



FREQUENTLY ASKED QUESTIONS

FOR IMMEDIATE RELEASE

Dome Coffee Australia Pty Ltd – Key Issues

13 January 2009

Q. What is the total area being leased to Dome?

A. The total area is 1130 square metres; the building will take up to 693 square metres.

Q. The leased land appears excessive?

A. This aspect has been through various workshops with officers from the City's engineering, planning and building departments and with the CEO. The building envelope is consistent with previous advertising and expression of interest documentation.

Q. How did Dome Coffee acquire the rights to the area?

A. An expression of interest for the provision of a café/restaurant facility was first advertised in December 2006. At that stage only one submission was received and Council resolved to decline the offer and further progress all building design documents for the foreshore with consultants Hames Sharley and readvertise at a later time as the foreshore project will be further developed. It was also considered that this would allow more certainty to be provided on the actual land tenure component.

Council at its meeting on the 27 March 2007 resolved that:

- I. Council resolve to advertise for registrations of interest for the two potential lease areas identified on the Geraldton Foreshore Redevelopment Plans for a possible cafe' and restaurant facilities.*
- II. Council appoints Acting mayor I Carpenter, Cr Hall and CEO Gary Brennan as the selection panel for the appointment of preferred proponents for the lease areas, with a recommendation to be provided to the April ordinary meeting of council.*

Advertising of the registration of interest concluded on the 20 April 2007 for the provision of a café/restaurant facility on two lease areas within the Foreshore Redevelopment Area.

Only one registration of interest was received and this was from DOME.

Council at its meeting of 27 April 2007 endorsed DOME as the preferred developer and resolved the following:

That Council endorses Dome coffees Australia Pty Ltd as preferred developer of a café/ restaurant facility on the Geraldton Foreshore between Cathedral Avenue/ Durlacher Street and delegates authority to the Chief Executive Officer:

- i. To negotiate with Dome Coffees Australia Pty Ltd draft leasing details together with the preferred scope of the project that meets the City's objectives for building designs on the Geraldton Foreshore for 1 above.*
- ii. Progress discussions with relevant State Government Agencies to facilitate the café/ restaurant facility.*

iii. Progress options for the Broadwater Bay surf club within the foreshore project to achieve overall community outcomes that add to the attraction and diversity of the foreshore project.

Q. How was the land value and lease fee calculated?

A. The City of Geraldton-Greenough engaged the services of Landgate Valuation Services to carry out a valuation in July 2008 on the proposed leased area. This was based on a land area of 700 square metres for the building and a ground rental based on comparable evidence as a benchmark. The subject land was assessed at \$49,000 per annum GST exclusive with the tenant being responsible for outgoings. The rental to be based on yearly CPI increases allowing for market reviews every 3 years.

The proposed financial return for the City was based on the consideration of the following:

- Through extensive negotiations between City officers and DOME in determining footprints for the development, land tenure issues and lease terms and conditions.
- DOME would be required to build at their cost a significant building with a certified design life of 80 years
- A negotiating point has been surrounding the rental arrangements. It is proposed that for the first 2 years, DOME will be offered nil rental and thereafter will be in accordance with the rental schedule of \$2,500 increments annually until year 20. At year 21, a rental increase to 125% (of assessed land rent market value) will be applied with annual increments thereafter of 2.5%. At year 31, a market review will be conducted with rental not to exceed 150% (of the assessed land rent market value). Between years 32 to 40, annual increments of 2.5% will again be applied.
- The lease also makes provision for a 20 year lease with two options of ten years each. After the initial 20 year period, the City receives the building as an asset. It is estimated that the discounted value of the building at handover will be in the vicinity of \$2.4m.

A number of options have been considered by City Staff as to the best return to the City of this development and rental arrangements.

***Option 1** was the initial proposal received by staff on the 9 October 2008 from Dome Australia. This option was reviewed and the financial returns were calculated using a Net Present Value format. After due consideration by officers it was considered that the offer presented by Dome did not provide sufficient returns for Council.*

This conclusion was based on the lack of rental returns in years 1 to 5 and incrementing by \$2,500 from year six. Additionally the Net Present Value figure was being highly influenced by the building handover value of \$4,750,000 which was not considered appropriate as the building would not retain this value over a 20 year period at this site. It was agreed that the building would depreciate substantially over this time and further financial modelling utilising a discounted building handover value would be reviewed by officers.

Option 1b was one of several options developed by staff to test the veracity of the Dome proposal. This option encompasses the initial Dome proposal (Option 1) but was modified to show a discounted building handover value of \$2,400,000. The discounted value utilized in the financial review process attempted to reflect the market value of the structure at handover and therefore represent the funds that Council could obtain if the building were sold.

Option 1d was another internal option generated for comparison purposes. It required the investment of \$3,200,000 from Council to build a suitable structure to attract commercial rental returns. This option delivered a negative Net Present Value return over 20 years.

Generally projects with a negative NPV are considered poor options commercially. In raw cash terms this option would take 15 years to return the initial investment.

Option 2 was another option developed internally by staff to test the veracity of the initial Dome proposal. This option is based on a DPI comparative rent figure with the discounted building handover value of \$1,600,000 being incorporated after 40 years. It was considered relevant to test the impact on the potential financial returns to Council by shifting the building handover date from 20 to 40 years.

Option 3 This option has revenue being delivered from year 3 rather than year 6 in the initial proposal. Also this option reflects the discounted building handover value at year 20 of \$2,400,000.

While option 3 delivered a NPV return less than option 1, it was considered to be more relevant than the initial proposal from Dome. Based on all (fiscal and asset) the options reviewed by officers, option 3 delivers the best financial return to Council.

Staff has assessed the feasibility of the City not acquiring the building at all, acquiring the building in later periods and believes the best option is Option 3 as per the NPV Financial Evaluation for the Foreshore Site Report.

The financial modeling conducted has been aimed at delivering the best outcome or return based on Net Present Value (NPV). The NPV option is considered the most appropriate because it considers the time value of money. Funds received or invested today are worth more than funds received at a later date.

The initial proposal submitted by DOME was highly influenced by the building handover value of \$4,750,000, as per Option 1.

Option 3 represents the best return with rent starting from year 3 and a discounted building handover value of \$2,400,000. Option 1 was not considered as its result is being driven by the building handover value of \$4,750,000 which was not considered appropriate due to the harsh conditions this building will be subjected to at this site and this option was therefore not included. Accordingly the remaining options have been adjusted using a discounted building handover value to ensure the calculations were being driven by a more appropriate mix of rental revenues and asset values.

Option 3 provided the best return over years 1-20 and 21-40 and was considered superior to options 1b & 2. Option 1d was never considered as it produces a negative NPV. This option evaluates the charging of commercial rent of \$242,550 per annum but also requires the construction of a suitable building on site.

Option ranking and relevant information:

1st Option 3 - NPV 20 Years = \$789,130, NPV 40 Years - \$1,010,092 This option was negotiated with Dome to provide the best return for council with a discounted building handover value.

2nd Option 1b - NPV 20 Years = \$730,569, NPV 40 Years - \$926,358

3rd Option 2 - NPV 20 Years = \$627,799, NPV 40 Years - \$1,000,489

4th Option 1d - NPV 20 Years = -\$912,376, NPV 40 Years - \$56,317 N/A
Option 1 = NPV 20 Years - \$1,337,854, NPV 40 Years - \$1,533,643

Q The rent return to the City does appear to be exceedingly low.

A. Staff is confident that opening up the foreshore to commercial activity will activate interest in the CBD. This is already being noticed since the foreshore has been opened for the summer season. Staff have analysed the various financial models and believe the option chosen in the executive recommendation to Council generates the best return for the City. By giving the Proponent two years rent free, the City recognises the risks being taken by DOME to establish a new business in Geraldton and to build a purpose built facility on the foreshore; however it was assessed that the total whole of life return (inclusive of hand-over of the built asset covered that initial subsidy).

Q. What was the council resolution of the 9 December 2008?

A. *That Council:*

- 1. advertise the disposition of the DOME site on the Geraldton Foreshore in accordance with section 3.58 of the Local Government Act 1995; and*
- 2. gives consent to Dome Australia Pty Ltd to develop/construct a Café/ Restaurant facility on Portion Lot 506 on Deposited Plan 57803, Foreshore Drive Geraldton in accordance with the attached plans contained in Attachment CS152 subject to compliance and approval.*

Q. At the closure of the advertisement inviting submissions to be received by the 16 January 2009, what happens next?

A. An officer report to the Council meeting of the 28 January 2009 will be tabled where all submissions received by that date will be considered by Council before a decision on the disposal of land to DOME is determined.

Q. Will Dome be required to pay rates on the area?

A. Dome will be required to pay any expenses for outgoings such as water, electricity, gas and City rates and water rates. This will also include all building maintenance to an approved standard.

Q. How long does Dome have to lease the area (including the building)?

A. The lease also makes provision for a 20 year lease with two options of ten years each. After the initial 20 year period, the City receives the building as an asset. It is estimated that the discounted value of the building at handover will be in the vicinity of \$2.4m.

Q. What will the funds from the proceeds of the lease be used for?

A. Income received from the operations of the DOME Coffee house will be channelled into a reserve for the maintenance or capital upgrades of the Geraldton foreshore area.

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