

The Quarter Hotel - FAQ

The City of Karratha is seeking community feedback on a proposal to lease land and invest City resources into a 100-room, 4-star hotel at The Quarter Precinct.

Submissions about the proposal can be made to the City of Karratha before 5pm on 4 July 2018.

The full business case can be viewed and downloaded at: www.karratha.wa.gov.au/public-notifications

1. What are the details of the proposal?

The proposal is for the City of Karratha to purchase the land adjacent to The Quarter and lease it to a hotel developer for a 30-year term. As a component of the lease the City of Karratha would invest up to \$10 million towards fit out of the \$19.7 million hotel development. The City would recover approximately \$20 million in lease repayments and \$8.8 million in rates over the proposed 30-year lease period.

2. Why is the City putting money towards the fit out?

A hotel has been planned for this site for many years and the City is eager to see this come to fruition. Despite the interest from a number of hotel developers over recent years, the project has been unable to proceed due to difficulties in securing traditional funding through the banks. With the City's proposed investment towards fit out, the hotel development would become a commercially viable project. The City has previously made investments of this nature to enable projects to proceed such as the Qantas Club lounge and Food & Beverage offering at the Airport.

If the proposal proceeds it would provide a favourable return on investment, create jobs, and stimulate business for existing shops in the city centre.

3. Will my rates go up because of this proposal?

No.

4. How will the City fund this investment?

The investment would be funded from the City's Infrastructure Reserve which provides funding for the development of infrastructure assets in the City. None of the money in the Infrastructure Reserve comes from residential, commercial or industrial rates.

In addition to the recent purchase of The Quarter HQ, the Infrastructure Reserve has contributed to funding significant community related capital works projects over the past few years including:

- Karratha Leisureplex (\$7.59M)
- Red Earth Arts Precinct (\$24.1M)
- Wickham Hub (\$5.75M)

5. Can the City afford to invest in this sort of project?

The City currently has healthy financial reserves. In particular, the balance of the City's Infrastructure Reserve is forecast to be \$11.25M at 30 June 2018.

6. Will there be an ongoing cost to the City?

Once the Hotel is built and in operation, the City will not incur operational costs related to the running of the hotel.

7. How will the investment be recovered?

The City would recover approximately \$20 million in lease repayments and \$8.8 million in rates over the proposed 30-year lease period.

8. Will there still be enough money in reserve to fund important infrastructure upgrades in the future?

It is not anticipated that the development of the proposal will have any detrimental effect on the ability of the City to continue to fund City infrastructure and/or services in the short, medium or longer term. In addition, it is expected that lease payments would be reinvested in the Infrastructure Reserve for further capital projects.

9. Why not use the money to provide a rate cut instead?

Council's Infrastructure Reserve is for significant capital projects. \$10 million would provide the average residential ratepayer a once-off \$500 reduction in rates, and most of the benefit would go to out of town investors and large corporations.

If the proposal goes ahead the hotel would provide another long-term income stream for the City of Karratha which would further reduce Council's reliance on rates for many years to come as well as provide benefits to residents and local businesses.

10. Is it normal for local governments to invest in commercial property like this?

Although the proposal may not appear to fit the perception of 'normal' local government operations, it is consistent with Council's long term land use plans and has very clear linkages to the City's approved Strategic Community Plan 2016-2026, in particular the stated intent to ensure that public private partnerships are in place for the development of key infrastructure.

11. Is there sufficient demand for another hotel?

Independent research confirms that currently the majority of casual accommodation providers in the City of Karratha are motels. Existing hotels/motels are dated and there is a lack of quality product capable of servicing corporate demand and international tourism.

While The Quarter Hotel would likely impact occupancy and reduce pricing of existing accommodation providers, this is expected to be offset in part by increased demand for accommodation associated with tourism (particularly with the introduction of international flights) and the conference market currently being pursued by the City as part of the development of the Red Earth Arts Precinct. Progress in any of the major resource projects currently in the pipeline would create an immediate under supply of accommodation.

12. What are the benefits to the City and community?

The City has the potential to gain from this project via:

- Further progressing the delivery of the City's Vision to be Australia's Most Liveable Regional City.
- Increasing quality short stay accommodation providing an accommodation product that is not currently available within the district.
- Supporting economic development and in particular tourism.
- Further activating the city centre and supporting nearby food and beverage businesses.
- Assist in attracting major events to the Red Earth Arts Precinct.
- Anticipated marketing spend on the Hotel and the City of Karratha of \$26.3m over the 30 year life of the proposal.
- Creation of 50+ employment opportunities during construction.
- Creation of approximately 40-50 full and part time local hospitality jobs as part of the hotel operations.
- Potential for indigenous engagement in the Hotel, including support for indigenous hospitality training, promoting indigenous tourism and showcasing local indigenous art.
- Ability to retain the popular grassed area on Sharpe Avenue for civic purposes.
- Financial returns in the form of:
 - Generating a financial yield from a property investment that exceeds current bank interest available; and
 - Additional rates revenue from the development.

13. What is the design specification of the hotel?

The development proposal currently envisages the following for the hotel design:

- 4 - 4.5 star grading and specification;
- 100 rooms (gross floor area 4,730m²);
- four floors above ground level;

- 25 rooms per floor;
- two accessible rooms per floor;
- room size 26m²;
- amenity and services located at ground level.

14. Who will operate the hotel?

At the present time, it is anticipated that the hotel will be operated by Marriott International under the brand Courtyard by Marriott®.

15. What is going to happen to the grassed area?

The proposed design of the hotel retains the existing grassed area and provides additional landscaping and grassed areas throughout The Quarter Precinct.

16. Is the hotel going to have a pool?

The proposed design of the hotel does not include a pool.

17. Why not build a bowling alley or something else there instead?

The land is currently owned by LandCorp and is reserved for a hotel development. The land is not available to the City for alternative uses.

18. Will there be opportunities for local suppliers?

It is anticipated that local companies will be engaged through the construction phase of the development and in the operations of the hotel after construction is finalised. In addition, by limiting the provision of on-site food and beverage options, the proposed hotel would support existing hospitality providers in and around The Quarter Precinct.

19. Will there be any long-term job opportunities?

It is anticipated that 50+ employment opportunities would be created during construction and 40-50 full and part time hospitality jobs would be created on an ongoing basis. Local employment content would be approximately 90%.

20. What happens if the hotel isn't successful?

In the event that the developer experiences financial difficulties resulting in default on its obligations under the agreement with the City, ownership of the development would revert to the City. This means that the City's \$10M investment is guaranteed by potential ownership of a \$20M hotel development.

21. Are there any other risks?

While the returns from the proposal are potentially better than those available through term deposits, it does come with an elevated level of risk than more traditional local government investments, which tend to be long term deposits with AA rated banks, in that the City's capital is less secure than when in bank deposits and the capital investment reduces the City's liquidity limiting the potential for other capital projects and investments.

22. What are the next steps?

The indicative timeline for the project is tabled below.

Process	Timing
Consider draft Business Plan	May 2018
Community consultation	May - July 2018
Consider public submissions on Business Plan	July 2018
Execute Contract of Sale (if approved)	July 2018
Public notice regarding disposition (if approved)	July 2018
Consider public submissions regarding lease	August 2018
Execute lease (if approved)	August 2018
Submit Development Approval	August 2018
Construction commences	January 2019
Practical completion	December 2019
Opening	February 2020