



Business Plan Major Land Transaction Acquisition of Investment Property

5 May 2025



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1. Introduction

The City of Stirling (the **City**) has a large portfolio of land and real property assets the income from which is used to deliver key services, and the City intends to acquire additional real property assets for investment purposes to add to its property investment portfolio. Investment properties are principally freehold properties, held for long-term rental yields and not occupied by the City.

It continues to be a major strategic objective for the City to generate on-going intergenerational income to allow a dividend reinvestment in the City's annual budget. To achieve this, the City intends to acquire and retain a portfolio of properties that provide stable and secure returns. This diversification will contribute to the City's sustainable economic management by generating alternative revenue streams.

The City's Land Asset Action Plan 2023-2028, endorsed by Council on 15th August 2023, provides a framework through which the City can make decisions with respect to the management, development, retention, disposal or acquisition of real property. Real property represents an opportunity to begin to deliver considerable on-going financial return for the City's ratepayers via an ongoing income stream and capital growth.

Under the Local Government Act, a land transaction includes "*several agreements for a common purpose*" under which the City is to "*acquire an interest in land*". Over the next 4 years, the City intends to purchase one or more properties that meet the parameters specified in this business plan for the common purpose of growing and diversifying its property investment portfolio.

It is considered that these acquisitions may constitute a "major land transaction" as defined under Section 3.59 of the *Local Government Act 1995* and as such the City is required to comply with the requirements as set out in this provision. This Business Plan has been prepared and public submissions sought in order to comply with the City's obligations for major land transactions.

Any submissions received in response to this Business Plan will be considered as part of Council's decision as to whether or not the City should proceed with this Major Land Transaction, being the acquisition of properties that meet the parameters specified in this Business Plan.

2. Sustainable Stirling

Sustainable Stirling 2022-2032, the City's Strategic Community Plan, is a legislative requirement for all local governments in WA and the City's highest level planning document. It sets out a broad but ambitious and achievable vision to be a sustainable City with a local focus, and objectives across five key result areas:

- Our community
- Our economy
- Our built environment
- Our natural environment
- Our leadership.

The City's Land Asset Action Plan 2023-2028 is an informing strategy to the Strategic Community Plan. The Land Asset Action Plan 2023-2028 identified the acquisition of income-producing property assets as a key investment option to achieve income and capital growth.



This Business Plan outlines the intended transactions to implement an investment strategy in property that will deliver an income return. The projected income will provide the City with an opportunity to generate additional revenue to finance activities set out in Sustainable Stirling; as well as activities set out in the City's Corporate Business Plan and annual Service Plans.

3. Proposed Transactions

Target Criteria

Once Council has resolved to undertake acquisitions in accordance with this Business Plan, the City intends to purchase properties for the common purpose of growing and diversifying its property investment portfolio over the following 4 year period as endorsed by Council .

The City has Council approval of \$20 million (in total) for the purchase of one or more investment properties from the Capital Investment Reserve.

In identifying suitable acquisition targets, the City will be guided by its management practices in the management of its investment properties, which includes general criteria for the type of properties the City considers suitable for investment. Properties will be identified as potential targets for acquisition in accordance with the City's detailed target criteria as outlined in section 6 below.

Method of Acquisition

The City can utilise a number of mechanisms in order to acquire real property including participating in auctions, public tenders and expressions of interest, as well as dealing directly with the vendor to purchase the property by private treaty.

In addition to the City's in-house expertise, it is intended that the City will appoint professional consultants and advisors to assist in the acquisitions process and these may include real estate, legal, valuation and project feasibility professionals.

The City may also make use of a buyer's agent or agents to identify suitable properties and provide advice and assistance in the land acquisition process. Alternatively, the City may deal directly with a potential vendor, or its agents.

For each property identified, the City will carry out a comprehensive due diligence process including seeking property valuation; legal due diligence; tenant due diligence; planning/environmental/land contamination due diligence; building condition report; and services and mechanical due diligence. A Business Case (separate to this Business Plan and specific to the transaction) will then be prepared assessing the proposed acquisition against the criteria outlined in Section 6 below.

Council will make the final decision on whether a property that meets the parameters specified in this Business Plan is to be acquired. Accordingly, an offer made to purchase a property will be conditional on Council resolving to proceed with that specific transaction.

Transaction terms

The City will make conditional offers to purchase one or more investment properties subject to the following terms:

- The requirement of a specific resolution of Council to acquire the property. This is likely to be limited to a time period of 30 to 60 days.
- The City being satisfied with its legal, financial, planning, commercial and other due diligence within a time period of 30 to 60 days.
- The City will seek standard warranties and representations from the seller.
- Settlement period to be negotiated and agreed by both parties.

4. Legislative Provisions

Major Land Transaction – Section 3.59

In accordance with Section 3.59 of the Local Government Act 1995, before a local government enters into a major land transaction the local government is to prepare a Business Plan.

The clear purpose of Section 3.59 is to demonstrate that a proposed major transaction will not compromise the ability of the local government to deliver its core functions. The requirements of a Business Plan ensure the impact of the transaction on the City's operations is considered and the City's ability to manage the transaction is assessed prior to proceeding with the transaction.

The Business Plan is to include an overall assessment of the major land transaction and is to include details of:

- a. Its expected effect on the provision of facilities and services by the local government;
- b. Its expected effect on other persons providing facilities and services in the district;
- c. Its expected financial effect on the local government;
- d. Its expected effect on matters referred to in the local government's current plan prepared under section 5.56;
- e. The ability of the local government to manage the performance of the transaction; and
- f. Any other matter prescribed for the purpose of this subsection.

The *Local Government Act 1995* also requires the local government to:

1. Give Statewide public notice stating that –
 - i. The local government proposes to enter into the major land transaction described in the notice;
 - ii. A copy of the Business Plan may be inspected or obtained at any place specified in the notice; and
 - iii. Submissions about the proposed transaction may be made to the local government before a day to be specified in the notice, being a day that is not less than six (6) weeks after the notice is given; and
2. Make a copy of the Business Plan available for public inspection in accordance with the notice; and
3. Publish a copy of the Business Plan on the local government's official website.

A major land transaction means the acquisition, disposal or development of land where the value of the transaction is more than the amount prescribed by Regulation. In the case of the City of Stirling, that amount is defined in the *Local Government (Functions and General) Regulations 1996* as the lesser of-

- i. \$10,000,000; or
- ii. 10% of the operating expenditure incurred by the City from its municipal fund in the last completed financial year.

In the case of the City the relevant threshold is \$10,000,000.

The proposed acquisition of several properties for the common purpose of growing and diversifying the City's property investment portfolio is expected to constitute a major land transaction for the purposes of the Local Government Act as it will involve several agreements for a common purpose. The City will be acquiring interests in land and the total value of the consideration paid under these transactions is likely to exceed \$10,000,000 within the 4 year period of this Business Plan.

Absolute Majority – Section 3.59 (5)

Once Council has considered any public submissions, it may then resolve to proceed with the major land transaction. In accordance with Section 3.59(5) of the Local Government Act the voting requirement for this decision is required to be by absolute majority.

5. Budget

Capital Investment Reserve

The City established a Capital Investment Reserve in 2015/16 to support the Council endorsed Property Strategy at that time. The reserve holds funds allocated by Council for investment purposes, including for the acquisition of investment property; proceeds of any sale of investment property or other investment assets; surplus revenue from investment income; and any other funds as determined by Council from time to time. This is in line with the current Land Asset Action Plan 2023-2028.

From the 2022/23 Financial Year, the Capital Investment Reserve also receives the proceeds from the sale of land developed at Catalina Estate

The income from the acquired investment property will be captured in the Investment Income Reserve. The Investment Income Reserve holds rent from investment properties, dividends and distributions from other investments and interest earned on the Capital Investment Reserve.

In December 2023 Council approved \$6 million in the 2023/24 budget for property investment acquisition; and in November 2024 approved funding of an additional \$14 million from the Capital Investment Reserve, totalling \$20 million for the purchase of investment property.

6. Acquisition – Target Criteria

The City will utilise the following criteria, endorsed by Council, for selecting and acquiring properties for the common purpose of growing and diversifying the City's property investment portfolio.

Location

Investment in relation to this Business Plan considers properties, in order of preference, within the Perth metropolitan area, within the boundaries of the City of Stirling, Regional Western Australia and Australia wide.

Use

Council has endorsed acquisition of properties in following asset classes which best suit the City's investment targets in order of preference:

1. Medical
2. Office
3. Childcare
4. Showroom
5. Industrial
6. Shops & Retail

Preference will be given to buildings that are fully leased for the medium to long term.

Buildings / Improvements

Properties will only be purchased if the buildings and other improvements are in good condition and suitable or readily adaptable for commercial, retail or industrial use without requiring any significant capital investment to make them suitable for leasing.

Lease Income

The City will only consider acquiring properties that are currently tenanted to reliable and secure tenants and with a demonstrated history of delivering a steady income stream over the short to medium term.

Examples of tenants that the City considers to be reliable and secure include government departments or government agencies and publicly listed companies. Other entities can be considered where there is evidence that security has been provided for the performance of the tenant's obligations under the lease such as a bank guarantee, security deposit or personal guarantees.

Return

Real property represents an opportunity to begin to deliver considerable on-going financial return via an ongoing income stream and capital growth.

Each potential income producing property will be individually assessed to ensure an adequate return above the long-term bond rate having regard to the specific attributes of the property.

A commercial property yield consists of two main components: the risk-free rate and the risk premium.

The risk-free rate is typically represented by the long-term bond rate. This rate reflects the return on an investment with no risk of financial loss, serving as a baseline for evaluating other investments.

The risk premium accounts for various factors including supply/demand dynamics, rental outlook, strength of tenant covenant, locations, liquidity and any other asset specific factors.

The current Council endorsement is to acquire properties with risks levels in the following order of preference:

1. property acquisitions that present a medium risk;
2. property acquisitions that present a low risk;
3. property acquisitions that present a medium to high risk;
4. property acquisitions that present a high risk.

Properties for potential acquisition will, as part of the due diligence process, be categorised into one of four risk levels appearing below:

1. Low risk;
2. Medium risk;
3. Medium to high risk;
4. High risk.

The current industry standard yields (as endorsed by the Council) for properties that are categorised with the different risk levels are as follows:

- | | |
|-------------------------|------------|
| 1. Low risk: | 5 – 6% pa |
| 2. Medium risk: | 6 - 8% pa |
| 3. Medium to high risk: | 8 - 10% pa |
| 4. High risk: | 10% + pa |

From time to time the Council, with the benefit of advice and having regard to market conditions, will reassess both:

1. the risk level order of preference; and
2. the standard yields that apply to the different risk levels.

7. Business Plan Assessment

A Business Plan prepared under Section 3.59 of the LGA is required to address, at a minimum, the points listed below:

What is the expected effect of the proposal on the provision of facilities and services by the City?

There are no direct effects upon existing services and facilities. If a decision is made to acquire one or more investment properties, the direct and indirect returns will enhance the City's ability to undertake other projects for the benefit of the community.

Investment properties are principally freehold properties, held for long-term rental yields and not occupied by the City.

What is the expected effect on other persons providing facilities and services in the district?

There are no direct effects expected on other persons providing facilities and services in the district as any property acquired under this Business Plan will be held for the principal purpose of revenue generation and classified as an Investment Property.

What is the expected financial effect on the City?

The major land transaction is not expected to have any impact on the normal operating revenues of the City. The purchase is intended to be funded from the Capital Investment Reserve and the income from the acquired investment property will be captured in the investment income reserve.

In December 2023 Council approved \$6 million in the 2023/24 budget for property investment acquisition; and in November 2024 approved funding of an additional \$14 million from the Capital Investment Reserve, totalling \$20 million for the purchase of investment property.

Real property represents an opportunity to begin to deliver considerable on-going financial return for the City's ratepayers via an ongoing income stream and capital growth. This will also contribute to the long-term financial sustainability of the City.

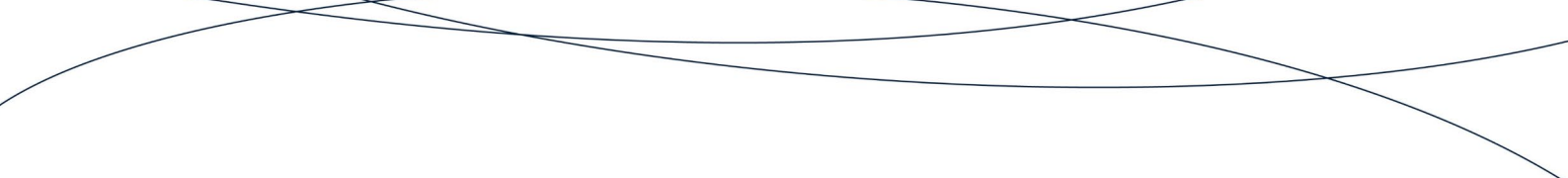
The investment portfolio is managed within a portfolio approach that ensures the City has the ability to take advantage of alternative investment opportunities, for example by ensuring that capital can be released from underperforming assets in order to acquire better-performing assets or to opportunistically trade or aggregate property holdings.

What is the expected effect on matters referred to in the local governments' current plan prepared under section 5.56?

The projected income returns will provide the City with additional revenue to contribute to finance activities set out in its Strategic Community Plan.

The intended transactions are consistent with the objectives of the City's Corporate Business Plan 2024-2028 which include to strive for operational efficiency, effectiveness and continuous improvement.

The addition of income producing properties to the property portfolio is a preferred investment option within the Land Asset Action Plan 2023-2028 which is also an informing strategy to the Strategic Community Plan.



The City will continue to provide responsible financial and asset management managing the City's commercial property portfolio to produce a sustainable income stream.

Has the City the ability to manage the undertaking or the performance of the transaction?

The City has qualified and experienced staff with the ability to manage the proposed transaction. This will be enhanced by the engagement of external agents such as professional property agents, valuers, lawyers and consultants as required.

Ongoing management of the leased property asset will either be managed internally by the City's qualified and experienced staff; or managed externally by professional property agents. This will be determined by the property asset class, size, number of leases and location.

8. Submissions

A six-week public notice period from Monday 5th May 2025 - Monday 16th June 2025 (both dates inclusive) allows the community to make a submission on the proposal.

As such, the community is invited to make submissions on this Business Plan.

Please send any submission in writing to the City's Chief Executive Officer via the following methods:

Mail: PO Box 1533, Osborne Park WA 6916

Email: propertyservices@stirling.wa.gov.au

In person: 25 Cedric Street, Stirling WA 6021

Website: www.stirling.wa.gov.au/businessplan

Council will consider all submissions received as an integral part of the decision-making process.

Submissions must be received by **4.00pm on Monday 16th June 2025**

Once the submission period is closed Council will consider the Major Land Transaction proposed within this Business Plan for the acquisition of one or more investment properties up to \$20,000,000 for a 4 year period.