

# Core Options Analysis The Quarter HQ

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Corporate & Commercial

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# Option 01: Divest

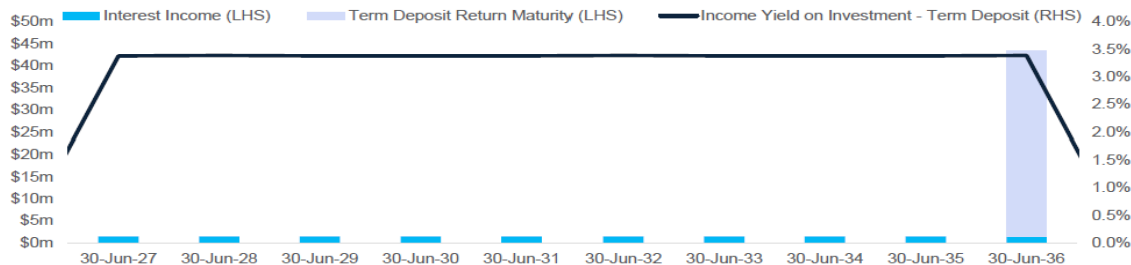
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# Illustrative Financial Scenario Analysis

## | Option 01: Divest

Divesting and reinvesting in a term deposit provides the City with low-risk, consistent returns. Under the base-case assumptions, applying proceeds to debt reduction may be financially favourable (subject to independent treasury advice and actual debt costs).

**Figure 01: Illustrative term deposit returns**



### Commentary

- Relatively low-risk, reliable and consistent returns no capital growth on the principal investment.
- The illustrative rate of return is not sufficient to meet the City's cost of capital (i.e. its cost of debt), resulting in present value of the investment being less than the amount invested.
- This illustrative scenario indicates it would be more beneficial to allocate sale proceeds to reduce any outstanding debt balances (subject to further treasury analysis and independent valuation advice), which may incur an interest higher than the rate offered by the Term Deposit.

**Table 01: Illustrative estimated sale proceeds**

Item	Value
Sale Date	1-Jul-26
Net Rent Estimate (FY27)	\$3.5m
Capitalisation Rate	8%
Capitalised Value*	\$44.2m
Less: Selling Costs	-\$2.2m
Sale Proceeds	\$42.0m

**Table 02: Assumed term deposit terms**

Item	Value
Investment Date	1-Jul-26
Investment	\$42.0m
Term Deposit Rate	3.4% pa
Term	10 yrs

**Table 03: Estimated term deposit returns**

Item	Value
Total Coupon Receipts	\$14.2m
Maturity Value*	\$42.0m
Total Proceeds	\$56.2m
NPV as at 1-Jul-26 at 4.57%	\$38.4m
IRR	3.4%

# Strategic Analysis | Option 1: Divest

## Strategic Fit

Divesting The Quarter HQ impacts the below strategic objectives of the City:

- **Reduce reliance on rates income** – provides alternative source of steady, low-risk income.
- **Diversify investment holdings** –allows an opportunity to rebalance capital through allocation of sale proceeds.

## Initial Financial Insights

- The Term Deposit rate of 3.4% is less than the City's 'risk-free' cost of capital of 4.6%.
- This indicates it would be more beneficial to allocate sale proceeds to reduce any outstanding debt balances, that incur an interest higher than the rate offered by the Term Deposit.

## Benefits and Opportunities

Divesting The Quarter HQ presents the following benefits and opportunities

- Fixed-rate term deposits offer lower-risk and stable returns.
- Alleviate staffing resources that are currently tied up with the management of the asset.
- Sale proceeds could be re-directed in part or full to fund the City's reserves and community projects (at expense of investment income).

## Key Potential Risks

### Financial

**F1.** Returns are less than other 'risk-free' investments, such as reducing debt balances, leading to risk inefficient capital allocation.

**F2.** Returns do not keep up with inflation, leading to erosion of real value over time.

### Operational

**OP1.** Reduction in revenue results in The City restricting service delivery to respond to budget pressures.

**OP2.** City resources need to be allocated to monitor and manage funds. This risk increases if short term deposits chosen.

### Other

**OR1.** Reputational risk of being misaligned with community expectations, potentially leading to heightened scrutiny of Council decisions.

## Governance and Probity Considerations

- Alignment and consideration of legislation for Major Land Transactions and relevant Council policies.
- Proposed divestment should be demonstrably in the public interest.
- Clear governance arrangements should be established regarding the treatment of the sales proceeds.

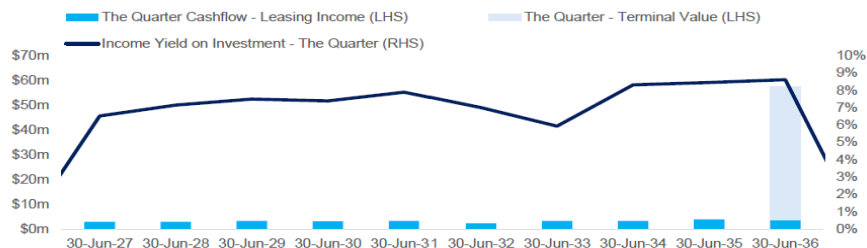
# Option 02: Retain

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# Option 02: Retain

The Quarter HQ is generating a return that reflects a premium on the City's risk-free rate to compensate for additional risks associated with ownership of a commercial property asset in a regional market.

**Figure 02: Illustrative leasing returns (indicative only)**



## Commentary

- Return profile over time reflects volatility associated with leasing costs and vacancies.
- Illustrative valuation captures revenue growth and capital appreciation reflected in terminal value\*, noting this is indicative only and not a formal valuation for reliance purposes.
- The indicative rate of return exceeds the City's risk-free rate in this illustrative scenario, reflecting modelling assumptions that incorporate additional commercial risks associated with ownership of the asset (including capital condition and leasing/income risks). Actual outcomes may differ materially depending on market and tenant performance.

**Table 04: Key leasing assumptions**

Item	Value
Investment Date	1-Jul-26
Investment Horizon	10 yrs
Commencing Net Rent	\$3.1m / \$516sqm
Commencing Opex Incurred/Recovered	\$1.6m / \$268sqm
Assumed Cap Rate	8%
Net lettable area	6.1k sqm

**Table 05: Illustrative leasing returns**

Item	Value
Estimated Value at Investment Date*	\$42.0m
Yield on Investment	5.9%-8.6%pa
Total Cashflow	\$85.8m
NPV as at 1-Jul-26 at 4.57%*	\$60.2m
The Quarter HQ – Value sqm	\$10.1k
IRR	9.7%
IRR premium to discount rate	5.2%

# Illustrative Financial Scenario Analysis |

## Option 02: Retain (Opex Sensitivity)

Operating expenses at The Quarter HQ are high relative to Property Council of Australia Benchmarks leading to a risk that expenses may not be fully recovered from Tenants over time (or net rent is reduced to compensate). Failure to recover 15% of outgoings will reduce the illustrative risk premium by 70bps.

Figure 03: The Quarter HQ Opex vs PCA FY25 Benchmark Ranges

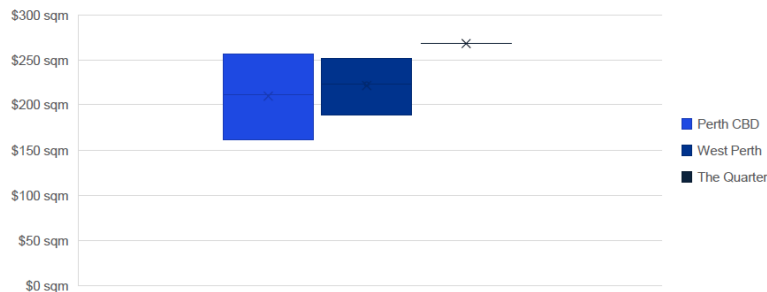


Table 06: Illustrative leasing base case vs sensitivity

Item	Base Case	15% Sens.
<b>Sensitivity</b>		
% of Outgoings Not Recovered	0%	15%
Commencing Net Rent	\$3.1m / \$516sqm	Unchanged
Commencing Opex Incurred	(\$1.6m / \$268sqm)	Unchanged
Commencing Opex Recovered	\$1.6m / \$268sqm	\$1.4m / \$228sqm
Net Operating Income	\$3.1m / \$516sqm	\$2.9m / \$476sqm
<b>Illustrative Financial Return Impact</b>		
NPV as at 1-Jul-26 at 4.57%*	\$60.2m	\$57.5m
IRR	9.7%	9.0%
IRR premium to discount rate	5.2%	4.4%

### Commentary

- Figure 03 illustrates operating expenses at the Quarter HQ are high relative to comparable benchmarks. This indicates a risk that such expenses may not be fully recovered from tenants or that over time, the City is forced to accept a reduced net rent amount to compensate prospective tenants for the high outgoings recoveries.
- Table 06 demonstrates that the impact of not recovering 15% of Opex from tenants equates to reduction in returns of 70bps.

# Strategic Analysis | Option 02: Retain

## Strategic Fit

Divesting The Quarter HQ impacts the below strategic objectives of the City:

- **Reduce reliance on rates income** – provides alternative source of revenue.
- **Diversify investment holdings** – provides exposure to commercial property market.

## Initial Financial Insights

By retaining the asset, the City:

- Continues to generate income from a strong leasing profile; and.
- Generates a premium rate of return relative to 'risk-free' cost of capital and Term Deposit rate.

## Benefits and Opportunities

- Maintain control over a scarce, strategic, revenue-producing asset in a market with few high-quality commercial alternatives.
- The ability to secure leasing rights of The Quarter HQ prior to future divestment.

## Key Potential Risks

### Financial

- F1.** Lease renewal and vacancy rates are less favourable than assumed leading to increased lease up costs and income disruption.
- F2.** Reduced liquidity reduces ability to meet short term funding obligations.
- F3.** Operating expenses may escalate ahead of net rent due to inflation, regulatory changes or asset ageing compressing income and returns.
- F4.** Unplanned capital expenditure materially impacts returns and valuation.
- F5.** Capitalisation rate expansion, driven by interest rates or investor sentiment can reduce value independently of underlying performance.

### Operational

- OP1.** Diverting resources to non-core activities reduces City performance.
- OP2.** Management of asset falls beyond City's core capabilities leading to operational inefficiency and full value of asset not being realised.

### Other

- OR1.** Perception that the City is prioritising a commercial asset over core community services reduced public sentiment and enhances scrutiny.

## Governance and Probity Considerations

- Maintain strong financial oversight and risk management, ensuring the Council has the capability to manage the asset effectively and in public interest.
- Establish strong governance structures, and transparent procurement and leasing processes that follow probity and conflict-of-interest requirements.



# Comparative Analysis

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# Comparative Analysis | Illustrative Financial Scenario Returns

The modelled scenarios indicate that, under the base-case assumptions, retaining The Quarter HQ may produce a higher illustrative outcome relative to divesting and investing proceeds in a term deposit\*. In this scenario, the model produces an indicative NPV difference of approximately \$21.8m over 10 years.

Figure 04: Illustrative Retain vs Term Deposit Estimates (Yield on Investment, indicative only)

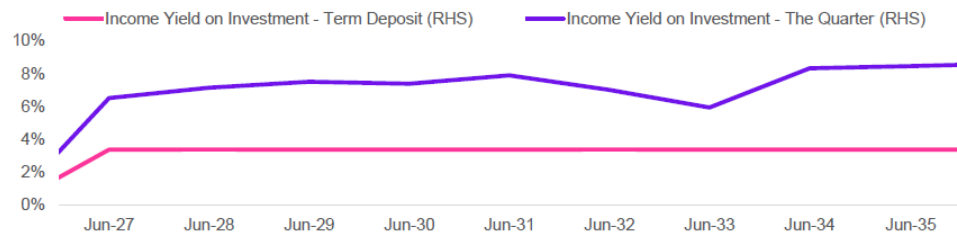


Table 07: Illustrative Value of Benefit to Retain

Metric	Divest	Retain	Benefit to Retain
Yr 1 returns (FY27)	\$1.4m	\$3.1m	\$1.7m
Capital Return at Maturity	\$42.0m	\$53.9m	\$11.9m
Total returns	\$14.2m	\$85.8m	\$71.6m
NPV as at 1-Jul-26 at 4.57%*	\$38.4m	\$60.2m	\$21.8m
IRR	3.5%	9.7%	6.3%

Table 08: Sensitivity analysis

Item	Base Case	Threshold
IRR Premium to Term Deposit IRR	6.3%	0.0%
<b>Sensitivity 1: Net cashflow buffer</b>		
% Reduction in Net Cashflow from The Quarter	0%	35%
<b>Sensitivity 2: Market down-turn Scenario</b>		
% Reduction in Net Cashflow from The Quarter	0%	27%
Capitalisation Rate on Terminal Value*	8%	10%
<b>Sensitivity 2: Lease up costs</b>		
Option Renewal Probability	50%	0%
Lease up period	6 months	31 months

## Commentary

- In the illustrative modelling, the indicative benefit of retaining The Quarter HQ reflects the difference between the modelled valuation outcome under the 'retain' scenario and the outcome produced under the 'divest and reinvest' scenario.
- Over the 10-year modelling horizon, the retention scenario produces higher indicative returns than the term-deposit scenario.
- The analysis also examines how sensitive this indicative premium is to downside scenarios.
- Table 08 outlines the key variables tested and shows the break-even 'Threshold' (i.e. the point at which the illustrative premium is fully eroded) highlighting the extent to which the result depends on these assumptions.

# Key Findings | Comparative Analysis

Below is a summary of the key findings of our comparative analysis, examining the implications, benefits, and challenges of retaining versus divesting the asset, supported by our indicative financial scenarios\*.

	Option 01: Divest	Option 02: Retain
Opportunities	<ul style="list-style-type: none"> <li>Can provide low-risk, predictable returns aligned to term-deposit rates under prevailing market conditions. (Assumes proceeds are held in a 10-year term deposit at the indicative rate used in the model.)</li> <li>Frees City resources currently required to manage a non-core commercial property.</li> <li>Simplifies operations and removes exposure to property, leasing, opex, and capex volatility.</li> <li>Enables use of sale proceeds to support reserves or fund community projects.</li> </ul>	<ul style="list-style-type: none"> <li>Indicatively higher long-run returns if base-case assumptions hold (e.g., lease renewals, vacancy/lease-up periods, opex recovery, terminal cap rate).</li> <li>Maintains a strategic, income-producing asset in a market with few high-quality commercial alternatives.</li> <li>Backed by strong Tier 1 tenancy profile and long WALE (~8.9 years including options).</li> </ul>
Challenges	<ul style="list-style-type: none"> <li>Indicative financial modelling scenarios suggest investing in term deposits may result in lower financial performance (noting this entails reduced risk).</li> <li>Loss of a strategic revenue-generating asset that may reduce reliance on rates.</li> <li>Term-deposit returns susceptible to inflation erosion.</li> <li>Potential reputational risk if sale perceived as inconsistent with strategic or community expectations.</li> </ul>	<ul style="list-style-type: none"> <li>Potential exposure to commercial property risks: vacancy, lease-renewal uncertainty, rental volatility, market yield shifts. Results are highly sensitive to unrecovered outgoings, renewal probabilities, lease-up duration and capitalisation rate movements; adverse shifts can erode the modelled premium.</li> <li>High operating expenses relative to benchmarks, with risk of unrecovered outgoings impacting net income.</li> <li>Requires ongoing management capability and diverts resources from core City functions.</li> <li>Liquidity constraints (capital locked in the asset for the long-term).</li> <li>Potential perception that Council prioritises commercial operations over community services.</li> </ul>
Summary	<i>Under the illustrative scenarios, divesting the asset may provide a more predictable, lower-volatility financial profile and simplified operations. However, this scenario also reduces the City's access to a strategic, revenue-generating asset.</i>	<i>In the illustrative retention scenario, the asset may generate higher indicative long-run returns and maintain strategic control over centrally located space that could support future workforce planning. These potential benefits are accompanied by exposure to ongoing commercial, operational and liquidity risks associated with managing a regional commercial property.</i>

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