

**17.1 LATE ITEM - ACQUISITION AND DEVELOPMENT OF LOT 7020 AND PART LOT 7018 WELCOME ROAD, KARRATHA**

<b>File No:</b>	<b>LP.340</b>
<b>Responsible Executive Officer:</b>	<b>Director Corporate Services</b>
<b>Reporting Author:</b>	<b>Director Corporate Services</b>
<b>Date of Report:</b>	<b>23 August 2021</b>
<b>Applicant/Proponent:</b>	<b>Nil</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s):</b>	<b>1. Business Plan – available electronically</b> <b>2. Alternative Options Assessment</b> <b>3. FAQs – available electronically</b>

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**PURPOSE**

For Council to consider public submissions in response to the City's Business Plan proposing the potential acquisition and development of Lot 7020 and Part Lot 7018 Welcome Road, Karratha and to determine whether to proceed with the proposal or not.

**BACKGROUND**

The Business Plan (Attachment 1) details the City's proposal to enter into a Major Land Transaction involving:

- acquisition from the West Australian Land Authority (DevelopmentWA) of Freehold Lot 7020 on Deposited Plan 401051 being the whole of the land in Certificate of Title Volume 2862 Folio 261;
- acquisition from the West Australian Land Authority (DevelopmentWA) of Part Lot 7018 on Deposited Plan 405188 being the whole of the land in Certificate of Title Volume 2890 Folio 100;
- construction of approximately 97 studio, one, two and three bedroom apartments, plus 1,730 sqm of commercial and civic space on the land; and
- leasing of the residential and commercial tenancies.

The proposed transaction would be developed over a period of approximately 28 months and, if developed in its entirety, would involve investment of up to \$65M of City funds (including loan funding). These funds would be recovered over time through lease payments from residential and commercial tenants.

DevelopmentWA has previously attempted to sell the land parcels on the open market, however, it has been unable to secure a purchaser with plans to develop the land in a manner that reflects the significance of the site as a defining entry point to the City Centre.

Following discussions between the City and DevelopmentWA, the City entered into an Exclusive Working Period (EWP) with DevelopmentWA for the purpose of undertaking preliminary due diligence and feasibility on the potential to develop a high quality, mixed use project on the site. The primary purpose of this was to establish how the City might be able to work with DevelopmentWA to attract investment which would deliver a development outcome consistent with the expectations of the Karratha City Centre Masterplan. RFF

Consultants was engaged to prepare a pre-feasibility analysis on the site. The key findings of the report indicate:

- significant demand for additional accommodation (both short-stay and residential) linked to forecast economic growth in the City;
- the opportunity to further explore the viability of new cultural and community infrastructure; (e.g. Museum, Art Gallery, Exhibition space, cultural centre);
- locating tourism visitor services within city centres can increase visitation and therefore viability of these services in regional communities;
- the size and narrow width of Lot 7020 is a limiting factor for development, particularly when car parking requirements are factored in. A wider Lot 7020 would enable a better development outcome;
- the overall project feasibility is challenged by the overall cost of any development in Karratha, market sentiment and access to adequate finance; and
- the capacity to attract private investment to develop the project is strongly associated with the ability to obtain large scale commitments to lease or purchase a final development outcome.

At the September 2019 Ordinary Council Meeting, Council resolved (in part) to continue to engage with DevelopmentWA and the private sector regarding options for the progression of the project. Discussions with DevelopmentWA and the private sector have indicated that the projected returns on the project would be inadequate to attract private investment.

Following further work to test the feasibility of the City investing in the project, the Major Land Transaction Business Plan was prepared for the purpose of community consultation and to inform a decision by Council on whether to proceed with the transaction or not.

As part of the feasibility assessment, Expressions of Interest (EOIs) were sought for pre-lease commitments. EOIs have been received for 10 year leases for 73 of the proposed apartments. The EOIs are primarily from State Government departments/agencies. Ray White Karratha has been engaged to work with the City to market any apartments not pre-committed through the EOI process.

The EOIs indicate demand for a mix of apartments that is different to the indicative mix included in the Business Plan. In order to ensure that the Total Development Costs (TDC) and Internal Rate of Return (IRR) associated with any change in mix are not *significantly* different from what was proposed in the Business Plan an Alternative Options Assessment was undertaken on four alternative options (Attachment 2). The assessment confirms that the TDC and IRR for each of the four options are consistent with the indicative mix included in the Business Plan.

### **LEVEL OF SIGNIFICANCE**

In accordance with Council Policy CG-8 Significant Decision Making Policy, this matter is considered to be of high significance in terms of social, economic and cultural & wellbeing issues.

### **STATUTORY IMPLICATIONS**

This proposal is considered a *Major Land Transaction* under the *Local Government Act 1995*.

Section 3.59 (2) of the *Local Government Act* states:

*Before it —*

*(b) enters into a major land transaction; or*

*(c) enters into a land transaction that is preparatory to entry into a major land transaction,*

*a local government is to prepare a business plan.*

The Act and associated regulations specify the minimum content for the Business Plan and the process that needs to be followed prior to Council entering into a major land transaction.

Section 3.59 also provides as follows:

(4) *The local government is to –*

- (a) *give Statewide public notice stating that –*
  - (i) *the local government proposes to commence the major trading undertaking or enter into the major land transaction described in the notice or into a land transaction that is preparatory to that major land transaction; and*
  - (ii) *a copy of the business plan may be inspected or obtained at any place specified in the notice; and*
  - (iii) *submissions about the proposed undertaking or transaction may be made to the local government before a day to be specified in the notice, being a day that is not less than 6 weeks after the notice is given; and*
- (b) *make a copy of the business plan available for public inspection in accordance with the notice.*

(5) *After the last day for submissions, the local government is to consider any submissions made and may decide\* to proceed with the undertaking or transaction as proposed or so that it is not significantly different from what was proposed.*

*\* Absolute majority required.*

The City sought public comment for a period of six (6) weeks on the Business Plan which was prepared in accordance with the provisions of the *Local Government Act (1995)* and the *Local Government (Functions and General Regulations) 1996*.

The Business Plan:

1. Provides the details of the proposal;
2. Outlines and responds to the legislative framework for the proposal;
3. Provides an analysis of the risks associated with the proposal (and potential mitigation strategies for those risks); and
4. Outlines the projected process and timeframes that would be used to undertake the proposal.

Although consideration of submissions and Council’s decision on whether to proceed as proposed is a major stop/go point, there are two other stop/go points where Council can review its decision and elect to continue with the project or not as follows:

<b>Stop/Go Point</b>	<b>Timing</b>
Award of Design Tender	October 2021
Award of Construction Tender	June 2022

**COUNCILLOR/OFFICER CONSULTATION**

City Officers have discussed this matter with Councillors at Councillor Briefing Sessions and formal reports regarding this matter were considered at the Council’s September 2019, November 2020 and May 2021 Ordinary Council Meetings.

**COMMUNITY CONSULTATION**

Public notice of the proposal was published in the West Australian on 9 July 2021. The notice also appeared on the City website and a copy of the Business Plan was available at the City’s Administration Building, libraries and on the City website. Posts, including FAQs (Attachment 3), were included on the City Facebook site.

No written submissions were received in response to the public notice for the proposed Major Land Transaction.

A summary of Facebook responses appears below:

<b>Reach</b>	5,425
<b>Engagement</b>	1,390
<b>Likes</b>	7
<b>Dislikes</b>	3

Seven (7) comments were made on the City’s Facebook page. Four (4) comments were themed around affordability of apartments and one (1) related to the City’s role in the development. A further two (2) responses were blocked for offensive comments.

<b>Comment Theme</b>	<b>Officer’s Response</b>
Affordability  <i>“Suggested rents are not affordable at \$1000/week”</i>  <i>“Not even paying \$1000/week in open market for 4x2 homes”</i>  <i>“Baristas, shelf stackers and bar tenders. How are they supposed to pay \$1000/week”?</i>  <i>“More apartments that people can’t afford”</i>	<ul style="list-style-type: none"> <li>• The City is currently working separately with Rio Tinto and Woodside to address affordable housing options for key service workers.</li> <li>• Proposed rent is based on current market rates with minimum rent increases based on annual CPI charges.</li> <li>• The City ascertained current rental rates for residential apartments comparing both the Pelago apartments and similar apartments in smaller complexes within the City.</li> <li>• Expressions of interest for pre-lease commitments have been received for 73 out of the 97 apartments. This is expected to free-up other properties to the rental market.</li> </ul>
City involvement  <i>“Stop wasting ratepayer money”</i>	<ul style="list-style-type: none"> <li>• The proposal has clear linkages to the City’s Strategic Community Plan 2020-2030 and achieving the vision to be Australia’s most liveable regional City.</li> <li>• It is proposed to seek debt funding for approximately 80% of the TDC.</li> <li>• Funds would be recovered over time through lease payments from residential and commercial tenants.</li> </ul>

**POLICY IMPLICATIONS**

Council’s Investment Policy: Property (CF4) provides guidance on if and when Council will invest in Property. The adopted policy includes the following statement that are relevant to this matter:

*When making decisions to invest in Property related investments one or more of the following criteria needs to be satisfied:*

- vi. *Council may invest in property to achieve key strategic goals of the Council that will deliver a broad-based benefit to the community without financial return being the key driver.*

**FINANCIAL IMPLICATIONS**

If developed in its entirety, the proposed transaction would involve investment of up to \$65M of City funds. These funds would be recovered over time through lease payments from residential and commercial tenants.

The City’s 2021/22 Annual Budget includes \$2.6M for strategic land acquisitions and \$250,000 to commence the design element of the development if approved by Council, however the full cost is not currently included within the Budget or the City’s Long Term Financial Plan.

While there is currently no specific allocation for the full cost of this project, it is proposed to seek debt funding for approximately 80% of the total development costs (indicatively \$45M but subject to confirmation). The City has had positive discussions with both the Northern Australia Infrastructure Facility (NAIF) and the WA Treasury Corporation (WATC) regarding the availability and terms of debt funding.

The City currently has healthy financial reserves which can fund the balance of the development cost. In particular, the balance of the City’s Infrastructure Reserve is forecast to be \$23.54M as at 30 June 2022.

**STRATEGIC IMPLICATIONS**

This item is relevant to the Council’s approved Strategic Community Plan 2020-2030 and the Corporate Business Plan 2020-2025. In particular, the Operational Plan 2021-2022 provided for this activity:

Programs/Services:	2.c.1.2	Land Development and Management
Projects/Actions:	2.c.1.2.20.4	Purchase of Lot 7020 Welcome Road Karratha.
	2.c.1.2.21.7	Commence design documentation for development and construction of Lot 7020.
	2.c.1.2.21.8	Facilitate the disposal of developed residential or commercial land.

Access to, and the cost of housing, is a critical issue facing residents in the City and a significant factor to achieve the City’s vision of becoming Australia’s most liveable Regional City.

Through the City’s Annual Community Survey, the cost of living and housing is consistently identified as the number one issue for Council to address. The Survey results identified that the cost of living and housing were the bottom three performing Services or Facilities overall, with most significant service delivery gaps between community expectation and performance.

The comments section of the Survey, where respondents are asked to identify the most important things for the City to focus on, included the subject of housing mentioned over 200 times, which was almost double the next most mentioned term.

The recent City of Karratha Business Climate Scorecard received 191 submissions that identified four challenges impacting local business and the ability to operate or expand. One of the critical impacts identified was the access to affordable housing for workers, resulting in an increase of 22% highlighting the importance of this issue to the respondents.

**RISK MANAGEMENT CONSIDERATIONS**

A Risk Analysis for the proposal has been undertaken and included in the Business Plan. The analysis has been undertaken using the risk matrix approach. A total of eight (8) potential risks have been identified with one (1) risk rated as low risk, six (6) risks rated as moderate risk and one (1) risk rated high. No extreme risks were identified. Mitigation strategies for all identified risks have been listed.

**IMPACT ON CAPACITY**

Additional resources will be required to address the requirements of project management and property management should the proposal proceed.

**RELEVANT PRECEDENTS**

The City is currently progressing a series of initiatives aimed at increasing housing and land supply, including:

- Construction of nine houses on lazy lands in Nickol;
- Design and construction of two houses in Jingarra Estate;
- Construction of twenty lot subdivision in Hancock Way, Bulgarra;
- Potential acquisition of up to seven lots of vacant land from the State Government in Bulgarra, Pegs Creek and Millars Well in anticipation of future housing development; and
- Service Workers Accommodation aggregation project.

**VOTING REQUIREMENTS**

Absolute Majority.

**OPTIONS:**Option 1

As per Officer's recommendation.

Option 2

That Council by SIMPLE Majority pursuant to Section 3.59 of the *Local Government Act 1995* RESOLVES to NOT PROCEED with the proposed acquisition and development of Lot 7020 and part Lot 7018 Welcome Road, Karratha.

**CONCLUSION**

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 residential housing alleviating the current undersupply and escalating rents;
- further activating the city centre and supporting nearby food and beverage businesses;
- assist in further activating the Red Earth Arts Precinct;
- creation of employment opportunities during construction;
- potential for indigenous engagement in the project, including indigenous employment in the construction and showcasing local indigenous art;
- completing the main street and complementing the Red Earth Arts Precinct; and
- financial returns in the form of:
  - Generating a financial yield from a property investment that exceeds current bank interest available; and
  - Potential capital growth over time.

No submissions were received about the Business Plan or the proposed transaction during the six (6) week notice period from 9 July 2021 to 20 August 2021 and it is considered

appropriate that the City proceed with the proposed transaction so that it is not significantly different from what was proposed in the Business Plan.

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**OFFICER'S RECOMMENDATION**

**That Council by ABSOLUTE Majority pursuant to Section 3.59 of the *Local Government Act 1995* RESOLVES to:**

- 1. NOTE that no submissions were received about the proposed acquisition and development of Lot 7020 and part Lot 7018 Welcome Road, Karratha during the six (6) week notice period from 9 July 2021 to 20 August 2021; and**
- 2. PROCEED with the proposed acquisition and development of Lot 7020 and part Lot 7018 Welcome Road, Karratha so that it is not significantly different from what was proposed in the Major Land Transaction Business Plan.**