

Name: D.Grapes	Date of Submission: Feb 27, 2025, 07:33 PM
Submission: What do rate payers gain out of this investment? I think this is a ridiculous idea. The city should not be involved. If rate payers a funding this they should receive a reduction in their rates. The Likes of Rio Tinto and Woodside should be funding this seeing as they don't pay a proper resource tax.	
Administration Response: Council is proposing to undertake the development to address the City's critical housing shortage, one of the major barriers to achieving Council's vision to be Australia's most liveable regional City. While the proposed development is not intended to benefit any individual ratepayer, it is forecast to deliver a positive financial return, providing funds for future investment into housing or community facilities and services to benefit all ratepayers. The project is proposed to be funded from the City's Infrastructure Reserve. The Infrastructure Reserve funds are derived from returns on the City's businesses such as Karratha Airport, 7-mile Waste Facility, The Quarter HQ and a portion of rates from Transient Workforce Accommodation facilities. The Infrastructure reserve does not contain any rates from residential, commercial or industrial properties. Rio Tinto and Woodside do not have an ownership interest in the proposed development. Resources taxes are a matter for State and Federal Governments, not Local Government.	

Name: G.Slee	Date of Submission: Mar 03, 2025, 10:58 AM
Submission: My advice is 'just get on with it'. Our biggest risk is shortage of accommodation, which is escalating and creating greater price and rental unaffordability. We do not have time to fluff around given the trades and supply chain issues. I would suggest the community has already given the City of Karratha the implicit mandate to fix the accommodation issue asap. If this means making hard internal decisions about processes, policies etc. then so be it. Slow action is exacerbating the issue and not adding to liveability.	
Administration Response: The Local Government act 1995 requires that for any Major Land Transaction, the City prepare and advertise a business plan for public consultation for a minimum period of 6 weeks. Officers have continued to work on due diligence on the project during this period with the intention of seeking a final investment decision from Council and commencement of construction as soon as possible.	

Name:

G.Wilkinson

Date of Submission:

Mar 04, 2025, 02:34 PM

Submission:

In Australia, local governments often struggle under highly centralized State control, and nowhere is this more apparent than in regional WA. Many Karratha residents might feel that housing development is the responsibility of the State, but experience shows that waiting for higher tiers of government to solve local problems often leads to housing shortages, inflated costs, and slowed economic growth challenges we face today.

Western Australia has some of the highest levels of uneven development in the world, with Perth as the sole beneficiary while regional areas are left behind. Internationally, local governments in countries like Canada and the US have played a crucial role in developing thriving non-capital cities. Calgary, Dallas, Vancouver, and Los Angeles are examples among many others of purely commercial centres that flourished without being state capitals. These cities demonstrate that when empowered, local governments can drive sustainable urban growth and foster normalised housing markets.

The success of non-capital cities worldwide demonstrates that when local governments have the tools and autonomy to act, they can drive growth and build strong, self-sustaining communities. As a local resident, I support the City of Karratha's proactive approach to housing development. The Baynton Residential Development makes financial sense and sets a valuable precedent: that local governments can and should take the lead in addressing regional challenges. By reducing reliance on State-controlled bottlenecks, we can build a stronger, more resilient Karratha for the future.

Administration Response:

The City notes this is a City of Karratha employee commenting in their personal capacity

Noted.

Through our community engagement, the local resident and business community have highlighted housing as one of the two most significant issues impacting liveability and the ability to do business, alongside cost of living.

To achieve our vision to become Australia's most liveable regional City, the City has taken a proactive approach to addressing the housing shortfall.

This development is also forecast to derive a net return to the City, providing funds for future investment into housing or community facilities and services.

Name: K.Janney	Date of Submission: Mar 04, 2025, 03:42 PM
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Submission:

This a great initiative and City of Karratha need to ensure it proceeds, but I note the following

Option 1

- Looks good with the Gov providing the funds, I suggest that the the calculation for the actual rent be based on 75% of the Perth rental or Karratha rental which ever is lower. I suggest keyworkers may not be on a great deal more \$\$ than their equivalent counter part in Perth ,or why not base the rental amount on the discounted rental equivalent to the GROH rental. I suggest the Capital cost needs to be the \$23.4(inc GST) not ex GST , you cannot claim GST on residential housing.

Also its not clear whether the 17.5% operating expense, picks up for future refurbishment, as would start to be required from potentially year 15 onwards. This would require an additional capital injection , for items like new appliances, new aircon, painting and floorcoverings etc. If the state gov provides all the funding for this development,it should be self funded completely including refurbishments via the rental amounts and not use the \$\$ for other affordable /keyworker housing initiatives

Option 2

Looks good, once again suggest the capital amount needs to be increased to the GST inclusive amount of \$23.4m as you cannot claim the GST on residential property. This is not a commercial project. The agreed amount, to purchase the development from the builder of \$23.4m (inc GST) would have already taken into account whether the margin scheme is being used or not. I do not believe the 17.5% takes into account future refurbishment works that are likely to occur between yr 15 and yr 20. I would suggest the IRR maybe less than what you have calculated.

Option 3

Looks good, but similar comments to Option No 2.

Its interesting that you are doing a sensitivity analysis on the construction costs, when its clear the agreed amount to buy is \$23.4m and with it being built with 12mths, so there is no real reason for any construction cost escalation.

Name:

K.Janney

Date of Submission:

Mar 04, 2025, 03:42 PM

Administration Response:

The Business Plan and assumptions have been independently reviewed, the review found that the rental amounts used were conservative.

In undertaking due diligence for the proposed investment, the City has obtained tax advice confirming that we are not eligible to claim Input Tax Credits on the construction costs. The projected returns outlined in the Council report for final investment decision reflect the GST inclusive cost of the development.

The forecast operating expenses include ongoing maintenance repairs and replacement but not asset refurbishment or renewal. This is reflected in the residual asset value. Any refurbishment or renewal expenditure would be funded from the project cashflow surplus and would increase the residual asset value at the end of the initial 20-year term.

The proposed construction cost, while intended to be fixed on execution of the Development Agreement, was based on what was provided to the City during the EOI and subject to cost escalation prior to finalisation of any agreement. The proposed budget allocation in the Council report for final investment decision reflects the updated cost from the proponent and also includes a contingency to allow for any potential cost changes for design changes requested by the City, preferences in fixtures, fittings and finishes, and any external costs for project quality assurance and oversight engaged by the City.

Name:

I.Brandis

Date of Submission:

Mar 05, 2025, 09:55 AM

Submission:

I think a lot of people won't want to read the entire development proposal or potentially may not understand. There almost needs to be some form of communications that explain the development in the most absolutely simple way possible so that the community can receive a snapshot of what is being proposed. (I'm not sure if there is something like this already).

I feel that there probably needs to be explicit explanation that the houses won't just be going to City staff, I can imagine that if someone that hasn't read the entire plan in full, and assume that 20m is going to houses for staff they wouldn't be impressed- despite the fact that this isn't the reality.

I think building more houses is always great, but with a significant portion of the population being on relatively high incomes, I feel that if the development is tailored to be private rentals, low-income workers are no better off if these rental prices are equal to median market rental prices. (i.e. "Starting average rental of \$900pw per dwelling")

With the amount of Rio/Woodside housing stock available to their staff, massive costs to build (e.g. \$850,000 for a microscopic house on lulu lane, Baynton), and limited SWA, it seems like while there will be more housing available, low-income earners are disproportionately affected still.

HOWEVER, the work done by the team in the development proposal is incredibly impressive, I have a limited understanding of commercial/residential development so every point I have discussed could be completely incorrect. I think this is a great development still, and hope it goes ahead.

Administration Response:

The City notes this is a City of Karratha employee commenting in their personal capacity

The new dwellings included in this project will not be immediately utilised for private market rental. Rather, the dwellings will be made available to essential workers, including state and local government employees, also service workers. These groups have an immediate need for housing and in midst of severe housing supply constraint are competing with the private market. Given this is a City-owned project, the intent is to provide housing options for public servants and essential workers.

Name: S.Whelan	Date of Submission: Mar 06, 2025, 01:37 PM
Submission: Benefits: 1. The proposal includes affordable housing and key worker accommodation, which aligns with the needs of local businesses struggling to house employees. 2. Acero Construction has experience in regional projects and intends to use modular construction to expedite delivery, which may provide jobs in the short term. 3. The City has considered multiple funding models, including state government funding, council reserves, and private leasing. Concerns: 1. While 37 new dwellings will help, the City's study predicts a 900-house shortfall over the next five years. This development alone will not be sufficient to fully address the region's housing crisis, and further investment in land release, infrastructure, and housing incentives will be required. 2. If state government funding is not secured, the City may have to use council reserves. The proposal shows that using reserves without a guaranteed return could impact funding for other community and business support initiatives. 3. What opportunities will there be for local businesses in construction, maintenance, and property management as part of the project? 4. If the City prioritises staff housing for its own workforce, small business employees may still struggle to access affordable housing.	
Administration Response: The City is in agreement with the benefits as outlined. Relative to the concerns: 1. Indeed, this project helps but will hardly cover the current shortfall. To clarify, the City projects a need of approximately 2,000 new dwellings by 2030. We are concurrently working with our partners in Federal and State governments to release and ready more lands for housing development, also improve and upgrade applicable infrastructure. 2. If City reserves are used to fund the project, the impact to funding for other community and business support initiatives is low and manageable. Still, we continue to advocate for State funding. 3. We are committed to creating opportunities for local businesses in construction, maintenance, and property management as part of this project. That said, the selection of skills and trades will be controlled by the proponent, Acero Construction, a local builder that is committed to the utilisation of local skills, trades and businesses provided they are available. 4. Dwellings in this development will be made available to public servants and essential workers, including small business employees. Demand in these cohorts greatly exceeds 37 dwellings. As such, while the dwellings will target these groups, the identified struggle will remain.	

Name: J.Rowe	Date of Submission: Mar 07, 2025, 06:31 PM
Submission: <p>This is a done deal. COK have consistently shown by their actions they do not care what ratepayers want. I do not believe Councils should be in the business of housing construction/ landlord. If this was to be such a good and profitable idea private business would be doing it not COK gambling with our funds. Stick to roads, rates and rubbish and let the business of housing construction and landlord be for the private investor or State Housing Commission.</p>	
Administration Response: <p>Through our community engagement, the local resident and business community have highlighted housing as one of the two most significant issues impacting liveability and the ability to do business, alongside cost of living. Consistent community feedback has indicated that the community wants the City to act to address the current critical housing shortfall.</p> <p>To achieve our vision to become Australia's most liveable regional City, the City has taken a proactive approach to addressing this shortfall.</p> <p>This development is also forecast to derive a net return to the City, providing funds for future investment into housing or community facilities and services.</p>	

Name: M.Kingston	Date of Submission: Mar 07, 2025, 06:33 PM
<p>Submission:</p> <p>I do not believe that local government should be involved in construction of housing. The fact that state government are providing a grant shows that state government should be in charge of the project and take ownership.</p> <p>I also have concerns that the primary school that is provided for this location is already at capacity with one class having to use the library this year as no rooms are available.</p> <p>Also the workers that would be mostly utilising these dwellings would mostly be working in the city centre, would it not make more sense to have it as close as possible to the CBD?</p>	
<p>Administration Response:</p> <p>While housing is not typically a Local Government responsibility, the critical housing shortage across the City is having a significant impact on the community.</p> <p>Through our community engagement, the local resident and business community have highlighted housing as one of the two most significant issues impacting liveability and the ability to do business, alongside cost of living.</p> <p>To achieve our vision to become Australia's most liveable regional City, the City has taken a proactive approach to addressing the housing shortfall. We also continue to advocate with both State and Federal Governments and the private sector to be more active in addressing the housing crisis.</p> <p>Education and public schooling remain the responsibility of the State Government. The WA Department of Education should be addressing any capacity issues related to local schools.</p> <p>As the utilisation of the completed dwellings has not been finalised we are unable to determine where potential user groups would be required to travel to. Nonetheless, each dwelling will have sufficient parking for personal motor vehicles.</p>	

Name:

N.Ambroziak

Date of Submission:

Mar 07, 2025, 08:51 PM

Submission:

Hey I've had a read, I couldn't figure out the following, hopefully you can point me in the right direction.

Has the council considered the risk of sinking on apartments so close to a creek? I couldn't see it mentioned.

Who is proposed to manage the properties? How will that be decided, how often will it change?

Can I please see a breakdown of the estimated outgoings for each scenario? I can see AVS had valued the lot, however I can't see an estimated of value on completion attached. So how has insurance and resale value been calculated?

In the case of A and B what are the specific eligibility criteria for access to the units? Would the government workers housed in those dwellings be given priority? Would they be charged the same amount as a non government tenant. Would there be a set percentage allowed for government employees?

The council mentioned it's not likely a grant will cover the whole build. At what percentage or figure of council contributions would trigger the preference of B over A?

At what point would option c be triggered instead of B. What are the mitigating factors? Can this decision be made at anytime after the initial build. Say a 5 year period lapses before the council decides to change from A or B to C.

If c were to eventuate what plans does the council have to recoup loss? Would the there be a rates increase?

In the case of Option C what are the current outgoings of council rents that are paid? Does offering rent at 450\$ per week provide any reduce costs to the city saved from the private rental market. While the value of the properties may or may not be retained/ and the sale of existing properties lessen the blow this option seems unviable.

Prioritising cheap rent for government employees and hoping rent in the rest of town decreases as a result of council assets being sold seems too risky and I do not agree with this option.

Option A and B seem financially viable, but for the housing to have any impact on those who need it most it would depend on the eligibility criteria and management of the dwellings.

Thankyou

Name: N.Ambroziak	Date of Submission: Mar 07, 2025, 08:51 PM
Administration Response: <p>The site was created as part of the Baynton West subdivision, all engineering and design regarding drainage corridors was completed as part of the subdivision. The site is considered development ready.</p> <p>Management of the site will depend on the usage, but the dwellings will either be managed internally by the City or a qualified residential property manager will be engaged in accordance with the City's procurement policies.</p> <p>No value on completion has been obtained. It is understood that the value on completion will be lower than the construction cost, this is the 'negative equity' problem that is causing the lack of residential building in the district. The City will derive its return on the development through a build-to-rent model.</p> <p>No final determination has been made on the utilisation of the completed dwellings, the City continues to liaise with various potential user groups including the Government Regional Officer Housing (GROH) Program and the City's internal housing team. The utilisation of the completed development may change during its lifespan depending on the housing needs of the City and the broader community.</p> <p>Undertaking this development will not have any impact on rates.</p>	

Name: A.Pinto	Date of Submission: Mar 08, 2025, 05:36 AM
Submission: <p>Great initiative by the City, well done in addressing the housing need that neither Federal nor State government seems to be addressing</p>	
Administration Response: <p><i>*The City notes this is a City of Karratha employee commenting in their personal capacity*</i></p> <p>Noted. Thank you.</p>	

Name: F.Davies	Date of Submission: Mar 08, 2025, 08:10 PM
Submission: What about the workers that are due to retire is there an opportunity for them to be able to afford to rent and reside here and what support do they get regards their power bills in high season Electricity which maybe currently subsidy by there employer while working.	
Administration Response: This development is being considered to address the City's critical housing shortage with a particular focus on housing service workers that deliver vital services to the community, potentially including State and Local Government employees. If any dwellings as part of the completed development are made available for rent on the private market, these will likely be at market rates to derive an appropriate return on the City's investment. Electricity supply and pricing is a State Government matter, this is not under the purview of Local Government.	

Name: B.Borlase	Date of Submission: Mar 14, 2025, 10:06 PM
Submission: I disagree with this decision. I believe there is better uses for city funds and resident money in way of rates should not be used to fund staff housing for city employees. Community engagement and activities for a broader community would be a better use of funds than housing for approx 30 people.	
Administration Response: Staff housing is considered a cost of doing business in the region and the City already incurs staff housing costs as part of its annual operating expenditure. The City will continue to manage its staff housing portfolio as needed to adapt to a changing staff demographic. The proposed development may or may not form part of that portfolio. The City has recently released its draft Strategic Community Plan and draft Community Infrastructure Plan for public feedback. In addition to this there are significant community facilities and services included in the City's Long Term Financial Plan. None of the proposed investment in community facilities and services is compromised by undertaking this proposed housing development. As the project provides a positive investment return, it may provide for additional investment in community facilities and services in future.	

Name: M.Garcia	Date of Submission: Apr 04, 2025, 03:38 AM
Submission: Pls make this housing project happen and prioritize healthcare workers (especially doctors) who choose to stay and work in Karratha long-term if you want to attract and keep them serving the community.	
Administration Response: The City has engaged with GROH and WACHS to gauge interest in utilising the development for housing of State Government employees, including medical professionals.	

Name: C.Morrison	Date of Submission: Apr 15, 2025, 02:30 PM
Submission: I'm not across the detailed budget and return on investment. However, I do think that the function of local government is changing and there won't be change by State or Federal government, or the private sector, if there isn't some involvement in advocating and facilitating housing development in the regions. This project will assist in keeping our community diverse and retain our population, which achieves the City's Strategic vision. The co-location of diverse housing options has proven to be a valuable way to build connection and community through different demographics and I support this approach to housing development across the City. The advocacy work that is supporting this project is fundamental in ensuring our regions are sustainable, in relation to population growth, economic diversification and facilitating community growth. It is worth the investment.	
Administration Response: <i>*The City notes this is a City of Karratha employee commenting in their personal capacity*</i> Noted. While housing is not typically a Local Government responsibility, the critical housing shortage across the City is having a significant impact on the community. Through our community engagement, the local resident and business community have highlighted housing as one of the two most significant issues impacting liveability and the ability to do business, alongside cost of living. To achieve our vision to become Australia's most liveable regional City, the City has taken a proactive approach to addressing the housing shortfall. We also continue to advocate with both State and Federal Governments and the private sector to be more active in addressing the housing crisis.	



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City of Karratha
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15 April 2025

Dear Virginia,

RE: Baynton Residential Development Business Plan – Open for Feedback

RFF welcomes the opportunity to provide feedback on the Business Plan for the proposed land acquisition and housing development at Lot 481 Bajamalu Drive, Baynton. Lot 481 for the 17 townhouses and 20 apartments.

If the City is able to procure 37 dwellings for a realised price of \$21,287,808, this would represent exceptional value based on our experience assessing comparable developments in the current market.

As a business actively engaged in the property, planning and development sectors across the Pilbara and North-West for over two decades, RFF has contributed to numerous public and private projects throughout multiple investment and resource cycles. Our experience includes navigating development approvals, managing regional delivery risks, and advising on the feasibility and implementation of housing initiatives in complex and high-cost markets.

We commend the City for taking proactive steps to address the region's housing shortage. This project is strategically important and we are of the view that it has strong potential to support workforce retention, community sustainability, and long-term economic growth.

Between this project and the Bulgarra Apartments Business Plan, the City is considering a direct investment of approximately \$77 million into the Karratha property market. This is a bold step, but one which currently lacks confirmed co-investment from the State, Federal, or private sectors – and carries an assumed net loss to the City of at least \$9.1 million.

At a strategic level, if the City is prepared to commit investment at this scale, we strongly encourage it to:

- Engage with the Community Housing Sector and State Government; and
- Explore leveraging opportunities through existing programs such as:
 - The WA Government Community Housing Grants Program; and
 - The Federal Housing Australia Future Fund.

These programs are designed to support affordable housing outcomes. They offer a pathway to increase capital availability while delivering rent-controlled housing that meets the “key worker” market – a critical factor in the City's long-term growth and sustainability.

The following submission provides constructive insight into strengthening the project's commercial framework, reducing financial and delivery risks, and ensuring that ratepayer investment is fully safeguarded.

Investment Readiness

1. We recommend the Business Plan adoption only be considered following finalisation of the Development Agreement.
2. The Development Agreement is expected to address many factors of the project, including the transaction structure and the apportionment of risk through the project delivery, particularly with respect to payments from the City to the Developer.
3. These factors may materially affect both the project's risk profile and the City's total investment exposure.
4. Other risks should also be addressed prior to a final investment decision. For example, review of the builder financial capability, and project track-record should be completed.
5. Approving the Business Plan in advance of these details being known would amount to a final investment decision being made prematurely.
6. If adopted in its current form, the City should define a clear threshold for when the project must be reconsidered and re-advertised.
7. We recommend that if the total project value increases by more than 10% (or \$2 million) following negotiation of the Development Agreement, the proposal should be re-advertised for public consultation.

Discount Rate Assumption

8. The Business Plan currently uses a 5.22% discount rate, equivalent to the City's return from term deposits.
9. A discount rate in a property project reflects the required return to offset investment risk as opposed to an opportunity cost.
10. It is a way of accounting for risk in assessing an investment, being that the higher the risk the greater the discount rate that should be applied.
11. The project would need to have an equivalent risk profile to the City's term deposits to warrant application of this discount rate.
12. Based on the Business Plan and the level of uncertainty in the project, it has a materially different risk profile to that of the term deposit.

Factor	City Term Deposit (Opportunity Cost)	Residential Development Project (Proposed Investment)
Capital Security	Guaranteed (bank-backed, low risk)	High risk (exposed to builder default, market shifts, construction risk)
Liquidity	Fully liquid or short duration	Illiquid (capital locked until project completion / sale)

Factor	City Term Deposit (Opportunity Cost)	Residential Development Project (Proposed Investment)
Return Profile	Fixed, predictable (5.22%)	Variable – dependent on cost certainty, rental demand, timing
Market Exposure	None	High – construction market volatility, cost escalation, rental market changes
Execution Risk	None	High – relies on third-party performance and compliance with planning/DA
Governance Complexity	Minimal	High – requires oversight, legal/contractual protections, project management
Timeframe	Typically 3–12 months	12–24 months (delivery + lease-up) with long-term hold uncertainty
Downside Risk	Virtually nil	Potential for negative return if costs increase or revenues fall short

13. To apply a 5.22% discount rate, the following must be true:
 - a. The City is purchasing a completed asset under a fixed-price contract.
 - b. No progress payments are made; payment is made on completion.
 - c. The City holding a performance guarantee or bond for an agreed period to cover a defects and liability period
 - d. The City having secured either sales or leases for the duration of forecast cashflows at the assumed rates for the entirety of the project.
14. We would recommend the projects risk adjusted return evaluation based on the information provided should be between 10 – 15%.
15. This is a similar rate we have applied in evaluating other similar projects.

Why Applying the Right Discount Rate to Reflect Risk is Important

16. The application of an appropriate risk-adjusted discount rate and the possibility of the project having a negative NPV or IRR, in itself, would not rule the project out from proceeding.
17. It would provide Councillors and the community a clearer, single figure demonstration of the potential community contribution *that may be required* if the project were to proceed.

18. It also better reflects the 'gap' in value of the project between what the private sector would be willing to invest for the project, and what the City or other government agencies may need to incur to deliver the expected community benefits of additional housing supply.
19. The figure could be utilised to help build a case for State Government Capital Funding for the project and/or what a reasonable Housing Availability Payment via the Housing Australia Future Fund should be to deliver more affordable housing to the market.

Building Method vs Maintenance

20. Our recent engagement with the local building sector suggests that many modular developments completed 10 – 15 years ago are suffering significant rectification and repair issues.
21. We would encourage the City to engage with local builders to understand the potential forward maintenance risks with modular projects and make adjustments in the forward cashflows of the project accordingly.
22. Allowances for greater City oversight of the modular construction and installation should also be allowed to assist in mitigating project risks.

As-If Complete Valuation

23. An alternative way to assess the value of the project to the City would be to obtain an 'As-If Complete' valuation of the project, as opposed to relying on forward cashflows, which are subject to greater volatility.

Project Assumptions

24. It is unclear how many of the financial assumptions have been determined, and the evidence supporting assumptions is not clearly presented.
25. The basis for the project assumptions, particularly with respect to forward cashflows, should be better justified in the Business Plan.

GST Treatment

26. The Business Plan does not address GST treatment in the acquisition structure.
27. Consistent with advice provided to the City on the Walgu Apartments project, we recommend that specialist GST advice be obtained to confirm the City's tax obligations and its impact to the project Business Plan.

Cost Escalation and Contingency

28. There is no allowance identified in the budget for cost escalation or contingency.
29. We recommend modifications be made to consider both cost escalation and a construction contingency, given the high volatility of the construction sector and property market cycle in the Pilbara.

Transaction Structure

30. Section 4.4 refers to a single land acquisition transaction, while later sections imply the acquisition of the land by the City and a the negotiation and execution of a separate Development Agreement.
31. The structure of the acquisition (e.g. staged delivery, payment milestones, ownership transfer) will materially influence the City's risk exposure and should be clearly explained.

City's Internal Capacity

32. The Business Plan suggests the City has the internal capacity to manage the transaction, it does not outline the City's own past experience or identify relevant personnel in negotiating complex property transactions and delivery of similar projects.
33. The City should articulate its in-house capability or external support arrangements to manage a project of this nature.

Risk Profile

34. A third-party evaluation of the project's cost assumptions and construction methodology should be undertaken, including:
 - a. A Quantity Surveyor review of the \$19.88M construction estimate.
 - b. A detailed project risk review assessing delivery risk, market exposure, and escalation.
35. An independent review of Acero Construction's financial capacity to deliver the project should be completed. At a minimum, the City should obtain clear disclosure of the proponent's funding model and consider the implications for security of payment in the event of default or delay.
36. An inspection of the proponents project by City officers as a mitigation of regarding construction capability is not adequate. The City should:
 - a. Engage building surveyors and structural engineers to review the quality and condition of the recent project
 - b. Engage with property management agents managing previously constructed assets to understand maintenance performance
 - c. Seek references from other clients.

Performance Security

37. The City should ensure it holds appropriate performance bonds or bank guarantees to protect against proponent default, construction defects, or post-completion issues.
38. A level of retention on completion of the project for a defects and liability period should be mandatory.

Project Management & Oversight Costs

39. The project budget should allow for the City's costs of project oversight, contract administration, and quality assurance during delivery and handover.

Conclusion

RFF congratulates the City of Karratha on taking initiative in confronting the housing challenges facing the Pilbara. We are confident that, once further detail is confirmed and appropriate controls are embedded, this project can proceed on a more informed, secure, and community-supported basis.

Should you have any queries, please contact Owen Hightower on owen@rffaustalia.com or 0407 684 337.

Regards

A handwritten signature in blue ink, appearing to read 'Owen Hightower', with a long horizontal stroke extending to the right.

Owen Hightower
Director

	RFF Comment	Administration Response
	INVESTMENT READINESS	
1	We recommend the Business Plan adoption only be considered following finalisation of the Development Agreement	<p>The Council report for final investment decision will seek Council's approval to proceed with the proposed transaction and authorise the CEO to execute a Development Agreement. The City will not be bound to any obligation until the Development Agreement is executed, and can withdraw from the transaction if a Development Agreement cannot be agreed that reflects Council's decision.</p> <p>As with all activities, it remains the responsibility of the CEO and Council officers to ensure any agreement entered into is in the City's best interests and reflects decisions of Council.</p>
2	The Development Agreement is expected to address many factors of the project, including the transaction structure and the apportionment of risk through the project delivery, particularly with respect to payments from the City to the Developer	
3	These factors may materially affect both the project's risk profile and the City's total investment exposure	
4	Other risks should also be addressed prior to a final investment decision. For example, review of builder financial capability, and project track-record should be completed	
5	Approving the Business Plan in advance of these details being known would amount to a final investment decision being made prematurely	
6	If adopted in its current form, the City should define a clear threshold for when the project must be considered and re-advertised	
7	We recommend that if the total project value increases by more than 10% (or \$2 million) following negotiation of the Development Agreement, the proposal should be readvertised for public consultation	

	DISCOUNT RATE ASSUMPTION	
8	The Business Plan currently uses a 5.22% discount rate, equivalent to the City's return from term deposits	Whilst we accept that using the average term deposit rate as a discount rate for this proposal does not reflect the differing risk profiles between the two invest types, unlike commercial entities the City is not making this investment decision based solely on financial return and does not have a benchmark investment hurdle rate for assessing potential investments. In this instance, the discount rate used is based on the City's cost of capital.
9	A discount rate in a property project reflects the required return to offset investment risk as opposed to opportunity cost	
10	It is a way of accounting for risk in assessing an investment, being that the higher the risk the greater the discount rate that should be applied	
11	The project would need to have an equivalent risk profile to the City's term deposits to warrant application of this discount rate	As the City does not have a policy for determining the risk premium applied to risk factors in various investment types, any other discount rate used would be an arbitrary figure and may lead to confusion regarding what the forecast NPV would represent. The discount rate used allows for an analysis of whether there will be a projected net cost or net financial return to the City compared to existing investments. Additionally, the project will generate significant non-financial social and community benefits by addressing the critical housing shortage, which is a major community issue.
12	Based on the Business Plan and the level of uncertainty in the project, it has a materially different risk profile to that of the term deposit	
13	To apply a 5.22% discount rate, the following must be true: a. The City is purchasing a completed asset under a fixed price contract. b. no progress payments are made; payment is made on completion. c. The City holding a performance guarantee or bond for an agreed period to cover a defects liability period d. The City having secured either sales or leases for the duration of the forecast cashflows at the assumed rates for the entirety of the project	
14	We would recommend the projects risk adjusted return evaluation based on the information provided should be between 10-15%	
15	This is a similar rate we have applied in evaluating other projects.	

WHY APPLYING THE CORRECT DISCOUNT RATE TO REFLECT RISK IS IMPORTANT		
16	The application of an appropriate risk-adjusted discount rate and the possibility of the project having a negative NPV or IRR, in itself, would not rule the project out from proceeding	<p>We agree that using a commercial discount rate would better reflect the gap in value to what the private sector would be willing to invest for the project, however as private investment in this development is highly unlikely we believe that the comparison does not add value.</p> <p>As the level of financial literacy amongst some Councillors and the general public can reasonably be expected to be generally lower than financial and investment analysis professionals, we do not believe that a higher discount rate would provide a clearer overview of the project cost, but rather would provide the gap in value between the project cost and an arbitrarily determined commercial rate of return.</p> <p>In this instance the NPV outlined in the Council report provides a tangible comparison to the status quo.</p>
17	It would provide Councillors and the community a clearer, single figure demonstration of the potential community contribution <i>that may be required</i> if the project were to proceed.	
18	It also better reflects the 'gap' in value of the project between what the private sector would be willing to invest for the project, and what the City or other government agencies may need to incur to deliver the expected community benefits of additional housing supply.	
19	The figure could be utilised to help build a case for State Government Capital Funding for the project and/or what a reasonable Housing Availability Payment vis the Housing Australia Future Fund should be to deliver more affordable housing to the market.	
BUILDING METHOD VS MAINTENANCE		
20	Our recent engagement with the local building sector suggests that many modular developments completed 10-15 years ago are suffering significant rectification and repair issues.	<p>Research and information during the EOI process that highlighted that modular building standards, practices and outcomes have improved significantly over the last 10-15 years. The City is confident that the proposed development will provide a high quality modular housing product and is confident in the operating costs forecast in the project cashflows.</p> <p>City quality control and oversight of the project, including module construction in the Perth factory and installation on site, will form part of the Development Agreement with the proponent if the proposal is supported by Council.</p>
21	We would encourage the City to engage with local builders to understand the potential forward maintenance risks with modular projects and make adjustments in the forward cashflows of the project accordingly.	
22	Allowances for greater City oversight of the modular construction and installation should also be allowed to assist in mitigating project risks.	

AS-IF COMPLETE VALUATION		
23	An alternative way to assess the value of the project to the City would be to obtain an 'As-If Complete' valuation of the project, as opposed to relying on forward cashflows, which are subject to greater volatility.	An 'As-if complete' valuation was considered, however it was determined to be of limited value as anecdotally it is known that valuations for completed dwellings are below cost in the current market. Understanding that a build-to-rent strategy is required to derive an investment return on residential construction, it was determined that a discounted cash flow model better presented the overall project value.
PROJECT ASSUMPTIONS		
24	It is unclear how many of the financial assumptions have been determined, and the evidence supporting assumptions is not clearly presented.	Detailed financial modelling sits behind the summarised financial information that has been presented in the Business Plan. As part of our due diligence activities, the City has had the financial modelling, including assumptions and sensitivity analysis, independent reviewed. A copy of the review findings is attached to the Council report for final investment decision.
25	The basis for the project assumptions, particularly with respect to forward cashflows, should be better justified in the Business Plan.	
GST TREATMENT		
26	The Business Plan does not address the GST treatment in the acquisition structure.	In undertaking due diligence for the proposed investment, the City has obtained tax advice which has confirmed that the City is unable to claim Input Tax Credits on the development cost, as residential housing is not eligible to be Input Taxed. This means that the GST component of the construction cost cannot be claimed back and must be included in the project cost. The projected returns outlined in the Council report for final investment decision reflect the GST inclusive cost of the development.
27	Consistent with the advice provided to the City on the Walgu Apartments project, we recommend that specialist GST advice be obtained to confirm the City's tax obligations and its impact to the project Business Plan.	

COST ESCALATION AND CONTINGENCY		
28	There is no allowance identified in the budget for cost escalation or contingency	The detailed financial modelling incorporates a cost escalation throughout the life of the project for operating income and expenses.
29	We recommend modifications be made to consider both cost escalation and a construction contingency, given the high volatility of the construction sector and property market cycle in the Pilbara.	<p>With regards to construction, as the proposal is for a fixed price contract it is not anticipated that an allowance for cost escalation will be necessary.</p> <p>Notwithstanding, the requested budget allowance includes a contingency in addition to the builders proposed cost to allow for any potential cost changes for design changes requested by the City, preferences in fixtures, fittings and finishes, and any external costs for project quality assurance and oversight engaged by the City.</p>
TRANSACTION STRUCTURE		
30	Section 4.4 refers to a single land acquisition transaction, while later sections imply the acquisition of the land by the City and the negotiation and execution of a separate Development Agreement	<p>As the land is currently owned by the proponent, the transaction proposes acquisition of both the land and completed development jointly (i.e. one will not be acquired without the other).</p> <p>The structure of the transaction is proposed to include initial land acquisition and milestone or progress payments during construction, similar to a 'house-and-land package' type of residential housing transaction.</p>
31	The structure of the acquisition (e.g. staged delivery, payment milestones, ownership transfer) will materially influence the city's risk exposure and should be clearly explained.	The Development Agreement will cover both the land acquisition and construction program including payment milestones.

CITY'S INTERNAL CAPACITY		
32	The Business Plan suggests the City has the internal capacity to manage the transaction, it does not outline the City's own past experience or identify relevant personnel in negotiating complex property transactions and delivery of similar projects.	<p>The City has previously undertaken a number of large scale civil construction projects including the Karratha Leisureplex, Red Earth Arts Precinct, Kevin Richards Memorial Oval Redevelopment and the Dampier and Wickham Community Hubs.</p> <p>In all instances the City has utilised a combination on internal staff and externally contracted expertise to manage these projects.</p>
33	The City should articulate its in-house capability or external support arrangements to manage a project of this nature.	<p>Any external assistance required for management of the proposed Major Land Transaction and housing development will be engaged through the City's legislated procurement practices.</p>

	RISK PROFILE	
34	A third-party evaluation of the project's cost assumptions and construction methodology should be undertaken, including: a. A Quantity Surveyor review of the \$19.88M construction estimate b. A detailed project risk review assessing delivery risk, market exposure, and escalation.	<p>Concurrent to the public advertising of the business plan and call for submissions, the City has undertaken a number of due diligence activities to provide assurance to Council regarding the proposed transaction. These include:</p> <ul style="list-style-type: none"> - Independent Business Plan review including compliance, project feasibility, financial projections and risk analysis - Corporate credit reporting on the builder and all Directors - References from other previous and current clients of the builder - Building inspection report by a qualified building surveyor on a current project being undertaken by the builder <p>Details of these activities and their findings are included in the Council report for final investment decision</p>
35	An independent review of Acero Construction's financial capacity to deliver the project should be completed. At a minimum, the City should obtain clear disclosure of the proponent's funding model and consider the implications for security of payment in the event of default or delay.	
36	An inspection of the proponents project by City officers as a mitigation of regarding construction capability is not adequate. The City should: a. engage building surveyors and structural engineers to review the quality and condition of the recent project b. Engage with property management agents managing previously constructed assets to understand maintenance performance c. Seek references from other clients.	

	PERFORMANCE SECURITY	
37	The City should ensure it holds appropriate performance bonds or bank guarantees to protect against proponent default, construction defects, or post-completion issues.	The City's standard performance guarantee and retention clauses for major construction projects will be included in the Development Agreement.
38	A level of retention on completion of the project for a defect and liability period should be mandatory.	
	PROJECT MANAGEMENT & OVERSIGHT COSTS	
39	The project budget should allow for the City's costs of project oversight, contract administration, and quality assurance during delivery and handover.	A contingency has been included in the final budget allocation for the project to include internal costs and minor variations. Financial modelling in the Council report for final investment decision incorporates this contingency into the project cost.