



ORDINARY COUNCIL MEETING

3 APRIL 2017

CLOSED COUNCIL ADDENDUM



BUSINESS

16. CONFIDENTIAL ITEMS

- C. Frankston District Basketball Association - Update2

Dennis Hovenden

CHIEF EXECUTIVE OFFICER

3/04/2017



Executive Summary

C.2 Frankston District Basketball Association - Update

This item is considered confidential under Section 89(2) (e) of the Local Government Act, as it involves discussion of proposed developments.

Enquiries: (George Vass: Corporate Development)

Council Plan

Community Outcome:	3. Sustainable City
Strategy:	3.3 Ensure good governance and management of Council resources
Priority Action	3.3.1 Ensure the organisation is financially sustainable

Purpose

To brief Council and seek support for an alternative rental and management model in an endeavour to expedite the Stage 1 Expansion works for the benefit of the community.

Recommendation (Director Corporate Development)

That Council:

1. Retracts all previous offers to the FDBA regarding rental and lease terms, but confirms that Council will honour the current lease arrangements for the existing premises.
2. Agrees to commit an additional \$1m to the Stage 1 redevelopment to replace the \$1m conditional commitment made by the Frankston District Basketball Association (FDBA), with this funding to be allocated from Council's Strategic Projects Reserve.
3. Confirms the Chief Executive Officer's (CEO) authority to enter into a contract with Devco Project and Construction Management Pty Ltd (Devco) for the Stage 1 Extension Project as previously approved by Council.
4. Requests the CEO to take all necessary measures to expedite the commencement of construction.
5. Requests that a further report on management and occupancy arrangements for the redeveloped facility be brought back before Council no later than 31 March 2018.
6. Authorises the CEO to proceed with planning and design work for Stage 2 of the redevelopment but not to proceed with the procurement of the Stage 2 works as previously agreed until funding is secured and a new lease, management or hire agreement is finalised. Such works are to include:
 - a. The installation of retractable seating, additional car parking and fire service upgrades,
 - b. Upgrade of the toilets and change rooms that were to be undertaken by the FDBA,
 - c. Administration and High performance areas.
7. Requests the CEO to advise the FDBA of Council's decision, in particular:
 - a. Any prior offer made by Council, including relief from rental during the construction period, is withdrawn.
 - b. Council will honour the current lease terms and conditions (including the

C.2 Frankston District Basketball Association - Update**Executive Summary**

- current rental);
- c. Council will require access over part of the demised lease area to allow construction work to be completed;
 - d. Council will consider future management / occupancy arrangements for the redeveloped facility by 31 March 2018,
 - e. Council will continue to plan, scope and design the Stage 2 works,
 - f. Written confirmation from the FDBA is required providing Council and its contractor with access to the leased premises to undertake the Stage 1 Extension works.
8. Releases this resolution only following the execution of the construction contract with Devco.

Key Points / IssuesCurrent position with the FDBA

- Despite ongoing discussion and dialogue, Council has been unable to reach agreement with the FDBA on future lease arrangements. At a meeting held between the Mayor, some Councillors, FDBA representatives and Council officers on 15 March 2017, the FDBA was asked to respond to Council's offer as soon as possible. Their response was received on 27 March, rejecting Council's amended offer. **(Attachment A)**
- A summary of negotiations and positions is attached **(Attachment B)**
- With regard to project scope, Council is not in a position to commit to proceeding with the additional works due to procurement, town planning and funding restrictions.

Current position with the Preferred Tenderer

- The building contract is ready to be executed by Devco and Council. Despite Devco having mobilised to site, it has "preferred tenderer" status only.
- Devco has confirmed that it will hold its tendered price until 5:00pm on Friday 7 April 2018 **(Attachment C)**.

Current Lease Rental vs Certified Valuation

- The current FDBA rental under that lease agreement is \$28, 987 pa. while the commercial market value of the site (with or without the FDBA and Council's contributions towards the buildings) has been independently valued at \$305,000 pa **(Attachment D – Valuation advice from Patel Dore Valuers)**. If the additional car parking area is included to support the retractable seating, the market value for the rental of the new site without improvements would be between \$450,000 and \$500,000 pa. .

Discussion and Options

- A plan of that shows the area that forms the subject of the lease agreement between Council and the FDBA is attached **(Attachment E)**. The agreed Stage 1 Extension works have been superimposed on to the plan showing that the show courts and the two other additional courts are outside of the area currently leased by the FDBA.

C.2 Frankston District Basketball Association - Update**Executive Summary**

- It is apparent that a resolution on lease arrangements with the FDBA is not imminent, placing the project at risk. While the FDBA has made a conditional offer of a \$1m contribution to the project, this is still not certain, and in order for the project to proceed it is recommended that Council increase funding by \$1m to ensure the early commencement of construction works.
- There are significant benefits for the community in proceeding with the Stage 1 Extension works without delay and a reliance on the FDBA's \$1 million contribution if onerous conditions are being attached to the funding. Under such an arrangement, an agreement could be reached with the FDBA to provide access for Council to undertake the Stage 1 Extension works immediately.
- The intransigence of the FDBA in negotiations does underline a need for Council to consider future occupancy and management arrangement for the new facility, in which Council will have significant investment on behalf of the broader community. It may be that a direct lease arrangement with the FDBA for the redeveloped facility is not the optimal management model. As such it is recommended that officers prepare an options paper for Council's consideration no later than 31 March 2018.
- Officers have confirmed the funding commitment with both the Federal and State Governments remains provided the project is constructed expeditiously.

Proposed resolution

- It is proposed that Council:
 - Commits an additional \$1m funding in place of the FDBA's conditional commitment,
 - Advises the FDBA that it did not require the FDBA's \$1 million in funding.
 - Enters into a building contract immediately for the Stage 1 Expansion works that is conditional upon the FDBA providing access to the builder.
 - Allows the FDBA to continue with its current lease over the existing facility, subject to access for construction, and expects the FDBA to continue to comply with its obligations under the lease.
 - Continues to plan for the delivery of Stage 2 works, with construction subject to additional funding being received.

Financial Impact

For the 2017-2018 financial year, the State Government Minister for Local Government has announced a limit on the amount Victorian councils may increase rates. The cap for the 2017-2018 financial year is 2%. The cap is based on the Consumer Price Index expected for the financial year.

This cap has a significant effect on Council's current Long Term Financial Planning, with rate revenue being \$9 million less than anticipated over the first four years, growing to \$17 million over five years. This reduction will have a severe impact on Council's financial capacity to maintain service levels and deliver key capital projects.

The FDBA's current demand for a reduced rental and the funding of additional works not agreed to by the funding partners will cost Council in the order of \$20.4 million over a 40 year period (without indexation).

Council will need to provide an additional \$1 million to fund the Stage 1 Expansion works.

C.2 Frankston District Basketball Association - Update**Executive Summary****Consultation****1. External Stakeholders**

Maddocks Lawyers, Patel Dore Valuers.

2. Other Stakeholders

Associations, peers and consultants to obtain further information on rental models.

Analysis (Environmental / Economic / Social Implications)

Provided above and in previous Council and Councillor briefing reports.

Legal / Policy / Council Plan ImpactCharter of Human Rights and Responsibilities

All matters relevant to the Charter of Human Rights and Responsibilities have been considered in the preparation of this report and are consistent with the standards set by the Charter.

Legal

External advice has been obtained.

Policy Impacts

Significant in the development of policy and particularly in the justification of the social return on investment.

Officer's Declaration of Interests

Council officers involved in the preparation of this report have no Conflict of Interest in this matter.

Risk Mitigation

Considered in previous reports.

Conclusion

An alternative offer that ensures that the Stage 1 Expansion Works can proceed without further delay if access is provided by the FDBA while Council maintains its ability to negotiate an outcome with the FDBA and secure significant management rights over facilities outside of the leased premises.

ATTACHMENTS

- Attachment A: FDBA President_FCC Mayor re Council resolution 20170327
Attachment B: summary of negotiations and positions
Attachment C: letter to FCC from Devco
Attachment D: valuation
Attachment E: Combined plan

**FRANKSTON BASKETBALL**

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Mr Brian Cunial
Mayor
Frankston City Council
PO Box 490, Frankston VIC 3199

Monday 27 March 2017

Dear Brian

Re Frankston Basketball stadium future lease terms

Thank you for your time to meet on Wednesday 15 March 2017 to discuss council's recent resolution regarding the future lease of the expanded Frankston basketball stadium.

As requested, on behalf of the Frankston & District Basketball Association Board of Management I write to advise that after careful consideration the Board & I on behalf of our 14,000 participants cannot, in good conscious, agree to the terms detailed in the resolution.

As you are aware by way of our discussion on Wednesday 22 March 2017, there are a number of points in council's lease proposal which, in the context for our association's future viability, we as a board cannot sign our membership up to.

From our conversation I felt you were in agreeance that this project is too important for our community to fall over and believe council are in a position to not see this happen by way of agreeing to the FDBA's proposed terms which I have again enclosed for your reference.

This much needed project and additional works allows our association to continue to contribute to the social fabric of the Frankston community while servicing our membership into the future. It is hoped council adopt the FDBA's terms so the project can commence and together we achieve an outcome which we will all be proud of.

I will call you over the coming days to discuss our path forward so both parties can resolve this current lease impasse.

Yours Sincerely

A handwritten signature in blue ink that reads "Gary Emery". The signature is written in a cursive, flowing style.

Gary Emery
President
Frankston & District Basketball Association
(e) president@frankstonbasketball.asn.au

CC: Councillors

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- **FDBA Preferred Lease Terms**

- FDBA recognised for its contribution to Frankston basketball stadium expansion project including \$1m investment and securing state investment of \$2.5m along with, in partnership with FCC, securing \$5.2m from the federal government.
- FDBA recognised for its previous \$1.65m investment on design & construction of 4-court expansion of Frankston basketball stadium in 1991 without any other contributions from government or related agencies.
- 20 year term with option of an additional 20 years triggered by FDBA acceptance to renew lease (existing lease is a 21 year period).
- Fixed rental rate of \$60,000 plus building insurance per annum with agreed CPI increase pa
- A commitment to support the delivery of the following Stage 1.a works within a 6 month period of Stage 1 works being completed (September 2018):
 - Mezzanine level as approved by FDBA is constructed in shell form as part of Stage 1 with FDBA responsible for the fit out of this area to occur as part of Stage 1.a works
 - Retractable seating is installed as part of Stage 1.a works to accommodate 1,200 spectators taking total spectator capacity on show court to 2,000 including 200 fixed spectator seats on mezzanine level
 - \$250,000 of \$575,000 cost of seating and installation has been met by Federal Member for Dunkley Chris Crewther as committed to during 2016 federal election
 - FDBA to continue sourcing balance of funding for retractable seating with a deadline set for September 2018 when funds need to be demonstrated by FDBA of the ability to fund balance (\$325k) of retractable seating cost (\$575,000)
 - FCC to advise where additional car parking, triggered by retractable seating will be located within Kananook Reserve footprint
 - FDBA responsible for construction costs of additional car park triggered by retractable seating (estimated at \$350,000).
- FDBA to have management rights to designated car park to provide legal rights to tow vehicles in the event of unauthorised use of car park by rail commuters.
- Future lease to include reference to:
 - specific equipment to be installed as part of Stage 1 works to FDBA standard e.g. Ringleader rings & backboards (all backboards to be able to be lowered to a height of 8 feet)
 - FCC acknowledge the financial impact existing courts being off-line due to construction works place on FDBA operations and profitability per annum
 - FCC fit-out temporary canteen area to a food service standard (was previously advised this would be the case from officers as part of \$12.45m budget)

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- review current POD design to an acceptable layout for FDDBA Board of Management approval (as previously requested by FDDBA)
- renewal works to current facility including:
 - upgrade of current main amenities to accommodate increased patronage prior to new lease taking effect
 - replacement of current lighting on current courts to LED version being sourced for new courts
 - the repair of leaking roof previously reported to council over current courts 5 & 6 (old section of building) to occur within a 3 year period from signing of lease (leaking issues have been identified by council since early 2000s)
- timing for proposed future capital works of basketball stadium (Stage 2 construction of 2 additional courts along western side (rear) of building) to commence (pending funding) within a 5 year period of lease being signed.
- Future-proofing the construction of High Performance Centre
 - Confirmation current planning permit to be amended to accommodate the future construction of High Performance Centre at north east of existing building (as requested prior to initial planning permit being submitted and agreed to by Project Steering Group – minutes attached)
- New lease to come into effect once Stage 1 & Stage 1a are completed

To finalize the FDDBA's contribution and lease signed the FDDBA again requests the following as key funding partner in this project:

- FCC to confirm current funding model for Stage 1 works outside FCC investment - Federal \$5.2m, State \$2.5m, FDDBA \$1m
- FCC to provide FDDBA appointed builder's contract including signed-off building quote and detailed cost plan so the FDDBA has visibility of construction price and what will be included in Stage 1 for FDDBA to be provided with a level of comfort with its \$1m+ investment in overall project
- FCC to provide FDDBA detailed cost break-down of project to include Builder's construction costs, Architect's fees, Quantity Surveyor & other professional fees as well other expenses FCC have incurred to date as part of the project inc FCC staffing and administration costs prior to FDDBA signing lease
- The FDDBA and overall project budget is not liable or impacted by builder penalty payments.

Briefing NoteSnapshot of history

1. Council and the FDDBA have enjoyed a long and successful history in Seaford since 1978 when Council provided \$160,000 for the initial funding to build a two court basketball facility on Council's 1.5 Ha site in Wells Road/Bardia Avenue.
2. The FDDBA's membership number increased significantly in Seaford and the FDDBA sought to borrow \$1.3 million for the expansion works in 1991 and at a time when the recession had hit and banks were re-assessing their exposure. The FDDBA's banker advised that it could no longer provide the FDDBA with finance for the project and Council acted as guarantor; underwriting the full \$1.3 million loan for 8 years.
3. Council and the FDDBA agreed on a fixed rental of \$15,346 pa. and a performance-based component of 4% on all income received by the FDDBA or a \$40,000 fixed rental component (whichever was higher) and this rental model would be reflected in a new lease agreement for a 10 year period once the expansion works were completed. When the FDDBA made its final loan payment in 1999, it asked Council to reduce the rent to \$33,000 pa (fixed) and on 1 July 2005, Council entered into a new 21 year lease and further reduced the rent to \$22,000 pa and indexed at CPI.
4. Historically, Council has been very supportive of the FDDBA.

Rental Model

5. The current rent payable by the FDDBA to Council is \$28,987 pa. for exclusive use of the 6 court facility. The Casey Basketball Association with 5000 members currently pays \$370,000 pa. for non-exclusive use of 10 courts, Boroondara \$191,000 for 6 courts, Keilor \$320,000 for 6 courts and Knox \$320,000 for 6 courts in Boronia and some access to courts elsewhere.
6. Rental models with the FDDBA have long been discussed, notwithstanding the FDDBA's opposition to imposing an increase in rental given the FDDBA's \$ 1 million contribution towards the Stage 1 works.
7. The initial rental model agreed to by Council at its meeting of 18 July 2016 was a fixed rental component of \$60,000 pa. plus a 6% performance based component on FDDBA income over \$1 million pa. The FDDBA earns approximately \$2.2 million pa.

A summary of the position with respect to the rental model is outlined below:

	Original Rental Offer	Revised Rental Offer	FDDBA position:
2/5/2016, 4 /7/2016 and 18/7/2016	\$60,000 pa fixed plus 6% on FDDBA income over \$1 million pa equating to \$132,000 pa for 10 courts at the current patronage.		FDDBA formerly advised of Council's rental offer 19 August 2016. FDDBA does not agree with Council's rental offer.
26/10/2016 to 15/12/2016			FDDBA Board representatives work Council officers on

			principles that address the FDDBA's concerns and agree that Council's rental offer is workable. A joint paper outlining the principles is prepared and reviewed.
21/12/2016			FDDBA representatives advise officers that additional seating has been promised to FDDBA members as part of Stage 1 Works and claims that they have met with Councillors who are prepared to support additional funding.
8/02/2017		FDDBA is advised by the Mayor at a meeting that Council will reconsider the rental offer at the Council meeting of 20 February 2017. Included is an assurance that Council will support the documentation of the additional works requested by the FDDBA (apart from some selected items discussed below) but will not to commit to proceeding with delivery of these works until funding is available.	At the meeting, the FDDBA suggested a \$60,000 pa fixed rental indexed at CPI and no performance based component as well as a 20+20 year lease.
20/02/2017	<p>Council resolved to affirm the original offer of \$60,000 pa fixed plus 6% on income above \$1 million pa.</p> <p>Council also resolved to provide relief from the new rental proposed until 6 months after practical completion which is essentially for a two year period.</p>	However, Council also agreed to continue working with the FDDBA to document the Stage 2 works and to assist in securing additional funding of approx. \$2.8 million. Furthermore, Council agrees to accommodate the pod alterations, backboards and some other items but advises the FDDBA that it is precluded from varying a contract to such a degree	The FDDBA did not accept Council's revised offer and continued to campaign that the rental offer is onerous and that the subsequent works previously requested in writing by the FDDBA to be included if there was a surplus in funding be included as part of the Stage 1 works under a contract.

		even if the works were authorised to proceed.	
6/03/2017		Council holds a Special meeting and revised the rental offer. Council agreed to only impose the \$60,000 fixed component after the two year period but reserves the right to renegotiate the rental in future depending on the FDBA's ability to meet costs.	In a meeting of 15/3/2017, the FDBA advised that it is not satisfied with Council maintaining a discretion to review the rent during a 20+20 terms (only CPI) and continues to demand that the subsequent works (in excess of \$2.8 million) be added to the Stage 1 scope at Council's expense knowing that such a variation may lead to Council breaching s186 of the Local Government Act.

Scope – Stage 1 Works

8. All funding parties agreed in writing to the scope of the Stage 1 Expansion works. Minutes of meetings record the FDBA undertaking to secure the funding required to deliver further works beyond the Stage 1 scope.
9. The FDBA provided Council with a priority list of works that beyond the Stage 1 works if additional funding was available or if cost savings could be realised during the tender process. The FDBA signed an Agreement to Lease and has actively participated in minuted Project Control Group meetings with Council, the Architect and State and Federal Government representatives each month since 2014. Agendas and minutes were distributed and FDBA representatives were present at all meetings.
10. The FDBA board member sat on the tender evaluation panel alongside Council officers, a State Government representative and an independent probity auditor to assess tender submissions and all Stage 1 inclusions/exclusion in detail.
11. Council has at least 11 documents that confirm the FDBA's acceptance and understanding of the scope of the Stage 1 works as follows:
- 12.

	Original Scope of Stage 1 Works	Revised Scope of Stage 1 Works	FDBA position:
10/92015 to 31/92015	Stage 1 works include the addition of 4 new courts making it a total of 10 courts. FDBA agrees to the Stage 1 works in writing.		Works expressly exclude the FDBA's administration area expansion, retractable seating and additional car parking and an upgrade to the fire services. FDBA

			provides a list of works in order or priority in addition to the Stage 1 works if there are surplus funds or if the building cost is less than estimated.
3/11/2014 to 9/9/2016	Project Group meetings where agendas and minutes are taken and distributed to all stakeholders		FDBA representatives are present, receive agendas and minutes and actively participate in the documentation of the Stage 1 Works with shareholders.
9/9/2016 to 12/12/2016			FDBA Board is represented on the tender assessment panel with stakeholders and the probity auditor.
20/2/2017		Council advises the FDBA that while it is prepared to accommodate their request to change the pod areas at a significant cost and to proceed with the documentation of the Stage 2 works, it is not prepared to authorise and include them as part of the Stage 1 works without the assurance of further funding or in a manner that will likely breach S186 of the Local Government Act.	

FDBA's demands – a cost to Council and the community

13. The FDBA is essentially asking Council to commit to \$2.8 million in additional works over and above Council's \$4.56 million contribution towards the agreed Stage 1 works.
14. The demands of the FDBA that emerged in relation to the rental model and subsequent works have been addressed by Council. However, representations by the FDBA to its members that additional seating and car parking will be delivered as part of the Stage 1 works, and their \$ 1 million contribution is conditional on that.
15. The FDBA's claim is that it should be afforded the same level of relief offered by Council to other sporting associations rather than compared with other basketball associations in other municipalities. But the FDBA continues to charge court hire fees that are comparable with what other higher rent paying basketball associations charge user groups. The FDBA's request is

asking Council to incur/forgo at least \$20.4 million in additional costs and rental subsidies in order to secure the FDDBA's \$1 million contribution.

Where to from here?

16. Council remains willing, ready and able to proceed with the Stage 1 works as agreed to by all funding partners and has awarded preferred tenderer status to a reputable building contractor.
17. The FDDBA's demands in relation to the rental model and the additional works amounting to a further investment of more than \$20.4 million for their \$ 1 million contribution cannot be supported and Council at its meeting of 3 April 2017, will consider options to expedite the works without having to rely on the FDDBA's \$1 million contribution.
18. If the FDDBA is truly acting in the best interests of the community, as it claims, then it will not impede the progress of works on site by holding Council, the Community and the contractor to ransom by attempting to impede access for construction works.
19. The Federal member for Dunkley has confirmed the funding is related to the delivery of the project and is not subject to agreement with the FDDBA.

CONFIDENTIAL



27th March 2017

George Vass Manager Commercial Services
Frankston City Council
30 Davey St Frankston.

Dear George,

Contract 2015/16-89 Frankston Basketball Stadium Expansion Project.

We confirm that the Contract Price for the above project will be held until the 7th April 2017. Upon issue of the building permit and relevant documentation by Frankston City Council an extension of time will be claimed adjusting the current contracted completion date shown on the Contract Program.

We trust this meets with your approval.
If you require further information please contact the undersigned.

Yours faithfully,



Romando Nascarella.
Devco Project and Construction Management Pty. Ltd

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17 March 2017

Mr George Vass
Manager Commercial Services
Frankston City Council
PO Box 490
Frankston VIC 3199

Dear George,

Re: Estimated Rental Value – Frankston Basketball Stadium
Address: 39R Wells Road, Seaford

We refer to your written instructions requesting we provide the estimated rental value of the Frankston Basketball Stadium site in Seaford. Having regard to the urgency in providing this advice we have provided only a letter of advice. We would be pleased to provide a detailed valuation report should the Frankston Council require it in the future.

We have inspected the property and taken field notes but don't intend providing an exhaustive description of the property as Council is fully aware of the nature of the land and improvements on site. Very briefly, the property comprises a site of approximately 15,292 sqm situated in a Public Park and Recreation zone but situated in an Industrial area. If the site wasn't used as public land it would almost certainly be an Industrial 1 zoned site.

The property is situated along busy Wells Road which is a high exposure location with the area dominated by car showrooms, display yards and showroom developments.

We have been requested to consider what the estimated market rental for the site would be if the site wasn't utilised as a basketball stadium. In assessing the rental amount we have had regard to lettings of large sites along Wells Road and surrounding streets but historically sites with frontage to Dandenong Road and Wells Road attract significant premiums because of their exposure.

Whilst we have examined and analysed numerous comparable rentals of varying comparability in the Seaford and Frankston area, the most comparable rental in our opinion would be the lease of the site adjoining the subject property at 39 Wells Road, Seaford. 39 Wells Road is an irregular shaped site of 3,232 sqm licenced for the display of 100 vehicles. The site was leased for \$144,000 p.a. (\$45 psm) in October 2016 for a period of 4 years. The tenant is responsible for all outgoings. This site is about a quarter of the size of the basketball stadium land and although marginally better located than the subject site, the subject land is still well exposed and would suit a variety of businesses including car, boat, caravan sale businesses, hire businesses or storage yards/depots.

Based upon the rental of the adjoining property and other comparable rentals in the area; and after making adjustments for factors such as the size of site, location including exposure, improvements, etc, we have concluded that a rate of \$20 psm would be applicable to the subject site and set out our calculations below:



Valuation Calculations:

Land Area: 15,292 sqm

Applicable Rate: \$20 psm.

Calculation: 15,292 sqm @ \$20 psm = \$305,840

For practical valuation purposes say \$305,000 per annum.

As a check method of valuation we have undertaken a percentage of land value calculation.

Should you have any queries regarding this advice then please contact Rodney Patel directly on (m) 0412 831 014.

Regards,

A handwritten signature in black ink, appearing to be 'Rodney Patel', written over a faint, large 'CONFIDENTIAL' watermark.

Rodney Patel AAPI
Certified Practising Valuer
Director

