preservation and adaptive re-use scheme for the subject property. In an all-up sense, Mr Vidor stated that approximately 12% to 15% of the Total Project Cost was attributable to the direct expense of meeting the range of statutory heritage requirements associated with this redevelopment scheme.

Mr Vidor also disclosed that Toga's original financial feasibility estimates for the scheme, as at the time of project commencement, provided for an End Completion Value at a sum in the vicinity of approximately \$30 Million. As a result of market growth which took place during the course of the development project - particularly in respect to value-growth in the retail element of the scheme, and strong interest on the part of prospective retail tenants - the End Value estimate was upgraded again by an additional sum of several million dollars beyond the original projection, by the time of actual physical completion of the project.

It is clear that the proportional Added Capital Value conferred on the project through the award of the cost-free roof-top addition (which is in effect a Floor Space Bonus in this case permitting some 20% more apartments to be built), exceeds the heritage-related Added Project Cost by a considerable margin.

For example, a purely notional, hypothetical pro-rata 20% financial calculation taken against the original Total End Value estimate of \$30 Million (which by the way amounts to a conservative estimate of end value) yields up a capital sum of \$6 Million of added value, measured through the additional roof-top apartments. If heritage-related Added Project Cost is calculated at 15% (a top-end estimate) of the total \$27 Million all-up TPC, a figure of some \$4 Million is obtained. On this notional basis, it can be seen that Added Value (\$6

Million) exceeds Added Cost (\$4 Million) by a factor of some 150% in this case study example.

It must also be borne in mind that the total development period, which in this case extended from early 1998 to mid 2000, coincided with a time of buoyant market sentiment, confidence and growth, due in no small part to the progressive onset of the Sydney Olympic Games in the several years leading up to September 2000. Admirable growth occurred across a number of CBD commercial markets during this period.

This factor highlights the underlying all-important element in property development of taking advantage of correct timing opportunities in relevant markets, and the need to correctly correlate the development and construction period with favourable market cycles.

## **6. Life Cycle Issues**

In respect to anticipated annual operating expenses and future life-cycle costing issues, Mr Vidor (op cit) in the main expressed no concerns on these matters.

There now appears to be little immediate cause for concern in respect to annual operating costs such as maintenance and repairs, power and energy costs and so on. This is primarily due to the fact that the building has been stripped back to its internal structural shell, and has subsequently been completely rebuilt internally to an 'as-new' standard. The interior facilities and building services are as contemporary and as cost-efficient as would be found in any similarly-configured non heritage building.

It is noted that the main heritage retention and restoration requirements applying to this project were in respect to the external, not internal, features of the building. Even in this context, there is little cause for concern regarding future life-cycle costing matters. For example, the pre-existing brick and sandstone facades were extensively restored and refurbished in the redevelopment process. Thus, the external facades might now be expected to incur only very moderate maintenance and repair expenses for many years to come.

The most significant direct concessions and commercial benefits to the developer in this heritage case study were derived from the essentially generous adaptive re-use provisions. The opportunity to secure a cost-free



FSR bonus equivalent to some 20% in terms of extra apartments, by virtue of the permitted two-storey roof-top additions, comprised a direct financial benefit which flowed through into a substantial added capital value component. To a very significant extent, this roof-top addition underpinned the financial feasibility of the project for the developer, based upon the evidence available.

We are unaware as to whether or not a Land Tax Heritage Land Value has yet been determined in respect to the subject property. Given that the completed project now exists at a total FSR of some 4.25:1, which is only marginally below the permitted maximum FSR of 5:1 for this use according to Council's code, the likelihood of any significant reduction or magnified discount in Land Tax exposure would appear to be de-emphasised in this instance.

## **7. Conclusions**

### **7.1 The Heritage Perspective**

It can be seen that the heritage significance embodied in the original external form and fabric of the Parcels Post Office building has been successfully conserved and restored in this redevelopment project.

The external physical appearance and aesthetic sight lines of the six lower floors in the building have been refreshed and rejuvenated via the restoration works which have been carried out. Where new materials have been incorporated into the pre-existing original facades - for example, where metal window frames have been installed on the mid level floors - such works have been inlaid into the original building fabric in as unobtrusive a manner as is possible.

The major point of contention clearly lies in the presence of the new two-storey Mansard roof-top additions to the building. The design and character of this penthouse extension was commented upon by the NSW Heritage Council in a submission to Sydney City Council dating from mid 1998, just prior to development consent being granted. An extract from the said correspondence describes the approved addition as follows :

*The form and detail of the proposed mansard roof in this DA is not considered to be sympathetic to the former Parcels Post Office. The form of the roof is sharply angular and hard, and the overall massing is dominant. The position of the dormer windows and recesses bears no relationship to the articulation of the building's elevations, resulting in a lack of unity between old and new.*

It is difficult to disagree with the above description. In fact, it captures the physical and visual profile of the new roof levels most accurately. When compared to other fine, more sympathetically developed roof-top extensions in heritage buildings elsewhere in the Sydney CBD - most notably in the example of the Radisson Plaza Hotel (see our analysis in case study No. 5) - the contrast in this instance is even more pronounced.

The reasons for granting approval of the developer's submitted roof-top mansard design are understandable, however. In short, it was deemed better to secure a heritage retention and restoration scheme for the former Parcels Post Office building containing the developer's preferred roof-top design, sooner than to have missed the opportunity for a retention and restoration scheme at all. The developer in this case possessed considerable bargaining power which saw their desired roof-top design prevail in their favour.

According to Council's records, Toga Pty Limited was the only development tenderer who came close to satisfying the deemed pre-Olympic statutory planning proposals for the site. The timely completion of the Parcels Post Office redevelopment scheme was desirable so as to correspond with the completion of the greater Central 2000 master plan which surrounded it, all of which was to be in place before the September 2000 Sydney Olympic Games.

When the deteriorated condition of the subject property prior to redevelopment is factored in to the equation, it is clear that the outcomes in a heritage sense have still been successful in this case, on a before and after basis.

## **7.2 The Economic Perspective**

It can be seen that this redevelopment scheme constituted a successful commercial outcome for the developer concerned. The adaptive re-use scheme which was permitted in this instance, and the particularly unique background pre-Olympic circumstances which surrounded the approval process, has allowed Toga Pty Limited to realise, considerably on its own preferred terms, the development potential which it identified in its preliminary market research process prior to redevelopment taking place.

The availability of the FSR bonus contributed significantly to project viability because it permitted the addition of 20 extra apartments in the scheme. The available evidence suggests that the capital value represented by this additional volume of development exceeded the extra heritage-related

development costs by some considerable margin. All indications are that this project returned a buoyant financial return to the developer on an initial profit basis.

The ability to strip back the building interiors virtually to the structural shell, thereby achieving a virtually 'as new' redeveloped building internally, also contributed significantly to the successful development outcome in an economic sense.

In addition, the surrounding greater Railway Square / Central Railway Precinct gained considerably from the major pre-Olympic infrastructure upgrade which took place at the same time as the subject development scheme was proceeding towards completion. The quality of the surrounding built environment was therefore much enhanced at the time of completion of the Parcels Post Office redevelopment project, thereby directly assisting the desirability of the completed subject scheme even further.

Toga Pty Ltd have marketed the subject property well since project completion in mid 2000 by maximizing the promotional value of the inherently outstanding location. The marketing brochure for the subject Medina Executive - Sydney Central emphasises the property's central transport links (including proximity to the new post-Olympic Sydney Airport Rail Link) and also its proximity to the Chinatown and Darling Harbour tourist and cultural facilities.

The available evidence suggests that the future ongoing economic and investment potential for this property would seem to be most buoyant.

# **CASE No. 5**

## **The Radisson Plaza Hotel, Corner Pitt, Hunter and O'Connell Streets, Sydney**

### **1. Introduction**

This case study involves an examination of the major commercial redevelopment and conversion of one of the Sydney Central Business District's prominent heritage-listed properties.

The Radisson Plaza Hotel redevelopment project comprises a major adaptive re-use of a heritage-listed former ten-storey office building into a thirteen-storey five-star rated international-grade hotel. The construction project commenced on 26 August 1998 and was completed by 30 June 2000.

In an historical and architectural context the subject building enjoys wide recognition, being known under its former name of Wales House (Figure 10). The building was erected in 1928 and was originally built as the headquarters for the major publishing house of John Fairfax and Sons. Until 1955 it served as offices for the Sydney Morning Herald before being sold to the then Bank of New South Wales. The property was acquired for redevelopment purposes by the current owners in September 1997.



Figure 10: Archival print of Wales House.

The property enjoys a commanding streetscape presence within the heart of the prime 'downtown' financial precinct of the Sydney Central Business District. Its original 1928 shape, architectural style and overall positioning were dictated by the property's triangular site plottage and its very prominent corner location at the intersection of three of the busiest streets within the CBD.

The building very much dominates the immediate streetscape along Pitt Street and enjoys a good line of sight from nearby George Street where that busy thoroughfare intersects with Hunter Street, in the vicinity of Wynyard Railway Station.

One of the most prominent architectural features of the building is its fine sandstone facades, which extend on all three street elevations. Moreover, the building features a 912 tonne cupola (Figure 11) which sits atop the building at the southern corner of the site where Pitt, Hunter and O'Connell Streets meet.



The cupola alone commands a dominating presence, being approximately three storeys in height.

Figure 11: The cupola at the southern end of Wales House.

The redevelopment of the property is most notable for that element in its re-design and statutory approval scheme which called for the raising of the roof-top cupola by a height of some 4.1 metres. The cupola constitutes one of the most prominent heritage features of the property. The owner's redevelopment plans provided for the installation of three additional upper-most floors. From the developer's standpoint this floorspace addition was deemed necessary to maximise the economic potential of the property in its reconfigured development context as a five-star international-grade hotel.

In order to retain the important heritage significance embodied in the cupola, its prominence atop the building was successfully preserved via a condition in the development approval which required that it be raised above the three new floor-levels which were installed on top of the ten pre-existing storeys of the building.

In its newly redeveloped configuration the hotel building now accommodates 337 standard-sized guest rooms, plus a further 26 suites each containing an extra lounge room. All hotel rooms in the project contain ceiling heights of 3.2 metres. Other facilities comprise a top-floor 'presidential' suite, a health club, a swimming pool, and a basement parking area accommodating 41 valet spaces. The ground floor contains a Bistro and dining / restaurant areas.

According to information supplied by the owner's representative, Mr Frederick Goh (personal communications, 23/10/00) the property was purchased by its current owners, Wales House Nominees Pty Ltd, in September 1997 at a price of \$56 million, on behalf of interests associated with Galileo Hotel Development Fund from the USA and T.A. Properties Sdn Bhd of Malaysia.

The redevelopment project was completed in June 2000, whereupon the commercial hotel operations within the property then commenced.

At a Total Project Cost of approximately \$147 million (including the initial purchase of the real estate), the Wales House redevelopment constitutes one of the more major recent capital works programs in respect to one of the Sydney CBD's more prominent heritage-listed commercial assets.

## **2. Heritage Status**

The subject property is listed on Sydney City Council's Heritage Register under Inventory Number 2017 within the Central Sydney Heritage Local Environmental Plan 2000, Schedule 1.

The property is also listed on the State Heritage Register as Item No. 586 under the provisions of the New South Wales Heritage Act 1977. Additionally, the property enjoys a listing on the Register of the National Estate (AHC) and also the Register of the National Trust of Australia (NSW).

The relevant Sydney City Council Heritage Inventory document records that the property possesses heritage significance on a number of criteria. The property possesses an important visual relationship with other historic buildings in Hunter Street. In respect to its Inter-War Free Classical architectural style the property is additionally regarded as constituting a good example of a 1920's commercial building.

Integral to the property's heritage significance are several features of the building, both external and internal, the preservation of which were required in the subject redevelopment approval which was granted on 23 June 1997. Specifically, the development consent stipulated the preservation and restoration of the following features in the building :

- the external granite and trachyte building base, sandstone building facades, and original steel-framed windows, all of which extend along the three streetscape elevations, containing strong simplified classical detailing.
- the semi-circular entry porch, containing bronze doors, at the ground floor level on the intersection of Pitt, Hunter and O'Connell Streets.
- a Pitt Street shopfront, dating from 1937, which was formerly known as the 'Mary Fairfax Gallery'.
- the retention of the roof-top cupola in the reconfigured hotel development.
- internally to the building, the surviving original interior decoration within the first floor former Fairfax Boardroom and Directors' Rooms (known colloquially as 'the Oval Office'), plus the Manager's Suite. Notable finishes comprise a marble lined vestibule and other ornate marble, granite and timberwork inclusions.

Apart from these notable requirements, however, the development consent provided for the complete stripping back of the building internally. The interiors on all floor levels, with the exception of the abovementioned ground and first floor heritage areas, were demolished back to a structural building-shell basis. The building was subsequently completely re-modelled and refurbished to accommodate the current five-star international hotel adaptive re-use.

The ability to *internally* remodel the building so comprehensively can be seen as a major commercial advantage for the developer, since it permitted the achievement of a virtually 'as-new' building in terms of interior design, fitouts and building services. The new hotel use, on an economic and financial feasibility basis, can be seen to have benefited greatly by this opportunity.

### **3. Owner's Development Objectives**

The following information was obtained from an on-site interview with Mr Frederick Goh, conducted on 23 October 2000. Mr Goh is the Australian representative for the overseas interests now in ownership of the property.

Mr Goh advised that in the lead-up to the initial purchase of Wales House in 1997, the primary aim of the current owners revolved around the identification and selection of a suitable site within the prime commercial precincts of the Sydney CBD, for the purposes of redeveloping an under-utilised existing property and converting the property into a major hotel use. A prime commercial location, according to Mr Goh, constituted the current owners' over-riding selection criterion.

These criteria were determined as a result of detailed market research which indicated favourable prospects for the five-star hotel market within the Sydney CBD over the medium and longer term. Mr Goh stated that the current owners of this project are '*in for the long haul*'. In other words, the owners consciously opted for a long-term investment plan, on a develop-and-on-manage basis, as opposed to a short-term develop-and-sell option.

Mr Goh advised that, from the standpoint of the developer in this case, heritage-related matters in the redevelopment proposal comprised a strictly secondary consideration. Nevertheless, in terms of the site identification, site acquisition and development approval phases of the development process (all of which tend to occur quite early in the overall process), the heritage characteristics of the property quickly took on a major degree of importance for the developer, once this particular desired location was selected.



As at early 2001 the property is now fully redeveloped and fully operational as an international-grade five-star city hotel. The property is held in a property trust portfolio operated by the present owners, who themselves comprise a major international hotels consortium with world-wide real estate interests. The now-completed Radisson Plaza Hotel comprises a major addition to the consortium's portfolio of properties.

The current owners have designed a business plan in respect to the property's hotel operations which seeks to secure a buoyant market share and occupancy rate within the short-term future, derived predominantly from a business and corporate-sector client base.

#### **4. Approval Process**

Sydney Cityscope (April 2000) reveals that a series of development applications were submitted to Sydney City Council during 1997 in respect to this property, referenced by Application No's 200/97 and 1235/97. The final development approval in 1997 constituted the end-product in a protracted series of heritage studies, proposals and negotiations which first commenced back in 1990.

The records of Sydney City Council (inspected on 4/01/01) disclose that heritage-related restoration works to the property were first mooted by Westpac in 1991, where an application for full façade restoration works to the value of \$4.615 Million was approved by Council. This proposal was never followed through by Westpac, however. In 1996, the Multiplex group completed some façade repair work on behalf of the Lend Lease corporation, who in turn acted for then owner Perpetual Trustees Victoria Pty Ltd who had purchased the property in 1996.

In July 1996 Lend Lease lodged an application with the NSW Heritage Council under Section 60 of the Heritage Act 1977, which proposed the addition of five extra roof-top floors to the building, featuring a glass curtain-walled design. The Heritage Council gave its approval in principle for the addition of three (not five) additional floors. However, an application for this proposal was never lodged with Sydney City Council.

For the purposes of this Report we were supplied with information, courtesy of the NSW Heritage Office, which reveals that the ultimate 1997 statutory heritage and redevelopment approval approach was driven according to building conservation guidelines first prepared in 1990 by architects Jackson Teece Chesterman Willis (the relevant document is titled 'Conservation Plan :

66 Pitt Street Sydney', but has not been sighted by this writer). A Heritage Impact Assessment prepared by Mr Howard Tanner in July 1996 for Lend Lease also influenced the final 1997 development approval outcomes.

The ultimately successful development application was lodged on 9 April 1997 by previous ownership interests, prior to the entry of the current owner. Mr Michael Leyne of Walter Construction Group (personal communications, 13/10/00) advised that development consent for the current Radisson Plaza Hotel redevelopment project was granted on 23 June 1997. Upon the acquisition of the property by the current owner in late 1997, negotiations were commenced for a master builder for the project by way of a tender process. Mr Leyne advises that Multiplex was originally successful in winning 'Preferred Builder Status', however the owners subsequently invited the Walter Construction Group to enter into negotiations for a building contract in late 1997.

The building contract was eventually negotiated between master builders Walter Construction Group and the property owner on a 'design-and-construct' basis, and was signed on 26 August 1998, whereupon the construction phase of the redevelopment project commenced.

Council records disclose that in its original ten storey floorspace configuration, Wales House contained some 18,008 square metres of Gross Building Area (GBA), on a site having an area of some 1,725 square metres. This equated to a pre-existing Floor Space Ratio (FSR) prior to redevelopment of 10.44:1.

The June 1997 development consent permitted the addition of three extra roof-top floors which increased the new GBA to 20,547 square metres - equating to an FSR of 11.91:1. Thus, it can be seen that the financial feasibility of the hotel redevelopment scheme (in terms of total number of hotel rooms) was underpinned, to a very significant degree, by the approval to increase the floorspace over three new levels by some 14%. The new uppermost roof-top floor levels are set back (recessed) from the original building alignment so as to minimise the visual impact of the additions at street level.

Council's consent document states that the 11.91:1 FSR was considered having regard to the Hotels Policy under the provisions of the City of Sydney LEP 1996, and also the public benefit gained in having accommodation of this nature (five-star international hotel) available in time for the September 2000 Sydney Olympic Games. Under Clause 38 of the LEP (Olympic Incentive For Hotels) the maximum permitted FSR for this site would have been 14:1, or a GBA of some 21,562.5 square metres. In its final approved configuration, this redevelopment scheme thus enjoys the benefit of a cost-free FSR bonus of

some 14% (compared to the pre-existing FSR of 10.44:1 in Wales House prior to redevelopment).

As a condition of consent, a deed of agreement was signed between the developer and Council, specifying that if construction was not completed on or before 30 June 2000, the developer would have been required to purchase Heritage Floor Space equating to the difference between an FSR of 11.91:1 and 10:1 (the latter figure being the standard FSR under Council's code).

Council's consent document also makes mention of an award of Heritage Floor Space of some 6,086 square metres, however the document is confusing and unclear as to whether this was additional to the Olympic Incentive For Hotels, or whether it was an original pre-Olympics incentive provision which was subsequently superceded and eclipsed by the later Olympics Hotels incentive.

## **5. Cost Versus Value**

The following information relating to Project Costs was supplied by both Mr Michael Leyne (Walter Construction Group, personal communications, 13/10/00) and Mr Frederick Goh (Wales House Nominees Pty Ltd, Australian representative for the overseas ownership interests, personal communications, 18/10/00).

The Total Project Cost of the Radisson Plaza Hotel redevelopment scheme was \$147 million (per Mr Goh). This sum is inclusive of initial purchase of the real estate at \$56 Million in September 1997, plus design and construction, holding, interest and other ancillary charges.

Of this total amount, the 'pure' Design-and-Construction Cost embodied in the building contract was a sum of \$76 million (per Mr Leyne). This sum, which is termed the 'turn-key price', includes design fees but excluded builders' profit and final fitout costs.

Mr Leyne provided a breakup of several notable construction, restoration and refurbishment costs, as follows :

- The raising of the cupola by a height of 4.1 metres to retain its heritage significance and prominence : \$1.0 million
- The installation of concrete slab walls on each of the newly-created three uppermost floors, to support

the new external sandstone facades	: \$600,000
• The incorporation of a sympathetic stonework package to the external facades on the three new upper floors, to achieve compatibility with the pre-existing 1928 stonework on the ten storeys below million	: \$2.1
• Additional restorative works on the pre-existing sandstone building facades on the lower ten storeys	: \$300,000
• The copper and zinc roof covering for the top-floor Mansard Roof, newly created within the additions	: \$500,000
• The installation of pre-cast concrete window architraves on the three new upper floors, plus final texture coating	: \$455,000
• The provision of structural steelwork for the roof, and installation of roof-top plantroom	: \$375,000
• Restoration works to the original steel-framed windows on the lower ten storeys	: \$250,000
• Preparation of the Heritage Conservation Management Plan	: \$25,000
• Ground floor restorative works - Pitt Street shopfront windows, bronze doors at Hunter Street entry, interpretative display panels and artwork, re-creation of original decorative ceiling in Bistro	: <u>\$112,000</u>
Total	\$5,717,000

This sum of \$5.717 Million represents a significant proportion of the total costs which are directly attributable to the heritage-related restoration and refurbishment works as stipulated in the June 1997 development consent. By calculation, the above sum represents approximately 7.5% of the Total Project Construction Cost of \$76 million, but does not include items such as heritage architect's fees and ancillary costs incurred over the life of construction period due to other, perhaps unidentified, heritage-related requirements. As a proportion of all-up Total Project Costs, the percentage of added cost directly

attributable to the heritage requirements of this project is indicated at approximately 4% - a relatively minor economic impact, by any reasonable standard of measurement.

In relation to an End Value of the real estate on the basis of Project Completion, Mr Goh stated that an independent valuation was commissioned for debt-finance purposes, in order to fund the redevelopment project at the outset of the development process. Mr Goh disclosed that the valuation for finance purposes was determined at a sum of \$150,000,000.

In accordance with development industry custom and practice, this valuation was doubtlessly commissioned at the preliminary stages of the overall development process for the Wales House project, prior to commencement of construction.

Given the circumstances and underlying purpose of this valuation determination, there is every reason to assume, on the basis of orthodox industry practice, that this end-completion valuation represents a sum which may well lay at the more conservative lower echelon range in the context of a hypothetical market-value prediction.

Thus, such an apparently narrow gap between Cost and Value (\$147 Million versus \$150 Million) constitutes a superficial indicator only, and is likely to be somewhat misleading and understated. Moreover, this hiatus makes no allowance for actual market value growth which in all likelihood would have occurred during the course of the development period between 1998 and 2000. The likelihood is thus considerable that a more realistic hypothetical Value to Cost ratio would have been somewhat in excess of this narrow margin.

Thus, the available evidence, when put together, indicates that in this major heritage-related redevelopment project, an immediate initial Development Profit (albeit of some imprecise and presently indeterminable degree) did in fact present itself to the owners of the property. The available End-Value evidence, while substantially incomplete and lacking detail, nevertheless indicates an initial development profit somewhere within the low to moderate range, in relative terms.

However, in this develop-and-hold investment scenario the indicated initial development profit is of little relative importance to the investor. What is far more important are the prospects for sound future investment performance of the asset in its particular hotel market class. In this regard, the outlook

appears confident, if recent market research and media reports are to be believed.

## **6. Life Cycle Issues**

In respect to anticipated annual operating expenses and future life-cycle costing issues, Mr Goh in the main expressed no concerns on these matters.

According to the current owner there is now little immediate concern in respect to annual operating costs such as maintenance and repairs, power and energy costs, and so on. This is due primarily to the fact that the building has been stripped back to its internal shell to such an extent that it constitutes the equivalent of a 'brand new' building, for all practical intents and purposes.

This is particularly so in respect to the internal design and configuration, where, because of the contemporary nature of the building services, efficiencies in annual operating costs can be expected to be reaped, as they indeed would in any other 'brand new' building of similar size, use and design.

It has already been noted that the majority of heritage-retention requirements applying to this property are in respect to external features, not internal ones. Even in this context, there appears to be little economic impact regarding future life-cycle costing issues. For example, the pre-existing stone facades on the lower ten floors of the building were extensively ground back, exfoliated, indented (in laypersons' terms, this refers to the equivalent of 'patching' the sandstone blocks) and cleaned by high-pressure water, as part of the restoration and refurbishment works.

Thus, the external stonework facades of the building might now be expected to incur only very moderate maintenance and repair expenses for many years to come.

Mr Michael Leyne (Walter Constructions, personal communications, 13/10/00, op cit) has advised that, while certain structural defects were identified in the redevelopment process, these defects were rectified as an inherent part of the reconstruction scheme. Having now been rectified, there is very little cause for concern in a structural defect context on a future life-cycle costing basis. For example, Mr Leyne referred to structural defects in the vertical columns within the building, which during reconstruction were identified as having

deteriorated to such an extent that they could not support the load imposed from above by the addition of the three new upper-most floors. All such columns in the building required strengthening via the application of bolted steel joists, top and bottom.

With the rectification of such defects now completed, there is little cause to expect significant structural problems to emerge, or re-emerge, in the short to medium term future life of the property as a commercial investment asset.

In respect to annual operating costs, Mr Goh stated that a Heritage Land Value for Land Tax assessment purposes does exist in respect to the property. However, given the generous post-project actual FSR in the redevelopment scheme, a discount in the Heritage Land Value of any significant magnitude, compared to the 'open market' Land Value determination, would appear to be unlikely. Mr Goh did refer, vaguely, to a recent successful appeal against and reduction in the current Land Tax assessment (to the order of approximately 5%), but the direct impact of lower Land Tax exposure through a lower Heritage Land Value would appear to be de-emphasised in this particular case.

## **7. Conclusions**

In a heritage conservation context, this major adaptive re-use scheme can be seen as a notable success.

The external heritage significance characteristics contained in the facades of the building have been well restored and preserved. Moreover, the heritage integrity and prominence of the roof-top cupola has been outstandingly well preserved by virtue of the provision in the development consent which required its raising to a height of some 4.1 metres, above the new upper storey three-floor additions. Similarly, the internal heritage-significant items in the building have been preserved in accordance with the subject inventory listing via the statutory approval for the adaptive re-use scheme.

In heritage terms, the addition of three upper floor levels in the redevelopment project has done nothing whatsoever to detract from the building's appearance. Indeed, the stonework facades incorporated into the three new upper floors blend so well with the pre-existing stonework below, that to the unpracticed eye it is difficult to even discern that an addition has taken place at all. Furthermore, the visual impact of the upper floor additions, when seen from the street, is markedly reduced by virtue of the recessed rooftop design.

Mr Michael Leyne (Walter Construction Group, personal communications 13/10/00, op cit) commented on the painstaking attention to detail and skill in workmanship which went into the construction of the upper floor additions. The additions were consciously designed with the objective of achieving a close harmony and sympathy with the pre-existing heritage-significant facades below. According to Mr Leyne *'the proportions of the building now look right'*. Even a casual kerbside physical inspection of the completed project lends credence to Mr Leyne's comment.

The sympathetic nature of the completed upper floor additions can be further appreciated when they are compared to the original Lend Lease proposals, which entailed a glass curtain-wall design - this contrast was also emphasised by Mr Leyne.

Furthermore, when compared to other, higher-impact recent roof-top additions involving heritage redevelopment schemes elsewhere in the Sydney CBD, the subject design outcome is particularly pleasing. For example, a direct comparison of the Radisson Plaza Hotel rooftop additions with those contained in the Parcels Post Office project (where the two-storey mansard roof additions are seen by some as markedly unsympathetic to the rest of the building - refer to our analysis under Case Study No. 4 in our series) reveals the inherent superiority of the Radisson Hotel's design scheme, from the pure heritage conservation standpoint.

Thus, it can be seen that the fundamental nature of the adaptive re-use scheme and the conversion from an office use to a prime hotel use, has been eminently successful in this case.

Turning to the economic and financial perspective, the project outcomes appear to have been similarly successful for the current owner. The initial financial feasibility of the scheme was underpinned by two key considerations :

- the FSR bonus award (11.91:1 compared to 10.44:1 prior to redevelopment), conferred under Council's Hotels Olympics Incentive Scheme, enabling a greater, more economically viable magnitude of hotel development to be achieved.
- the ability in this case to strip the building back to virtually its bare structural shell internally, thus permitting the equivalent, for all intents and purposes, of an 'as-new' building in terms of internal design and building services.



Mr Frederick Goh (personal communications, 18/10/00, op cit) revealed that the owner committed to the project based first and foremost on long-term commercial investment motivations, underscored by a detailed preliminary market research and analysis process. The securing of a prime commercial location was the chief objective of the developer in this case.

While the heritage aspects of the property were a secondary consideration from this developer's perspective, the adaptive re-use scheme has seen the heritage significance items retained to the extent where they now feature prominently in the finished redevelopment product.

In terms of investment performance as a five-star hotel, Mr Goh expressed very confident expectations for the property's future trading and business turnover. One does not commit, after all, to a redevelopment scheme of this considerable magnitude of capital outlay (\$147 Million) without a thorough market and risk analysis beforehand.

Mr Goh's expectations in this regard are supported by a series of market research reports and media articles which were published in late 2000 and early 2001 (eg Cummins, Sydney Morning Herald, 4/11/00, 11/11/00, and 27/01/01, and Glendinning, SMH, 2/12/00). All of these reports suggest a favourable outlook over the next half-decade for the hotel and hospitality industries as a result of business investment, business conference and tourist growth in the wake of the September 2000 Sydney Olympic Games.

In respect to the superiority of Added Project Value over Added Project Cost, it can be seen that the positive economic impact of the 14% cost-free FSR bonus (expressed in capital value terms as a pro-rata percentage of the stated End Completion Valuation of \$150 Million) exceeds the extra heritage-related design and construction costs (estimated at or about only 4% of total project costs of \$147 Million) by a considerable margin.

In conclusion, it is apparent that all interested parties and stakeholders, from all sides and from all directions in this heritage redevelopment case study, have emerged as winners. All stakeholders and participants in this adaptive re-use scheme can take considerable pride in both the heritage conservation and the economic outcomes obtained.

# CASE No. 6

## 315 High Street, Maitland

### 1. Introduction

The City of Maitland comprises a major commercial centre situated within the well-known Hunter Valley Region of New South Wales. The Hunter Valley is located approximately 170 kilometres north of Sydney on the State's eastern seaboard.

Maitland township is located on the banks of the Hunter River, approximately 35 kilometres to the north-west of the regional capital city of Newcastle. In a commercial sense Maitland functions as the premier service centre for the middle and upper reaches of the Hunter Valley.

Maitland supports a diversity of economic activities including agriculture, tourism, mining, and local manufacturing, transport and construction industries. The city and its surrounding precincts in the Hunter Valley enjoy a widely recognised reputation as a region of great heritage significance. Maitland is marketed by local tourist authorities as '*our spectacular Heritage City in the heart of the Hunter Valley*' (per Maitland Visitors Guide, Tourist Information Centre).

The present city began life as 3 separate settlements, from 1835 onwards - West Maitland and Morpeth (developed as private townships), and East Maitland (developed as a government town). In 1945 the 3 towns were amalgamated into the present City of Maitland. Until well into the late 1800's Maitland comprised the predominant commercial and economic hub of the Hunter Valley, outstripping the penal settlement of Newcastle.

The subject heritage property (Figure 12) comprises a fine, large freestanding three storey sandstone building, custom-built in 1888 as a major rural banking chambers for the regional operations of the Commercial Banking Company Ltd (CBC Bank).

The property is located on the main commercial thoroughfare of Maitland township approximately 600 metres to the south-east of the central commercial precinct in High Street. The central commercial precinct is configured as a prominent pedestrian mall, and is known as Heritage Mall. The whole of the

immediate commercial town centre in Maitland features many fine old buildings which date from the late 1800's and early 1900's which are today protected under statutory heritage listings.



Figure 12: 315 High Street, Maitland – 'Mansfield'.

In a heritage context the subject property very much enjoys a local landmark status in respect to its physical prominence on the streetscape and also in respect to its major heritage contribution to Maitland City.

The property is situated in an area administered by Maitland City Council and lies within a precinct zoned 3b Support Business. The objectives of this zoning are to provide low intensity commercial activities which do not prejudice the commercial viability of the core retail areas of the city. Additionally, the zoning aims to preserve the historic character of the city by protecting heritage items and by encouraging compatible development both within and adjoining historic buildings and precincts.

During the period 1888 to 1990 the subject property was used exclusively as a banking chambers by CBC Bank and later National Australia Bank Ltd (NAB). The chief heritage significance of the property is centred around its striking external architectural characteristics and the magnificently well-preserved internal banking chambers on the ground floor.

The property changed hands into local private ownership in 1990, and for some 8 years the ground floor of the subject building remained vacant and boarded up. Only parts of the upper floors were leased out, intermittently, as

office space during this period. This non-use of the major heritage-significant ground floor area (the reasons for which remain unclear) had the fortuitous side benefit of serving to protect and preserve the fine internal architectural characteristics of the original banking chambers (referred to by some as the 'mothball' syndrome).

On 24 December 1998 the property changed hands once more, and was purchased by a local small-business family at a price of \$350,000.

Upon contract settlement on 12 February 1999 the new owners, husband-and-wife business team John and Barbara Murphy, immediately set about implementing their plans for a retention and restoration of the most prominent heritage features of the building. Simultaneously, they sought to adapt the premises for sympathetic re-use as a function / conference centre on the ground floor, with a four-bedroomed Bed and Breakfast use on the uppermost 3<sup>rd</sup> floor. The new owners have plans to live in the premises, adapting the 2<sup>nd</sup> storey floor level for use as a four bedroomed family residence.

The present owners have already demonstrated their stated love and affection for the subject property by the manner in which the works of restoration and adaptive re-use have been carried out so far. As at late 2000 the ground floor commercial adaptive re-use has been operational for some time already. The upper floors are still only partially restored and refurbished as at October 2000, however full completion of capital works is expected by the early part of 2001.

In summary, the subject property has undergone significant redevelopment and has been subject to a substantial and very successful commercially-oriented adaptive re-use since its purchase by the current owners in late 1998. The current owners have, in a very real way, imparted a completely new lease of life and a rejuvenation to this important heritage asset, which for some considerable period beforehand had laid dormant and predominantly disused.

## **2. Heritage Status**

The subject property is a Heritage Item of State Significance, listed in the 1993 Maitland City Council Local Environmental Plan (gazetted 3/9/93), being registered as item number 155 in a heritage inventory containing some 290 properties. The relevant inventory document (Buildings and Other Works / Relics, Maitland Heritage Study 1993) discloses that the property is also listed on the NSW Register of the National Trust of Australia. Heritage significance

is afforded under the State Heritage Inventory Program (S.H.I.P.) Themes of 'Township, Commerce', as well as Local Themes of 'Urban Growth, Regional Centre'.

The property possesses heritage significance registered under the Historic and Aesthetic categories in the LEP inventory document, with evaluation criteria in a Contextual Values sense being registered under the Rare, Representative Value, Exceptional Example, Group Value, Integrity, Landmark Value, and Townscape categories.

The subject Statement of Significance records that, aesthetically, the property comprises an exceptional example of the Victorian Classical architectural style in a commercial building, with a high architectural standard and an important townscape element. In an historical significance context the property is recorded as representing Maitland's former role as the premier city in the Hunter Valley, and one of the main cities in the colony up to the middle of the Victorian period.

In heritage significance terms the property possesses notable features, both externally and internally, which are to be preserved within the current redevelopment scheme.

Externally, the extensive sandstone facades of the building are to be preserved and restored. Internally, the chief heritage significance is embodied in the entire ground floor of the premises, which formerly comprised a banking chambers. It is here, internally, where the most significant heritage preservation requirements lay.

The ground floor ex-bank chambers comprise a magnificently well-preserved example of the Victorian Classical architectural style dating from the late 18<sup>th</sup> Century. The main ground floor area includes a strikingly high ceiling height of some seven metres (22 feet), providing an old-world 'cavernous', 'main hall' ambience to the premises. Additional features comprise terrazo checker-tile flooring, ornate cedar polished doors and windows, two large doric marble columns, two large granite fireplaces, original embossed plaster ceilings, and a magnificent wide cedar staircase leading to the upper floors.

An original ex-bank-director's boardroom, adjacent to the former central banking chambers, is also featured within the ground floor area. This room contains similarly appointed ornate fixtures and finishes of the late 18<sup>th</sup> Century period, and has been outstandingly adapted for use a function-centre dining room.

Like many well-preserved old buildings, it is the ornate nature of the internal characteristics of the property which impart the greatest heritage significance of all. The entire ground floor of the subject property generates a 'feel' and ambience which is genuinely 'old-world' in its appeal. The premises are ideally suited for their hospitality-related adaptive re-use.

The building contains a great deal of cedar in its construction, which was obtained from the nearby Paterson township at the time of erection in 1888. This not only adds considerably to the ambience and quality of the internal ground floor finishes of the premises, it also imparts an element of additional local historical significance to the property.

### **3. Owners' Development Objectives**

The following information was obtained from an on-site interview with the current owners, conducted 2/8/00, plus additional follow up personal communications on 10/9/00, 20/10/00 and 30/10/00. Additionally, copies of Council Minutes and Development Approval documents were supplied by Ms Claire James, Council's Heritage Officer, at an interview also conducted 2/8/00.

The current owners comprise a husband-and-wife small-business team with a history of commercial involvement in the regional and local hospitality industry. They were already familiar with the subject property well before purchasing it in December 1998. They possessed a long-standing affectionate interest in the heritage significance of Maitland in general, and had been attracted to the heritage character of the subject property for some time prior to purchase.

Subsequent to the December 1998 purchase of the property, the new owners' plans involved reactivating the historically-significant but dormant ground floor of the building and giving it a new life, via an adaptive re-use as a function / reception / conference / catering facility. Additional objectives comprised the conversion of the old office use on the upper floors into an owner-occupied four-bedroomed residence (first floor) and a commercially-oriented four-bedroom Bed and Breakfast Accommodation facility (second floor).

After settlement of the purchase in February 1999 the owners prepared a Heritage Conservation Management Plan in respect to the property, which then formed the basis of a combined development and construction certificate application lodged at Council on 6 July 1999. The final stages of complete redevelopment approval for the subject property are now in the last stages of consideration by Maitland City Council, whereby full development approval and

issue of the relevant Construction Certificate are expected before the end of 2000.

The current owners have advised that they regard the subject property as a significant heritage item worthy of their considerable preservation efforts. At the same time, they have identified sound commercial opportunities to incorporate their family business into the subject real estate, and also to live within the building on the entire first floor, adapting it as their family abode.

Already, the ground floor adaptive re-use for the purposes of a function centre / reception / conference / catering facility has been operational for some time, since the start of 2000. The current owners report that business activity and turnover is proceeding at a pace which is outstandingly successful.

The owners also advise that they regard the property as a long-term owner-occupied combined business and residential holding. They have stated that they have no plans for sale of the property in the foreseeable future.

#### **4. Approval Process**

Reference to Maitland Council Minutes (ordinary council meeting 27/6/00) in respect to the said development and construction certificate application, discloses that Council vigorously supported the significant merits of the owners' redevelopment proposals in environmental planning and heritage conservation terms.

However, various non-compliance matters were identified in respect to the deemed-to-comply provisions of the Building Code of Australia. In particular, considerable concerns existed in respect to BCA fire safety requirements, relating to the use of the second floor of the building as a Bed-and-Breakfast Accommodation facility.

These non-compliance matters had not been resolved as at the date of Council's Meeting of 27/6/2000, despite *numerous Council approaches and discussions with the owner*, as stated in Council's documents. The owners, however, hold the view that *misunderstandings and misconceptions* have existed on the part of Council as well.

These issues, together with some associated procedural problems caused by the owners' decision to submit a joint development and construction-certificate application - as opposed to entirely separate development and construction

certificate applications - constituted the chief reasons for the protracted 12 month delays in statutory approval for the redevelopment project.

Nevertheless, Council resolved at its 27/6/00 Meeting to approve the development application, notification of which flowed through officially on 13/7/00. Due to outstanding issues associated with BCA fire safety requirements in respect to the second-floor Bed and Breakfast use, the construction certificate application was refused.

In practical terms, the ground floor adaptive re-use as a commercial function / reception / conference / catering facility had, with the consent of Council, been in operation for some time during the course of Council's D/A considerations. The ground floor adaptive re-use was formally approved in July 2000, along with the first floor owner-occupied residential use. The use of the second floor as a Bed and Breakfast facility was refused, pending satisfactory completion of fire safety requirements.

As at late 2000, the fire safety issues have been largely resolved to the satisfaction of Council, and the owners have advised that a new construction certificate application will be submitted in the near future.

The owners, in the interim period since July 2000, have developed additional proposals to re-create a separate outbuilding at the rear of the property, which has historical significance as the site of a former stables and loft, in connection with the original use of the property as banking chambers.

The owners advise that they have obtained plans of the long-since-demolished rear stables / loft building from the original bank owners. This former rear-yard stables area will also be redeveloped. The proposal involves the demolition of a small existing garage, and the erection of a replacement small two-storey building, comprising a ground floor garage, plus a first floor one bedroom Bed and Breakfast adaptively re-used premises, utilising an architectural and building style which re-creates the historic ambience of the former stables and loft facility. These proposals will be incorporated into the upcoming amended construction certificate application.

While significant restoration and renovative works have already been completed, it is anticipated that full completion of the redevelopment program will be finalised early in 2001.

The building possesses both external and internal features which are of deemed heritage significance, the preservation and restoration of which have all been embodied in the 13/7/00 development approval. These features have



already been described under Heading No. 3, 'Heritage Status', within this report.

There were no heritage incentives involved in this redevelopment proposal apart from the generous and commercially well-suited adaptive re-use provisions which were approved by the relevant statutory authorities.

## **5. Cost Versus Value**

A considerable capital outlay has already been injected into the redevelopment scheme for this property. The current owner, Mr John Murphy, advises that as at late 2000, a capital sum of approximately \$280,000 - additional to the initial December 1998 purchase price of the real estate - has been outlaid on the refurbishment and restoration of the building.

Mr Murphy further advises that an estimated sum of approximately \$200,000 remains to be spent in refurbishment and restoration works.

According to the information supplied by Mr Murphy, these sums also include expenditure for personal chattels, to the order of approximately \$150,000. These chattels comprise extensive antique furnishings and furniture which have been incorporated into various rooms (at an average of \$15,000 per room) in the building. As such, they are not regarded as part of the real estate in this redevelopment scheme.

Thus, when all of these capital outlays are combined, a total project redevelopment cost of approximately \$680,000 (inclusive of initial real estate purchase but exclusive of outlays on personal chattels) is indicated.

Only a relatively small proportion of this refurbishment cost of the real estate, to the order of approximately 14% to perhaps 17% of Total Project Cost, is directly attributable to the heritage requirements embodied in the July 2000 development approval, according to the comments and costing information supplied by the current owner of the property, Mr Murphy.

It is clear that the overwhelming majority of the project's capital outlay is actually unconnected with the property's heritage listing. Due to the age of the building, combined with an eight-year prior history of predominant disuse, physical obsolescence and deterioration, the available evidence (including our physical inspection of the property on 2<sup>nd</sup> August 2000) suggests that the majority of the Project Redevelopment

Costs would have had to be borne in any case, regardless of whether the property was heritage listed or not.

The subject building has already been extensively re-modelled and re-designed on the upper floors, in accordance with the upper-floor use proposals which are largely non-heritage related. Moreover, the plumbing and electrical wiring has been completely replaced throughout the entire building. A large former ground-floor rear lunch-room has been adaptively reconfigured as a commercial kitchen to service the catering facilities inherent in the family's business-use of the premises.

Mr Murphy has provided a series of individual costing breakdowns (both partially already spent and yet to be spent), as follows :

* Total Painting Costs	:	\$80,000
* External Sandstone Façade restoration work:		\$50,000
* Re-creation / rebuilding of rear stables & loft	:	\$74,000
* Architect's Fees	:	\$10,000
* Fire Prevention & Safety Upgrades (BCA)	:	\$10,000
* Preparation of Conservation Management Plan	:	<u>\$4,000</u>
	Total	\$228,000

In terms of financial viability, the initial hypothetical Value-On-Completion of the property after completion of all works of redevelopment would appear, in our opinion, to exceed the Total Project Cost of \$680,000 by a sizeable sum. This conclusion is based upon an analysis of the local current market sales evidence which is available and at our disposal, as at late 2000.

The estimated level of hypothetical initial development profit (measured against Project Costs) would appear to be somewhere within the range of 12% to 18%. Such financial feasibility calculations and estimates are strictly *hypothetical* in nature. They are of only relatively low importance however, since it is the stated aim of the owners to retain the property for at least the medium-term future. There is clearly no intention to sell the property immediately upon completion of the redevelopment scheme.

Hence, hypothetical *initial* estimates of development feasibility are relatively unimportant. What is more important is the likely *future* financial performance of the property over the medium term. In this respect, the current owners have expressed great confidence in the ability of the property to perform well in the future, in a business and commercial investment sense. Certainly, the

property's financial performance throughout 2000, as some sort of indicator, augurs well for the future.

## **6. Life Cycle Issues**

In respect to anticipated annual operating expenses and future life-cycle costing issues, Mr Murphy expressed no concerns on these matters.

According to the current owner, there is little or no Land Tax liability in respect to the property at the present time (Mr Murphy is presently unaware whether or not the property even attracts a current Land Tax liability). While he stated that local Council Rates had recently increased to the order of 50%, Mr Murphy appeared unperturbed by this prospect, since this involves a special one-out council levy, the revenues for which will be spent on local community infrastructure. Similarly, Mr Murphy stated that, to his knowledge, there are no rating and taxing concessions which currently apply to the subject property.

In respect to ongoing maintenance and repair costs, power and energy costs and so on, the owner expressed no concerns. Mr Murphy estimates that such cost exposures will be well within comfortable parameters in the immediate future - largely because the current capital works of refurbishment, restoration and modernisation have been so extensive and comprehensive.

Council's local Heritage Officer, Ms Claire James (personal communication 2/8/00) advised that no Heritage Floor Space incentive mechanism currently operates within the local government area administered by Maitland City Council.

While Mr Murphy advised that he has applied for financial assistance in respect to the expense of preparing the subject Heritage Conservation Management Plan (at a cost of \$4,000), thusfar the application has not been successful.

In overview, the generous, commercially-oriented adaptive re-use provisions which have already been approved by the relevant statutory authorities, constitute the greatest and most significant heritage incentive which has been conferred on the subject property, economically speaking.

In a business context, the property's greatest contributor to income generation - both on a present-day and future basis - comprises its ground floor commercial adaptive re-use for the purposes of a function centre / reception / conference / catering facility. The current owner has advised that the relevant business turnover has been very successful, ever since the commencement of the ground-floor commercial operations in early 2000.

In a wedding-reception / function-centre context, bookings are currently filled until the end of 2000 in respect to peak times of Friday and Saturday nights. In respect to other mid-week meetings and their associated catering functions, a variety of local community groups (including local council, government departments and professional business organisations) utilise the facilities offered by the property, according to the advice received from the owner.

## **7. Conclusions**

It is clear that this rural / regional-based heritage listed property has benefited considerably from its recent redevelopment and adaptive re-use since the current owners purchased the property in late 1998. Additionally, it can be said that the property has also benefited from its purchase by the particular current owners, and their clearly positive, emphatic, affectionate pre-disposition towards the restoration and preservation of the heritage characteristics of the building.

By his own volition the current owner, Mr John Murphy, has stated that the property '*deserves a bit of respect*' in the context of its heritage significance and the worth in which it is viewed within the immediate community at Maitland. The available evidence suggests that the property enjoys a high level of recognition and affection within the local community.

Moreover, Mr Murphy is very aware of the concept of blending a sympathetic adaptive re-use with the desirability of restoring the property in accordance with its statutory-listed heritage-value criteria. The affection and affinity which Mr and Mrs Murphy hold towards the subject property has clearly emerged in the personal contact we have conducted with them for the purposes of this report.

The property enjoys not only considerable local heritage significance, but State-level significance as well. Compared to the history of the property from 1990 to 1998, during which period the building was largely disused and dormant,

the current redevelopment scheme has injected a rejuvenation of usage and has imparted a new lease of life to its physical condition.

The importance and success of the property's recent post-1998 redevelopment, its adaptive re-use scheme, and its resultant favourable economic outcomes, should not be underestimated.

The current owners, comprising a locally-prominent husband-and-wife business team, are eminently satisfied with the current economic performance being generated from the hospitality-oriented business embodied within the adaptive re-use of the property.

This case study constitutes the only regional / rural example in our current series. Herein lies the chief importance of this particular case study. By its very nature as a rural / regional example, it contains key underlying and background characteristics which are entirely different from the all of our other case studies in this series. With the exception of this Maitland Case Study, each of our remaining examples are located in strong commercial and geographical locations in the Sydney Metropolitan Area.

The slow but inexorably progressive economic and social decline which has been experienced by many rural and regional urban environments around Australia has been well-documented elsewhere, and requires only limited further elaboration in this report. This decline has had significant ramifications for the preservation of historic built environments in rural and regional Australia.

For example, journalist Lyndell Crisp, in a notable recently published work (a feature double-page media article, entitled 'Push For The Bush', Sun-Herald, 30/8/98) cites Mr Peter King, head of the Australian Heritage Commission, who states :

*The problem is it [the decline in rural urban environments] happened so gradually. .... The population in rural Australia declined, incomes in the bush fell. .... It crept up on people and led to inexpressable sadness among a lot of us who care about our rural culture.*

*When you travel around this country you realise how diverse is its natural and cultural environment, and how important for our development and sense of community is our heritage.*

The article's author, Crisp, then paraphrases Mr King :

*King's answer, or one of them, is to preserve these buildings; not as museums but as living spaces where the public can enjoy easy access. Convert banks into restaurants, railway stations into shops, old homes into bed and breakfasts.*

Mr King goes on to state :

*I am not talking about locking up our heritage but about realising its potential for continued use and to reinvigorate local economies through the substantial expansion of heritage-based tourism.*

*According to a recent Queensland study, every dollar spent on heritage preservation has a treble result in terms of input to the local economy, through increased employment and greater economic activity.*

In conclusion, it can be said that the positive outcomes arising out of this Maitland adaptive re-use scheme are very much in keeping with the comments and sentiments expressed by Mr King.

# **CASE No. 7**

## **Moran House - Formerly Known As Liner House**

**13-15 Bridge Street, Sydney**

### **1. Introduction**

The subject heritage property comprises a six storey commercial office building, built in 1961, and used by its current owner as the corporate headquarters for its business operations.

Whilst now known as Moran House, named after its current owner the Moran Health Care Group Pty Limited - who purchased the building for \$6.5 Million in December 1996 - the building enjoys wide recognition under its former title of Liner House.

The property was purpose-built in 1961 as a commercial office building intended for owner-occupation, and appears not to have been subjected to any redevelopment nor adaptive re-use proposals throughout its recent history. Prior to its current ownership by the Moran Health Care Group the building was used by its former owner Clute Holdings Pty Limited, up to 1996, predominantly for owner-occupation, with only the second floor being separately leased out (per information supplied courtesy of Mr Peter Inglis, Associate Director, Knight Frank Valuations Group).

In the context of this case study the subject property is therefore examined in its current configuration as a standing smaller-sized commercial office building which has been used for the purposes of owner-occupation - as opposed to a mainstream tenancy and investment / cashflow related use - since 1997.

The property (Figure 13) is situated in a very strong location within the prime northern sector of the Sydney Central Business District, in the heart of the 'downtown' financial precinct in Bridge Street, within the block bounded by George and Pitt Streets. Bridge Street lies only a short distance south of Circular Quay and Sydney Harbour.



Figure 13: Liner House – now Moran House.

The immediate surrounding development in Bridge Street consists of a series of fine, older-style low to medium rise office buildings, some of which date from the early 20<sup>th</sup> Century, and which are constructed of original stone and brick work. The subject property is, for example, located between the former Burns Philp building (No. 5 Bridge Street, built in 1901 and restored progressively under heritage conservation provisions since 1996) and Singapore Airlines House (No. 17 Bridge Street, built in 1926 and also heritage listed).

On the opposite side of Bridge Street a series of more modern but nevertheless sympathetically developed buildings have been erected in recent times. The older-style ambience in this section of Bridge Street has been successfully retained, in keeping with its inherent and fundamental heritage-related streetscape character. Examples comprise Exchange House at No. 8 Bridge Street and Exchange Square at No. 16 Bridge Street.

In a direct heritage and historical context, the subject property enjoys significance as one of the first commercial office buildings erected in the Sydney CBD during the so-called 'modern' era, which extends from the late 1950's onwards. This is in contrast to the vast majority of other heritage-listed buildings situated in the Sydney CBD, most of which date from the mid to late 19<sup>th</sup> century or the earlier parts of the 20<sup>th</sup> century.

The building holds heritage significance as a rare early example of the Post War International style of concrete-framed, glass curtain-walled office building. The subject property was awarded the prestigious Sulman Medal of 1961 by



the Royal Australian Institute of Architects (NSW) in recognition of its architectural merit.

An extract from a commentary on the original 1961 Sulman Medal award (Metcalf, 1997) provides the following explanation of the building's significance in architectural and historical terms :

*Liner House is Sydney's radiant example of a 20<sup>th</sup> century office building depicted in its childhood ; it belongs to that generation of commercial buildings ..... whose appearance came before the ..... 'glass box'. This gem in Bridge Street is also the best work of [architect] Charles Madden.*

*Altogether this space must be one of the premier 1950s commercial office building spaces in Sydney, such is the refinement of its design and the excellence of its detailing and construction.*

Metcalf includes a direct extract from the 1961 Sulman Medal Jury Panel's commentary in respect to Liner House, which constitutes the Jury's rationale for the award of the prize :

*We [the Jury] felt anonymous appreciation of what we considered the consistent honesty of the design and good taste of this building and very good manners to its neighbours, indicating a strong civic consciousness with its neighbours.*

Liner House also possesses historic significance as a major post-war contribution to the long established Bridge Street shipping administration precinct.

In general the building retains its original design appearance and original fabric, both externally and internally.

However, in pure contemporary property market terms, from the standpoint of commercial desirability, performance and its appeal in an economic context, the property possesses a somewhat dated appearance and functional utility in the eyes of many. In an overall Sydney CBD context, by any reasonable measure of relativity, the building can be reliably described as a modest commercial building, offering an economic and functional appeal more towards the lower end of the market spectrum.

Information supplied by Mr Peter Inglis of Knight Frank Valuations (November 2000, op cit) discloses that during the mid 1990's, prior to the purchase by the current owners, the building was assessed for formal mortgage valuation purposes as a 'C'- Class rated commercial asset under the well-known and widely-adopted commercial performance and functional grading system for office buildings, prepared by the Property Council of Australia.

Following the purchase of the property by the Moran Health Care Group in December 1996, the property was moderately renovated to meet the current owner's occupational needs. In its current state, and in light of the relatively moderate renovations carried out, the building can be said to currently attract a slightly higher grading assessment as a borderline 'B / C' commercial office building. This assessment also corresponds with the owner's own such current grading assessment (per John Gillett, Property Co-Ordinator, Moran Health Care Group, personal communication, 20 September 2000).

In the context of our series of representative cross-sectional case studies, prepared exclusively for this consultancy project, it is to be noted that Liner House constitutes the only example within our eight-case series of a *modern era office building*, which was specifically designed, and continues to be used, as a mainstream commercial office building intended for owner-occupation.

In its context as a functioning office building, therefore, the property in its entirety constitutes a most interesting case study from the standpoint of the juxtaposition between its heritage significance and its functional and economic utility in a contemporary commercial market sense.

## **2. Heritage Status**

Liner House is listed under Sydney City Council's Heritage LEP 2000 within the Schedule 1 category. The following descriptions of the property's heritage significance have been sourced from both Council's Heritage Inventory Document No. 2037, and from the database maintained by the NSW Heritage Office.

Liner House was originally protected under Permanent Conservation Order No. 183, gazetted on 16 December 1988 under the provisions of the NSW Heritage Act 1977. The property thus enjoys heritage significance at the State level, and in accordance with legislative amendments which first came into effect on 2 April 1999 under the NSW Heritage Amendment Act 1998, it is now listed on the State Heritage Register, which replaces the former PCO protection.

The relevant Council Heritage Inventory document also discloses that Liner House is listed in the Register of the National Trust of Australia (NSW), and within the relevant National Trust Conservation Area. The subject property is also listed in the Register of Significant Twentieth Century Architecture under the auspices of the Royal Australian Institute of Architects (NSW).

The property enjoys declared heritage significance under a series of major criteria.

The Statement of Significance contained in Sydney City Council's relevant Heritage Inventory document describes Liner House in the following terms :

*Liner House is of historic significance as a major post war contribution to the long established Bridge Street shipping administration precinct. It is aesthetically significant as a fine and rare contribution to the refined modern commercial architecture as indicated by its Sulman Medal of 1961.*

*It is aesthetically significant for its public art program [a major mural located in the entry foyer] including works by Annand. It was executed by a notable post war architectural firm [specifically, by Charles Madden, of Bunning and Madden] .... and ... shows the influence of Terragni on Australian work.*

*It is significant as possibly the finest post war example of a sympathetic modernist component as part of a significant streetscape. It has social significance for its ability to exemplify by its modest scale the **deliberate decision made by the client not to exploit the site for its maximum financial return** but instead to erect a building which was modern yet sympathetic to the nineteenth and early twentieth century stone faced adjoining buildings. (bold and underline added by this writer)*

From this extract it can be seen that Liner House enjoys heritage significance under a wide series of criteria which span the historic, aesthetic, and social categories. Additionally, the property possesses a declared scientific significance, since it contains 'the first curtain wall construction in Sydney that did not leak' (extract from Council's Heritage Inventory document).

The building is of steel columned and concrete floored construction. Several of its design and construction features, both externally and internally, are now captured for permanent conservation under the State Heritage Register listing. These important features are described below under the relevant sub-headings.

## **External Street Façade**

The external appearance of the building and its streetscape presence in Bridge Street is particularly striking in character. In a purely visual sense, Liner House 'stands out' markedly from its surrounding and neighbouring buildings, by virtue of its departure from the older style traditional sandstone and brick facades which were common to all other existing buildings nearby.

Liner House consists of a street-front tinted-glass curtain wall façade throughout its six storey height, each glass spandrel (in panels measuring 1.67 metres wide by 2.13 metres high) being trimmed by anodised aluminium frames. The building alignment is set back some 1.22 metres (four feet) from the street alignment. Additionally, the upper-most sixth floor level is stepped back to a further depth of approximately 2.4 metres from the main building alignment, creating a roof-top recessed terrace.

In an attempt to achieve sympathy with the surrounding masonry construction of its neighbouring buildings, Liner House features stone facings (English Portland type) applied to both of the street flanking external walls at the eastern and western side elevations.

In both a visual and architectural sense, the building's street-front façade is dominated by horizontal metal-framed louvres above each floor level. The building has a black granite street-front planter base on the ground floor, together with an entry foyer featuring a cantilevered awning, original double-glass doors, and surrounding bronze tile mosaic inlays.

### **Internal Accommodation**

There are two areas within the building which possess specific heritage significance, these being the whole front-half of the ground floor level, and a former boardroom area on the upper-most floor.

The ground floor area contains a side-foyer area off the main street entry on the eastern side, dressed in a checkerboard pattern of terrazo and grey scagliola floor tiles and side walls faced with cream and green marble and blackstone skirtings. This main foyer area leads back into the building to a depth of perhaps 12 metres, where a single 16-person capacity passenger lift is located, servicing the upper office floors.

Of particular note, however, is the main ground floor area which lies immediately adjacent to the side foyer. This ground floor occupies only a relatively small area, and possesses its own separate internal glass-door entrance off the side foyer, some 6 metres back from the street-front building alignment.

This ground floor area possesses heritage significance because of its original design as the shipping chambers for Wilhelmsen Agency Pty Limited, who as owners in the late 1950's commissioned the construction of the building, at the outset, as its Australian headquarters. At the time, the Wilhelmsen Agency group was Norway's largest shipping organisation, covering shipping pursuits stretching from Norway to the United States and Australia.

The front section of the ground floor in its present configuration retains most of the original design and fitout from 1961. This area contains two centre-piece features. Firstly, a double height open plan public reception area is dominated by a spiral staircase leading to a mezzanine floor-level (Figure 14). The staircase comprises a pair of steel stringers strung around a solitary marble-dressed column, with supporting cantilevered treads resting on steel carriage pieces. The staircase is located to the front of the ground floor chamber and is readily visible from the street through the glazed curtain wall.



Figure 14: Interior of Liner House, featuring the spiral staircase.

Secondly, the ground floor features a large suspended full-length mural, situated directly above a simple rectilinear reception counter. The mural was created by noted mid-twentieth century artist Douglas Annand, and is particularly striking in the manner by which it visually dominates and bridges both the former ground-level shipping chambers area and the mezzanine level immediately above and behind it.

On the uppermost floor level, the former Wilhelmsen boardroom has been specifically listed for permanent preservation. When originally constructed, this area was wall-panelled in English Beech timberwork with insert moulded beading and flooring of Tasmanian Oak (per National Trust Classification Report dated July 1988, provided courtesy of Mr Peter Inglis, Associate Director, Knight Frank Valuations Group). This décor has remained largely intact to the present day.

The remainder of the office accommodation areas throughout the building are predominantly free of any major declared heritage significance.

### **3. Owner's Objectives**

Sydney Cityscope, 28 August 2000, discloses that the subject property was purchased for \$6,500,000 on 16 December 1996 by Mirramba Pty Limited, a holding company representing the interests of the Moran Health Care Group Pty Limited. The Moran Group enjoys wide recognition both within and external to the health care industry and has been in business for several decades, enjoying progressive expansion of its entrepreneurial and property interests over time.

In discussions with Mr John Gillett (on behalf of the Moran Group, op cit, personal communications, 20/9/00), it was revealed that the current owners purchased the subject property for owner-occupation purposes, as the new city-based corporate headquarters site for its widespread business operations.

Prior to this acquisition, the administrative headquarters for the Moran Health Care Group were formerly located in East Sydney. Due to continued business success and expansion, the organisation outgrew its old premises and thus sought a more prestigious, centralised corporate Sydney CBD location in which to base its entrepreneurial pursuits. Thus, locational, prestige and corporate 'up-grading' criteria featured prominently in the decision of the current owners to acquire the property.

### **4. Approvals Process**

Subsequent to their acquisition of the subject property in December 1996, the new owner submitted a development application to Sydney City Council on 19 May 1997, for works of refurbishment and additions to be carried out on Liner House.

The development application included proposals for refurbishments based upon a Heritage Impact Statement dated 16 April 1997, utilising the services of prominent heritage architects Clive Lucas, Stapleton & Partners Pty Ltd. The owner also lodged a concurrent application for the award of some 2,008 square metres of Heritage Floor Space (HFS), in accordance with their perception of the spirit of the eligibility requirements for same, embodied in Clause 7.1 of Council's DCP.

The subject site is very small, being only 14.12 metres wide and 27.43 metres deep. The site area amounts to a total area of only 401 square metres. The HFS award

application thus represented the equivalent of a total Floor Space Ratio of 5:1, this being the differential between the existing under-developed building's actual FSR of 5:1 and the 10:1 FSR ordinarily permitted under Council's LEP 1996.

Extracts from the subject 1997 Heritage Impact Statement have been provided courtesy of the NSW Heritage Office, for the purposes of this report. The extracts describe that the current owner proposed to refurbish the property to make it suitable for the needs of the Moran Health Care Group as the corporate owner-occupier, whilst simultaneously adapting the ground-floor and upper-most floor elements in the building to restore them in terms of their declared heritage significance.

The available evidence suggests that, at past points in its history, the building had been made subject to tenanted accommodation on various floors. For example, the current heritage-significant ground floor reception area had at some stage in the past been used in a retail configuration as a tenanted duty-free goods store.

The re-establishment of complete owner-occupation in the building by the Moran Group from 1997 onwards, had in the eyes of Clive Lucas, Stapleton & Partners allowed a coherent and consistent approach to the refurbishment works, and, more importantly, the more discrete re-establishment of the original heritage-related significance of the property as a whole.

Of particular note, the site is currently under-developed to a significant degree of approximately 50%. Indeed, the deliberate decision on the part of the original owners of the late 1950s, the Wihelmsen Shipping Group, not to develop the property to its full legally-permitted use and floor-space potential, is now captured within the declared statements of statutory heritage protection and preservation.

The subject May 1997 development application included a proposal to make additions to the uppermost fifth floor level, by extending and projecting the top floor building elevation forward to street level, along a length of some 5 metres. This would have meant eliminating the existing 6 metre setback from the street alignment and then raising the roof plant room by a further level. In short, the proposal was to convert and extend the existing top floor plant room into office space.

In its consent determination dated 21 August 1997, Council approved the refurbishment proposals for the lower floor levels, but refused to allow the top-floor extensions to proceed. The refusal was based upon heritage preservation grounds, since heritage significance is embodied in the existing top-floor recessed structure and design. To depart from the existing form and fabric on the top floor would have been seen as compromising the integrity of the inbuilt heritage conservation measures which are clearly described in the inventory document.

In particular, the following extract from the Preliminary Conservation Policy embodied in the subject Sydney City Council's Heritage Inventory document (No. 2037, op cit) provides an explanation for the rationale behind the refusal :

*As the original building is surrounded by adjacent buildings of similar and higher size, the addition of further floors (maximum of two) to the building could be contemplated. Any additional floor should be **stepped back behind the façade** so as not to impact on the existing view of the frame from the street. Alterations to the recessed podium should not be considered. Any future development should preserve the existing form, external surfaces and materials of the façade.* (bold emphasis inserted by this writer)

In its August 1997 consent determination, Council did not grant an immediate award of Heritage Floor Space. The award of HFS was deemed ineligible due to an anomaly in the planning scheme provisions which rendered all buildings erected after 1957 as ineligible for HFS awards. The problem was that Liner House had been erected in 1961. In all other respects, according to Council's records, the subject property met the HFS eligibility requirements.

The anomaly arose due to the wording contained in Council's HFS Policy, whereby buildings erected after the 1957 amendment to the Height of Buildings Act 1912 were specifically excluded from eligibility for the award of HFS. A height limit of 46 metres (150 feet) for Sydney CBD buildings, included in the original provisions of the Height of Buildings Act 1912, was lifted in 1957.

Documents provided by the NSW Heritage Office (op cit) evidence that on 31 July 1997, the Heritage Council Advisory Committee proposed to recommend to Sydney City Council that the use of transferable Heritage Floor Space rights be used in respect to Liner House, *'in this instance as a special case'*.

Sydney City Council in turn recognised the anomaly in its HFS policy wording, and agreed to defer the award of HFS for Liner House, pending a heritage system review. This matter continued as a deferral until 1999, where the 'paper trail' via Council's property records ceases in respect to the subject property.

As at March 1999, Council records indicate that an award of HFS for Liner House (by then known as Moran House) would be approved 'in principle', but that a renewed request for a HFS award would have to be made by the applicant under Section 96(2) of the planning scheme to amend the terms of the original development consent. As far as we are able to ascertain, no such application has yet been made by the current owner of the subject property.



## **5. Life Cycle Issues**

The current owner (personal communications, per Mr John Gillett, Moran Health Care Group, September 2000, op cit) have commented on what they perceive as a series of detrimental impacts on the building's annual operating costs and performance capacity in economic and efficiency terms, arising out of the statutory heritage conservation requirements which attach to the subject property.

For example, the owners have pointed to the presence of the extensive six-storey-high glass curtain-wall façade on the property's north-facing street elevation. This can be seen to permit a large degree of natural sunlight into the building, at all times of the year, the tinting effect of the glass panels notwithstanding. Consequently, the current owners have maintained that this gives rise, relatively, to a periodic excess of heat within the internal floor areas of the building - thus resulting in increased air-conditioning costs.

Since the current external glass-wall façade of the building is a central component of its declared heritage significance, this gives rise, perhaps, to some degree of complexity in any attempts to remedy this situation.

The owners have stated that in their opinion, the current air-conditioning plant within the building is old, outdated and inefficient. They have advised that whilst they have carefully considered the cost-benefit feasibility of replacing the entire air conditioning system within the building, they have ultimately decided not to proceed with this proposal because in their minds it is uneconomic to do so.

Additionally, the current owner has alluded to what they perceive as the restrictive nature of the front ground-floor reception area, stating that its current use potential is very limited. Much of the reception area constitutes a 'void' area in their eyes, capable of very little effective use, and would in their opinion be suitable for very few feasible alternate or adaptive use options within the scope of their operational plans for the building.

Furthermore, the presence of the spiral staircase in the front ground-floor reception area has, in the current owner's view, presented security problems. The staircase leads directly to the mezzanine floor level, and contains no significant barrier of any kind to prohibit the public from gaining undesired access to the mezzanine level.

Consequently, the Moran Group has been compelled to install a keypad security system to its mezzanine level office-entry and meeting room areas, adjacent to the staircase, in order to safeguard the security and selective access to these areas.

Finally, the owners have declared that they are currently unable to find a full-capacity functional use for the boardroom area on the upper floor, within the context of their requirements and desires as owner-occupiers.

In an objective assessment of the building relative to its functional and economic efficiency in a contemporary commercial context, it can be seen that the above series of arguments put forward by the current owners are not without some degree of validity.

For example, in a core functional and use-efficiency sense - as juxtaposed entirely to its heritage significance - it is difficult to envisage the ground-floor spiral staircase as having any real, modern-day practical use potential other than a mere 'ornamental' or 'novelty' value.

On the other hand however, it must always nevertheless be borne in mind that the current owners entered into a purchase and occupation of the property at the stated price of \$6,500,000, with due prudence and an awareness of any inherent pre-existing limitations within the building which might possibly be attributable to its declared heritage significance.

Moreover, this report has established that the subject property is now eligible for an award of some 2,008 square metres of Heritage Floor Space, subject to certain bureaucratic requirements being met by the owner. Such an award, and the subsequent *sale* of that HFS at a current market price, would be likely go some considerable way to alleviating the cost burdens which have been alluded to under this section of our report.

It is also clear that the commercial and economic opportunities for the property have in more recent times of tighter commercial market environments been considerably restricted by the limitations in the size and shape of the land. The site has an inherently small plottage of only 14.12 metres width and 27.43 metres depth - for a total site area of only 401 square metres. This inbuilt limitation has, and always will, restrict the functionality of the building in economic terms, and is irrespective of the presence of a heritage listing over the property.

We are unaware of the Land Tax situation in respect to the subject property, since Mr Gillett (personal communications, *op cit*, ) was unable to provide us with any details in this regard. However given the property's existing 5:1 FSR (which is 50% of the full FSR permitted in principle under Council's code) and its eligibility for a Heritage Land Value to be determined, the potential for a substantial discount in Land Tax exposure would appear to exist, thus potentially easing the burden of annual operating costs in the building.

## 6. Conclusions

It has been well-documented within this report that Liner House enjoys major heritage significance as a *rare* example of the late 1950's / early 1960's 'modern era' architectural style of a Sydney office building. The facts associated with its original 1961 construction, its ownership and development at the time, and its direct linkages with the maritime-related history of Bridge Street itself, all contribute to the property's heritage significance.

It is not at all unreasonable to further suggest that Liner House constitutes a most unusual and in many ways, a unique building, in a contemporary commercial property office-market context as well - due in no small measure to its inherent ground and mezzanine floor characteristics, and its original overall deliberately under-developed design.

Our detailed physical inspection of the property (20 September 2000) reveals that the building possesses a somewhat dated appearance and ambience, which is in fact perfectly in keeping with its declared heritage-preservation elements. Entry to the ground floor reception area indeed conjures up the feeling of stepping into a 'time capsule' from the early 1960's era. If that response is one which has been amongst the heritage objectives set down for the property, then that particular objective has been successfully achieved.

Yet, from a public access perspective, it is not difficult to envisage a 'quaint', almost indefinable appeal which attaches to the internal ground floor design.

Nevertheless, in a contemporary commercial market-related context - quite apart from its officially-stated heritage appeal - there seems to be little doubt that the property is currently under-renovated and possesses only limited market appeal.

Whilst the current owners have carried out a moderate degree of recent refurbishment to the mainstream office accommodation areas, for their own corporate-headquarters purposes, it must be noted that the approved refurbishment works have been more cosmetic in nature, rather than either structural or re-design oriented.

It is difficult to define the extent to which the property is capable of a major re-design and upgrade in terms of improving its future economic and functional market appeal - particularly from a potential cashflow and future market-related investment / tenancy perspective - without compromising its declared heritage-protected elements.

Similarly, there appears to be a undefined 'grey-area' which persists in respect to any attempt to estimate the degree to which maintenance and repair costs will continue to escalate over time in this building. There seems little doubt, in the absence of any major refurbishment effort in terms of building services and plant and equipment, that future maintenance and repair costs *will* continue to rise. The question is, by what degree and by how quickly.

In conclusion, however, it is a fact that the current owners have been in occupation in the property for almost four years as at the start of 2001, and that in the main the building has served their needs satisfactorily, commensurate with the purchase price outlaid in 1996. Certainly, the current owners enjoy exposure and recognition in a corporate sense, both from a site location and a building-characteristic perspective.

Moreover, the former Heritage Floor Space bureaucratic anomaly has now been largely rectified, and the property has now been declared by Council as eligible, at least in principle, for an award of HFS to the order of approximately 2000 square metres. The potential value of the sale rights of this magnitude of HFS constitutes a considerable financial compensation measure and a counterbalancing offset to the type of additional costs which allegedly arise (according to the present owners) as a result of the property's heritage listing.

Given the highly unique nature of this property in its configuration as an office building, it is likewise difficult to assess the degree, if any, to which this building is representative of the 'mainstream', more commonly-occurring types of life cycle and commercial utilitarian complexities which might perhaps arise in heritage-listed CBD commercial office buildings (particularly older style stone buildings from the early 20<sup>th</sup> Century era) on a wider scale.

Further market and case-study research would seem to be in order in respect to the economic impacts of heritage listings upon low-rise or medium-rise CBD commercial office buildings, particularly those which date from earlier architectural eras.