

**17.2 LATE ITEM - THE QUARTER HOTEL**

<b>File No:</b>	<b>CP.182</b>
<b>Responsible Executive Officer:</b>	<b>Chief Executive Officer</b>
<b>Reporting Author:</b>	<b>Director Corporate Services</b>
<b>Date of Report:</b>	<b>27 May 2022</b>
<b>Applicant/Proponent:</b>	<b>Nil</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s):</b>	<b>Nil</b>

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**PURPOSE**

For Council to consider options for the Quarter Hotel development post the termination of the Memorandum of Understanding (MoU) with Pacifica Developments Pty Ltd (Pacifica).

**BACKGROUND**

Lot 7078 Sharpe Avenue at The Quarter was originally owned and developed by DevelopmentWA for the purpose of a hotel development. Despite interest in the site from a number of hotel developers since 2011, DevelopmentWA was unable to agree terms with a developer in order for the project to proceed.

Much of the difficulty experienced by DevelopmentWA related to the significant cost of project, the fact that the hotel valuation is likely to be in excess of \$10 million less than the construction cost and the consequential impact on LVR if a developer is required to borrow from a bank.

At its September 2017 meeting, Council considered a report on a proposal to progress negotiations with Pacifica regarding the City potentially purchasing Lot 7078 from DevelopmentWA for the purpose of a hotel development. At that meeting Council resolved (in part) to:

*AUTHORISE the Chief Executive Officer to execute a non-binding Memorandum of Understanding with Pacifica Developments to progress negotiations regarding the hotel development at The Quarter;*

Following the September 2017 Council meeting, the MoU was executed and DevelopmentWA conducted a Request for Proposals process that resulted in DevelopmentWA offering Pacifica and the City an Exclusive Working Period (EWP) of six months to finalise a Hotel Development Agreement.

The EWP required that the City enter into a Major Land Transaction involving:

- acquisition from LandCorp of Freehold Lot 7078 on Deposited Plan 401615 being the whole of the land in Certificate of Title Volume 2831 Folio 953 comprising The Quarter Hotel site;
- acquisition from LandCorp of Strata Lot 47 on Strata Plan 67914 within Lot 7079 on Deposited Plan 401615 comprising 101 car bays; and
- leasing part of the land to Pacifica Developments Pty Ltd for the purpose of developing and operating a 100 room four-star hotel.

Following advertising of a Major Land Transaction Business Plan in May 2018, Council considered public submissions at its meeting on 13 September 2018 and resolved to execute the contract of sale for acquisition of the land from DevelopmentWA and to execute a lease with Pacifica for the purpose of developing and operating a hotel.

Since that time, Pacifica encountered significant difficulties in bringing the project to reality, including supply of labour and materials, COVID restrictions and escalating build costs. These issues are consistent across the building and construction industry in Karratha and more broadly across WA and throughout Australia.

Despite these issues, Pacifica advised that it remained committed to the project and focused on resolving the last remaining obstacle - the building cost escalation that is currently affecting the Pilbara. On this basis, Council resolved at its December 2021 Ordinary Council Meeting to modify the Conditions Precedent under the MoU with a view to on-site construction commencing by 1 July 2022. As the modified Conditions Precedent were not satisfied the City gave Pacifica formal notification of the termination of the MoU effective 13 May 2022.

In accordance with the terms of the Contract of Sale for the site, the land is to be used for the development of a hotel and if the City does not proceed with the hotel development, DevelopmentWA has an option to repurchase the land for the original purchase price of \$1. Responsibility for leading the development process would then transfer back to DevelopmentWA, however it has advised that it has no interest in doing so.

If DevelopmentWA does not exercise its options to repurchase the land, the City could hold the land without doing anything, recognising that the land cannot be used for an alternative purpose. This will cost the City in excess of \$200,000 per annum while the land remains undeveloped. Although the City could build, own and operate the hotel in its own right, this presents significant risks and is not considered an appropriate role for the City to assume.

Following discussions with other developers, the City has been advised of potential interest to develop the hotel on similar terms to those negotiated with Pacifica. The City could negotiate directly with one of these developers or alternatively conduct a Request for Proposals process, inviting developers to submit proposals to deliver the hotel development consistent with the approved purpose for the site. Proposals would be evaluated based on the following criteria and associated weightings:

<b>Criteria</b>	<b>Weighting</b>
Value for Money – ability to deliver based on the proposed financial model	30%
Strategic Fit – alignment of proposal with vision for the site	20%
Capacity to Deliver – resources to bring development to reality	20%
Relevant Experience – experience in delivery of similar developments	15%
Methodology – proposed methodology for delivery of development	15%

A further report would then be presented to Council to consider whether to proceed to the negotiation of an MoU with a developer prior to preparation of a business plan. The following indicative timeline would apply to this process:

<b>Steps</b>	<b>Indicative Timeline</b>
Consideration of RFP process	May 2022
Drafting of RFP	June 2022
Issue of RFP to potential developers	June 2022
Deadline for Responses	July 2022
Council consideration of Responses	July 2022

Negotiation of MoU	August 2022
Drafting of Business Plan	August 2022
Public Advertising of Business Plan	August 2022
Council consideration of public submissions and decision on whether to proceed with Major Land Transaction	September / October 2022

### LEVEL OF SIGNIFICANCE

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

Although it is unusual for a local government to be involved in a property development of this nature, it is consistent with Council's Strategic and long term land use plans. In addition to job creation, the development of a 4-star hotel is seen as potentially filling a gap in the current supply of high end accommodation targeted at existing business travellers, increased tourism and the conference market successfully being pursued by the City as part of the operation of the Red Earth Arts Precinct.

### STATUTORY IMPLICATIONS

Section 3.59 of the *Local Government Act 1995* provides for Major Land Transactions.

### COUNCILLOR/OFFICER CONSULTATION

Regular updates have been provided at Councillor Briefing Sessions since 2018, including most recently at the May 2022 Briefing.

### COMMUNITY CONSULTATION

If Council resolves to negotiate an MoU with a developer following an RFP process, a Major Land Transaction Business Plan would be developed and public submissions invited regarding the proposed transaction prior to deciding whether to proceed.

### POLICY IMPLICATIONS

There are no policy implications.

### FINANCIAL IMPLICATIONS

The MoU with Pacifica proposed the investment of \$10m of City Reserve Funds generated predominantly from commercial operations at the Airport. The City's investment was expected to yield a return in excess of \$20m over 20 years through lease payments and rates.

These amounts are included in the City's Long Term Financial Plan.

### STRATEGIC IMPLICATIONS

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

Programs/Services:	2.c.1.2	Land development and management
Projects/Actions:	2.c.1.2.20.6	Facilitate the use of the City Centre land for the Quarter Hotel

The City has the potential to gain from this project via:

- Further progressing the delivery of the City's Vision to be *Australia's Most Liveable Regional City*.
- Increasing quality short stay accommodation providing an accommodation product that is not currently available within the district.

- Supporting economic development and in particular tourism.
- Further activating the city centre and supporting nearby food and beverage businesses.
- Assisting in attracting major events to the Red Earth Arts Precinct.
- Anticipated marketing spend on the hotel and the City.
- Creation of 50+ employment opportunities during construction.
- Creation of approximately 40-50 full and part time local hospitality jobs as part of the hotel operations.
- Potential for indigenous engagement in the hotel, including support for indigenous hospitality training, promoting indigenous tourism and showcasing local indigenous art.
- Ability to retain the popular grassed area on Sharpe Avenue for civic purposes.
- Financial returns in the form of:
  - generating a financial yield from a property investment that exceeds current bank interest available; and
  - additional rates revenue from the development.

### **RISK MANAGEMENT CONSIDERATIONS**

There are no risk management considerations applicable to the RFP process however if Council resolves to proceed with the development following the consideration of proposals a full risk analysis will be included in the Business Plan.

### **IMPACT ON CAPACITY**

There is no impact on capacity or resourcing to carry out the Officer's recommendation, however there will be resource implications if Council resolves to proceed beyond the RFP process.

### **RELEVANT PRECEDENTS**

The purchase of The Quarter HQ was the City's most recent Major Land Transaction. Based on the current occupancy rate of 90%, The Quarter HQ is returning approximately 10% (\$2m per annum) above term deposit rates.

There are also several recent examples of public private partnerships, including:

- Airport hangar (\$1.9m)
- Qantas lounge (\$0.5m)
- LS Retail airport fit out (\$0.25m)
- Dampier Shopping Centre redevelopment (\$4.1m).

### **VOTING REQUIREMENTS**

Simple Majority.

### **OPTIONS:**

#### Option 1

As per Officer's recommendation.

#### Option 2

That Council by SIMPLE Majority pursuant to Section 3.59 of the *Local Government Act 1995* RESOLVES to DEFER consideration of this matter pending further discussion.

#### Option 3

That Council by SIMPLE Majority pursuant to Section 3.59 of the *Local Government Act 1995* RESOLVES to NEGOTIATE the return of the Quarter Hotel site to DevelopmentWA.

**CONCLUSION**

Following termination of the MoU between the City and Pacifica for the Quarter Hotel development a Request for Proposals process is considered the most effective and transparent option to test interest amongst developers to partner with the City to deliver the Quarter Hotel consistent with the approved purpose for the site.

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**OFFICER'S RECOMMENDATION**

That Council by SIMPLE Majority pursuant to Section 3.59 of the *Local Government Act 1995* RESOLVES to CONDUCT a Request for Proposals, inviting developers to submit proposals to deliver the Quarter Hotel development consistent with the approved purpose for the site based on the following evaluation criteria and associated weightings:

Criteria	Weighting
Value for Money	30%
Strategic Fit	20%
Capacity to Deliver	20%
Relevant Experience	15%
Methodology	15%