

Cliff – Carlingford Roads Common Good Group

Risk Assessment of LyonGroup approach to Cliff & Carlingford Rds Residents

Attached is an analysis of the LyonGroup proposal that was put verbally to a number of residents in Cliff and Carlingford Roads earlier this week.

If you have not already done so, join our neighbours' communication list by emailing kathy.epping2121@gmail.com with your details.

RISK ASSESSMENT OF THE LYONS OPTION (\$10,000 FOR THE OPTION TO BUY OUT THE PROPERTY FOR \$2.3M WITHIN 12 MONTHS)

Following our meeting on Tuesday (9/10/12) night, I believe there are a few scenarios that could occur:

1. If the rezone doesn't occur in the next two years
2. If the rezone occurs in the next two years at 5 storeys
3. If the rezone occurs in the next two years at 8 storeys (or more, if the UAP goes ahead)

POTENTIAL SCENARIOS

The following table sets out scenarios if we take up the option

	No rezone in next 2 years	Rezone – 5 storeys	Rezone – 8 storeys
Property value	Market value – \$1.1 to \$1.3m (plus inflation)	\$2.0-\$2.5m potentially	\$2.5-\$3.0m potentially
Gain if option is exercised	\$10k (option will not be exercised if rezone doesn't occur)	\$10k + \$2.3m	\$10k + \$2.3m
Gain if option isn't exercised	\$10k	\$10k	\$10k
Loss if option is exercised	\$0	- Potential value we could get - \$2.3m - The loss of freedom from the option (time and competition from other developers)	- Potential value we could get - \$2.3m - The loss of freedom from the option (time and competition from other developers)
Loss if option isn't exercised	\$0	\$10k	\$10k
Risks	- No risks	- If option is exercised, then there is risk that the value we get will be below market value - if we enter the option, then we are locked into the option (both time and from other opportunities) - if they buy some properties, they can squeeze us - if they don't exercise the option, we won't achieve \$2.3m however they might not exercise anyway	

The following table sets out scenarios if we don't take up the option

	No rezone in next 2 years	Rezone – 5 storeys	Rezone – 8 storeys
Property value	Market value – \$1.1 to \$1.3m (plus inflation)	\$2.0-\$2.5m potentially	\$2.5-\$3.0m potentially
Gain	\$0	- \$2-\$2.5m - competition in price from other developers Ability to dictate when to sell/who to sell to/etc - can sit and wait what the actual rezone height will be	- \$2.5-\$3.0m
Loss	\$10k	- \$10k - (\$2.3m less the value we sell the land for) – the \$2.3m is unlikely to be given to us if the market value is less than \$2.3m anyway	As left, but lower chance of monetary loss
Risks	- No risks	- We will not get the \$10k - We will not achieve the \$2.3m offered (this is unlikely to be given to us anyway)	As left, but lower chance of not achieving the \$2.3m

SUMMARY OF FINDINGS

The following table summarises the risks and opportunities for us should we choose to agree to the option or forgo the option.

	Agree to the option	Forgo the option
Risks	- We lose value should the market value increase to more than \$2.3m (not unlikely if rezoning of 8 storeys occurs) - miss out on competition from other developers - Can't do anything to the property in the next 12-24 months (sell it, etc) - If Lyons choose to exercise only 7 properties thereby locking out all the lots, they will force the rest of the block to sell for less - They have all the ability to onsell the option should the market value rise beyond \$2.3m	- Other owners not collaborating and selling out (especially ones that could lock out the block) - low bargaining power for individual owners - rezoned market value is less than \$2.3m (even if we stick together) - If rezoning doesn't occur for a few years and someone sells the property (and it is bought by a developer, that gives the developer a lot more power)
Opportunities	- \$10k - \$2.3m if Lyons chooses to exercise the	- any upside on \$2.3m (if rezoning is 5storeys then \$2.3m could be the

	<p>option but if they market value is less than \$2.3m, it is unlikely they would do this, it is more likely they will only exercise this on a few key properties to squeeze the other 15 or 20 owners</p>	<p>market value, if rezoning is 8 storeys then \$3.0m could be the market value, etc)</p> <ul style="list-style-type: none"> - lower risk on issues for squeezing (if we stay as a group) - freedom around time, ability to sell to any developer thereby taking advantage of competition between developers, etc
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RECOMMENDATIONS

Recommendation 1: do not purchase option as does it not guarantee a \$2.3m sell price even if the property is worth this much because Lyons can strategically exercise their options on property lots that will give them the power to 'squeeze' the remaining properties. Our best option is to stick together and wait for more certainty around the rezoning (especially if it could rezone for more) or wait for a more concrete offer.

Recommendation 2: if owners do not wish to forgo the option premium, they can alternatively enter into a group option where Lyons must purchase all properties for \$2.3m should they choose exercise it such that no one property can be disadvantaged and be at the mercy of the Lyons. If one person breaks then it will make it far more difficult, especially if they choose to exercise their option.

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