APPENDIX ITEM 9.8

TAMALA PARK REGIONAL COUNCIL

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CATALINA

Sales Village 1 & 2 Business Case

July 2012

Introduction

In developing the Catalina estate TPRC seeks to demonstrate best practice in urban development that sets a new benchmark for future developments in the north-west corridor. The implementation of an astute Sales Village 1 and 2 strategy is a component of this objective. This includes effective use of lots, landscaping, sight lines, car park locations, movement networks and how these can best be integrated into and form part of a holistic solution for the sale of lots in the development.

SPG has formed a strategy that encompasses a clear movement network for potential buyers to follow which will take them on a journey through the Builders Display Village.

This report seeks to explore the options and financial implications for the following:

- Sales Office
- Sales Village 1 to be opened fourth quarter of 2013
- Sales Village 2 to be opened fourth quarter of 2015

Sales Office

An interactive Sales and Information Centre will be built on lot 170 with the construction of a permanent double storey dwelling, with adjacent lots 171 – 174 to be developed as a temporary car park (see Appendix 1). The Sales Office will front the main boulevard entry to the estate. Clear visibility to pedestrian traffic entering from both the side and rear of the office will be maintained. Visitors will enter the Sales Office from the car parks as per the description below under Sales Village 1 and Sales Village 2.

Options

The options available to the Council are as follows;

1. Selling the Sales Office immediately on completion of construction with a lease back arrangement in place for the period which the sales office is required. The current market rate for a lease back on a sales office is 6.5%, with all outgoing to be paid by the owner. The lease back period is anticipated to be 5 years, although this may extend by another 2 years depending on the life of the display villages.

2. Holding the asset until it is no longer required and then placing it on the market for sale.

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Option 1 has the benefit of realising the income from the house and land on completion of construction, however, requires expenditure in the form of lease back costs. Option 2 defers the income of the asset, and will require the payment of rates and taxes by the TPRC, however, will save on the lease back costs and capitalise on escalation between now and when the house is sold.

Comparison to Budget

The budget currently assumes revenue of $580,276 for the sales office will occur in FYE 2025. The budget does not assume any costs associated with a lease back to the sales office. The cost of leasing back the office over the 5 year period is $163,312. The assumed sale price of the completed home is $670,000 based on a lease back arrangement being in place.

Recommendation

SPG recommends lot 170 be sold to a buyer as a House and Land package on completion of construction with a lease back option over the 5 years, (with an option for a 2 year extension) at a rate of 6.5% pa with all outgoings (rates and taxes) to be paid by the owner. This provides an early inflow of capital to the project which can be earning interest for the TPRC at the risk free rate or distributed to member councils. Revenue is therefore expected to occur in FYE 13/14.

Sales Village 1: Car park and lots

Sales Village 1 will incorporate a Builders Display Village located on lots 161-167, 155-157, 151-153, 193-194, 216-224 as highlighted in brown in Appendix 1. The Sales office will be located on lot 170. Lots 171-174 will form the primary car park adjacent to the Sales Office. Lot 169 will incorporate a children's play area and lot 168 will incorporate basic landscaping.

An additional car park will be built across the road as shown in Appendix 1. This will cater for any overflow from car park 1 and will be required to fulfil City of Wanneroo car park requirements. As shown on the plan the blue line indicates a clear movement network for potential buyers to follow. This pathway will take visitors on a journey through the Sales Office, past the children's play area and into the Builders Display Village.

The car park area and the Sales Office location have specifically been chosen to maximise its use over the lifespan of two Builders Display Villages to avoid relocation costs.

Options

The options available to the Council are as follows;

1. Selling lots 171-174, 168 and 169 under a lease back arrangement for the period which the lots are required. The current market rate for a lease back on vacant land is 7% per annum with all out goings (rates and taxes) to be paid by the owner.
2. Holding the lots off the market until they are no longer required and then placing them on the market for sale.

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Option 1 has the benefit of realising the income from the lots immediately, however, requires expenditure in the form of lease back costs. Option 2 defers the income of the lots, and will require the payment of rates and taxes of the developed lots, however, will save on the lease back costs and capitalise on escalation in lot values between now and when the lots are sold.

Comparison to Budget

The budget assumes revenue from these lots will occur in the current financial year, with an allowance for lease back costs. The total assumed value of the lots is $1,050,000, with associated lease back costs of $316,005. The realisations and lease back costs are in line with the budget allowance.

Recommendation

SPG recommends the following:

- Adopt the movement plan in Appendix 1 as the preferred traffic outcome for visitors for the centre. This movement network optimises the flow of traffic through the Sales Office, past the play area and towards the Builders Display Village along Nomad Drive. It is important for the project that a clear pathway is determined in order to control the flow of pedestrian traffic to allow the project to capitalise on visitors to the display village.

- Lot 168 containing basic landscaping to be sold during the stage 2 release with a lease back option over the 3 years (with an option of a 1 year extension) at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner. After 3 years the lot will no longer be required for the Builders Display Village 2 which is estimated to open in the fourth quarter of 2015. This will provide a clear line of vision of the Builders Display Village for all visitors to Catalina. Landscaping for lot 168 is important in order to give the village a completed feel.

- Lot 169 containing the children's play area to be sold during stage 2 release with a lease back option over 5 years (with an option for a 2 year extension), at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner. This lot will be incorporated into the second Builders Display Village (see Appendix 2). The children's play area is designed to occupy the children of potential purchases while they visit the sales office or display centre.

- Lots 171 – 174 (Car park lots) to be sold during stage 2 release with a lease back option over 5 years (with an option of a 2 year extension) at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner. This provides a space for visitor's to park their cars within easy access to the Sales Office and the Builder's Display Village 1 and 2.

Sales Village 2: Car park and lots

Sales Village 2 will incorporate a Builders Display Village located on lots 106-114, 95-96, 148-150, 154, 158-160, 175-181 as highlighted in Appendix 2. The Sales Office will remain on lot 170. Both car parks will also remain from Sales Village 1. The children's play area on lot 169 will also remain. Lot 168 will no longer be required and the rental lease will have expired.

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The plan for sales village 2 identifies 2 additional lots remaining vacant for the life of village, these being lots 115 and 116. The purpose of keeping these lots vacant is to provide a clear line of sight into display village 2 to passing traffic in order to attract as many people as possible into the village and also into the car park located adjacent to the sales office. Maximising traffic to the display village benefits the development by increasing the number of visitors to the sales office.

Options

The options available to the Council are as follows;

1. Selling lots 115 and 116 under a lease back arrangement for the period which the lots are required. The current market rate for a lease back on vacant land is 7% per annum with all out goings (rates and taxes) to be paid by the owner.
2. Holding the lots off the market until they are no longer required and then placing them on the market for sale.

Option 1 has the benefit of realising the income from the lots immediately, however, requires expenditure in the form of lease back costs. Option 2 defers the income of the lots, and will require the payment of rates and taxes of the developed lots by the TPRC, however, will save on the lease back costs and capitalise on escalation in lot values between now and when the lots are sold.

Comparison to Budget

The budget assumes the majority of revenue from these lots will occur in the current financial year, with 1 lot settling in the FYE 2013/14, with an allowance for lease back costs. The total assumed value of the lots is $357,000, with associated lease back costs of $124,950. The realisations and lease back costs are in line with the budget allowance.

Recommendation

SPG recommends the following implementations:

- Adopt the movement plan in Appendix 2 as the preferred traffic outcome for visitors for the centre. This movement network optimises the flow of traffic down the Builders Display Village 2 along Vetter Road. It is important for the project that a clear pathway is determined in order to control the flow of traffic and provide a journey for visitors to take through the Builders Display Village.

- Retain lot 169 for the children's play area as part of the Sales Village 2 strategy. This children's play area is designed to occupy the children of potential purchases while they visit the sales office or display centre.

- Lot 115 and 116 to be sold during stage 2 release with a lease back option over the 5 years (with an option for a 2 year extension) at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner. This will provide a clear line of vision of the Builders Display Village for all visitors to Catalina. It is important for the project as it provides clear line of sight into the display village for passing traffic.

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Balance Stage 2 Lots

To date lots 117-121 in stage 2 have been held off the market as it was anticipated that these would be used as car parking for the display village. As a second car park has been nominated to occur in an alternative location these lots can now be sold. Five of the six lots are 7.5meter wide medium density lots.

Recommendation

It is recommended that all six lots be sold as a single package via tender in accordance with the September 2011 Council approved Tender Procedure – Medium Density Lots. Furthermore it is recommended to sell the lots via put option, with an option period of 4 months commencing from the date that the tender is awarded.

Summary of Financial Implications of Recommendations to TPRC

The table below details the assumed lease period and sale value of each lot related the villages.

Table 1

Lot	Revenue	Lease Period	Notes
170	$670,000	2013 – Q4 2017	Sell the Sales Office (lot 170) at the completion of construction with a lease back option over the 4 years at a rate of 6.5% with all outgoings (rates and taxes) to be paid by owner.
168	$210,000	2013 – Q4 2015	Sell lot 168 during stage 2 release with a lease back option over the 3 years at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner. After 3 years the lot will no longer be required for the Builders Display Village 2 which is estimated to open in the fourth quarter of 2015.
169	$160,000	Q4 2013 – Q4 2017	Sell lot 169 during stage 2 release with a lease back option over the 5 years (ending fourth quarter 2017) at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner.
171 – 174	$680,000	Q4 2013 – Q4 2017	Sell lots 171 – 174 (Car park lots) during stage 2 release with a lease back option over the 5 years (ending fourth quarter 2017) at a rate of 7% pa with all outgoings (rates and taxes) to be paid by the owner.
115 and 116	$357,000	2013 – Q4 2017	Sell lots 115 and 116 to the market with a lease back at 7% for 5 years with all outgoings (rates and taxes) to be paid by the owner.

Note: Prices are indicative only and subject to detailed pricing analyse.

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Budget Comparison

The tables below provide an overview of the combined recommendations in comparison to the forecast budget revenue and rental costs against the approved cash flow over the life of the 2 display centres.

Table 2 – Revenue and Costs of Implementing Recommendations

	FYE 12/13	FYE 13/14	FYE 14/15	FYE 15/16	FYE 16/17	TOTAL
Sales Revenue	$2,206,000	$670,000				**$2,876,000**
Rent	($80,115)	($131,153)	($138,365)	($127,340)	($127,340)	**($604,313)**

Table 3 – Summary of Budget Position for Balance of Stage 2 Lots

	FYE 12/13	FYE 13/14	FYE 14/15	FYE 15/16	FYE 16/17	TOTAL
Revenue	$2, 256,579	$216,421				**$2,473,000**
Rent	($168,700)	($189,700)	($154,700)	($154,700)	($154,700)	**($822,500)**

Note:

- The rent budget includes an allowance of $70,000 for the temporary Sales Office on lot 1.

The above tables demonstrate that the recommended strategy is within budget for both lease costs and revenue. It is recommended that TPRC approve the disposal of lots and the sales centre as outlined above with the corresponding lease back arrangement in place.

Summary of Alternative Option to TPRC (Hold Lots)

As opposed to the recommendations provided above, the TPRC has the option of holding each lot which is utilised for the operation of the display villages until it is no longer required, then placing it on the market for sale.

Table 4 – Revenue and Costs of Implementing Hold Option

	FYE 12/13	FYE 13/14	FYE 14/15	FYE 15/16	FYE 16/17	TOTAL
Sales Revenue	$799,000			$240,000	$2,384,000	**$3,423,000**
Costs (council, water and sewage rates includes service charges)	$18,395	$18,395	$18,395	$18,395	$18,395	**$91,976**
Compounded Interest Forgone (excluding principle)	$54,680	$83,467	$84,619	$84,665	$84,667	**$392,097**

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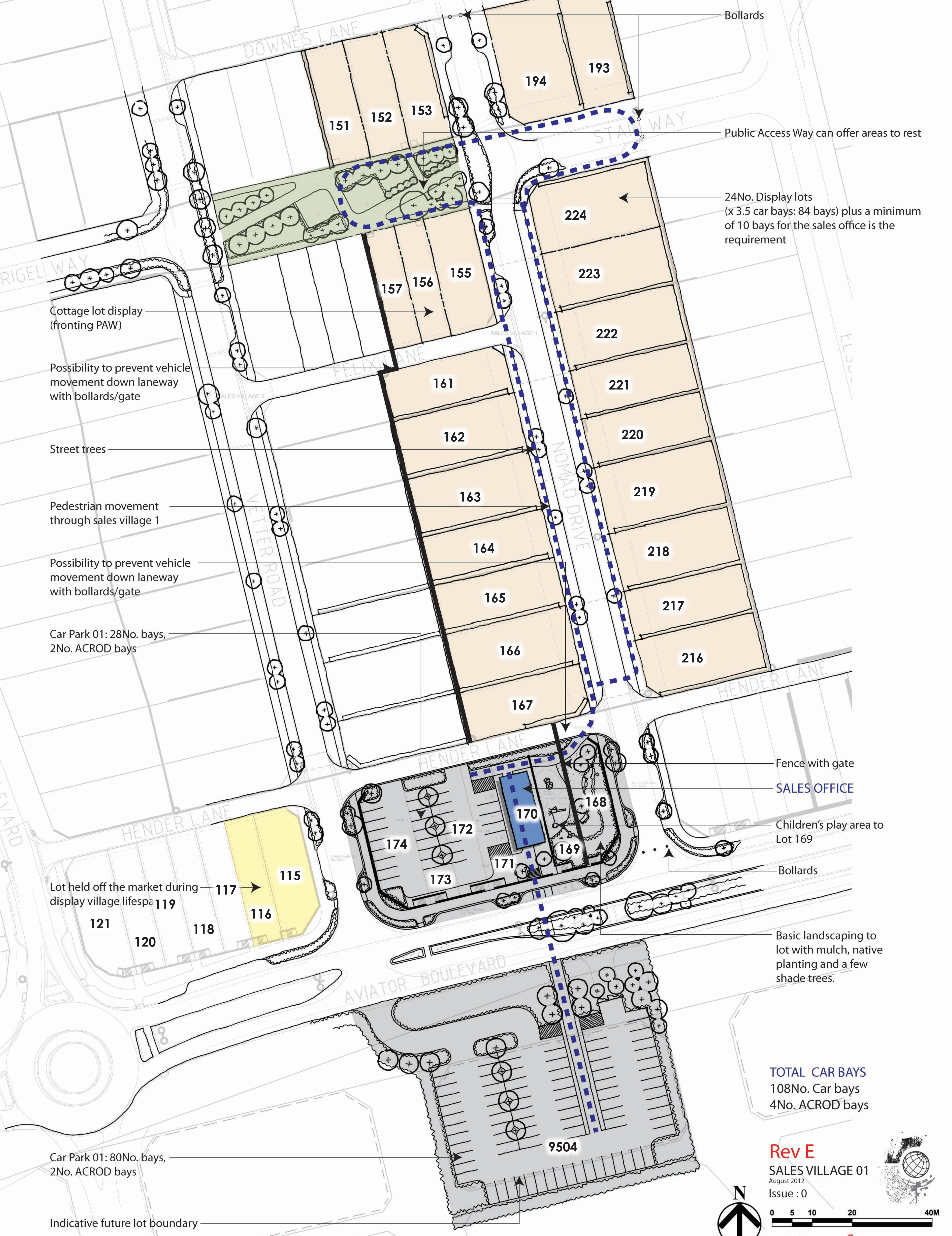
Note sales revenues assume escalation at the same rate as the approved cashflow, less a premium of $5000 per lot which assumed as a premium for a lease back sale and $20,000 off the current value of the sales office. Costs include council and water rates, and the opportunity cost of interest at a risk free rate of 4%.

Appendix 1

Sales Village 1


Bollards
Public Access Way can offer areas to rest
24No. Display lots
(x 3.5 car bays: 84 bays) plus a minimum of 10 bays for the sales office is the requirement
Cottage lot display
(fronting PAW)
Possibility to prevent vehicle movement down laneway with bollards/gate
Street trees
Pedestrian movement through sales village 1
Possibility to prevent vehicle movement down laneway with bollards/gate
Car Park 01: 28No. bays, 2No. ACROD bays
Fence with gate
SALES OFFICE
Children's play area to Lot 169
Bollards
Basic landscaping to lot with mulch, native planting and a few shade trees.
Lot held off the market during display village lifespa
Car Park 01: 80No. bays, 2No. ACROD bays
Indicative future lot boundary
DOWNES LANE
STAR WAY
RIGEL WAY
FELIX LANE
NOMAD DRIVE
VETTER ROAD
HENDER LANE
HENDER LANE
HENDER LANE
AVIATOR BOULEVARD
194
193
151
152
153
224
223
157
156
155
222
161
221
162
220
163
219
164
218
165
217
166
216
167
170
168
174
172
169
171
173
117
115
119
116
121
118
120
9504
TOTAL CAR BAYS
108No. Car bays
4No. ACROD bays
Rev E
SALES VILLAGE 01
August 2012
Issue : 0
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Catalina

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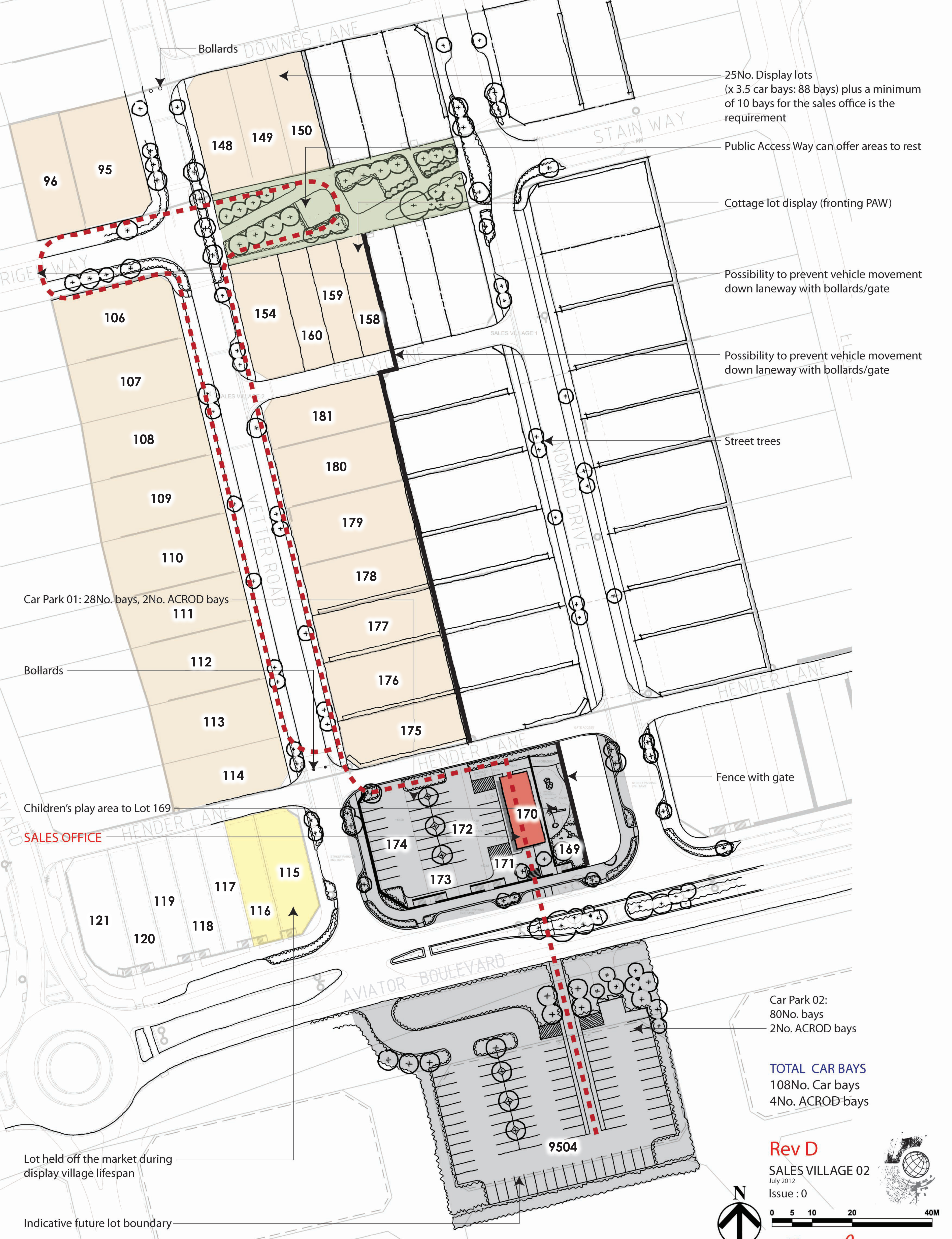
Appendix 2

Sales Village 2



Bollards
DOWNES LANE
25No. Display lots
(x 3.5 car bays: 88 bays) plus a minimum of 10 bays for the sales office is the requirement
STAIN WAY
Public Access Way can offer areas to rest
Cottage lot display (fronting PAW)
Possibility to prevent vehicle movement down laneway with bollards/gate
Possibility to prevent vehicle movement down laneway with bollards/gate
FELIXIA LANE
Street trees
NOMAD DRIVE
VETTER ROAD
HENDER LANE
HENDER LANE
HENDER LANE
Car Park 01: 28No. bays, 2No. ACROD bays
Bollards
Fence with gate
Children's play area to Lot 169
SALES OFFICE
AVIATOR BOULEVARD
Car Park 02:
80No. bays
2No. ACROD bays
TOTAL CAR BAYS
108No. Car bays
4No. ACROD bays
Lot held off the market during display village lifespan
Indicative future lot boundary
96
95
148
149
150
154
159
158
160
106
107
108
109
110
111
112
113
114
181
180
179
178
177
176
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Rev D
SALES VILLAGE 02
July 2012
Issue : 0
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Catalina

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