



Town of Cottesloe

## Business Plan to enter into a commercial lease for 149 Marine Parade, Cottesloe

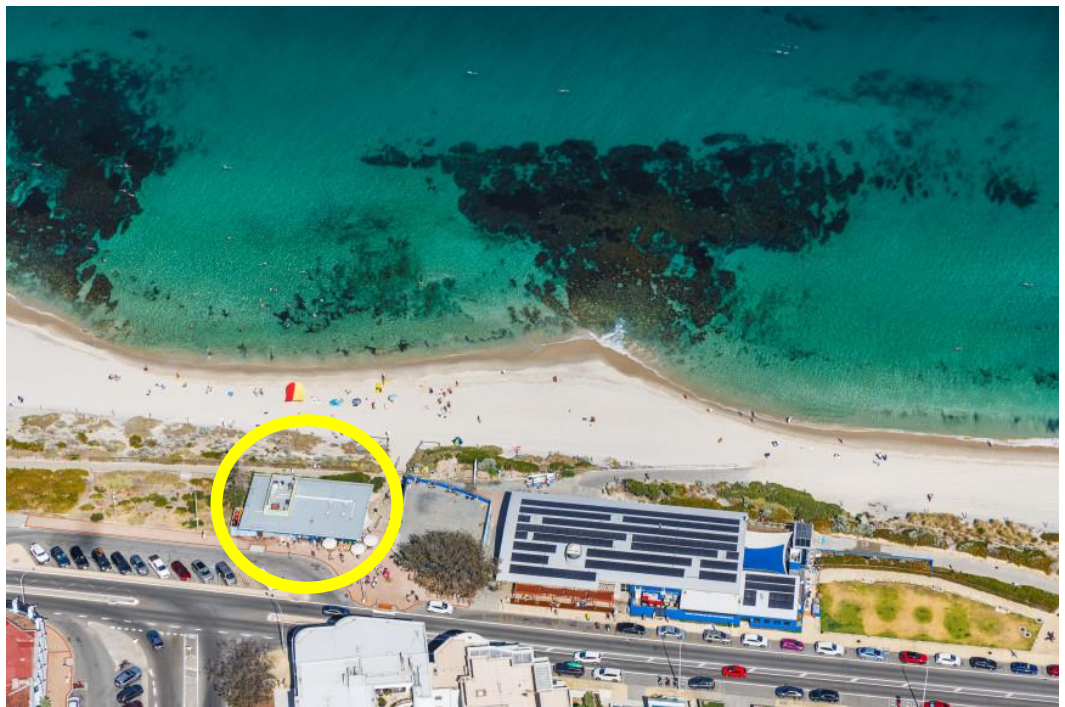


Photo: *Airview Online*

Business Plan prepared under section 3.59  
of the *Local Government Act 1995*

May 2023



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# 1. INTRODUCTION

This Business Plan has been prepared under [section 3.59 of the Local Government Act 1995](#) (the Act). It is a document that assesses a proposed major commercial enterprise, such as a business investment or land transaction, by a Local Government in Western Australia. In this case, the Business Plan relates to a proposed lease for 149 Marine Parade in Cottesloe. The property is owned by the State Government with management vested in the Town of Cottesloe (the Town). The area subject to the lease consists of:

- The upper level of the building (road level) with a total lettable area of 221.6m<sup>2</sup>, comprising:
  - (a) café area of 180.1 m<sup>2</sup>; and
  - (b) balcony area of 41.5 m<sup>2</sup>.
- Part Reserve 28199, Lot 510 on Deposited Plan 408992 being part of the land comprised in Crown Land Title Volume LR3168 Folio 377.

The property is currently leased by Yellowdot Enterprises Pty Ltd, operating the Barchetta Café. The current leaseholders have operated since December 2015, and the lease is about to expire.

The Town of Cottesloe Council (the Council) resolved to call for Expressions of Interest from prospective lessees in March 2022. In February 2023, the Council resolved to invite four of these to submit full tenders.

The tenders were received and duly assessed. On 16 May 2023, the Council considered the tenders and selected Olympia Hospitality Ltd (Kailis Hospitality Group) as the preferred tenderer.

The significance of the undertaking meets the threshold for section 3.59 of the Act to apply. The Town has therefore prepared this Business Plan. Public consultation on the Business Plan for a period of no less than six weeks is required before the Council determines its final position on the lease.

## What is included in the Business Plan?

The Business Plan outlines the proposed lease then provides an assessment of the following factors, as required under the Act:

- 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 (being the Town's 'Plan for the future', consisting of the Strategic Community Plan and Corporate Business Plan);
- e) The ability of the local government to manage the undertaking or the performance of the transaction; and
- f) Any other matter prescribed for the purposes of this subsection.

## 2. THE PROPOSED LEASE

### Overview

The Kailis Hospitality Group (KHG) has a significant track record in operating successful hospitality venues, particularly in beachside locations. They have a deep understanding of contemporary large hospitality business requirements and expectations, including vertically integrated operations, ethical and local procurement, healthy foods, and community support and engagement.

If the lease proceeds, KHG will upgrade and refit the premises. Their plans include an uplift in aesthetics, functionality, and sustainability (detailed below). Their concept involves the re-imagining of a Western Australian brand that existed from the 1970's to the 1990's.

The new concept honours the old brand and extends it. The operation will comprehensively consider what is healthy for both the body and the environment.

It will be a family restaurant where it will be possible to go for a casual, healthy, affordable meal. KHG has designed it to appeal to all ages and stages of life, whether it be early morning swimmers having a coffee, a family lunch with the grandparents, a snack after school or a casual date night.

### Food and beverage

The menu will work for a vegetarian/vegan lifestyle, but will also include sustainably sourced seafood, poultry, and meat. A range of wholefoods-focused delicacies will also be available, from oat-meal bowls to smoothie, acai and chia bowls. A range of sugar free dessert options will be offered from a carrot cake down to house made fruit popsicles.

The concept is to provide for a large range of dietary requirements and preferences. A nutritionist will be employed to ensure that each meal is healthy, and that nutritional information is accurately and transparently provided.

On the beverage side, there will be house boiled/cooked tonic and elixirs as well as fresh juice and smoothies. Five Senses coffee will be ground to order for fine coffee. A wine/beer list will be curated by the KHG sommelier team. The focus will be on Western Australian natural wines and rotating taps of local beers. A small format cocktail selection will utilise house made tonics.

### Hours

The Restaurant will be a breakfast/lunch/dinner operation, subject to restrictions on hours:

*The Tenant is required to not open the Premises for trade prior to 6 am and to cease trade by midnight (subject to the provisions of the Retail Trading Hours Act 1987). The opening days are to be a minimum of 5 days per week. Should there be any conflict between these requirements and the Retail Trading Hours Act 1987 the latter shall prevail.*

## Investment

KHG will invest a substantial amount into upgrading the premises. Renowned global interior design firm Stickman Tribe will develop the design. The design brief is to create a unique and exciting space, complementing the proposed foreshore redevelopment and reflecting the brand's whole foods, environmentally friendly, family dining themes.

KHG is committing \$600,000 - \$1,000,000 to the upgrade. The exact amount of the investment is uncertain, as it will depend on an in-depth building inspection, prevailing market rates and the final details of the design.

Key elements are described below:

- New interior design to include custom furnishings and joinery, new colour scheme, enhanced lighting and acoustics.
- Internal renovations to improve entry/exit flow and utilise the breeze for natural cooling.
- Upgrade of all mechanical services along with the introduction of solar energy.
- Renovations to the current alfresco area creating an outdoor space with increased connectivity to the main dining area, and increased useability in a wider range of weather conditions (winter and summer).
- External renovations to beautify the building including the toilet areas.
- An extensive kitchen renovation with new equipment and exhaust solutions. This would include an upgrade of all service areas, chillers, freezers, etc.
- An upgrade of all hospitality related technology including point-of-sale and cashless payment systems.
- An upgrade of the service yard and bin store area to create a more concealed solution.

## Term of the lease

The term of the lease is five years, with two options to renew for a further term of five years each.

## Rent

The base rent per annum for the property payable by KHG will be \$108,060 plus GST. In addition, KHG will pay a percentage of annual sales of 2% of sales (excluding GST) where sales are between \$3,000,000 and a cap of \$4,500,000.

The rent will be reviewed annually on the anniversary of commencement of the lease. The rent will increase in accordance with Consumers' Price Index (CPI). In the event of a further term commencing, the rent will increase by CPI, or be reset to the prevailing market rental, whichever is the greater. From there, the rent will continue to increase annually in accordance with CPI.

Total rent payable will therefore initially be between \$108,060 plus GST pa and \$138,060 plus GST pa, and escalate annually with CPI (or prevailing market rental at the commencement of a further term).

KHG's modelling suggests their sales will be above \$3,000,000 from the first year.

The current rent received for the property is \$114,943 plus GST pa.

Note that KHG will not manage or maintain the public toilets below the facility. This responsibility will be taken over by the Town of Cottesloe, at an estimated cost of \$35,000 pa (see impact on services below).

### 3. EXPECTED EFFECT ON THE PROVISION OF FACILITIES AND SERVICES BY THE LOCAL GOVERNMENT

There will be little change from the existing operation in terms of the impact on the Town's facilities and services, apart from the transfer of responsibility for managing and maintaining the public toilets. As mentioned above, the estimated cost of this responsibility is \$35,000 pa. It will also ensure the Town has direct control on the standard of this service and the ability to directly respond to any customer issues.

The Town will not generally provide services for the benefit of the premises (and doesn't now). The operation will be self-sufficient in terms of aspects such as cleaning and security for example. The Town has continued responsibility for regulating noise and environmental health, but this is expected to remain at a normal level, in keeping with the high standards evident in KHG's other hospitality operations.

### 4. EXPECTED EFFECT ON OTHER PERSONS PROVIDING FACILITIES AND SERVICES IN THE DISTRICT

#### Impacts on other hospitality businesses

KHG's concept adds a new niche to the food and beverage offerings available in Cottesloe. It is designed to be complementary, enhancing the reputation of Cottesloe as a place to enjoy distinctive coastal hospitality. For example, KHG is not proposing an intensive alcoholic beverage service or small bar licence as that type of hospitality is already well catered for. The approach is to attract more people to Cottesloe, growing the market for everyone.

#### Impacts on community groups/activities

KHG has an extensive local community support program, ranging from sponsorship of local sporting clubs, teams or associations, vouchers for local school fundraising initiatives to providing significant discounts to local surf clubs and complimentary coffee to patrol teams. For example, Canteen Trigg provided sponsorship for the WA state junior surfing team to fund their travels interstate. The Shorehouse Swanbourne is a sponsor of both the Swanbourne Surf Lifesaving Club and Allen Park Tennis club. Kailis Fishmarket Café Fremantle has donated vouchers to local schools, community associations and charities. Kailis undertakes to provide support to the local Cottesloe community.

## 5. EXPECTED FINANCIAL EFFECT ON THE LOCAL GOVERNMENT

The financial impact is in two parts. There is an operating financial impact, which relates to the revenue and expenditure of the Town of Cottesloe. There is also a balance sheet impact, which relates to the value of the property asset. Each of these is outlined below.

### Operating financial impact

The operating financial impact ranges from a negative impact of -\$10,940 plus GST pa – being the difference in rent if the rent is the maximum payable, plus the cost of managing and maintaining the public toilets – to a negative impact of -\$49,940 plus GST pa, if the rent is the minimum payable, as shown in the table below.

	Rent received (excl GST)	Difference	Cost of public toilets to Town	Total impact
Current	\$114,943	-	-	-
Minimum operating financial impact	\$138,060	\$23,117	-\$35,000	-\$11,883
Maximum operating financial impact	\$108,060	-\$6,883	-\$35,000	-\$41,883

### Balance sheet impact

KHG will invest between \$600,000 and \$1,000,000 into improvements that will increase the value of the property considerably at no cost to the Town. Furthermore, the nature of the improvements include a focus on sustainability (eg energy efficiency and waste minimisation) which flow into the future desirability of the property in terms of the cost of operations and environmental, social and governance (ESG) responsibility.

## 6. EXPECTED EFFECT ON MATTERS REFERRED TO IN THE LOCAL GOVERNMENT'S CURRENT PLAN PREPARED UNDER SECTION 5.56

The Town's current Strategic Community Plan states that "the beachfront is a destination for locals, the regional population and tourists. An international profile means that the Council is under some pressure [to meet] the standard expected of major tourism destinations."

Arguably, the KHG lease will enable a higher standard of hospitality offering, consistent with the community's and Council's aspirations for the future of Cottesloe, and enhancing Cottesloe's reputation and competitiveness, with no loss (and some gain) in environmental sustainability and amenity.

## 7. ABILITY OF THE LOCAL GOVERNMENT TO MANAGE THE UNDERTAKING OR PERFORMANCE OF THE TRANSACTION

The Town of Cottesloe has a long track record of successfully managing such an undertaking.

## 8. ANY OTHER MATTER PRESCRIBED FOR THE PURPOSES OF THIS SUBSECTION

No other impacts identified.

## 9. NEXT STEPS

The following steps will occur:

- Publish the Business Plan for public comment 7 June 2023 to 19 July 2023.
- Consider feedback and final decision 25 July 2023

Note also the following State Government process:

- (a) the Land is subject to the provisions of the *Land Administration Act 1997* (WA) (LAA);
- (b) the grant of the lease will be subject to and conditional on the Minister for Lands consenting to the lease under section 18 of the LAA;
- (c) the consent of the Minister for Lands will need to be obtained to any assignment, subletting, mortgage or charge of the leasehold estate in the Premises, in addition to the consent of the Landlord;
- (d) the lease will need to be registered at Landgate; and
- (e) the provisions of the lease will be subject to the provisions of the LAA in relation to the Premises.