



Item No: 19.1

File No: 5.50.1.2

Date: 18 March 2019

Attachment: A

<b>Meeting:</b>	Council
<b>Title:</b>	Masterplanning strategic sites
<b>Responsible Manager:</b>	Chief Executive Officer, Kiki Magro
<b>Author:</b>	Chief Executive Officer, Kiki Magro
<b>Key Focus Area 3:</b>	Transparent and accountable local tier of Government that is respected for its forward thinking approaches and cross-Council collaborations.
<b>Type of Report:</b>	<b>Decision Required</b>

Pursuant to Section 83(5) of the *Local Government Act 1999*, the Chief Executive Officer indicates that the matter contained in this report may, if the Council so determines, be considered in confidence pursuant to Section 90(2) of the *Local Government Act 1999* on the basis that the information contained in the attached report is information of the nature specified in subsections 90(3)(b) of the Act being that if disclosed could reasonably be expected to confer a commercial advantage on a person with whom Council may conduct business with and hence prejudice the commercial position of Council.

### **Recommendation (Public)**

#### Pursuant to s.90(3)(b)

Pursuant to section 90(2) of the Local Government Act 1999 the Council orders that all members of the public, except the Chief Executive Officer, Kiki Magro, Group Manager Asset & Infrastructure Josh Bowen, Acting Group Manager Planning, Environment & Regulatory Services Carly Walker, Group Manager Corporate Services Katy Bone, Manager Marketing & Communications Sonia DeNicola, Manager Community Development & Engagement Fiona Deckert and Council Secretariat Jayde Hanna be excluded from attendance at the meeting for Agenda Item 'Masterplanning Strategic Sites'.

The Council is satisfied that, pursuant to section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the Council may propose to conduct business and would therefore prejudice the commercial position of the Council.

In addition, Council has further considered that the information would on balance be contrary to the public interest because the disclosure of Council's commercial position may severely prejudice Council's ability to negotiate an outcome for the benefit of the Council and the community in this matter.

### Recommendation (Confidential)

1. That Council receives and notes the Oryx Property & Ekistics 'confidential – Walkerville Strategic Project – Fuller & Smith Street' report, appearing as Attachment A.
2. That Council authorises the Chief Executive Officer to undertake informal confidential market testing with the Retirement Accommodation Industry and indoor recreation providers to identify if there is market interest in developing the entire combined Smith Street and Fuller Street site as an integrated complex and report back to a future Council meeting with interest shown; *and*
3. That Council authorises the Chief Executive Officer to meet with relevant State Government Agencies to confidentially ascertain future economic development plans that may be suitable for the entire combined Smith Street and Fuller Street site and report back to a future Council meeting.

### Recommendation (Public)

#### Pursuant to s.91(7)

That having considered Agenda Item 'Masterplanning Strategic Sites' in confidence under section 90(2) and (3)(b) of the *Local Government Act 1999*, the Council, pursuant to section 91(7) of that Act orders that the report relevant to this Agenda Item be retained in confidence for a period of 4 years or until the matter has been finalised, excepting that Council authorises the release of the minutes to substantive parties to enable enactment of the resolution and further, pursuant to Section 91(9)(c) of the *Local Government Act 1999* the Council delegates to the Chief Executive Officer the review and power to revoke this Order

And

That Council resolves to end its confidential deliberations pursuant to Section 90(2) of the *Local Government Act 1999* and re-admit the public.

### Summary

Oryx Property (Property Advisory Consultants) and Ekistics (Planning Consultants) have been engaged by Council to provide high level advice on possible options for the redevelopment of the Fuller and Smith Street site. As part of that advice, they were also asked to articulate the processes available to enable development outcomes and highlight potential implications of the various options.

On 13 August 2018, representatives from Oryx and Ekistics attended an Informal Gathering (closed to the public) to brief Elected Members on their preliminary (Draft) findings. The report remains in Draft and is presented as Attachment A. The consultant's report was provided to Elected Members at the time the Informal Gathering Agenda was circulated on or about Friday 3 August 2018.

Subsequently, and following the Informal Gathering session, a decision report was presented to Council on 17 September 2018. Council at the time resolved to defer the matter pending the outcome of the upcoming local government elections in November 2018, to allow the incoming Council to consider the matter (**CNC112/18-19**).

On 16 January 2019, as part of the Elected Member induction, the CEO provided an overview of the work undertaken to date and tabled the consultants preliminary (Draft) findings. Members were advised at that meeting that there would be a further session at which the consultants would be invited to present their findings in greater detail.

On 27 February 2019, representatives from Oryx and Ekistics attended an Informal Gathering (closed to the public) to brief Elected Members on their preliminary (Draft) findings. The report remains in Draft and is presented as Attachment A.

## Background

At its meeting held on 15 May 2017, Council resolved in confidence to proceed with masterplanning certain Council owned sites (**CNC436/16-17**). The confidential resolution also required Administration to provide update reports to Council as and when they become available.

On 20 March 2017, Council was provided with an update on progress in relation to the 27 September 2016 resolutions, noting that commentary on progress was only made to those decision requiring action (and not those resolutions where Council 'received and noted' information reports). Council was also advised at that meeting (Agenda Item 16.1.1) that Administration had engaged Ekistics to assist the Council in commencing the development of a strategic property framework and action plan towards developing master plans for certain Council owned sites around the township.

A Councillor planning workshop (informal gathering, closed to the public) was held on Wednesday 29 March 2017, to consider the framework and proposed action plan in order to progress this matter. The workshop was held with representatives from Ekistics.

At its meeting held on 15 May 2017, Council considered (in confidence) the outcome of the workshop and resolved to proceed with masterplanning certain Council owned sites.

At its meeting held on 20 November 2017, Council received an information report (in public) on progress in relation to the masterplanning project.

On 15 February 2018, a Councillor planning workshop (informal gathering, closed to the public) was held. Elected Members were provided with detailed analysis on the individual site assessments, with particular focus on:

- agreed negotiables / non-negotiables;
- Sawley Lock O'Callaghan survey of Levi Caravan Park site;
- Tree survey (Tree Environs);
- Heritage advice – Vale House (Dash Architects);
- Traffic & transport - existing conditions survey (GTA);
- Infrastructure capacity & augmentation capability (Colby)
- Valuations (M3 Property);
- Legal advice (Tamon Legal) and DPTI advice in relation to Schedule 8 *Local Government Act, 1999*;
- Commercial opportunities & considerations;
- Site control plan (Ekistics)
- Key impediments:
  - Schedule 8
  - Heritage
  - Community land limitations
  - Development plan zoning
  - Existing lease arrangements
- Alexander Symonds survey of Fuller & Smith Street;
- Fuller Street Site contamination (Golder);

Notwithstanding the detail presented at that workshop, Elected Members requested further analysis from the Consultants, specifically as it relates to the viability and likelihood of a commercial outcome for Fuller & Smith Street site(s). Members requested that further analysis be undertaken with the view of holding a further workshop.

In response to this request, a further workshop (informal gathering, closed to the public) was held on Monday 13 August 2018. Ekistics & Oryx Property presented their revised analysis (Attachment A), a confidential Draft report outlining their findings and recommendations.

Subsequently, and following the Informal Gathering session, a decision report was presented to Council on 17 September 2018. Council at the time resolved to defer the matter pending the outcome of the upcoming local government elections in November 2018, to allow the incoming Council to consider the matter (**CNC112/18-19**).

On 16 January 2019, as part of the Elected Member induction, the CEO provided an overview of the work undertaken to date and tabled the consultants preliminary (Draft) findings. Members were advised at that meeting that there would be a further session at which the consultants would be invited to present their findings in greater detail.

On 27 February 2019, representatives from Oryx and Ekistics attended an Informal Gathering (closed to the public) to brief Elected Members on their preliminary (Draft) findings. The report remains in Draft and is presented as Attachment A.

### **Discussion/Issues for Consideration**

Ekistics and Oryx Property have been engaged to provide Council with high level advice on possible options for the redevelopment of the Fuller and Smith Street site, including a process that would enable development outcomes as well as highlight potential implications of the various options presented.

As part of their high level advice, the Consultants developed a matrix which collated a range of land use options and provided commentary on the likely outcome against Council's non-negotiable objectives, planning considerations, market interest, risk and impact on Council. The matrix was developed to provide a high level reference guide based on current and / or preferred land uses.

A significant amount of discussion ensued amongst those Members present and a number of 'what-if' scenarios were canvassed.

Whilst the Consultants presented recommendations as part of their analysis, the workshop was not called to seek a decision of Council, but rather provide guidance to Administration. There was in-principle support for the CEO to confidentially canvas informal market interest from the Retirement Accommodation Industry & Indoor Recreation Providers.

### **Options for Consideration**

#### Option 1

1. That Council receives and notes the Oryx Property & Ekistics 'confidential – Walkerville Strategic Project – Fuller & Smith Street' report, appearing as Attachment A.
2. That Council authorises the Chief Executive Officer to undertake informal confidential market testing with the Retirement Accommodation Industry and indoor recreation providers to identify if there is market interest in developing the entire combined Smith Street and Fuller Street site as an integrated complex and report back to a future Council meeting with interest shown; *and*
3. That Council authorises the Chief Executive Officer to meet with relevant State Government Agencies to confidentially ascertain future economic development plans that may be suitable for the entire combined Smith Street and Fuller Street site and report back to a future Council meeting.

#### Option 2

1. That Council receives and notes the Oryx Property & Ekistics 'confidential – Walkerville Strategic Project – Fuller & Smith Street' report, appearing as Attachment A; *and*
2. That Council engage a property representative to undertake confidential initial market testing with the Retirement Accommodation Industry and identify if there is market interest in developing the entire combined site (Smith and Fuller Street) as an integrated complex.

Option 3

1. That Council receives and notes the Oryx Property & Ekistics 'confidential – Walkerville Strategic Project – Fuller & Smith Street' report, appearing as Attachment A; *and*
2. That Council undertake a confidential initial market testing process with private indoor recreation providers to explore their interest in the Smith Street site.

Option 4

That Council receives and notes the Oryx Property & Ekistics 'confidential – Walkerville Strategic Project – Fuller & Smith Street' report, appearing as Attachment A and no further action is taken.

**Analysis of Options**

Council resolved on 5 May 2017, in confidence to proceed with masterplanning certain Council owned sites (**CNC436/16-17**). This report and options presented is in response to and aligned to resolution **CNC436/16-17**.

If Council resolves to simply receive and note the report, this does not retract Council resolution to develop a masterplan for the site(s).

**Financial Implications**

Should Council resolve to engage a property representative to undertake confidential initial market testing for the Fuller and Smith Street sites, suitable funds may need to be allocated as part of a budget review process or included in the 2019/20 budget.

**Community Implications**

Any redevelopment / upgrade of the Fuller & Smith Street sites will require extensive community consultation.

**Governance Implications**

Council resolved on 5 May 2017, in confidence to proceed with masterplanning certain Council owned sites (**CNC436/16-17**).

**Preferred Option & Reasoning**

Administration will be guided by Council.

**Attachment**

Attachment A	Confidential – Oryx & Ekistics Report on options for Fuller & Smith Street (DRAFT) dated July 2018
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## CONFIDENTIAL

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### Walkerville Strategic Projects – Fuller & Smith Street

#### 1.0 Background

Oryx Property (Property Advisory Consultants) and Ekistics (Planning Consultants) have been engaged by Council to provide high level advice on possible options available for the redevelopment of the Fuller and Smith St land, articulate the processes available to enable development outcomes and highlight potential implications of the various options.

This advice is informed by currently known factors such as Council's minuted decisions, Council's Strategic Projects 'non-negotiables' list and from the various views expressed by Members at Council workshops.

The purpose of this advice is to inform and assist Council in weighing up the benefits, risks and implications so that Council can resolve the next steps in relation to the future of this land.

The options available for this land are numerous and in order to present this information in a form that is consolidated, evaluative and readily understood, the attached Matrix collates a range of land use options and commentary which seeks to compare likely outcomes against Council's objectives (non -negotiables) verse other factors such as planning considerations, market issues, impact on Council and so on.

The matrix information is not exhaustive but aims to cover the most pertinent options.

It should also be recognised that the matrix is a high-level reference document and therefore treats the Fuller and Smith St land as a consolidated land parcel however the land has two different elements being the Smith Street side (currently recreational uses with portion listed as Community Land) and the Fuller Street side (former depot), which ultimately may or may not be treated differently due to current/preferred land uses, Development Plan policy/zoning, location and interface issues etc.

For clarity, the land in question is identified over page.



Figure 1 Fuller and Smith Street site



## 2.0 Non-Negotiables

Council previously identified the following over-arching non-negotiables for the Strategic Property Projects. While these related to all three Strategic Property Project sites (Levi Park, Walkerville Oval and Fuller/Smith), those highlighted in green are relevant to the Fuller & Smith land.

- *Don't Sell Assets/land*
- *No revocation of Community Land*
- *Improve services and facilities*
- *Need to engage in and/or adopt a "process" & "program" to get there*
- *Ensure a Consultation Strategy / Journey is established*
- *Ensure widespread/genuine consultation on constraints and opportunities*
- *Communication Strategy/inclusion of existing Leases in process is a must*
- *Don't Alienate any group*
- *Income from Sites / Generational equity /Being more sustainable*
- *Leverage Assets for community services*
- *Levi Park Caravan Park is the 1st Priority*

- *Smith Street/Fuller Street Site is 2nd Priority*
- *Develop a Debt Management Strategy*
- *Maintain open space*
- *Maintain existing services (ie tennis courts)*
- *Ensure access to linear park from Caravan Park*
- *Maintain avenue of trees*
- *Maintain playground*

Subsequent to the adoption of these non-negotiables, Council has indicated that the Fuller Smith Street site is now the first priority project.

Council also identified a number of other specific objectives/issues for the Fuller & Smith Street site:

- *Extend Lease term to provide more time for Council & YMCA*
- *Maintain the Community Zone*
- *Appropriate car parking*
- *Design in line with village character*
- *Building height to be aligned with Development Plan (3 Storey)*
- *Undertake Business Case Review*
- *Environmental Management needs to be managed*
- *Existing buildings are not a constraint*
- *Land could be developed as a consolidated site or split*
- *Existing tree are not a constraint*

To more efficiently assess potential options for the land against these non-negotiables and objectives, the Matrix distils the most critical of these into three headings being 'Retained Council Ownership', 'Retained Community Land Status' and 'Generate Income'.

While Council may elect to revise some of these parameters as the future opportunities for the land become more apparent, for the time being, they have informed our advice and conclusions.



### 3.0 Community Land Management Plan Alignment

Council’s Community Land Management Plan (CLMP) dated December 2016 identifies ‘Smith Street Sports & Recreation’ as community land as follows:

**Figure 3.1** Smith Street Sports & Recreation Community Land (extract from CLMP, Dec 2016)

Name	Address	CT	Owner	Reservations	Zoning	Native Title
Smith Street Sports and Recreation	39-41 Smith Street, Walkerville	Portions of 5796/887 5728/637 5838/95	Town of Walkerville	N/A	Neighbourhood Centre Zone (Business Core Policy Area 2)	N/A



The CLMP identifies the existing building footprint as the ‘portion’ of the three relevant Certificates of Title which are identified as Community Land.

Importantly, we note that Council has identified ‘No revocation of Community Land’ as a ‘non-negotiable’.

It is assumed that the intent of the Community Land and associated CLMP boundary relates to the Smith Street Sports and Recreational Facility. However, given that the built form facility straddles multiple titles, including a title that is primarily located in the Fuller Street portion of the site, a partial revocation may be required by Council to more appropriately realign the Community Land and CLMP boundaries to reflect the initial intent.

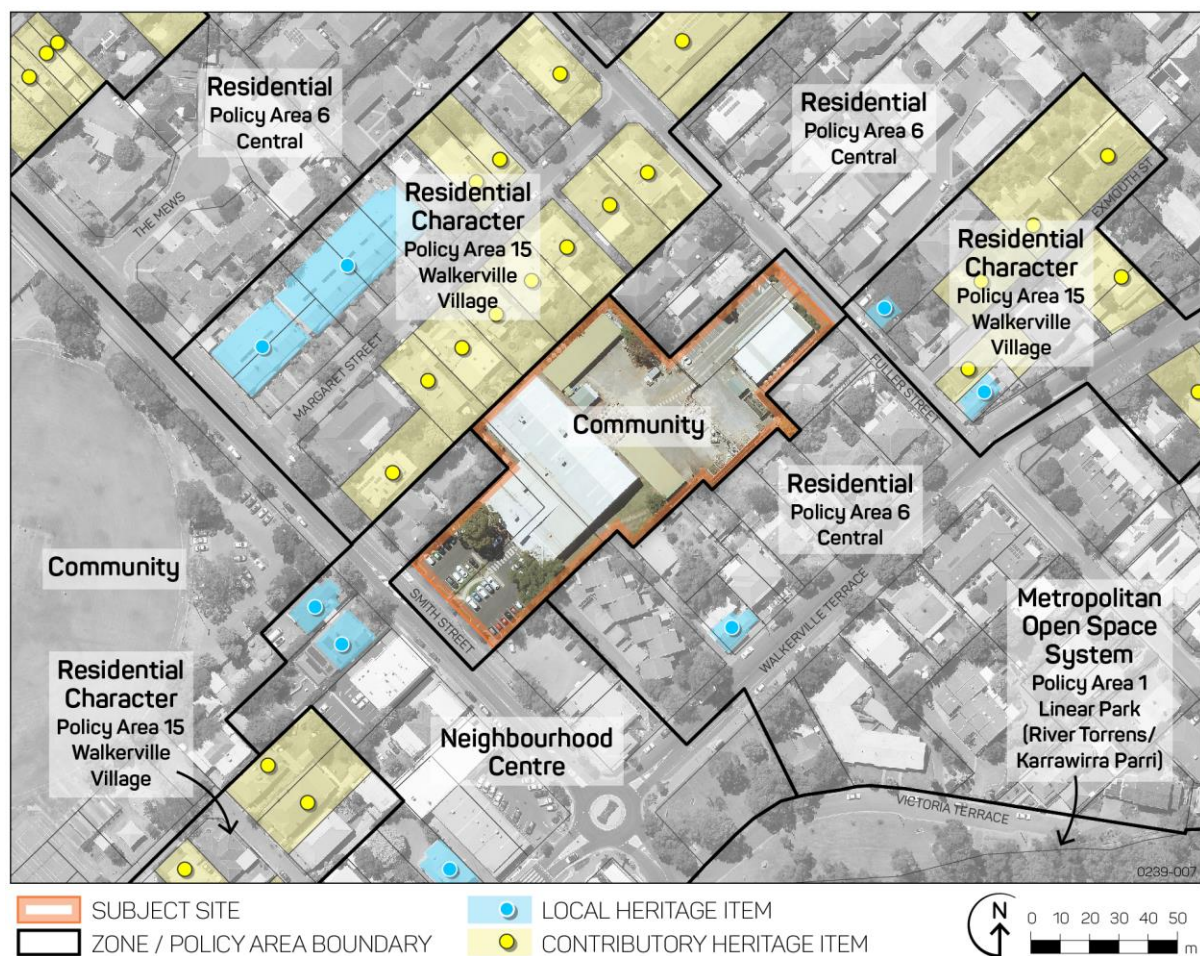
Note – there is an inaccuracy in this CLMP for this property as the Zone is incorrectly listed as ‘Neighbourhood Centre Zone (Business Core Policy Area 2)’ however the land is actually located within the ‘Community Zone’.

## 4.0 Planning Considerations

### 4.1 Council's Development Plan

The Fuller & Smith land is located within the 'Community Zone' (consolidated Development Plan 6 October 2016). It is not within a Policy Area. The site abuts the Residential Zone, Residential Character Zone and the Neighbourhood Centre Zone as illustrated in the following image.

Figure 4.1 Development Plan Zoning and Heritage



We understand this Zone was applied to the land as part of the Walkerville Town Centre DPA (authorised on 6 October 2016) to 'facilitate continuity for community use and flexibility for community services'. A 3-storey height limit was applied to the land and this is illustrated within Development Plan 'Concept Plan Map Walk/1 Building Heights'.

As mentioned, the matrix provides high level reference to what uses are 'envisaged' within the Community Zone and highlights where potential activities could trigger a 'non-complying' Development Application. At this stage of the decision-making process, these key considerations are most relevant, however after Council ratify the desired land use / development form as part of this strategic assessment process, a further analysis of how any proposal aligns with the Development Plan will be necessary.

While we note a key Council objective for the Fuller and Smith Street land was to '*Maintain the Community Zone*' there may be a need to review this Zone (in part or whole) and/or the Policy content subject to Council's preferred development outcome.

The current State Planning Reforms and the transition from the *Development Act, 1993* to the *Planning, Development and Infrastructure Act, 2016* (PDI Act) presents an opportunity for Council to 'tweak' policy content in the Development Plan through the conversion of Council's Development Plan into the State's new 'Planning and Design Code'.

#### **4.2 Environmental Considerations – Fuller Street site**

Golder Associates were previously engaged by Council to undertake environmental investigations on the Fuller Street site (former Council Depot and historically a Brewery). Golder's most recent site assessment, conducted in July 2011, included a desktop analysis, soil screening, installation of three (3) groundwater monitoring wells and subsequent sampling, installation of a landfill gas monitoring bore hole and subsequent gas screening. This report concludes that some environmental benchmarks:

- are acceptably low;
- have not been assessed;
- do not appear to have impacted groundwater;
- may require additional assessment; and
- are acceptable for ongoing commercial / industrial use.

The report also recommends:

- land fill gas is monitored;
- building's internal environments be monitored;
- specific concentration be explored should groundwater sampling occur;
- fill on-site be managed and some buried organic matter be disposed off-site; and
- Council liaise with the EPA to discuss the implications of groundwater quality in future land use scenarios.

It is suggested that these environmental matters be further reviewed and revisited to seek a better understanding of the applicable environmental constraints, how they may influence different land uses and development outcomes that may be contemplated on the site, and how they may be addressed where necessary (through possible remediation) to facilitate the possible future development of the land.

## 5.0 Identified Land Uses

In considering options for the land, the following land use groupings were identified for further exploration (listed in alphabetical order as per the matrix):

- Commercial / retail
- Community uses
- Educational facilities
- Health related activities
- Open space
- Recreational uses
- Residential

Various specific activities and facilities can sit beneath these land use classes (as indicated in the second column of the matrix) and we also note that many of these uses could technically sit in more than one of these classes. For example, consulting rooms which are ‘health’ related are most often ‘commercial’ operated businesses and may have a retail element (sale of health products).

It is not feasible to list every possible land use combination however the matrix is intended to cover the mostly recognised and likely land uses options and their possible implications.

## 6.0 Council’s Role in the Development Process

In facilitating the development of the Fuller and Smith Street land, Council will need to consider and resolve the ‘role’ it will play in the development process. For example, options include:

Council Own	Council retains ownership of the land: <ul style="list-style-type: none"> <li>• Council owns / funds the facility</li> <li>• Council seeks a return (if possible) on the asset / facility</li> </ul>
Lease Land	Council retains ownership of the land: <ul style="list-style-type: none"> <li>• A third party leases the land and/or facility</li> <li>• A third party may fund part of whole of the facility (if facilities are to be upgraded or new)</li> <li>• A third party manages the facility</li> <li>• Council seeks a return from the land / existing asset</li> </ul>
Land Sale	The option for Council to sell the freehold titles to a third party <b>has not been included</b> , as Council has clearly stated a desire to retain the land in Council’s ownership.

This provides an overview of Council’s potential ongoing tenure in facilitating the desired land use (once identified). It is noted that Council has the capacity to offer a lease for up to 42 years to a third party. At the end of a lease term, a new lease could commence or alternatively the asset, including all built form improvements, revert back to the ownership of Council.

## 7.0 Council’s Financial Position

Reference in the following Sections below refer to the ‘Smith Street Site’ and the ‘Fuller Street Site’. For clarity, these relate generally to the land as illustrated below.



**Figure 7.1 Smith and Fuller land identification**



### 7.1 Capital Investment

Council has advised its preference is not to invest any significant capital to upgrade or replace the facilities on the site. Therefore, it is assumed that any significant funds required to improve or replace the facilities would be sourced from third parties.

The extent of capital investment required in any built form will depend on the size and nature of the intended use. However, in order to provide some context, the following broad estimates of capital expenditure have been suggested as a guide.

Extend existing Smith St Facility	<ul style="list-style-type: none"> <li>• Approx \$2.5mil</li> <li>• Assumes 1,000sqm extension</li> <li>• Allows for an additional adjoining car parking solution</li> </ul>
New Built form on Smith St or Fuller St sites	<ul style="list-style-type: none"> <li>• Commercial: Approx \$5.0mil to \$6.0mil</li> <li>• Civic: Approx \$6.0mil to \$12mil</li> <li>• Residential: Approx \$7.5mil</li> <li>• Assumes 3,000sqm facility</li> <li>• <i>However, the extent of new built form could be in the order of 1,000sqm to 4,500sqm, depending on use and market appetite</i></li> </ul>



## 7.2 Return to Council

Given that Council has no appetite to invest any significant funds on the site, a financial return from third parties to Council would be based on either:

1. The value of the existing facilities (either as is, or upgrade by a third party); or
2. A reflection of the land value - reflecting a lease of up to 42 years.

**Status Quo** Based on the current facilities and current tenants (Status Quo) the returns are marginal for Smith Street (\$11K p.a.) and are assumed to be marginal for the Fuller Street site if it were to be leased for the same / similar use to a third party with no improvements.

**Land Value:** In October 2017 independent valuation firm 'm3property' established the freehold land value for the entire site as \$5.8mil (or say \$6mil – say roughly \$3mil for each site). The valuation for just the Smith Street site is \$2.9mil and the Fuller Street site is \$3.1mil.

### *Environmental Issues on Fuller Street Site:*

The valuation also recognises the environmental issues with the Fuller Street site (refer to Section 4.2).

The outcomes of the previous 2011 report together with any further environmental investigation, combined with the nature of proposed development / use of the site may result in the Fuller Street site value being discounted in its current state, due to the potential requirement and cost of remediation. The extent and indicative cost of any possible future remediation could be explored further and addressed by Council and / or all known information be passed on to the market for their evaluation.

**We note that the 'm3property' valuation provided is based on the site being remediated with any costs associated with the site clean-up being met by Council.**

### *New Facility:*

Should a third party have an appetite to invest in a new facility on either Smith Street or Fuller Street sites for a maximum term of 42 years then it is possible (pursuant to certain land uses) that they may pay (or facilitate) around the full market value of approximately **\$3mil per site**.

### *Upgrade and Use of Existing Smith St Facility:*

The current Smith St facility has a long term tenant generating a marginal annual return to Council that presumably has a limited capacity to increase its rent, however, the facility could attract higher rental rates from other recreational related users that have more commercially robust business models.

### *Future Use of Fuller St Site – 5 Years+*

It is noted that Council has committed to a further 5 years of adopting a shared depot services model away from the Fuller St site - on an alternative site. Should an alternative use be adopted on the Fuller Street site during this period, then the post 5 year depot services model will need to be considered.

## 8.0 Market Appetite

The land tenure being offered by Council to a third party would be a lease structure up to a maximum 42 years. The length of this lease tenure is capped by regulation and it is understood that ongoing lease extensions cannot be guaranteed upfront.

Where Council retains ownership of the improvements (and there is no or limited investment by third parties) a shorter-term lease structure would be acceptable to the market (reflecting a more traditional model).

Where a third party provides all the capital investment required for a new facility, it is anticipated they would seek the maximum 42 year lease term in order to realise an adequate return on their investment. This relates to the standard capital write off for depreciation at 2.5% per annum.

### 8.1 Lease vs Freehold

As a broad summary, this capped lease structure would most likely reduce the overall market's appetite to invest any significant funds, when compared to the alternative of investing in a freehold title or entering other more traditional / flexible lease structures (i.e. where capital costs are invested by the land owner).

### 8.2 Third Party Capital

Where the capital input required from a third party is limited (or potentially able to be funded by Council in the short term), there would be an increased level of market appetite and greater acceptance of a shorter term and more traditional lease.

**Accordingly, in our opinion, the market's appetite to participate and fund the capital required for a new facility under a 42 year lease structure is deemed to be low.**

## 9.0 Land Uses Considered

As captured in the summary Matrix, the land uses identified and discussed below have been considered against Council's key non-negotiables, planning considerations and the likely market appetite to participate.

As previously identified, the key Council Non-Negotiables include:

- a) Councils Retaining Ownership
- b) Retaining Community Land Status
- c) Generating an Income

Neither Oryx or Ekistics have been engaged to undertake a land use audit or needs analysis so only high-level commentary is offered in relation to each identified land use. The responses gained from early market testing will however inform issues of land use demand and need.

### **9.1 Commercial / Retail Uses** (examples include hotel, office, shops etc)

The Commercial / Retail market's appetite of investing capital in a unique land lease structure when compared to other more traditional freehold investment opportunities available to the market is questionable / low and in our opinion unlikely to gather favour in the marketplace.

In relation to the Smith St facility, many commercial/retail uses would also be inconsistent with retaining the community land status.

Similarly, with the Fuller St facility, the majority of commercial/retail land uses would be inconsistent with the intent of the Community Zone and may also be incompatible with the surrounding residential character and therefore less palatable to the community.

### **9.2 Community Use & Education Uses** (examples include community centre, conference facility, museum, school, training facility etc)

While a community or educational use delivered on either or both sites would align with Council's desire to retain ownership of the facility and community land status, these types of uses would, in our opinion, have limited capacity to generate any significant income for Council and would therefore not achieve a key goal of financial sustainability.

Further, the demand or need for additional community facilities is unclear and the suitability of a small educational facility in this location is in our opinion questionable.

### **9.3 Health Uses** (examples include consulting rooms, specialists, day surgery etc)

Fundamentally the Health market's appetite for investing capital in a unique land lease structure when compared to other more traditional freehold investment opportunities available to the market is questionable / low and, in our opinion, unlikely to gather favour in the marketplace.

Health related activities do not fully align with the current Community Zone policies as consulting rooms and health facilities are only envisaged in the Zone when they are established in association with a community, recreation and or educational facility (i.e. a not stand-alone health facility is not encouraged).

It is noted that the existing Walkerville village already has a large percentage of health-related service providers operating mainly in smaller individual tenancies (including podiatry, dental, pharmacy, physiotherapy, chiropractor, orthodontists etc) plus there is a small medical centre operating nearby on Stephen Terrace, St Peters. Therefore, facilitating a new medical centre on this site may disrupt this existing local commercial structure and cause resistance from various business owners in the community.

It is also noted that a new health facility located on Fuller Street would appear to be incongruent with the nature / use of the surrounding residential dwellings.

### **9.4 Open Space** (park, reserve etc)

This proposed land use would not generate any income and the demand and need for additional open space within this precinct is questionable given the proximity of the Walkerville Oval.

## 9.5 Recreational Uses

### Indoor Recreational Facility

This use aligns with all of Council's Non-Negotiables and subject to specific detail, would sit comfortably with the Community Zone planning requirements.

In regard to the provision of an indoor facility on the Smith Street site, this use could generate a more substantial return on the current investment (following some improvements) which will reflect a more typical commercial market rent structure (as the asset will be owned by Council) and will also be consistent with the existing 'status quo' use.

The forecast level of market appetite of Indoor Recreation Facility users is low / moderate, as these users could realise the value in the existing Smith St facilities (with some limited improvements) and therefore pay Council commercial rental levels.

It is our understanding that these types of users (such as Latitude, Bounce, Pumpt, indoor climbing groups etc) could sustain rental rates of up to \$200/sqm for a new facility. Therefore, if one of these indoor recreational users required additional floor area (say 1,000sqm, as some users ideally require larger facilities than the existing Smith St facility) then it would require an **investment of around \$2.5mil** (including minor upgrading of the existing facility, a new 1,000sqm expansion addition and possibly the acquisition of additional land for car parking). An upgraded and expanded 2,800sqm facility could sustain a **rental return in the order of \$560,000 p.a. (at \$200/sqm)**. However, this annual return would need to be discounted for a period to reflect the extent of capital investment required from a third party.

While Council has indicated no appetite for capital investment, if Council did invest the \$2.5mil capital to facilitate the above outcome, then on the strength of the agreed lease term it could generate a **return on investment of 22% p.a.** on the cost of improvements based on the market rent (on the basis that the facility would otherwise be generating a marginal return of \$11K p.a.). Under this scenario a \$2.5mil investment could be repaid in full after 5 years.

Practically, an indoor recreational facility would primarily be based on the Smith Street site (using existing infrastructure) and if the facility is expanded, would most likely require some additional car parking.

It is understood that a Latitude facility and other smaller indoor facilities exist within a 5-8km radius to the site. How this may affect the market's appetite to respond to this site opportunity is not known and can be explored as part of the initial market testing process outlined below.

### Outdoor Recreational Facility

An outdoor recreational facility will address most of Council's Non-Negotiables, but, in our opinion, is unlikely to be commercially sustainable.

### **9.6 Residential Use** (examples include retirement development)

In general, a typical residential market use would have a low appetite to participate in a unique lease structure being offered by Council.

However, a possible exception may be the level of interest from retirement accommodation providers, who operate under a loan and license structure.

It is expected that retirement living providers could have a moderate appetite to participate under a fixed 42-year lease term as they typically seek to be a long term service provider in a community and therefore are unlikely to relocate, expand or significantly redevelop over a 42 year period.

With this model Council would always own the freehold, receive a comparative payment commensurate to a freehold value, facilitate the development of the retirement units to provide an upside return to Council via a Joint Venture (at no cost and low risk) and the retirement accommodation operator would manage the facility on an ongoing basis.

Given the nature of the service provided by such groups, it is expected that Council would most likely seek to continue facilitating this service to its community beyond the initial 42 year lease term, for the ongoing benefit of its community.

While this land use is not envisaged in the Community Zone, Council may consider that on balance, the wider community benefits generated from a future retirement living based residential land use outweighs the Development Plan mis-alignment. This is an example of where Council may wish to revisit the current Zone Policy (as mentioned in Section 4.1).

It is also worth noting that a larger integrated retirement living facility may also include a 'wellbeing' facility that is likely to be consistent with the Community Zone.

Should a third party invest in a new facility on for a maximum term of 42 years then it is possible that they may be open to compensating Council for the full market value, that being **approx. \$6mil for the whole site or approx. \$3mil for either the Smith St or Fuller St Sites** (i.e. consistent with the recent property valuation).

### **9.7 Status Quo**

Maintaining the Status Quo, with the current tenant, provides a limited capacity to generate income. The demand / need for the current community facilities provided at Smith St is unclear.

It is also noted that the current land use at Fuller Street (a 'public service depot') is intended to cease and therefore, Council will need to resolve the future use of the land in the short term, taking account of the surrounding residential character.



## 10.0 Procurement: Expression of Interest Process

### 10.1 Initial Market Testing

It is recommended that once Council resolves a particular direction, but prior to launching a formal Expression of Interest (EOI) process, the desired outcomes are initially sounded out with the market.

This can be achieved via an appropriate obligation free, probity-based engagement structure, to ensure that the market Council is seeking to attract:

1. Has genuine interest and is likely to participate; and
2. Will participate in a manner that aligns with Council's fundamental assumptions and desired outcomes (such as expected returns, timeframes, capacity for capital commitment, size and nature of facilities etc).

Practically this process would include an internal or external operative contacting say 3 or 5 leading market participants to informally, on a without prejudice basis, sound out the market's capacity and appetite to respond to Council's desired outcomes and expectations from the process.

**This initial 'off market' testing, can be undertaken within a relatively short timeframe, at minimal cost and provides Council with a degree of certainty that the EOI process should actually generate the desired outcomes - prior to commencing a comprehensive and more public formal EOI process.**

### 10.2 EOI Fundamentals

Following Initial Market Testing and subject to the feedback gained through this process, the next stage would likely comprise a formal Expression of Interest process.

At this stage, Council is, preferably, informed by the market testing and can commit with relative confidence to a transparent and structured EOI process. An EOI process also enables a competitive market to confidentially approach Council with a clear set of requirements and outcomes, facilitating flexibility for Council to negotiate and / or compare potentially contrasting offers between different parties via a staged selection process. It also allows Council to reserve the right to withdraw from the process should its fundamental objectives not be achievable.

Clearly establishing the parameters of the EOI prior to formal engaging with the market is essential.

Essentially this involves Council detailing what it is and is not prepared to commercially offer and/or consider and demonstrating a level of commitment to the project (i.e. through a formal Council resolution or similar commitments) before the EOI process formally commences.

Going to market with overly broad or undefined parameters often results in lower participation levels and ultimately frustration for all parties, including the community.

That being said, the EOI could still allow for **consideration of non-compliant bids** which would facilitate 'out of the box' opportunities to be explored should the market present a development option which has not been considered.

Issues that would need to be clearly resolved by Council before commencement of an EOI would include:

1. Timeframes and cost for the whole process.
2. How and when it will address relevant planning issues (such as any potential policy or zone changes if necessary), with a preference that this is resolved or committed too before going to market.
3. A clear resolution as to what the Council has already committed to, as the market is wary of any key issues being 'subject to future Council resolution' - as this provides significant ambiguity in regard to certainty and timeframes.
4. Defining the agreed commercial terms and conditions Council is looking for (or offering) in regard to lease terms, capital contributions, built form parameters etc.
5. Defining how and when the community is being consulted and the parameters of the resultant decision-making process based on their feedback.

## 11.0 Recommendations

In considering the information provided and based on our industry experience, the following two Recommendations are offered for Council's consideration.

### **Recommendation 1:- Retirement Accommodation Market Testing**

*As a first step of a potential Expression of Interest (EOI) process, it is recommended that Council engage a property representative to undertake confidential initial market testing with the Retirement Accommodation Industry and identify if there is market interest in developing the entire combined site (Smith and Fuller Street sites) as an integrated complex.*

Recommendation 1 is made on the basis that Council is seeking to generate a commercial return while ensuring that any new development is sensitive to the surrounding character and that the retirement living market is likely to be more accepting of investing capital in a unique 42 year lease structure than other market participants.

It is recommended that Council explore the development potential of the whole site to facilitate a unique partnership with a retirement living based organisation (private or not-for-profit) to provide residential retirement living outcomes, with the possibility of also incorporating some complementary community-based wellbeing facilities facing Smith Street.

Should the initial market testing undertaken in Recommendation 1 reveals that there is limited market interest in developing the entire land parcel for a retirement complex, the following recommendation could be enacted.

**Recommendation 2:- Indoor Recreation Market Testing**

*Council run a subsequent confidential Initial Market Testing process with private indoor recreation providers to explore their interest in the Smith Street site.*

As identified within the Matrix, an 'indoor recreational facility' on the Smith Street site is a land use that satisfies Council's key non-negotiables, presents few planning challenges and has the capacity to sustain a greater rental return on Council's existing facilities (most likely with some additional investment and car parking required).

Accordingly, a second phase suggestion is that a commercially based indoor recreation user is pursued as a tenant, subject to facilitating some site improvements and an increased car parking solution on the Smith Street site.

However, it should be noted that this market is shallow (perhaps only a handful of potential parties) who may/may not have an interest depending on current commitments and views on competing trade areas.

DRAFT

LAND USES	LAND USES	ALIGNMENT WITH COUNCIL NON-NEGOTIABLES			CLMP <sup>1</sup> ALIGNMENT	PLANNING CONSIDERATIONS		<sup>2</sup> COUNCIL'S ROLE	COUNCIL'S FINANCIAL POSITION		MARKET APPETITE	Summary
		<sup>3</sup> With Retained Council Ownership	<sup>4</sup> With Retained Community Land Status	Generate Income	Applies to Smith St land only	Envisaged 'Community' Zone	Non-complying	Investment	Return	[H-M-L]		
COMMERCIAL / RETAIL	Hotel / Motel Office Shop / Retail Showroom Child Care Centre	✗	✗ Smith St ✓ Fuller St	✓	✗ Smith St ✓ Fuller St	✓ <sup>5</sup>	Shop yes <sup>6</sup>	Lease Land	Nil	Lease value \$420K p.a. based on 7% of land value <i>Assumes whole site value of \$6M</i>	Lease = Low (unlikely)	<ul style="list-style-type: none"> <li>Not consistent with CLMP intent (Smith St only)</li> <li>Limited direct community benefit</li> <li>Planning challenges</li> <li>Commercial uses may be unpalatable to community, particularly on Fuller St.</li> <li>Market interest questionable for land lease investment</li> </ul>
COMMUNITY USE <sup>7</sup>	Community Centre Conference Facility/ Hall Museum / Art Gallery Library	✓	✓	✗	✓	✓	No	Council Own	New 3,000sqm facility = \$5mil to \$12mil; Or Upgrade allow \$2.5mil	Limited	Lease = Nil / Low	<ul style="list-style-type: none"> <li>Limited ability to generate income for Council</li> <li>Financially unsustainable</li> <li>Demand/need for additional community facilities unclear</li> </ul>
EDUCATION	Educational Establishment, Schools, Training Facilities	✓	✓	✗	✗ Smith St ✓ Fuller St	✓	Yes	Lease Land	As above	Limited	Lease = Low	<ul style="list-style-type: none"> <li>Not consistent with CLMP intent (Smith St only)</li> <li>Demand/need unclear / unlikely</li> <li>Suitability of location questionable</li> </ul>
HEALTH	Consulting Room / Specialists Health Facility Day Surgery/Hospital	✗	✗ Smith St ✓ Fuller St	✓	✓	✓ <sup>8</sup>	No	Lease Land	Nil	Lease value \$420K p.a. based on 7% of land value <i>Assumes whole site value of \$6M</i>	Lease = Low (unlikely)	<ul style="list-style-type: none"> <li>Possibly some planning challenges</li> <li>Community benefit more apparent, but may cannibalise existing health market</li> <li>Market interest questionable for land lease investment</li> </ul>
OPEN SPACE	Park/Reserve/Play area	✓	✓	✗	✓	✓	No	Council Own	Low - Moderate	Nil	N/A	<ul style="list-style-type: none"> <li>No income generation</li> <li>Financially unsustainable</li> <li>Demand/need for additional open space facilities unclear</li> </ul>
RECREATIONAL USE	Indoor Recreation Facility (eg. Latitude/ Bounce/indoor climbing/parkour etc) Outdoor Recreation Facility (eg. Bowling Club, Skate Park, Aerial Adventure Facility)	✓	✓	✓	✓	✓	No	Lease Land	Upgrade: 1,000sqm = allow \$2.5mil (incl parking) for Smith St only. New: 2,500sqm facility from say \$4mil+.	Upgraded / new Indoor Facility Lease = \$560K p.a. (at \$200/sqm) Outdoor facility = significantly reduced income (Limited)	Indoor = Low / Mod (Lease) Outdoor = Low / Mod (Lease)	<ul style="list-style-type: none"> <li>Aligns with all Council's Non-Negotiables and all existing Planning Requirements</li> <li>Outdoor Facility likely to be commercially unsustainable.</li> <li>Market depth very shallow and possible level of participation questionable</li> <li>Indoor facility:                             <ul style="list-style-type: none"> <li>may generate return on current investment</li> <li>reflects a more typical market rent structure</li> <li>is consistent with current Status Quo use</li> </ul> </li> </ul>
RESIDENTIAL	Retirement Village (possibly linked to aged care) Tourist Accommodation	✓	✗ Smith St ✓ Fuller St	✓	✗ Smith St ✓ Fuller St	✗ may require policy amendment	No	Lease Land	Significant capital investment by partner. Say \$7.5mil.	<i>Assumes whole site value of \$6M</i> Figure based on a capitalised 42yr lease structure	Lease = Mod Capital can be facilitated via a retirement living solution	<ul style="list-style-type: none"> <li>More suited to Fuller St land given current CLMP on Smith St</li> <li>Potential long term Community benefit (downsizing option for local residents)</li> <li>Planning challenges, but consistent land use with surrounding zone</li> </ul>
STATUS QUO	Retain Existing	✓	✓	✗	✓	✓	No	Council Own	Limited	\$11K for Smith St (YMCA) Marginal return for Fuller St with existing facilities	Lease = Low	<ul style="list-style-type: none"> <li>Limited ability to generate income for Council</li> <li>Demand/need for current community facilities provided is unclear</li> <li>Problematic existing land use (depot) at Fuller St parcel (inconsistent with surrounding zone)</li> </ul>

<sup>1</sup> CLMP - Community Land Management Plan – refers only to existing Smith St land, not the balance of the site

<sup>2</sup> Assumes Council role only would only extend to 'lease', 'joint venture' or 'status quo'

<sup>3</sup> Retention of the land in Council ownership is an agreed 'non-negotiable'

<sup>4</sup> Retention of the existing Community Land status over Smith St land is an agreed 'non-negotiable'

<sup>5</sup> Shops and offices uses are only envisaged when in association with a community, recreation and/or educational facility (i.e. not stand alone)

<sup>6</sup> Shops over 250m<sup>2</sup> are non-complying land uses -

<sup>7</sup> Certain 'community uses' may be commercial business operations

<sup>8</sup> Consulting rooms/health facilities are only envisaged when in association with a community, recreation and/or educational facility (i.e. not stand alone)