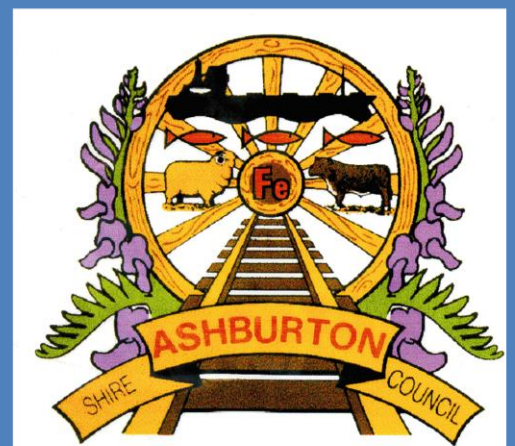


MAJOR LAND TRANSACTION PLAN

Proposed Lease Agreement for the Onslow Sun Chalets, Onslow

May 2014

Submissions close 14th July 2014



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1. Executive Summary

This Major Land Transaction Plan ('Plan') has been prepared in accordance with the *Local Government Act 1995 and Local Government (Functions and General) Regulations 1996*.

The intention of this Plan is to inform the community of the Shire's proposal and seek comment in relation to this Major Land Transaction as it relates to managing the Shire's assets. It is not a function of this Plan to address planning issues that have previously been canvassed in the community. The required planning processes are considered separately.

Onslow is located on the coast of the remote Pilbara Region of Western Australia, some 1386km north of Perth. The town's dominant purpose has been as a residential base and service centre for the workforce employed at the nearby salt production operation, Onslow Salt. Pastoralism, fishing and tourism also support the town's economy.

Growth for Onslow commenced with the announcement by the State Government in 2008 to establish the Ashburton North Strategic Industrial Area (ANSIA), 11km southwest of Onslow. The commencement of construction of BHP Billiton Petroleum's Macedon, and Chevron Australia's Wheatstone, at the ANSIA has already impacted on the towns shortage of accommodation for service providers, tourists and long-term tenants.

The accommodation shortage is expected to increase as the resources sector projects ramp up increasing costs for local services and businesses and impacting the long-standing tourist industry which struggles to compete with the higher rates offered by external contractors. As a consequence, it will be even more difficult for project operators and service providers to attract and retain qualified and skilled staff on a live-in basis, whilst the tourism industry will be adversely affected.

The proposal put forward by Ashburton Investments Pty Ltd is for the establishment of a new Lease Agreement over the Onslow Sun Chalets, on Second Avenue, Reserve 35889, Onslow.

This Major Land Transaction Plan details the proposed Lease Agreement for the Onslow Sun Chalets, on Reserve 35889, Second Avenue, Onslow. This Agreement is considered vital to addressing the shortage of quality budget accommodation in Onslow.

NEIL HARTLEY

CHIEF EXECUTIVE OFFICER

2. Plan Objectives

This Major Land Transaction Plan is designed to:

- a) Inform the public with respect to the Shire of Ashburton's proposal to undertake a 'Major Land Transaction' in respect to the proposed Lease Agreement period and option to renew of Lot 588 Deposited Plan 190235 Reserve 35889 at 60 Second Avenue, Onslow;
- b) Provide the opportunity for the public to make submissions regarding the Major Land Transaction Plan and the proposed Lease Agreement of this property; and
- c) Satisfy the requirements of Sections 3.58 and 5.56 of the *Local Government Act 1995*.

3. Transaction Overview

3.1 Background

Ashburton Investments Trust (AIT) was assigned a 7 year 8 month lease of the Onslow Sun Chalets (OSC) which commenced on 1 August 2005 and which has expired on 31 March 2013. Since then the lease has operated under short term extensions.

Independent Valuers of Western Australia, in their Shire commissioned (December 2012) valuation of the lease, noted that in the current market it would be feasible to double the existing room rates. AIT have taken a more conservative approach in the view that the current market situation will be relatively short lived, preferring instead to ensure the property is still affordable to its traditional markets.

During the last few years there have been several projects in and around Onslow which have resulted in a shortage of available accommodation in the town, the most notable being the Wheatstone project. During these periods, AIT has endeavoured to keep room rates at a reasonable level. Onslow Sun Chalets are currently the lowest priced option in the Onslow market for this type of accommodation. The Onslow sun chalets have been operated as an affordable family type accommodation, both by AIT and their predecessors, as per the original aim of the lease.

Under the current terms of the lease the Shire of Ashburton (SOA) own the buildings and are responsible for the maintenance/fair wear and tear of both the buildings and chattels. The lease rental payable under the current terms has been understandably insufficient to justify any significant refurbishment by SOA over the period of the lease. This has been compounded by the huge escalation in the cost of having maintenance works carried out in Onslow. For the same reason there has been minimal maintenance carried out over the latter years of the lease period.

In order to maintain a reasonable level of service to guests AIT have replaced virtually all chattels and carried out a high level of repairs and maintenance at their cost over the period they have held the lease. However no significant refurbishments have taken place due to the short term which was remaining on the lease.

The OSC consists of three separate types of accommodation:

- Four (4) motel units at the front of the OSC – constructed circa 1980's. These units are dated but serviceable.
- Nine (9) two bedroom chalets – constructed circa 1970's. The chalets are in poor condition both structurally and cosmetically, requiring a substantial refurbishment to bring them up to an acceptable standard.
- Three (3) beachfront units– constructed circa 1980's. It would not make economic sense to refurbish these units. They are currently being utilized but are near the end of their useful life.

In addition the OSC also provides a laundry facility, together with a swimming pool.

The current overall condition of the OSC is poor (as described in the report by the Shire’s Building Inspector, Bernie Smith approximately six years ago), with SOA having provided minimal funds to maintain the OSC during the 7 year period since the lease was assigned to AIT. The poor standard of the accommodation has impacted negatively on AIT’s ability to provide a satisfactory level of service to their guests, as highlighted in previous submissions and letters to council.

The AIT business plan is not entirely profit driven; aiming to operate a business which provides a very good level of service at a good value to guests whilst maintaining a reasonable level of profit. The reasons behind this strategy include-

- Onslow has been very kind to the Evans families over the years so do not need or desire to extract the last achievable profit out of a Shire owned facility;
- Have a genuine desire to maintain a viable option for tourists wishing to come to Onslow, as per the original scope of the Onslow Sun Chalets; and
- Under the current regime of good service and reasonable rates guests leave the motel very satisfied, this makes for a good work environment for OSC staff which results in happy employees, less staff turnover and a more stable business.

Historically, Onslow Sun Chalets has relied heavily on the lower end short term tourist trade from the Pilbara and further afield. Over the years OSC has built up a loyal customer base within this section of the market. AIT see this as a niche market which is currently not being targeted by the other accommodation suppliers in Onslow.

AIT intends to continue providing accommodation to the economy section of the market, aiming for high occupancy rates with reasonable, sustainable returns.

3.2 Details of the Transaction

Nature of the Major Land Transaction	Lease of land with net value over \$2 million
Location of Land	Lot 588 on Deposited Plan 190235
Proposed Lessee	Ashburton Investment Trusts
Duration of Transaction	10 years plus 10 year option
Projected Costs	\$5,000 - \$10,000
Market Valuation (duration of Lease)	\$2,760,000
Net Return	\$2,800,000

AIT have requested a renewal of the current lease for a minimum initial period of 10 years with a further 10 year option. One of the assumptions in their financial modelling, to ensure the financial viability of this proposal, is a 10 year lease due to the significant capital investment proposed. Responsibility (and cost) for all repairs and maintenance will be the responsibility of AIT under the proposed Agreement.

AIT proposes an annual lease of \$140,000 (previous agreement was \$40,000 pa). This proposed amount is net of the 10 year amortization of considerable capital investment as outlined above.

AIT proposes to commence the new annual lease payment of \$140,000 pa immediately on signing of the Agreement, even though the lead time to have the property in the upgraded condition after the stage one and stage two investments is 6-12 months.

3.3 Site Description

The Onslow Sun Chalets is located on Reserve 35889, Lot 588 Deposited Plan 190235, 60 Second Avenue, Onslow, WA 6710 and is vested in the Shire of Ashburton. The property is subject to the approval of the Minister for Lands, to be used expressly for the purposes of Holiday Accommodation with leases not to exceed

a period of 21 years.

Development on the 1.4325ha property comprises nine (9) two bedroom chalets units appearing to date to the 1970's, four (4) motel units constructed circa 1980's, manager's house, pool and laundry. The office is located in the eastern end of the motel building with a canopy erected over the adjoining driveway and entry. A further three (3) beachfront units (15, 16 and 17) constructed circa 1980's are located on the north western portion of the site overlooking the ocean.

The site is approximately rectangular in shape, located on the eastern side of the Second Avenue and adjoining the beach. Development is generally on the western portion of the site adjoining Second Avenue with the majority of the eastern or beach side portion of the site being vacant.

3.4 Program

Council consideration of proposed Lease Agreement	21 st May 2014
Major Land Transaction Plan advertised for submissions (closure)	14 th July 2014
Submissions considered and Plan/Lease adopted	23 rd July 2014
Lease Agreement signed	3 rd August 2014
Minister of Lands approval	~6 weeks lead time

4. Projected Effect

4.1 Renovation

4.1 (a) Renovation - Stage 1 (Target Completion 6 Months)

Commencement would see a refit of the existing chalets and 4 street front motel units, bringing them up to a standard fit for the purpose of providing lower end family/short term tourist accommodation.

Local builders DA Burke have provided an estimate of \$600,000 to \$650,000 to carry out these works. Their estimate does not include unforeseen problems encountered during the renovation. Due to the age of the buildings, AIT have budgeted a further \$200,000 as a contingency.

Three existing chalets will be converted into dormitories capable of accommodating eight people per chalet. The bathrooms and kitchens in these buildings will remain but be refurbished as shared facilities for the three dormitory style chalets.

Provision of staff accommodation would be incorporated into stage one. It has been increasingly difficult for OCS to source staff with their own accommodation.

4.1 (b) Renovation - Stage 2 (Planning Concurrent with Stage 1, Target Completion 12 Months)

Four new buildings will be purchased; three of these buildings would provide ten new self-contained motel units. The fourth building would contain five motel rooms. These rooms will not contain a bathroom. An ablution block will be placed to service this five room building as well as to provide additional capacity for the dormitory accommodation. The new units would be placed on the currently unutilized area to the seaward side of the site. These units would be constructed in Perth by one of the companies specializing in this type of development. These single load buildings would be transported from Perth ready to be commissioned.

Prior to the arrival of the new buildings the services and ground works would be carried out by local contractors. In conjunction with these works the existing buildings would be connected to the town sewer system. The cost for sewer installation and connection will be borne by AIT. An estimate from a local contractor to connect the existing accommodation to the town sewer is \$250,000 to \$300,000.

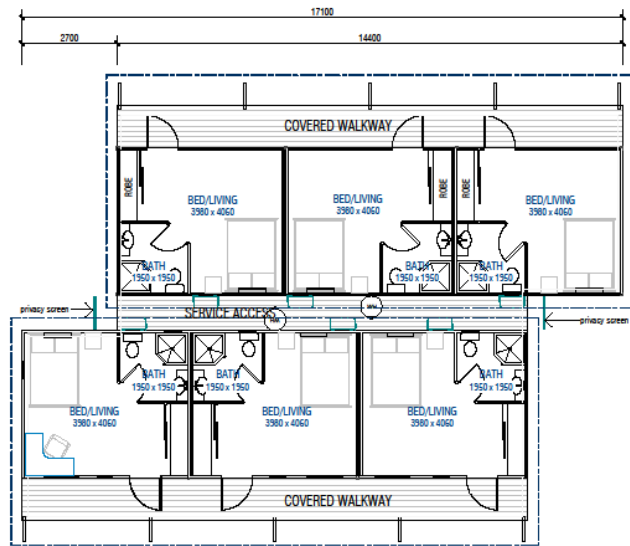
Landscaping of the entire site will be carried out during stage 2. The goal is a development that resembles a typical NW motel as can be seen in other NW destinations such as Exmouth or Point Sampson.

4.1 (c) Renovation - Further Development

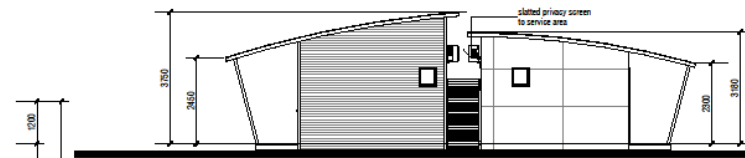
There is potential for further development beyond stages 1 and 2 depending on market conditions at the time.

4.2 Design Information

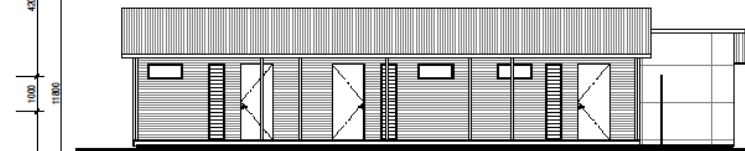
4.2 (a) Example Sketch Drawings



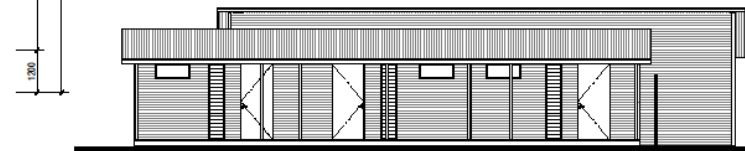
PRELIMINARY FLOOR PLAN
single persons quarters
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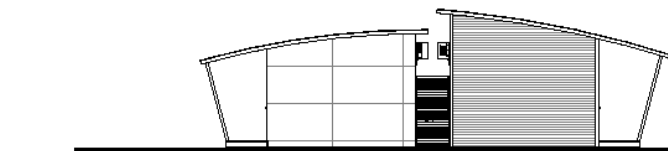
ELEVATION 01
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ELEVATION 02
scale 1:100

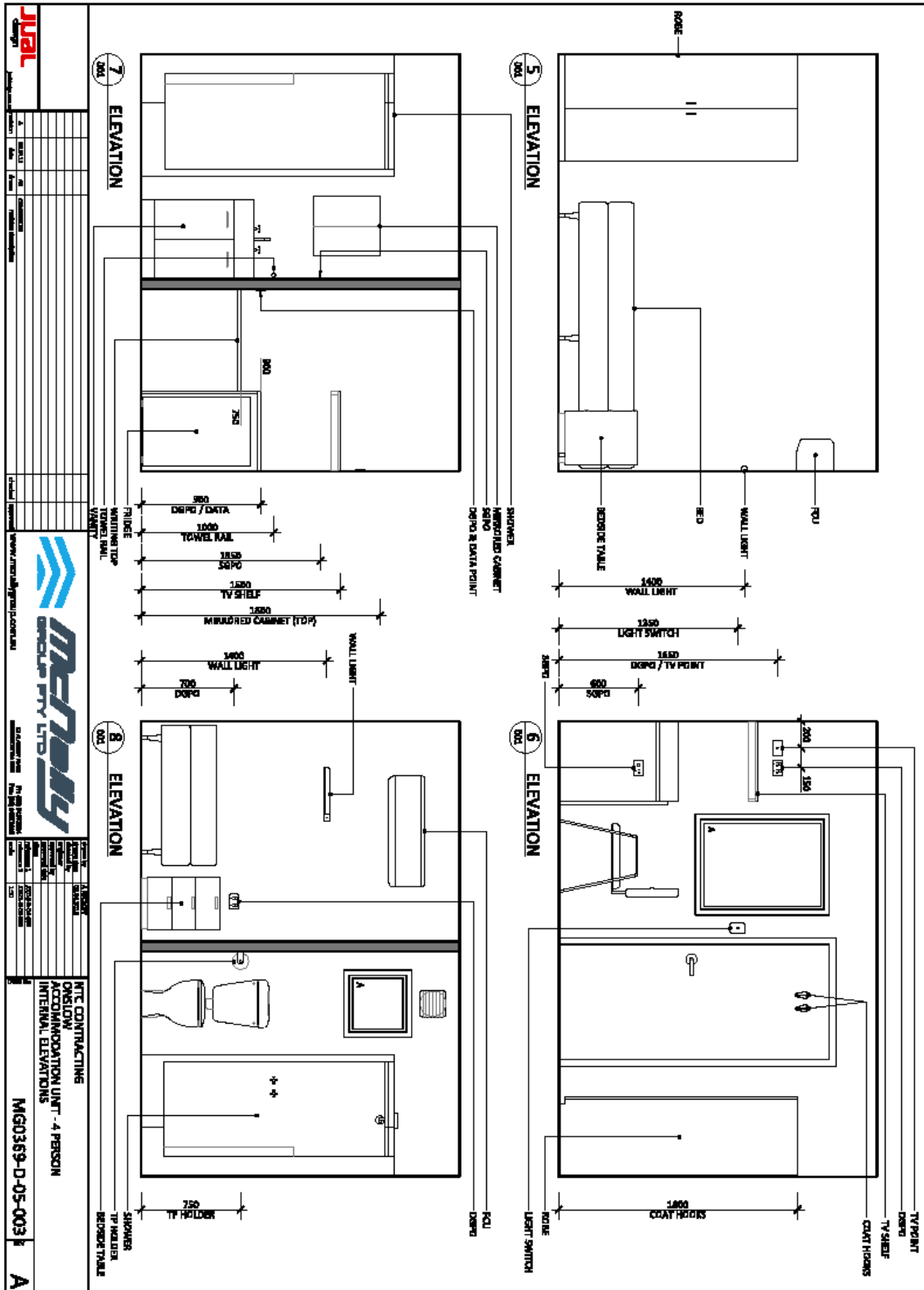


ELEVATION 03
scale 1:100

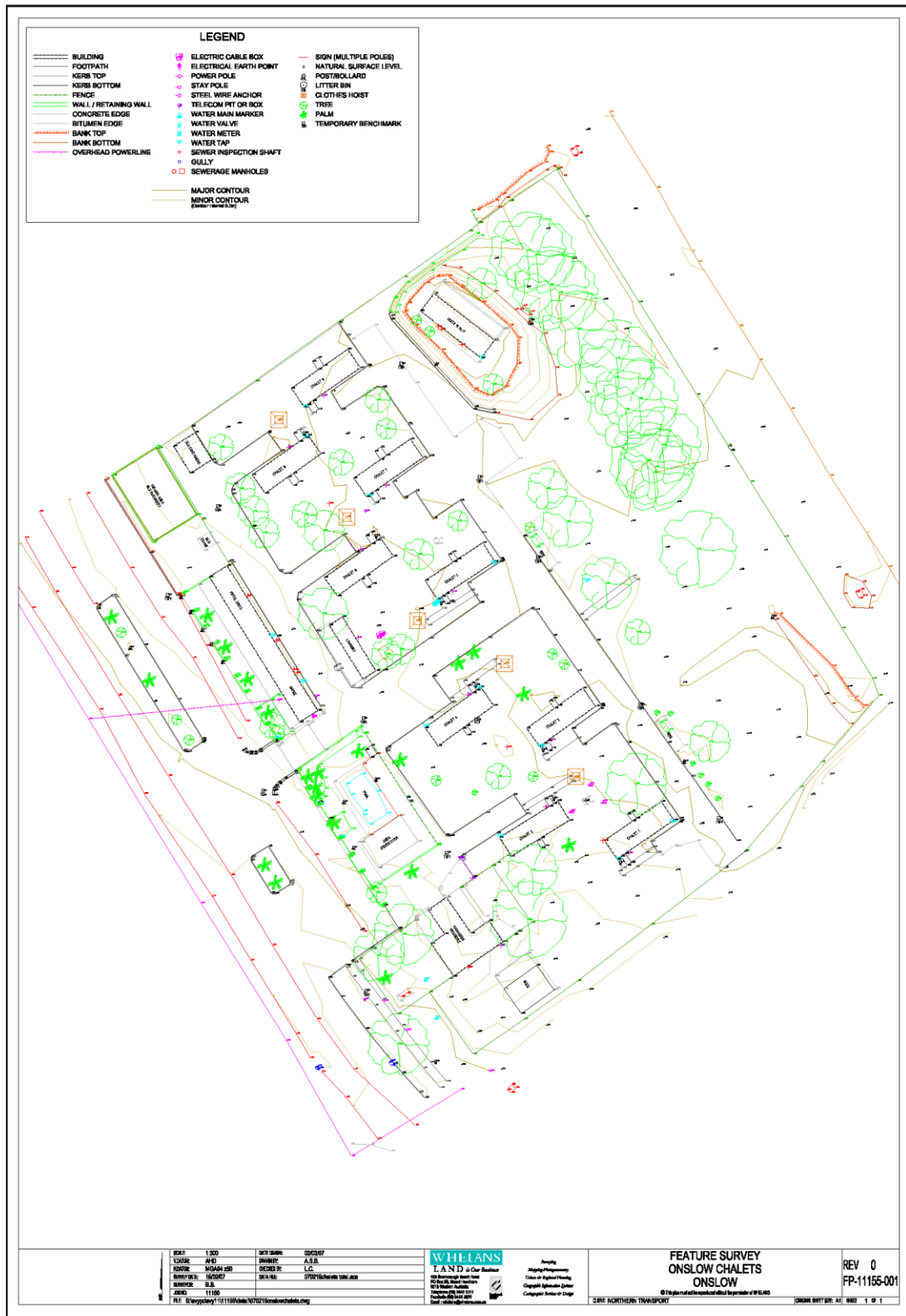


ELEVATION 04
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4.2 (c) Example Plan of 4 Unit Accommodation – Interior Elevation



4.2 (d) Feature Survey Onslow Sun Chalets



4.2 (e) Example Interior New Motel Unit - Interior



5. Considerations

As part of the conditions of the Management Order for Reserve 35889, the following apply:

5.1 Minister for Lands Approval

Ministerial approval is mandatory for the new proposal as the Lessee must at all times reserve 25% of all available beds in the holiday accommodation on the Premises for use by transient tourist trade.

5.2 Essential Service Information

Costs associated with connection to the town sewer system would be met by AIT with initial estimates scoped between \$250,000 and \$300,000.

5.3 Heritage & Native Title

No native title interests exist over Lot 588, Second Avenue, Onslow.

6. Legislative Requirements

6.1 Preparation of a Major Land Transaction Plan

Section 3.59 of the *Local Government Act 1995* details the process governing 'Commercial Enterprises' by local governments, including 'Major Land Transactions'.

A 'Major Land Transaction' is defined by the Act to be a land transaction that is not exempt under the Act, and where the total value of:

- a) the consideration under the transaction; and
- b) anything done by the local government for achieving the purposes of the transaction, is more, or is worth more, than \$2 million.

The Council obtained an independent rental valuation in December 2012 and again in June 2013 which were used as an initial guide in determining the estimated annual rental as required in accordance with the *Local Government Act 1995*. The initial report was prepared on the basis planning and building approvals would be granted and the premises leased at a market rental on a 5 year plus 5 basis. As the proposed Lease Agreement is for a period of ten years with an option to renew for a further ten years, the net value of the term is a minimum of \$2.8M. This value requires the Council to undertake a Major Land Transaction Plan under s3.59 of the Local Government Act.

Before entering into a 'Major Land Transaction', the Shire is required to prepare a Business Plan that includes an overall assessment of the land transaction including:

- Expected effect on the provision of services and facilities by the Shire;
- Expected effect on other persons providing services and facilities in the region;
- Expected financial effect on the Shire;
- Expected effect on the Shire's Plan for the Future.

This Major Land Transaction Plan has been written so as to comply with the requirements of Section 3.59 "Commercial Enterprises by Local Governments" of the Local Government Act 1995 and the Local Government (Functions and General) Regulations 1996 and to provide members of the public with sufficient information so as to make an informed submission in respect to this proposal.

7. Assessment of Major Land Transaction

7.1 Effect on the Provision of Facilities and Services by the Shire

The proposed lease will provide the Shire of Ashburton with additional revenue to further invest in services and facilities for its growing communities. The proceeds will be used to fund current and

future Shire capital works and projects identified in the 2012 -2022 Community Strategic Plan by enabling Council to leverage more funding than previously identified.

7.2 Effect on Other Persons Providing Facilities and Services in the Region

The proposed Lease Agreement is not deemed to have an adverse impact on other persons providing facilities and services within the region. When the additional units are serviceable, the broader region will benefit through the availability of additional accommodation for service providers, tourists and long term tenants.

Ashburton Investments have operated the facility since 2005, demonstrating their ability to meet the needs of the 'budget tourist' industry and thus will not be new competition to an existing market.

7.3 Expected Financial Effect on the Shire of Ashburton

The proposal by Ashburton Investments is for a \$140,000 per annum over a 20 year lease period (10 year initial period with one 10 year option). An independent valuation of the premises dated June 2013 indicated an estimated rental market of \$138,500 per annum denoting the proposed annual lease payment to be just.

The total return over the life of the lease (assuming lessee initiates second term) is \$2.8M. It is proposed these proceeds will fund strategic priority services and facilities as detailed in the Strategic Plan 2013-2023 and Corporate Plan 2012-2014.

Costs associated with the development and advertising of a Major Land Transaction Plan, administration and legal costs associated with the establishment of a new Lease Agreement are estimated to be in the range of \$5,000 - \$10,000. These funds have been provided for in the 2013/2014 budget. Any variations to this will be accounted for through the budgetary process.

7.4 Expected Effect on Shires Plan for the Future

The Local Government Act requires details to be provided in relation to the major land transaction and its expected effect on its district on matters referred to in the Shire's Plan for the Future. This proposal corroborates the Shire of Ashburton's 10 Year Community Strategic Plan 2012-2022, providing and acknowledging key strategies of;

- Enduring Partnerships:
 - Strong Local Economies;
 - Enduring Partnerships with Industry and Government; and
 - Well Planned Tourism.

The proposed redevelopment works and investment in OSC and all associated costs will be borne by Ashburton Investment Trust in their entirety. The Shire of Ashburton benefits:

- Guaranteed cash flow of \$140,000 for the period of the lease;
- Total operational and financial risk rests with AIT;
- This project will provide much needed budget accommodation to help ensure Onslow is maintained as a viable tourist destination into the future;
- This is a positive current use of the site whilst still retaining a high degree of flexibility for the long term use of the site, effectively retaining the site as a "land bank";
- Continuity of an operator who has demonstrated a willingness to run a sustainable business without exploiting a Shire owned asset during a period of unprecedented market demand.

7.5 Ability of the Shire to Manage the Major Land Transaction

The Shire of Ashburton has sufficient, experienced personnel to successfully complete the Lease Agreement and manage the contract. Consultants have been utilised to obtain advice to ensure its validity and community benefit.

8. Public Consultation and Advertising

8.1 Public Consultation Process

Section 3.59 of the *Local Government Act 1995* requires the Council to give state-wide and local public notice of the Major Land Transaction inviting public submissions for a minimum period of six weeks. This notice must:

- State that the Shire proposes to enter into a Major Land Transaction as described in the notice;
- Specify a place the Major Land Transaction Plan may be inspected;
- Notify the public submissions about the proposed transaction may be made to the Shire before a day specified in the notice, being a day that is not less than 6 weeks after the notice is given.

After the last day for submission, the Shire is to consider all submissions made and may decide to proceed with the transaction as proposed or so that it is not significantly different from what was proposed.

8.2 Advertising

A notice advertising this Plan and seeking public submissions in respect to its content will be placed in the West Australian on Saturday 24 May 2014 and the Pilbara News (district newspaper) on Wednesday 28th May. Notices will also be placed on public notice boards at Shire of Ashburton facilities including the Administration Centre, Shire Library, Onslow Shire Offices and Paraburdoo Shire Library. This notice and Major Land Transaction Plan will also be available to view at www.ashburton.wa.gov.au.

8.3 Submissions

Submissions in respect to this Plan are to be made in writing to the Chief Executive Officer and received no later than 4.00pm Monday 14th July 2014.

Submissions are to be addressed to:

Chief Executive Officer
Shire of Ashburton
PO Box 567
Tom Price WA 6751