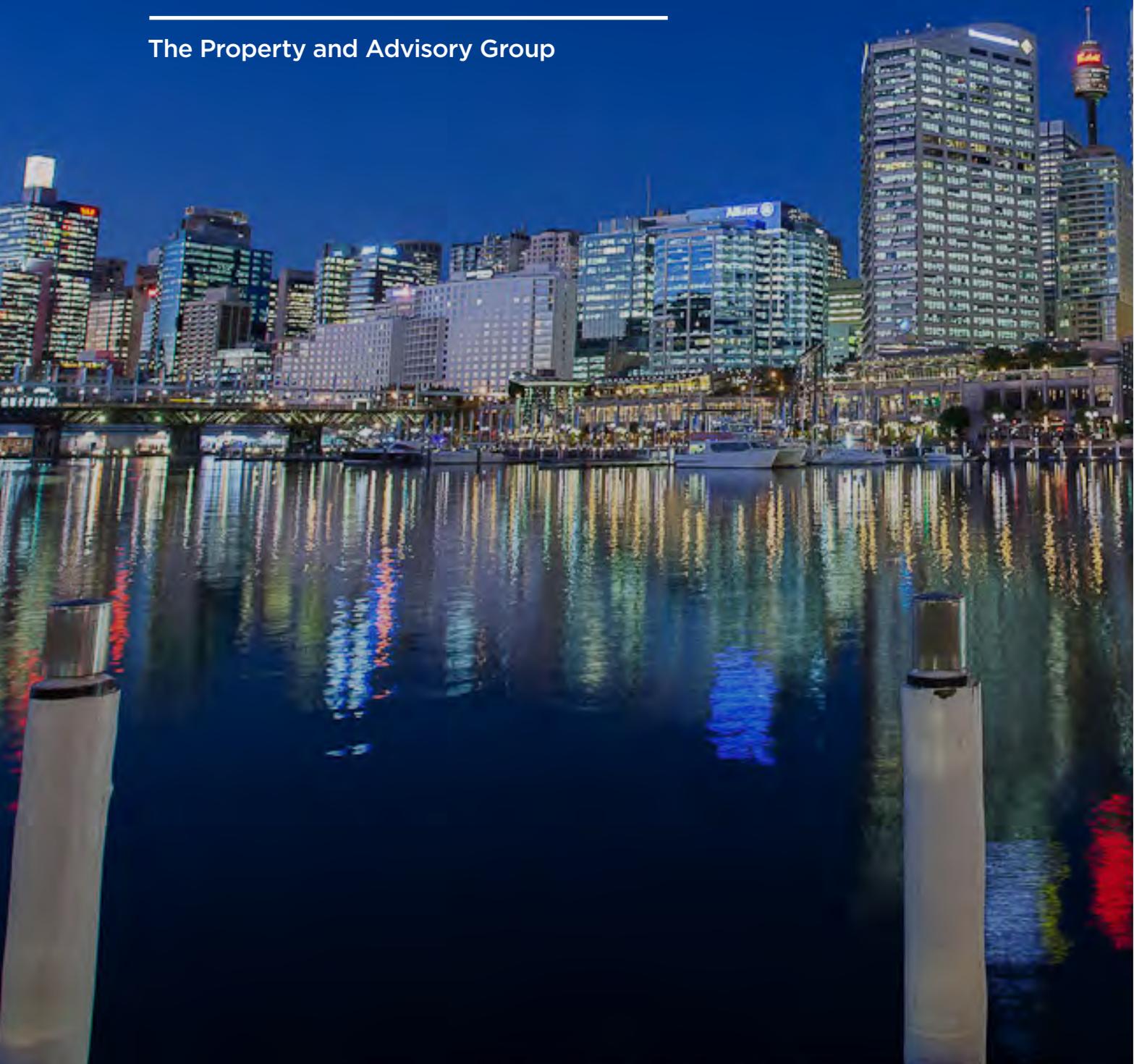




Annual Review 2016-17

The Property and Advisory Group



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Property
NSW



Public Works
Advisory

Foreword from our Deputy Secretary

On behalf of the Property and Advisory Group, I am delighted to report on our progress over the past 12 months, a period of significant accomplishment across our organisation.

Since 1 July 2016, we have successfully integrated six Government agencies into a single group, with two externally facing brands – Property NSW and Public Works Advisory.

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Consolidating into one group has seen a renewed focus on delivering our vision of excellence in property and places for New South Wales.

Our key achievements in the 2016/17 financial year include:

- **Western Sydney public sector jobs relocation** – secured the 62,000m² long-term office accommodation lease for three government departments in Walker Corporation's 4PSQ project at Parramatta Square – the largest ever NSW Government agency leasing commitment in Western Sydney.
- **Asset recycling** – recycled more than \$500 million for agencies to reinvest in infrastructure and services, including contributing \$120.7 million to Restart NSW alone, supporting the Government's record infrastructure investment.
- **PWA integration** – in August 2016, the Government announced the outcome of a review into NSW Public Works. Following the review, Regional & Rural, Water Solutions and Heritage Asset Advisory became part of Public Works Advisory. Together these functions will ensure Public Works Advisory has the capability and expertise to deliver the best possible infrastructure solutions for the State.
- **Interactive land value summaries** – our Valuation Services division developed and implemented a public interactive portal enabling landholders to access valuation information summaries for local government areas and regions.
- **Digital initiatives** – expanded our digital offering to include online Leased Accommodation Requests and Acquisition and Disposal Requests. These digital services replace legacy, paper-based systems and ultimately build on the success of the Property Portfolio Reporting, launched in 2016, making it easier for our customers to transact with us.
- **Gosford revitalisation** – delivered a plan for a \$30 million-plus office development at 32 Mann St, Gosford, to enable the relocation of more than 300 Department of Finance, Services and Innovation roles from 2018. The development will create 90 direct construction jobs, 30 new jobs in the planning and design stages, and in excess of 330 ongoing indirect jobs.
- **Millers Point** – at 30 June 2017, successfully managed the sale of 148 government-owned properties (197 dwellings) in Millers Point since 2014, generating \$418 million in sales to be reinvested into new social housing dwellings across the State. More than 600 new fit-for-purpose dwellings have been funded to date.



Deputy Secretary, Brett Newman

- **Place making** – we attracted more than 40 million visits to Darling Harbour and The Rocks, accounting for a consumer spend of more than \$3 billion per annum. In The Rocks, planning approval was obtained for a \$32 million restoration of the State heritage-listed landmark, Campbell's Stores, and we also launched a \$15 million initiative to renew and revitalise the area's retail tenancies. In Darling Harbour, the \$1.5 billion International Convention Centre Sydney opened in December 2016 and has since welcomed hundreds of thousands of visitors to the precinct.
- **Industry engagement** – we launched our inaugural Industry Leaders Forum – an event aimed at bringing together the most senior property leaders from government and industry to discuss the key issues impacting the sector. We also played an active role in leading the discussion on many of these issues, including in the areas of diversity, data analytics and asset recycling via the release of our Insight Reports.

Our success would not be possible without the commitment and calibre of our people.

While our workforce of approximately 770 staff members is located in more than 30 office locations across the State, we are bound by our common vision and our common values of Accountability, Creativity and Teamwork (ACT).

Looking ahead, in 2017/18 we will finalise a three-year strategic plan which will serve as the roadmap for our future direction.

This includes the development of our Customer Strategy, and rolling out our People and Culture Strategy. These are aimed at improving our engagement with clients and enhancing the personal and professional development of our people, ultimately driving enhanced service levels across government.

We will continue to build on our success over the past 12 months, with our project pipeline consisting of committed development and advisory projects across the public and private sector worth an estimated \$14.2 billion.

Our commitment to policy reform will see us explore opportunities to apply greater rigour to the identification of surplus and underutilised assets across government, and to apply these assets to support social infrastructure investment, as well as the NSW Government's housing affordability strategy.

We are also looking at improving utilisation and management of the government's office accommodation portfolio and to facilitate the commitment to move to a fully flexible public sector workforce by 2019.

It is with pleasure that I present our 2016/17 Annual Review and Annual Reports.

It has been a year of significant accomplishment for our group.

Brett Newman
Deputy Secretary
Property and Advisory Group

Our role

The Property and Advisory Group, including Property NSW and Public Works Advisory, undertakes a diverse range of services on behalf of the NSW Government, including property reform, asset management, transactions and major projects, place making, valuation services, and infrastructure advisory.

Property NSW is the NSW Government's central agency responsible for considering strategic real property asset management issues. Property NSW primarily manages the NSW Government's non-specialised property portfolio, including office and other generic assets, and the key precincts of Darling Harbour and The Rocks. Our focus is on the strategic review, acquisition, divestment and greater utilisation of the government's real property assets and precincts, which results in better visitor experiences and services for the people of NSW.

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Our assets comprise office buildings, significant heritage properties, teacher housing, non-commercial assets and land holdings, and many have been vested in Property NSW by other government agencies.

Our organisation works closely with a range of government agencies, providing specialist industry knowledge, expertise and understanding of the unique requirements of government property management.

Property and Advisory Group entities have the following enabling legislation:

- Property NSW Act 2006
- Place Management NSW Act 1998
- Luna Park Site Act 1990
- Teacher Housing Authority Act 1975
- Waste Recycling and Processing Corporation (Authorised Transaction) Act 2010
- Valuation of Land Act 1916

Public Works Advisory supports local and state government agencies in the delivery of infrastructure projects by providing expert advisory services, including advice on how to adopt the services of 'best-fit' providers, and assisting with project delivery oversight and assurance.

Our services are built on a foundation of more than 160 years of effective delivery and management of critical infrastructure projects for NSW. We leverage this experience to deliver the best possible infrastructure solutions for the future.

Public Works Advisory operates under the following principal legislation:

- Public Works and Procurement Act 1912

Our organisation

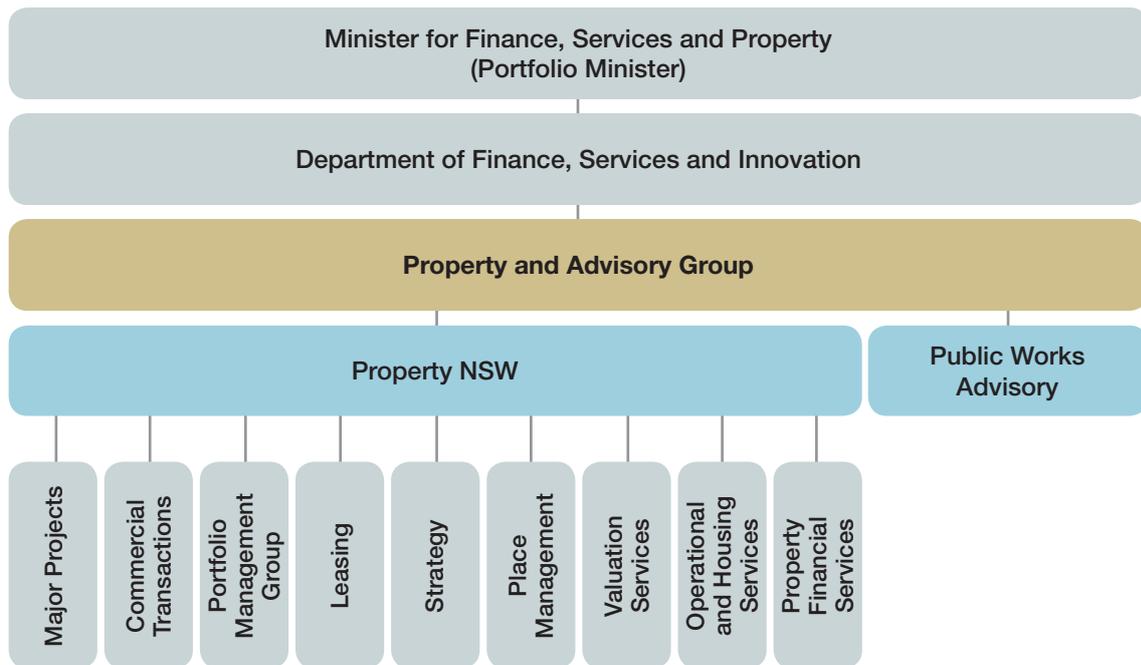
Public Works Advisory joined the Property and Advisory Group on 1 July 2016. This followed the successful integration of Government Property NSW, Sydney Harbour Foreshore Authority, Teacher Housing Authority of NSW, Waste Assets Management Corporation, NSW Public Works Facilities Management, and Valuation Services to form one specialist property service and place-making organisation.

The Property and Advisory Group is part of the Department of Finance, Services and Innovation (DFSI). Operationally, the Property and Advisory Group is led by

a Deputy Secretary who reports to the Minister, both directly and via the Secretary of DFSI.

As statutory bodies representing the Crown, the entities that are under the Property and Advisory Group have the status, privileges and immunities of the Crown and are under the control and direction of the Minister for Finance, Services and Property.

Organisation chart



Structure as at 30 June 2017



Our work

We bring a range of property, place making and infrastructure skills and expertise, enabling the success of projects that meet government objectives. Case studies of our work highlight our dedication to excellence in property and places.

Artist's impression of 4PSQ



4PSQ Parramatta

In December 2016, Property NSW secured a long-term lease of government office accommodation for the Department of Planning (DPE), Department of Finance, Services and Innovation (DFSI) and the Department of Industry (DoI) in Walker Corporation's 4PSQ project at Parramatta Square.

Parramatta Square is a vibrant, 3ha, mixed-use precinct at the centre of Parramatta's CBD.

The 62,000m² lease pre-commitment is the NSW Government's largest commercial government lease pre-commitment outside of the Sydney CBD.

Property NSW selected Walker Corporation to deliver the lease commitment following a public Expression of Interest and Request for Tender procurement process.

4PSQ will provide a state-of-the-art, flexible and dynamic workplace environment for public sector employees to continue to deliver quality services for the people of NSW.

Property NSW will also manage a coordinated and collaborative fit-out of the building to ensure agency accommodation requirements are met and to deliver greater cost efficiencies for the State. The development's green credentials include 5 Star NABERS Energy, 4 Star NABERS Water and 5 Star Greenstar ratings.



Fire & Rescue NSW Academy

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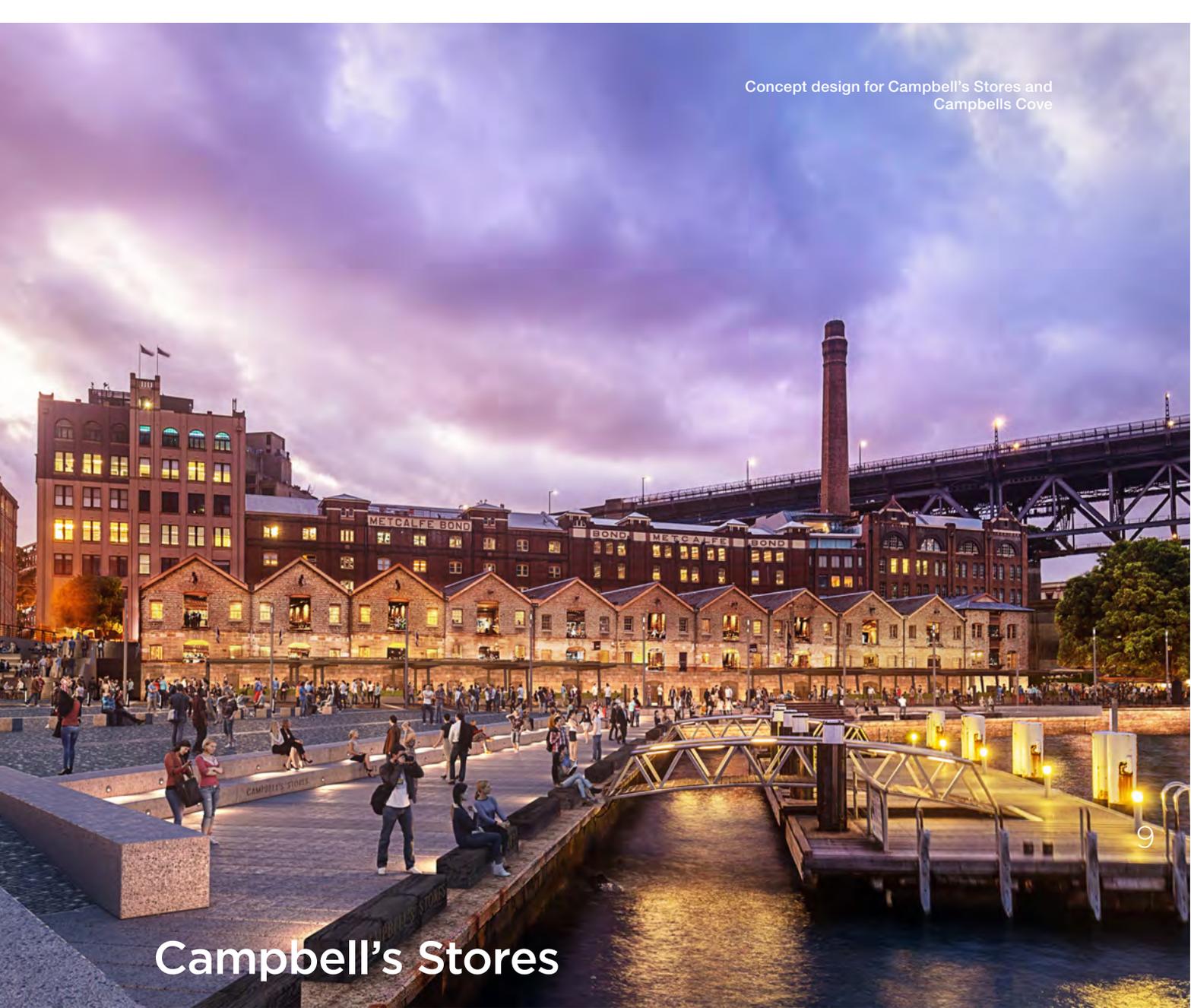
In July 2016 the then Fire & Rescue NSW (FRNSW) Commissioner, Greg Mullins, announced plans for a new state-of-the-art firefighter training facility in Sydney's west.

Property NSW led the Expression of Interest and Request for Tender process to build a new FRNSW training academy on a 6ha site on Mamre Rd at Orchard Hills.

The academy is expected to open in early 2018 and will replace FRNSW's existing State Training College at Alexandria, which is more than 40 years old and about one-third the size of the new site.

The new Orchard Hills facility will feature purpose-built training props to simulate fire, rescue, hazardous-materials and other emergency scenarios. It will also allow for training activities not possible at Alexandria, including live burns.

Property NSW concluded the transaction with Altis Property Partners, whose principal investor is First State Super. FRNSW will have exclusive access to the site under a 25-year lease arrangement.



Campbell's Stores

Campbell's Stores, in The Rocks, is undergoing a \$32 million upgrade after planning approval was obtained to conserve and revitalise the heritage-listed building.

Private hospitality company, Tallawoladah, will fund the restoration and fit-out of the 1840s warehouse as part of a 55-year lease agreement, creating a new waterfront entertainment hub with up to 12 new restaurants and bars.

To ensure the iconic heritage building is conserved and maintained for future generations, it will undergo a refurbishment to address deterioration in the roof, windows, parapets and stone decay.

All works will be in accordance with the Conservation Management Plan endorsed by the NSW Heritage Council.

The Rocks already attracts more than 14 million visitors a year, contributing \$400 million to the NSW economy. The Campbell's Stores upgrade will complement a \$15 million initiative to renew and revitalise the area's retail tenancies.

Loose-Fill Asbestos Insulation Program

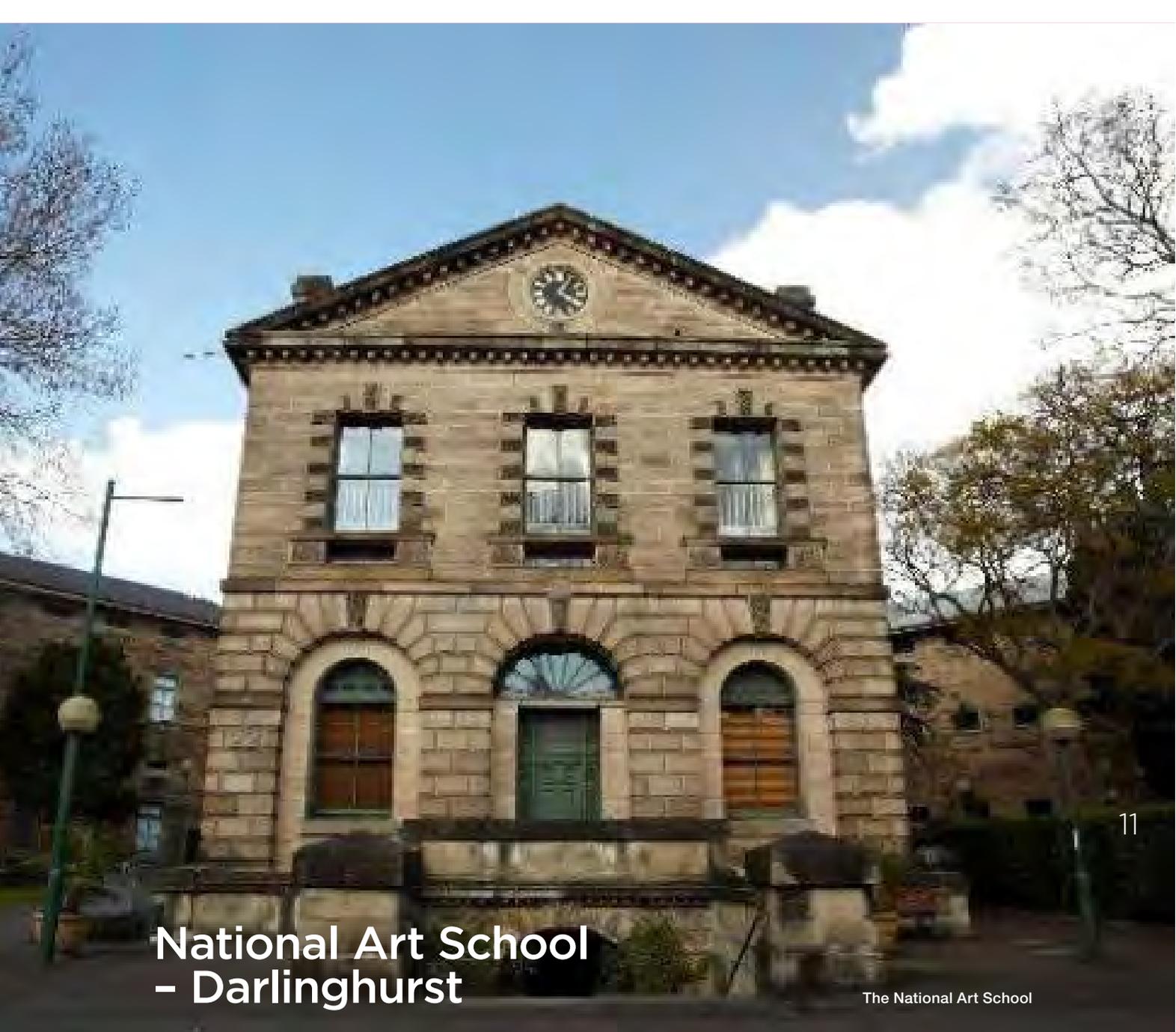


The Property and Advisory Group has been working with the Loose-Fill Asbestos Insulation Taskforce (Taskforce), established within NSW Fair Trading, to lead, administer and oversee a voluntary purchase and demolition program for privately-owned residential properties affected by the presence of loose-fill asbestos insulation.

Property NSW's role has been to acquire, manage and then dispose of the affected properties after Public Works Advisory (PWA) has arranged property demolition and land remediation.

In 2016/17 Property NSW acquired 74 affected properties with a value of \$17,851,000. At the close of the financial year, 70 properties remain under our management. Twelve properties have been demolished and eight of these have been remediated, given clearance and returned to Property NSW for disposal.

Property NSW has successfully collaborated with the Taskforce and PWA during the year to ensure seamless transition between the pre-acquisition, acquisition, management and disposal phases of this complex program.



National Art School – Darlinghurst

The National Art School

The former Old Darlinghurst Gaol site, which consists of 22 buildings and is occupied by the National Art School (NAS), was vested to Property NSW in July 2016.

A program of maintenance works was developed and implemented, and a number of key capital works projects were identified to address compliance issues and arrest structural deterioration across the site.

Technical specialists and consultants were engaged to assist with highlighting the focus areas. Property NSW, with the assistance of Public Works Advisory, is developing a capital works program that will restore a number of the site's unique heritage features and ensure the compliance of critical services without interruption to the School's learning environment.

It has also worked closely with the School's facilities team to coordinate on-site investigations and inspections, allowing the technical specialists to develop the detailed works programs.

NSW State Emergency Service State headquarters fit-out



The new SES headquarters on Burelli St, Wollongong

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The NSW State Emergency Service (NSW SES) is anticipating a period of strong growth in the scope of its service delivery, infrastructure and staff levels. Its former Wollongong headquarters had limited capacity and functionality to adequately meet the organisation's service delivery goals and the organisation aspired for a state-of-the-art facility to accommodate its needs.

Property NSW's Leasing team identified a commercial office building in Wollongong to house the new headquarters. Public Works Advisory was engaged to provide project management services for the \$13.5 million upgrade and \$11.4 million fit-out of the building. Public Works Advisory's role included:

- preparation of a condition assessment report for the proposed new headquarters
- tender, procure and manage the principal design consultant tender documentation
- preparation of commercial contract conditions
- tender, procure and manage the construction contractor
- construction management and contract administration
- manage handover and project finalisation.

The new, 5,700m² NSW SES headquarters was opened in September 2017 and will accommodate approximately 235 employees.



John Hunter Children's Hospital - New Paediatric Intensive Care Unit

The John Hunter Children's Hospital is one of three NSW children's hospitals and the only one located outside the Sydney metropolitan area.

The Hunter New England Local Health District engaged Public Works Advisory (PWA) to provide a range of project management and assurance services to deliver a new paediatric intensive care unit. These services included:

- project design and delivery management
- risk management
- tendering and procurement
- commissioning and handover of the new facility.

A new state-of-the-art paediatric intensive care unit, which will accommodate the growing demand for paediatric intensive care services across the region, was successfully delivered in 2017 and within the \$14 million budget.

PWA managed a number of challenges throughout the project. A large number of existing services had to be identified and managed within the construction area. Extensions, modifications and shutdowns of existing services were managed in consultation with John Hunter Children's Hospital and Royal Newcastle Centre departments.



Stock image

Interactive land value summaries

Valuation Services is committed to providing greater transparency and access to information to improve confidence in the integrity of the land values.

In January 2017, Valuation Services developed and implemented a public interactive portal, enabling landholders to access valuation information summaries for local government areas (LGAs) and regions. The interactive summaries illustrate land value trends, median land values, sale prices, as well as typical land values across the State. Compared with previous reporting mechanisms, the summaries reduce the time taken to provide information to customers and stakeholders.

Interactive LGA and regional summaries are available for residential, commercial, industrial and rural properties in all LGAs and 14 regions across the state. Since the implementation, 746 unique visitors have sought information on regional summaries and 3,452 have sought information on individual LGA summaries.



Brewarrinna Flexible Housing Solution

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Housing Services, which includes the Teacher Housing Authority, provides an invaluable service to rural and remote communities across the state where there is limited accommodation available in the rental market.

Housing Services manages around 1,280 residences in 200 rural and remote communities in NSW.

In August 2016, Housing Services unveiled a \$2.25 million project to provide new housing for teachers at Brewarrinna Central School.

The new flexible-design accommodation block in Bathurst St can be converted into either two two-bedroom units or one three-bedroom unit and one one-bedroom unit.

Additionally, four one-bedroom units in Wilson St, have also been completed. Both housing projects have been purpose built to meet the needs of teachers and their families.

Housing Services currently provides 25 residences for teachers at Brewarrinna's Central School, a leader in the Department of Education's Connected Communities Schools program.

The latest housing in Brewarrinna is in addition to the teacher housing completed in Wilcannia and Coonamble in 2016.

Our services and divisions

The Property and Advisory Group delivers property and infrastructure solutions and great places for the people of NSW. We deliver continuous improvement and innovation. Our approach is to collaborate with stakeholders to deliver government objectives for the community. We manage the NSW Government's non-specialised property portfolio and its places, which results in better visitor experiences and services for the people of NSW. We also provide a range of valuation services and advise on key infrastructure projects.

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Our services include:

- leading property reform
- portfolio and asset management
- delivering transactions and major projects
- place-making and heritage conservation
- valuation services
- infrastructure advisory services.

Our service delivery is underpinned by strong Key Performance Indicators, described in Our KPIs, and supported by divisions that work closely with our government clients to drive commercial best practice outcomes for the benefit of the NSW community

Major Projects

Major Projects provides development management and real estate advisory services for large-scale, high-value and complex real estate projects on behalf of the NSW Government.

In executing its role, the team focuses on whole-of-government engagement and outcomes. Its services include acquisition and divestment management, development and project management, and feasibility and options assessment activities. This includes master-planning, design, rezoning and development application management and lease pre-commitments.

Examples of Major Projects' work include:

- **Heritage precinct management** – strategic review of the NSW Government's civic precinct in Macquarie St to improve public access and connectivity, and the adaptive re-use of heritage buildings and places
- **Site value enhancement** – master-planning, rezoning and execution of development strategies for significant government-owned sites at Gosford, Rydalmere and Hurlstone to either maximise the returns on assets or to deliver whole-of-government outcomes such as new housing and public infrastructure
- **Lease-led development** – management of market tenders to secure new or refurbished commercial accommodation in private sector assets such as Fire & Rescue NSW's (FRNSW's) new training academy at Orchard Hills in Western Sydney, the Department of Industry's headquarters in Orange and Walker Corporation's 4PSQ project at Parramatta Square
- **Real estate advisory** – providing advice on best-use options for government-owned sites, including the Powerhouse Museum at Ultimo and the Registrar General's Building in the Sydney CBD
- **Site adaptive re-use** – facilitating the re-use of underutilised or surplus government-owned sites such as the former school site at Gosford or reuse of a portion of FRNSW's State Training College at Alexandria for Sydney Trains' Rail Operation Centre's future headquarters
- **Development management** – managing the design, planning and execution phases of projects at government-owned sites such as Macquarie Park and Gosford.

Commercial Transactions

Our Commercial Transactions division is responsible for the evaluation, planning and delivery of property acquisitions and disposals on behalf of government agencies across a wide spectrum of projects and portfolios. This team undertakes transactions that benefit from economies of scale, have shorter "go-to-market" timelines, or have lower individual value and less complexity than those projects undertaken by Major Projects.

The team applies strong project management practices to move transactions through various phases, including pre-sale due diligence investigations, feasibility analysis, the execution of value-add strategies and the implementation of marketing and sale strategies. In addition, this division provides expert and strategic advice to agencies on prospective acquisition and disposal transactions and programs.

In total 84 property transactions worth \$315 million were executed. Examples of transactions and projects undertaken by the team include:

- **Huntingwood East Site, Prospect** – the \$68 million sale of 21.6ha of industrial development land for the Office of Strategic Lands
- **190 Russell Ave, Dolls Point** – 'Primrose House' was sold for \$15.2 million on behalf of the South Eastern Sydney Local Health District
- **68-80 South St, Granville** – the land and building were sold for \$11 million for TAFE NSW
- **Sale of heritage floor space (HFS)** – HFS air rights connected to 211-217 Castlereagh St, City of Sydney Fire Station, was sold for \$11.7 million for Fire & Rescue NSW
- **Millers Point Recycling Program** – sale of 58 properties for \$166 million for the NSW Land and Housing Corporation
- **Loose Fill Asbestos Insulation Program** – acquisition of 74 properties with a value of \$17,851,000 from affected home owners.



Peat Island

Portfolio Management Group

The Portfolio Management Group (PMG) is responsible for the management and maintenance of government-owned and leased properties and delivering strategic asset management services to government agencies across the portfolio. There are a number of functional groups within PMG that provide these services.

Asset Management – provides strategic planning, leasing, maintenance, revenue forecasting, expense management and capital expenditure management for more than 250 government-owned properties in the portfolio. With leases on a further 640 properties across the State, the team is focused on providing quality office accommodation solutions for its clients, bettering market rents where possible, delivering efficient space utilisation and effectively managing property operating costs. The group services more than 1.1 million m² of Net Lettable Area (NLA) across the portfolio. Asset Management is also responsible for 750,000m² in non-commercial assets which consist of state-significant, special-use sites such as Strickland House Estate, National Trust Building, National Art School, Lake Illawarra foreshore and Peat Island. The maintenance and compliance of these assets is critical to safeguarding the properties for the future use of the people of NSW.

Building and Place Services – responsible for providing strategic facilities management across multiple complex government assets and precincts. The team delivers strategic sourcing solutions and manages whole-of-government contracts for numerous client agencies. This includes cleaning and maintenance contracts that provide services to more than 4,300 government properties throughout NSW, including schools, courthouses, police stations and TAFE colleges. The team also provides whole-of-government contracts for security, fire and electrical testing and tagging services. The team strives to deliver value for money for the NSW taxpayer over the terms of these contracts.

Building and Environmental Services

– delivers improvements in all areas of environmental and sustainability management. The team recently introduced new contaminated land management and sustainability policies across the Property and Advisory Group. The group has also been instrumental in identifying and forward programming a variety of initiatives and projects such as Power Factor Correction, utility bill management, Solar Photovoltaic (PV) and lighting efficiency opportunities to achieve the NSW Government's resource efficiency policy outcomes.

The Waste Assets Management Corporation (WAMC) also forms part of this group. While the landfill site at Eastern Creek has closed, the team continues to meet its obligations in managing site contamination at a number of former landfill sites, including those at Thornleigh, Merrylands, Grange Avenue, Eastern Creek 1, Castlereagh, Harrington Quarry, Belrose and Lucas Heights. The team is also examining other projects such as bio-banking and possible site utilisation for other green initiatives and social and community uses.

Contract Management – leads the group's drive for continuous improvement and innovation in our outsourced facilities, property and lease administration services. The team's approach aligns with Property Asset Utilisation Taskforce (PAUT) principles that support an integrated property asset management framework to ensure outcomes are delivered in the most efficient and cost-effective way, including leveraging the private sector to provide or outsource services.

Vesting – provides a range of statutory acquisition services for Property NSW or clients which include vesting under the Property NSW Act and acquisitions under the Land Acquisition (Just Terms Compensation) Act 1991. The group also manages the acquisition and holding of Certificates of Title under Memorandum of Understanding (MoU) for agencies that do not have the legislative power to deal in real property transactions. MoUs are currently in place with the NSW Police Force and the Department of Justice.



The Rocks (above left)
Darling Harbour Children's Playground (above right)

Leasing

Our Leasing division is responsible for devising, negotiating and implementing leasing strategies for more than 1 million m² of commercial office space across the State.

The team works collaboratively with government agencies to ensure the leased space occupied by the State's public sector meets its operational requirements, broader strategic objectives, and delivers best value to government.

As specialist leasing advisors, the team has successfully negotiated more than 240 separate lease transactions in the past 12 months.

Key leasing highlights for 2016/17 include:

- securing 8,500m² of commercial space for Transport for NSW in Mascot in early 2017
- 9,400m² of pre-committed commercial space for the Department of Justice in Homebush, to commence in 2019
- 11,000m² of commercial space for Transport for NSW in the Sydney CBD in late 2016
- executing leases and licences totalling about 209,500m² of Net Lettable Area across the State.

Place Management

Place Management is responsible for the ownership and management of NSW's state-significant precincts, The Rocks and Darling Harbour.

Place Management aims to uphold community, social, heritage and commercial interests by providing world-class places and experiences that attract more than 40 million visitors per year to our precincts. The division's multi-disciplinary experience extends to asset management, retail and commercial leasing, strategic planning and heritage, as well as events and marketing.

Place Management works to ensure the activation of our precincts for the mutual benefit of tenants, visitors and the taxpayers of NSW.

Some of the key achievements for Place Management included:

- commencement of a \$32 million restoration of the State heritage-listed landmark, Campbell's Stores, which will create a new waterfront entertainment hub with up to 12 new restaurants and bars
- winning the Great Place Award for its rejuvenation of The Goods Line in the Planning Institute of Australia's National Awards for Planning Excellence 2017
- the launch of a \$15 million investment to renew and revitalise heritage retail tenancies in The Rocks. Works started this year on the refurbishment of The Rocks Centre in Argyle St and will see iconic restaurant Pancakes on The Rocks eventually take up tenancy on the upper level.

Valuation Services

Valuation Services manages the valuation system on behalf of the Valuer General under formal delegation.

The Valuer General is an independent officer appointed by the Governor of NSW to oversee the valuation system which provides land values for rating and taxing; and determinations of compensation when land is compulsory acquired by government.

The Valuer General details the services and performance standards that Property NSW is required to deliver in a Service Level Agreement (SLA).

The agreement:

- is reviewed and updated every year to ensure services meet changing stakeholder needs and the continuous improvement of the valuation system
- establishes clear performance standards and requires Valuation Services to regularly report against these
- defines the separation of responsibilities and accountabilities between the Valuer General and Valuation Services.

Valuation Services provides a range of services on behalf of the Valuer General. These include:

- the management of customer services and the provision of information to stakeholders
- the management of valuation service contracts and provision of information to contract valuers
- the objection review process
- auditing and ensuring the quality of land values
- maintaining the Register of Land Values
- day-to-day management of valuations completed under the *Valuation of Land Act 1916*
- the development of operational procedures.

In addition, Valuation Services manages the determination of compensation process on behalf of the Valuer General. This process provides fair, transparent and independent

determinations of compensation to land owners who are impacted by the NSW compulsory acquisition process.

Valuation Services also provides data to other government agencies, giving them easy and fast access to the latest valuation data.

Strategy

Our Strategy division is responsible for the development of whole-of-government policies, strategies and initiatives to:

- optimise the State's property portfolio
- improve property asset management
- identify and realise property portfolio opportunities
- enhance agencies service delivery.

The multi-disciplinary team is the NSW Government's lead advisor on real property management practices, asset management models and strategic accommodation planning.

It drives innovation and reform initiatives to ensure alignment with best-practice standards and the delivery of the Government's priorities.

Strategy also leads collaborative property initiatives across government to address emerging issues and future property needs, and advises on the operating model and long-term capital plan for Property NSW.

Key achievements for the Strategy division in 2016/17 include the application of best-practice ownership



and management models for non-specialised property assets across government, as well as for specialised property assets for two major government Cluster groups.

Operational and Housing Services

Our Operational and Housing Services division is responsible for providing high-quality business support and corporate services to the Property and Advisory Group, as well as housing services and solutions for rural and regional teachers across the State.

The division's Operations group provides specialist services in information technology, business transformation, communications and marketing, human resource management, legal, risk and compliance management and other general business services.

Housing Services includes the Teacher Housing Authority (THA), which continues to support the Department of Education by providing teachers with quality housing services in 200 rural and remote communities where the private rental market is unable to meet their accommodation needs.

Housing Services provides assistance through:

- initiating, promoting and commissioning investigations into the housing needs of teachers
- undertaking design, construction and maintenance of housing suitable for teachers
- providing a comprehensive and coordinated housing service for teachers including tenancy and lease management in rural and remote NSW
- advising and making recommendations to the Minister in respect of matters relating to teacher housing.

Housing Services' major achievements in 2016/17 include:

- completed the construction of three new flexible housing residences in Finley, Condobolin and Coonamble
- the sale of 45 surplus residences, contributing \$4.37 million towards future capital projects
- \$3.1 million in major works on 46 residences to improve the quality of accommodation
- the continued successful delivery of the Strategic Asset Plan which offers teachers greater choice in where they can live and improves asset utilisation and cost management
- awarded the Broken Hill City Council Heritage Award – New Development for its 363 Sulphide St project
- managed a 35 per cent teacher turnover for accommodation from 1 December 2016 to 28 February 2017.



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Artist's impression of 32 Mann St, Gosford

Property Financial Services

Our Finance team is responsible for measuring and analysing the financial performance of the Property and Advisory Group, as well as administering the group's financial transactions and providing financial and administrative support to the group.

This includes the management of all financial data relating to owned real estate, managed leases and all projects undertaken by the group. The team is instrumental in developing and delivering financial forecasts, business and project budgets as well as group-wide asset plans and analysis.

Our Finance team members provide practical advice across financial planning, property accounting, transaction management, project accounting and business analytics.



The award-winning Yamba Sewerage Augmentation project.

Public Works Advisory

Public Works Advisory (PWA) provides a broad range of infrastructure advisory, project management and engineering services across NSW to assist state and local government clients to deliver, manage, operate and maintain the State’s critical infrastructure. The division uses its expertise in planning, design, and delivery and maintenance of infrastructure projects to assist clients to maximise value, minimise costs and manage risks for their infrastructure programs.

PWA is accredited under the NSW Government Agency Accreditation Scheme for Construction to manage the planning and delivery phases of capital works project procurement greater than \$1.3 million.

The division’s specialised services include:

- program and project management
- engineering emergency management
- heritage asset management advice
- precinct development advice and assurance
- infrastructure delivery and life-cycle management support for regional clients
- water and environmental infrastructure advice and support
- procurement advice for public construction works and related services.

PWA’s performance has been recognised in a number of

recent awards, including the 2017 Australian Water Association NSW Infrastructure Innovation Award for the Yamba Sewerage Augmentation project (won jointly with Clarence Valley Council and DPI Water), and the 2017 National Trust Heritage Conservation Award for the restoration of the Choragic Monument of Lysicrates in the Royal Botanic Gardens.

In 2017, through its statewide network of 18 offices, PWA worked on more than 1,500 projects, with a combined capital value of circa \$4.6 billion, for 145 state and local government clients.

Our people

Leadership – our Executive team



BRETT NEWMAN
Deputy Secretary,
Property and Advisory Group
Chief Executive Officer,
Property NSW

Brett joined Property NSW as Government Property NSW's Chief Executive Officer in April 2013 and is the Deputy Secretary of the Property and Advisory Group. He leads the NSW Government's owned and leased property portfolio, which generates revenues in excess of \$500m per annum.

Brett is Chair of the Teacher Housing Authority and the Strategic Property Transactions Committee, and participates in a number of government-wide strategic steering committees. Prior to leading Property NSW, Brett held a number of senior executive positions with organisations such as Blackstone, Westpac, Stockland, Challenger and Macquarie Bank.

Brett was awarded the Public Service Medal (PSM) in 2017 for outstanding public service to property and asset management in New South Wales.

In the past year, the Property and Advisory Group has focused on building teams that live our values – accountability, creativity and teamwork. Although our focus is on property, infrastructure advisory and place making, our teams are made up of diverse skill sets, facilitating a multi-disciplinary approach to problem solving.

As at 30 June 2017, the Property and Advisory Group employed 770 people, 69 of which were casual employees. Of those 770 people, women constituted 39 per cent of the workforce with 300 women and 470 men.

Providing equal opportunities for women and men to develop their skills continues to be a focus for the Property and Advisory Group. Of the 49 leadership roles, 13 are occupied by women and 36 by men.

The Property and Advisory Group aims to operate at least as efficiently as private enterprise, in line with our aim to deliver services that are of the highest quality. Workplace culture is an important part of how the organisation carries out its business, maintains consistency of performance and ultimately delivers the best results for Government.



LEON WALKER
Executive Director, Major Projects

Leon has been with Property NSW since July 2015 following a career in property and banking that has included roles as a chief operating officer, fund manager and project financier. He has held executive positions with Mirvac and Macquarie Group, both domestically and abroad. Since joining Property NSW, Leon has led a number of significant government projects, including: the lease of 62,000 square metres of commercial space at 4 Parramatta Square, Parramatta; the sale and leaseback of 32 Mann Street, Gosford; the strategic review and assessment of future uses for government-owned sites in the Macquarie Street East Precinct, and; the sale and leaseback of 45-61 Waterloo Road, Macquarie Park.

JENNIFER PALMER
Executive Director, Operational and Housing Services

Jennifer has a wealth of experience in business transformation and in leading people through change. She has a diverse background in both scientific and technology roles across multiple agencies and extensive experience in delivering shared corporate services. Prior to joining Property NSW, Jennifer was the program director for the Department of Finance, Services and Innovation's Great Place to Work initiative and she remains a strong advocate for engaged and effective people as the cornerstone of a successful business. Jennifer has a Master's Degree in Information and Communications Technology and retains a strong interest in business-driven technology solutions.

ADAM HOWARTH
Executive Director, Portfolio Management Group

Adam's property career includes managing portfolios for global organisations such as Westpac, Telstra and ANZ, with responsibility for providing integrated transaction, asset and facility management services. His experience extends from property acquisitions and divestment to the development and implementation of strategic property accommodation solutions and the integrated management of property services.

DENNIS SZABO
Executive Director, Commercial Transactions

Dennis has more than 20 years' experience in professional services, funds management and corporate real estate. Dennis has led Property NSW's Commercial Transactions team through a period of significant change and success since joining the organisation in January 2014. Dennis has a background in senior management roles with Westpac and Pricewaterhouse-Coopers.

BILL FRITH
Executive Director, Strategy

Bill has over 25 years' experience working with global organisations in the development and implementation of their business strategies. Bill joined Property NSW from Recall, where he was the Senior Director of Investor Relations. Prior to taking up the role at Recall, Bill spent 10 years working for Deutsche Bank in London. During his career, Bill has executed transactions worth more than \$50 billion dollars.



SAM ROMANIUK
Executive Director, Place Management

Sam has more than 20 years' experience in strategy, portfolio management, corporate development and direct property investment. He leads the Place Management division which is responsible for managing State-significant precincts, including The Rocks and Darling Harbour. Sam joined Property NSW in August 2013 and initially held the position of Executive Director, Strategy. Prior to joining Property NSW, Sam held several senior executive roles at Stockland.

ANNA WELANYK
Executive Director, Valuation Services

Anna has over 25 years' international property experience delivering strategic and operational solutions for large scale portfolios, specialising in business transformation, business improvement and outsourcing. Anna has significant experience in portfolio planning, asset and facilities management, leasing and capital works programs. Anna held executive-level roles with CBRE in London, Amsterdam and Sydney, before her appointment as Executive Director of the Portfolio Management Group in February 2014, where she led a major transformation program. Anna was appointed Executive Director, Valuation Services, in July 2016, successfully delivering customer service and business improvement initiatives.

STEVE GRAY
Acting Executive Director, Leasing

Steve has 25 years' experience in asset and funds management with major Australian private and public sector institutions including the NSW Government, DEXUS, Stockland and Colonial First State Asset Management. Steve has strong asset management, leasing, transaction and development skills and extensive working relationships throughout Australia and the Asia Pacific. Steve joined Property NSW's Place Management division as a project director in March 2017 and was appointed Acting Executive Director, Leasing, in May 2017.

STUART CRAWFORD
Executive Director, Property Financial Services

Stuart has more than 20 years' experience in financial and operational management and worked as a senior executive in the property, private equity, investment banking and finance industries. Since joining Property NSW in July 2014, Stuart has managed the financial and managerial reporting for the group's business portfolio. He has provided practical advice to the agency and other stakeholders regarding the financial and accounting implications of property strategies.

STUART PICKERING
Executive Director, Public Works Advisory

Stuart has more than 30 years' experience in capital development, strategic asset management and facilities operational management across the public and private sectors. He has held executive and director-level positions for various organisations, including the Coles Group, and the Queensland and Victorian state governments across the arts, state development and health portfolios. Stuart was appointed to head of Public Works Advisory in July 2016 to assist government agencies to optimise their asset solutions.

Our performance

Key highlights for the Property and Advisory Group in the 2016/17 financial year

The successful identification, review, and sale of \$507 million of underutilised assets in Sydney and regional NSW. This includes \$166 million raised for new community housing through the sale of Millers Point properties.

\$507m

Continued implementation of the Government's Decade of Decentralisation policy on office accommodation. To date, there has been a 36,063m² reduction of CBD office space, resulting in the relocation of 2,800 government employees to suburban and metropolitan areas.

36,063m² ↓

Improved office space utilisation for the Property NSW-managed portfolio from 15.3m²/FTE to 15.1m²/FTE.

15.1m²

Increased visitation to 40.5 million across The Rocks and Darling Harbour precincts¹, with a colourful mix of some of the city's biggest and most popular events.

40.5m

Valuation Services completed over 2.5 million valuations. This included residential, business, rural and industrial land.

2.5m +

\$1.5 trillion is the total land value assessed by Valuation Services.

\$1.5t

Waste Assets Management Corporation received and processed 607,593 tonnes of solid waste materials.

607,593

The total return of the group's commercial property portfolio.

15.1%

Maintained very low vacancy rates for our commercial portfolios (0.81%) across the CBD, metropolitan and regional areas.

0.81%

Housing Services, which includes the Teacher Housing Authority of NSW recorded a Net Promoter Customer Service Index of +18, a reflection of its commitment to deliver education accommodation services in remote communities.

+18

The Property and Advisory Group advised and supported projects with a total value of \$14.2 billion.

14.2b

27

¹ Electronic people counters are installed in key locations in The Rocks and Darling Harbour. The counters emit an infrared beam so each time a pedestrian breaks the beam, a people movement is registered. Calibration and expansion calculations are applied to raw counts to ensure that final figures estimate total pedestrian flow. These figures may include repeat visits made by visitors, workers and residents.

Performance overview

Commercial Portfolio Utilisation

Property NSW ensures that the managed property portfolio best supports core service delivery of agencies, by:

- ensuring that space is well utilised
- minimising rental cost by leveraging the bargaining power of Government
- maximising precinct value
- maximising efficiency of landfill operations; and
- providing quality housing services for teachers

Utilisation²: In 2016/17, the total portfolio under Property NSW³ management saw office space utilisation improve from 15.3m²/FTE to 15.1m²/FTE. This covers both owned and leased properties, and is a result of improved Property NSW policies and processes.

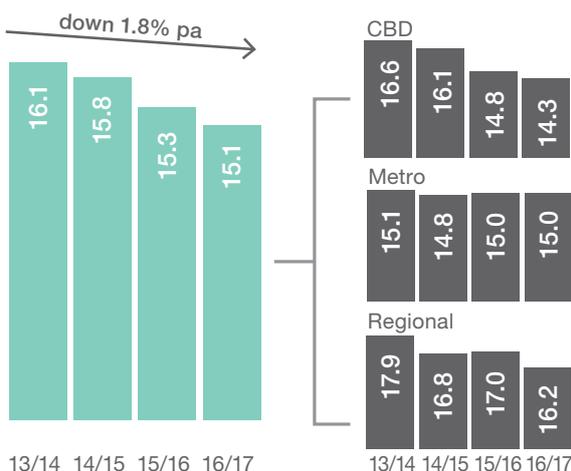
During 2016/17, the largest improvements were in CBD assets, with a 0.5m²/FTE decrease, on average, in utilised space. The NSW Government's long-term target is 13m²/FTE⁴, and the continued downward trend reflects the effectiveness of collaboration between Property NSW and agencies in recognising and delivering opportunities for improved utilisation.

Utilisation improvement has a significant ongoing impact on total rental cost as leases are renewed. Given the significant staffing base working in properties managed by Property NSW, the 0.4m²/FTE utilisation reduction achieved could represent over 23,000m² (approximately three per cent of the leased portfolio) in reduced space.

For the Property NSW-managed portfolio, including operational space, total utilised space per FTE in both the CBD (15.2m²/FTE) and Metro (15.7m²/FTE) portfolios have improved over the financial year by 0.5 m²/FTE and 0.2m²/FTE, respectively. Both CBD and Metro utilisation rates are ahead of their respective benchmarks⁵ of 18.8m²/FTE and 17.8m²/FTE, respectively.

Leased Portfolio Rental Costs: As the size of the leased portfolio grows (through both asset sales and changing government priorities), managing the average rental costs of commercial leases becomes increasingly important. Property NSW seeks to add value through employing a greater collective bargaining power than individual agencies would have in order to deliver both lower and more stable rental costs for the Government.

Utilisation excluding operational space (m²/FTE)



In 2016/17, Property NSW facilitated accommodation changes in the CBD prime market, resulting in an increased average rental cost⁶ from \$623/m² to \$640/m² for that class of occupation, an increase of 2.7 per cent. Across the owned and managed portfolio there has been a marginal increase of 0.8 per cent in the cost per square metre, well below the CPI increase for the year.

2 Property NSW uses accepted industry standards in calculating utilisation results. It should be noted that temporary vacancies due to lease expiries, building refurbishments, agency downsizing, etc., can affect year-on-year figures. Property NSW numbers are reliant on the accuracy of agency staff numbers which are collected annually through an employment survey.
 3 Commercial property statistics, comprise 99 per cent of the commercial office NLA managed by Property NSW.
 4 Utilisation target of 13m²/FTE, implemented under the ERC minute, is exclusive of operational space. This is reflected in the figures.
 5 BIS Shrapnel Sydney Commercial Property Prospects – Supply & Demand for Sydney CBD and Metropolitan office space – 2017.
 6 JLL Office Financial Indicators – Prime Gross Effective Rent (\$/m²) – Q2 2017.

Commercial Portfolio Performance

Property NSW's main aim in property management is to ensure agency accommodation supports the delivery of core services. This requires a certain level of property ownership across Government, where service delivery is dependent on the continuity of asset ownership and the ability to structure fit-outs and other accommodation arrangements to enhance service delivery.

Accordingly, Property NSW seeks to manage returns and expenditures of capital assets as secondary and supporting goals, rather than optimising portfolio returns at the expense of wider objectives. The asset performance included in this section contains only commercial properties in order to provide accurate benchmark comparisons.

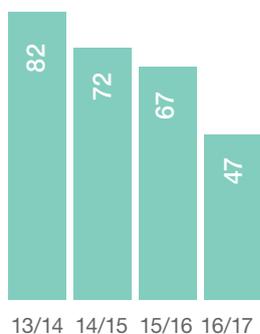
Total returns: The total return this financial year for Property NSW was 15.1 per cent. The commercial portfolio is ever-changing due to divestments and new vestings from other Government agencies. It has outperformed the benchmark⁷ predominantly due to assets located in the Sydney CBD and Metro markets.

Commercial Property Portfolio⁸ Total Returns (% pa)



The five-year rolling **capital expenditure** on the commercial portfolio has fallen as Property NSW continues to focus on the capital maintenance of strategic assets required to be held for the long term or requiring immediate expenditure. In 2016/17, the five-year rolling capital expenditure average (\$47/m²) was below the benchmark.

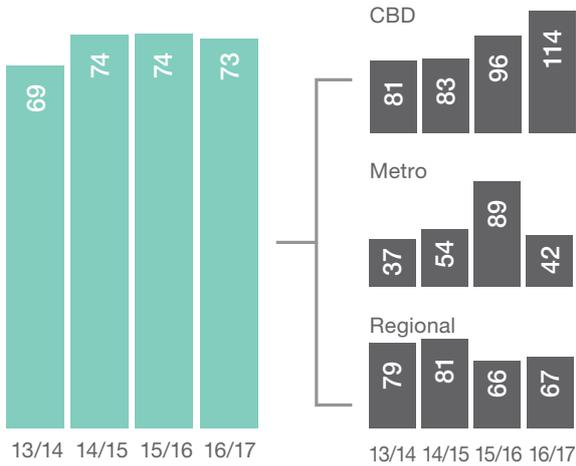
Commercial Property Portfolio Capital Expenditure (\$/m²)



Our focus continues on **operating expenditure** for commercial assets. In 2016/17, the average operational expenditure per square metre increased broadly in line with the market across the entire portfolio.

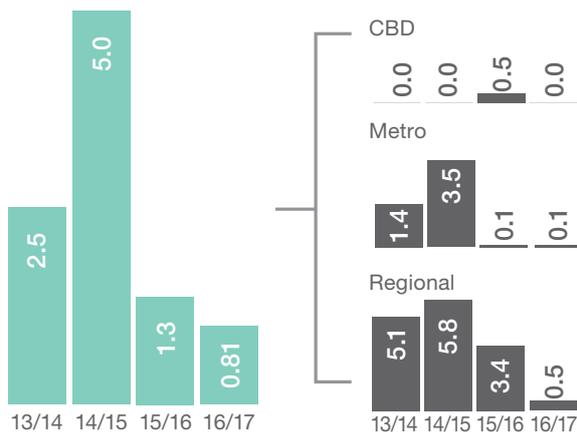
⁷ Returns have been calculated having regard to passing rents, capital expenditure and changes in market value. Total Commercial Properties Benchmark Source – IPD Australian Quarterly Digest for secondary office.

Commercial Property Portfolio Operating Expenditure (\$/m²)



Property NSW has continued to maintain very low vacancy rates for owned commercial properties, with CBD vacancy at 0.0 per cent⁸ versus a 5.9 per cent benchmark⁹, and the Metro areas at 0.0 per cent versus a 6.4 per cent benchmark¹⁰.

Commercial Property Portfolio Vacancy Rate (%)



The vacancy rates for the Property NSW owned and leased portfolios is 0.81 per cent. This includes 603 properties leased from external landlords.

Retail Portfolio Performance

Property NSW manages significant retail leases in The Rocks and Darling Harbour precincts, including over 200 stallholders at The Rocks Markets.

The Rocks, Circular Quay, and Darling Harbour are significant cultural and heritage precincts for Sydney, NSW, and Australia. They are popular destinations for local and international visitors and contribute significantly to the State's economy.

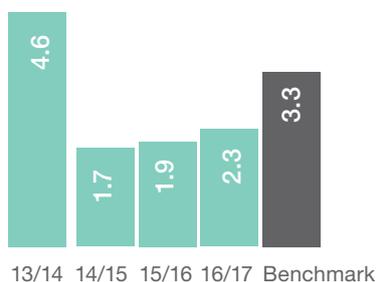
Over 14.5 million people movements were recorded in The Rocks in 2016/17, with people enjoying the entertainment, shopping and dining experiences on offer. This was in line with the people movements in the previous year.

In Darling Harbour, 25.9 million people movements were recorded in 2016/17. This was in line with people movements of the previous year.

Despite significant construction activity, tenant sales growth in Place Management's retail portfolio has increased by eight per cent over the past year. This represented a significant growth in food and beverage tenants.

Vacancies for retail spaces continue to remain low in comparison to the Sydney CBD benchmark of 3.3 per cent¹¹.

Retail Vacancy (%)



8 Source data: GPNSW from MRI database as at 30 June 2017.

9 Sydney CBD Benchmark source – PCA 2017 Office Market Report - Jul

10 Metro (suburban) Benchmark Source – BIS Shrapnel Non CBD Vacancy Rate, December 2017.

11 Retail Benchmark source – JLL Sydney CBD Prime Retail Vacancy Rate, June 2017.

Sydney International Convention Centre

Darling Harbour's new Sydney International Convention Centre, formally known as ICC Sydney, has generated substantial economic benefits for the State since it opened in December 2016.

The NSW Government delivered the \$1.6 billion, world-class convention, exhibition and entertainment facilities through a public-private partnership. The opening of the ICC has established Sydney as a preferred destination for events in the Asia Pacific region. The centre has contributed strongly to the 40.5 million visitor numbers across the Darling Harbour and The Rocks precincts for this financial period.

Waste Portfolio Performance

The Waste Assets Management Corporation (WAMC) operates one open landfill site at Eastern Creek 2, and is managing its rehabilitation and maintenance post closure. WAMC continues to manage the rehabilitation and maintenance of eight other closed landfill sites at Thornleigh, Merrylands, Grange Avenue, Eastern Creek 1, Castlereagh, Harrington Quarry, Lucas Heights 1 and Belrose.

In addition, WAMC monitors and manages leachate treatment facilities at both the open and closed landfill sites, and manages joint venture landfill gas and energy systems to supply electricity into the grid as a sustainable and renewable energy source. WAMC received 607,593 tonnes of solid waste materials at its operating landfills during the reporting period. This was 13 per cent above the budgeted volume of 540,000 tonnes (WAMC's customers delivered additional tonnes to meet its commercial and operational objectives).

Housing Portfolio Performance

As at 30 June 2017, Housing Services' (including the Teacher Housing Authority) portfolio consisted of 1,282 properties, including 106 residences under management (owned by the NSW Department of Education). During the year, the average occupancy rate was 84.4 per cent (87.8 per cent in 2015/16). The teacher utilisation rate, a more accurate efficiency indicator, marginally decreased from 76.8 per cent to 74.4 per cent. Where a property is vacant due to a lack of teacher demand, the THA (through its managing agents) lease it to a private tenant.

The THA completed the construction of two new residences for a total capital cost of \$0.3 million. Two new blocks of land were acquired in Menindee and Brewarrina. Forty-five properties, deemed surplus to needs, were sold during the year, contributing \$4.3 million toward the supply of new teacher housing.

Valuation Services

NSW experienced a strong year for land values, with increases across all property sectors. Valuation Services, on behalf of the Valuer General, delivered more than 2.5 million valuations to the Office of State Revenue (OSR), councils and landholders over the 2016/17 financial year. The total land value for NSW, as at 1 July 2016, increased by 11.1 per cent to approximately \$1.5 trillion. About 48,000 property sales across NSW were analysed to determine 1 July 2017 land values.

The annual quality assurance program conducted by Valuation Services is used to monitor and report performance, as well as to identify new or improved systems and processes. Over the 2016/17 financial year, Valuation Services identified and made a number of system and procedural enhancements that have improved valuation quality and reduced risk. This included new data integrity checks and the delivery of exception reports. Technical instructions were also updated to provide better direction to contract valuers.

Customer service is managed by a specialist customer service team within Valuation Services.

Key performance indicators for the valuation system are reported in the NSW Valuer General Annual Report 2016/17.

Public Works Advisory (PWA) Portfolio Performance

PWA generated \$77.2 million in revenue in the 2016/17 financial year.

Assurance for Infrastructure NSW's Restart NSW programs

PWA provided assurance for Infrastructure NSW's Restart NSW regional programs, including ensuring project performance and grant expenditure met objectives across 135 projects. Specific projects delivered through the Water Security for Regions, Resources for Regions and Fixing Country Roads programs include the \$13 million Portland Sewerage Wastewater Treatment Plant redevelopment; the \$35.8 million Orange to Carcoar water security pipeline; and the \$1.8 million widening of the Bogon Way in Parkes Shire.

Supporting the delivery of key infrastructure and facilities

PWA provided strategic advice and project delivery management and assurance across more than \$890 million worth of infrastructure assets and facilities to support outcomes in the education, health, transport and justice sectors.

Highlights for the financial year included:

- providing project management and assurance services for the fit-out of the NSW State Emergency Service's (NSW SES) new headquarters in Wollongong
- providing a range of services to help the Hunter New England Local Health District deliver a new state-of-the-art, \$14 million paediatric intensive care unit for John Hunter Children's Hospital in Newcastle
- providing project management, engineering and specialist technical services to the Roads and Maritime Service for two critical road projects (an innovative dewatering and monitoring system to reduce the landslide risk on a high-risk section of the Princess Highway at Mount Ousley and the \$5 million Bulli Pass Landslide Barrier project to provide improved road safety and slope stability to Bulli Pass).

Protecting and restoring NSW heritage assets

PWA delivered the Minister's \$12 million Stonework Program which consisted of the restoration of 14 significant heritage assets across NSW. PWA provided agencies with specialist heritage stonework assessments, as well as technical and adaptive reuse expertise to ensure appropriate repairs and restoration of heritage assets. Significant projects in 2016/17 included works at Sydney Hospital, Bathurst Court House, the Art Gallery of NSW, and Jerry's Plains Public School.

PWA also established the Built Heritage Conservation Consultants and Building Contractors Prequalification Scheme to enable government agencies to commission high-quality services for built heritage conservation from prequalified providers.

Supporting water utilities in Regional NSW and the Department of Primary Industries Water

PWA supported local water utilities in their provision of sustainable water supply and wastewater services to communities throughout regional NSW. During 2016/17, PWA assisted 15 regional councils to develop Integrated Water Cycle Management Plans. These plans detail a local water utility strategy for providing appropriate, affordable, cost-effective and sustainable urban water services that meet community needs and protect public health and the environment. PWA worked on 130 water supply and sewerage projects with a combined capital value of \$429 million. It also provided specialist services for 26 dam projects, ranging from the development of dam safety emergency plans to the planning, investigation and design of dam safety upgrades.

PWA also supports the Department of Primary Industries Water with the delivery of its extensive water programs and the successful implementation of its key water reforms, including the NSW Government's commitment to the Murray Darling Basin Plan.

Programs during the 2016/17 financial year included:

- Broken Hill Long Term Water Supply Project
- Sustain the Basin Program
- Water Resource Plans
- Basin Pipe Implementation
- Nimmie Cairo Environmental Water Delivery
- Menindee Lakes Regulator Program

Emergency engineering services coordination and Natural Disaster Relief Assistance administration

PWA coordinates the Engineering Services Functional Area under the State Emergency and Rescue Management Act 1989 and the State Disaster Plan. This provides engineering coordination, assistance and technical advice to emergency combat agencies, including NSW Police, Fire & Rescue NSW, NSW SES, and any other functional area involved in the emergency response phase. PWA coordinated the engineering services functions for 28 emergencies across NSW, including the Sir Ivan bushfire in the Warrumbungle Shire, and the North Coast floods.

In 2016/17, PWA administered the Natural Disaster Relief Assistance Program to local councils on behalf of the Office of Emergency Management. This involved recommending a total of \$23.1 million in 29 payments, and issuing 16 grant offers with a value of \$13.3 million.

Financial Performance

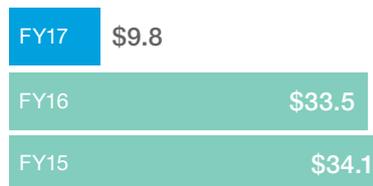
The Property and Advisory Group will report combined results for the first time, which includes Property NSW, Place Management NSW, Waste Assets Management Corporation, Teacher Housing Authority of NSW, Valuation Services and Public Works Advisory.

Comparison years will exclude Valuation Services and Public Works Advisory which joined the group in 2016.

Net Result (\$m)

\$9.8m

Excludes contribution to Restart NSW fund and capital grants.



In 2016/17, the group recorded an operating surplus of \$9.8m against a budget deficit of \$47.3m. The fall in Net Result has been impacted by the opening of ICC Sydney (with associated depreciation and finance charges) offset by fair value increments on investment properties revaluations across both Property NSW and Place Management NSW portfolios.

Financial Distributions (\$m)

\$189.5m



Financial distributions to Government comprised of \$46.2m from surplus income on operations, \$137.8m in capital repatriations and \$5.4m contributed towards the Restart NSW fund. Prior years have included significant sales of owned assets that contributed to the Restart NSW fund.

Capital Program (\$m)

\$174.4m

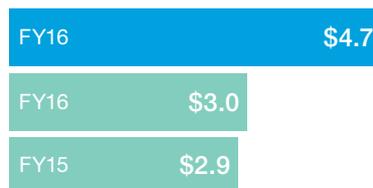


Capital program projects in 2016/17 comprised of works on the renewal and upgrading of owned buildings, works to protect and enhance the Sydney Harbour foreshore, works of a regulatory compliance nature, minor works on corporate systems, and equipment purchases.

The increase in capital expenditure is a result of the acquisition of two sites at Royal North Shore Hospital for the Department of Health for \$155 million.

Total Assets (\$bn)

\$4.7b



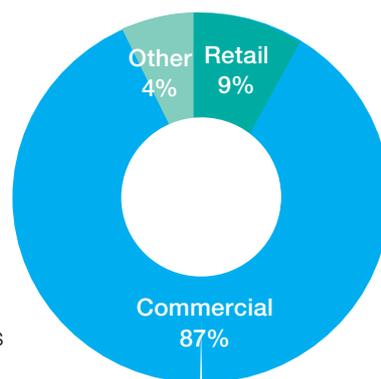
Property and Advisory Group retains a healthy balance sheet position at 30 June 2017, with the ratio of total assets to total liabilities standing at 2.3:1 and net assets totalling \$4.7b (\$3.0b at 30 June 2016).

The increased value in Total Assets is primarily from the recognition of the Sydney International Convention Centre (\$1.6b) in Place Management NSW.

Asset revaluations (\$214.8m) and newly vested properties from other agencies (\$30.2m) also contributed to the increased balance sheet.

Revaluations

\$214.8m



Major contributors to the \$214.8m net revaluation movement in the group's portfolio were 52 Martin Place, Sydney (\$43m), 43-61 Waterloo Rd, Macquarie Park (\$14m), Smalls Rd, Ryde (\$9.5m) and 5-9 Lord St, Botany (\$9m).

The group's property portfolio continued to benefit from the strong growth in commercial demand over the 2016/17 financial year.

Financial Performance Summary

	2015/16 actual \$'000	2016/17 actual \$'000	2016/17 budget \$'000	2016/17 variance \$'000	2017/18 budget \$'000
Operating result					
Expenses	980,066	1,123,747	1,016,651	(107,096)	1,355,282
Revenues	792,324	1,195,270	1,084,628	110,643	1,155,818
Other Gains/(Losses)	13,050	64,037	39,722	24,315	62,273
Net operating result – surplus/(deficit)	(174,692)	135,560	107,699	27,861	(137,191)
Revaluations	176,556	214,847	-	214,847	-
Total comprehensive income	1,864	350,407	107,699	242,708	(137,191)
Financial distributions					
Normal Distribution	4,089	46,227	43,432	2,795	52,308
Capital Repatriation	62,500	137,805	282,399	(144,594)	193,187
Restart NSW Grant Payments	200,202	5,444	-	5,444	171,294
Total financial distributions	266,791	189,476	325,831	(136,355)	416,789
Financial position					
Total Assets	2,999,652	4,738,542	4,124,446	614,096	4,479,109
Total Liabilities	476,476	2,098,700	1,937,834	(160,866)	1,933,154
Net Assets/equity	2,523,176	2,639,842	2,186,613	453,229	2,545,955
Capital program					
Acquisitions	-	158,200	155,000	3,200	75,200
Property Refurbishment & Other	38,317	16,175	92,817	(76,642)	80,119
Total capital program	38,317	174,375	247,817	(73,442)	155,319

Note - figures have been rounded up and down, where appropriate.

Performance against Budget

All Property and Advisory Group entities delivered a strong overall result for the group ahead of budget without compromising on services delivered to the people of NSW.

The net operating result for the group was impacted positively by \$214.8m in revelations. The Property NSW owned commercial properties delivered an exceptional total return of 15.1 per cent across the portfolio.

Housing Services continues to deliver accommodation to teachers in rural areas within tight capital and operating expenditure budgets.

Valuation Services has managed to maintain budgetary constraint while meeting additional costs from the proposed Fire Emergency Services Levy.

Public Works Advisory continues to deliver transformation of its business model ahead of schedule and budget.

Budget Overview

The Property and Advisory Group forecast a 2017/18 budget loss of \$137.2m. The major contributor to the decrease in the net operating result is forecasted grant payments to the Restart NSW fund of \$171.3m for owned asset sales in Property NSW.

In addition, \$193m is expected to be repatriated for owned asset sales from Place Management NSW over the year.

Grant funding of \$75.2m is expected to fund the construction of office premises on the sites acquired in the previous year at the Royal North Shore Hospital in St Leonards.

The 2017/18 budget will reflect a wind down of activities for WAMC due to the closure of the Eastern Creek site.

It also reflects a full year's result from the newly opened ICC within Place Management NSW which opened in December 2016.

Financial Performance – Statutory Bodies

	2015/16 actual \$'000	2016/17 actual \$'000	2016/17 budget \$'000	2016/17 variance \$'000	2017/18 budget \$'000
Property NSW					
Expenses	717,017	561,855	529,408	(32,447)	733,695
Revenues	530,327	725,568	684,143	41,425	652,172
Other gains/(losses)^	(5,934)	(3,102)	-	(3,102)	(300)
Net operating result – surplus/(deficit)	(192,624)	160,611	154,735	5,876	(81,823)
Place Management NSW					
Expenses	137,656	283,049	222,595	(60,454)	433,131
Revenues	126,366	204,191	159,054	45,137	346,391
Other gains/(losses)^	18,720	64,864	37,569	27,295	54,561
Net operating result – surplus/(deficit)	7,430	(13,994)	(25,972)	11,978	(32,179)
Luna Park Reserve Trust					
Expenses	1,682	4,398	1,577	(2,821)	1,964
Revenues	1,917	5,128	1,855	3,273	1,969
Other gains/(losses)^	-	-	-	-	-
Net operating result – surplus/(deficit)	235	730	278	452	5
Waste Assets Management Corporation					
Expenses	103,885	107,671	95,547	(12,124)	21,842
Revenues	116,381	113,480	99,197	14,283	21,291
Other gains/(losses)^	225	13	-	13	-
Net operating result – surplus/(deficit)	12,721	5,822	3,650	2,172	(551)
Teacher Housing Authority					
Expenses	19,826	20,113	20,510	397	20,139
Revenues	17,333	17,358	17,406	(48)	17,218
Other gains/(losses)^	39	(229)	(437)	208	-
Net operating result – surplus/(deficit)	(2,454)	(2,984)	(3,541)	557	(2,921)
Valuation Services*					
Expenses	n/a	50,268	52,177	1,909	56,861
Revenues	n/a	52,329	53,657	(1,328)	54,183
Other gains/(losses)^	n/a	2,399	2,590	(191)	8,012
Net operating result – surplus/(deficit)	n/a	4,460	4,071	389	5,334
Public Works Advisory*					
Expenses	n/a	96,393	94,837	(1,556)	87,650
Revenues	n/a	77,216	69,315	7,901	62,594
Other gains/(losses)^	n/a	92	-	92	-
Net operating result – surplus/(deficit)	n/a	(19,085)	(25,522)	6,437	(25,056)

Note - figures have been rounded up and down, where appropriate.

* Valuation Services and Public Works Advisory agencies were transferred to Property and Advisory Group during FY2016/17.

^ Other gain/(losses) exclude gains and losses due to fair value revaluations which has been reported separately.

Environment and sustainability

The Property and Advisory Group recognises the need to responsibly use natural resources in a sustainable way and in accordance with the *NSW Government Resource Efficiency Policy July 2014 (GREP)* and *NSW Energy Efficiency Action Plan August 2013*.

The delivery of sustainability outcomes is imperative to Property NSW for its assets portfolio. Its key objectives in this area are to improve resource and operational efficiencies while reducing costs for properties owned and leased for government agencies.

Property NSW will realise savings by:

- building and occupying assets which achieve NSW GREP requirements
- driving performance on leased sites with green leases
- integrating sustainability requirements in all relevant capital works, and
- ongoing improvements in operational efficiency to reduce energy, water and waste costs at owned and leased sites.

FY16/17 Key Outcomes

- **NABERS energy ratings** – 59 per cent of rated Net Lettable Area (NLA) during FY16/17 was at, or above, 4.5-star rating. Goonellabah office achieved the highest NABERS energy whole building rating in Australia, 6 stars, without green power
- **NABERS water ratings** – 52 per cent of rated NLA valid during FY16/17 was at, or above, 4-star rating. Grafton Government Office Building was one of the four most water-efficient offices in Australia, achieving a 6-star NABERS water rating
- **Green lease coverage** – about 299,000m² of NLA was in buildings with a green lease
- **Utility analytics platform trial** – the trial, in collaboration with NSW Procurement, provided detailed energy usage analytics to facility managers and contractors, enabling them to take proactive action on improving operational efficiency at sites. The \$50,000 in annualised savings and cost benefits support a portfolio-wide implementation of such a platform
- **Sewage discharge** – a review led to \$5,000 in ongoing annual savings for seven properties
- **Electricity tariff savings** – \$5,000 saving achieved through identification and implementation of tariff changes
- **GREP targets** – Property NSW reported against these targets for the first time in the 2016/17 financial year
- **OEH grants** – Property NSW received \$25,000 in funding to undertake an LED lighting upgrade and installation of a 10 kilowatt rooftop solar system at 79 Conway St, Lismore.

NABERS Ratings – Owned Assets

The GREP requires all NSW Government-owned office buildings with an NLA of over 2,000m² to be rated under the NABERS energy and water rating scheme with a view to achieving a 4.5-star NABERS energy rating and a 4-star NABERS water rating (where cost effective) through continuous operational improvements and energy-efficiency upgrades. As shown below, 39,648m² of rated floor space within 11 offices was subject to these targets. Sixty-two per cent of this floor space (six buildings) achieved the 4.5-star NABERS Energy rating and 45 per cent of this floor space (seven buildings) achieved the 4-star NABERS Water target.¹²

NABERS
Energy 4.0 ★

NABERS
Water 3.8 ★

NABERS rating building list and outcomes¹³

Site Name	Rated Area (m2)	NABERS Energy Rating	NABERS Water Rating
Sydney, 35-39 Bridge St	12,469	4.5	3.5
Sydney, 453-463 Kent St	3,866	1.5	1.5
Bathurst, 140 William St	3,127	4	5.5
Lithgow, 61 Railway Pde	2,831	3.5	2.5
Grafton, 49-51 Victoria St	2,774	5	6
Sydney, 121 Macquarie St	2,730	4	4
Dubbo, 37-39 Carrington Ave	2,563	5	3
Parkes, 51-55 Currajong St	2,439	3	4
Orange, Cnr Anson & Kite St	2,420	4.5	5
Nowra, 5 O'Keefe Ave	2,355	4.5	5.5
Dubbo, 130 Brisbane St	2,075	4.5	4
Newcastle, 59 Darby St	1,819	3.5	4.5
Armidale, 83-85 Faulkner St	1,802	4.5	5
Goulburn, 159 Auburn St	1,511	4	4.5
Broken Hill, 32 Sulphide St	1,491	2.5	4.5
Griffith, 104-110 Banna Ave	1,271	4.5	0
Lismore East, 120 Dalley St	1,211	5.5	
Goonellabah, 608 Ballina Rd	737	6	5.5
Goulburn, 203-223 Bourke St	426	3	

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¹² Property NSW has a dynamic and diverse portfolio of assets, with new assets vested to us and existing assets being sold every year. This makes it difficult to implement a three to five year asset efficiency improvement strategy across the portfolio of owned assets. In FY15/16 we rated 15 properties, compared to 19 assets in FY16/17. This has resulted in changes to our NABERS portfolio average.

¹³ As required by the NSW GREP, the weighted average NABERS rating outcome list only includes owned assets with a NLA of more than 2000m².



The Property NSW-owned Government Office Building at Grafton was rated one of the four most water-efficient offices in Australia, achieving a 6-star NABERS water rating.

Property NSW-managed green lease sites

Property NSW is working with a growing number of client agencies and building owners to implement green lease committees to achieve resource efficiency and broad sustainability goals. The policy is to negotiate green leases for all new and renewed leases of at least two years in tenure where government agencies occupy at least 2,000m² of Net Lettable Area.

Lighting upgrades

Property NSW has completed detailed lighting assessments across 13 owned offices, and is reviewing upgrade opportunities, to reduce lighting power density below the 7W/m² GREP target. Property NSW will review all sites to identify properties with nominal lighting power density of 12W/m², or higher, for implementation of LED lighting upgrades. These upgrades will improve energy efficiency, incorporate long-term warranties, and realise electricity bill savings for all stakeholders.

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	FY 2015/16	FY 2016/17
Total area within all leased buildings that have green leases	246,890m ²	298,580m ²
Total number of leased buildings with green leases	26	36

Electrical and water equipment and appliance standards

Property NSW has incorporated GREP requirements for appliances, fixtures and fittings in its fitout guidelines and in its new building design guide. Updated guidelines were released and rolled out across managed sites to assist stakeholders to understand and comply with these new requirements.

Tracking and management of the following green lease sites began in the 2016/17 financial year:

- 323 Castlereagh St, Sydney
- 27-31 Argyle St, Parramatta
- 241 O’Riordan St, Mascot
- 19-29 Martin Place, Sydney
- 2-12 Macquarie St, Parramatta
- 93-99 Burelli St, Wollongong
- 22 Main St, Blacktown
- 106-108 Church St, Parramatta
- 237 Wharf Rd, Newcastle
- 146 Marsden St, Parramatta.

Property NSW worked with landlords and the NSW Office of Environment and Heritage (OEH) to collaboratively pilot two new innovative NABERS rating tools: Combined Energy Rating, or ‘Co-assess’, at 160 Marsden St, Parramatta, and; a new NABERS Waste rating tool at 2-24 Rawson Place, Sydney.



Eastern Creek landfill gas turbines (above left) and landfill gas extraction manifold (above right)

Waste

Leased-site waste is managed by landlords, with some landlords providing waste information through the green lease forum. In some cases, agency tenants manage their waste and have direct waste contracts.

Property NSW has identified 25 owned sites to move onto the state waste contract C9698 as a priority later in 2017. This will introduce co-mingled waste and paper/cardboard recycling services as a standard across these sites, where they are not already available, and waste reporting requirements that will track landfill diversion percentages.

Property NSW is currently working on a waste management strategy to incorporate source segregation and recycling targets for its business, including:

- introducing island bin systems for general, co-mingled, paper/cardboard and organic waste, where feasible
- installing additional recycling bins during events to encourage visitors to recycle
- providing water refill stations at major events
- encouraging tenants to use the organic food processor at The Rocks Centre shared waste facility to divert food waste from landfill
- using digital and social media marketing to promote events to reduce printed marketing material.

Purchase of six per cent green power

Property NSW purchases electricity through the NSW Procurement 777 and 776 whole-of-government contract which has a default six per cent green power component. This is aligned with the NSW GREP.

Low VOC surface coatings

Property NSW has incorporated the GREP requirement for low Volatile Organic Compounds (VOC) coatings in its fitout guidelines and new building design guide. Updated low VOC guidelines were also released to assist stakeholders understand and comply with these GREP requirements.

Renewable energy

Generator stations at the Waste Assets Management Corporation's (WAMC's) landfill sites generate 105,000MWh (megawatt hours) of renewable energy annually by processing gas generated and captured within the landfills. Green credits and renewable energy are produced and 417,000 tonnes of climate-impacting carbon dioxide atmospheric emissions are avoided.

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