

CABINET - SUBJECTS FOR CONSIDERATION, 20 OCTOBER 2008 12:45 PM

Not relevant



1 New Initiatives/Policy Matters

Not relevant



107 MFI08/025

Minister for Infrastructure's Item (Patrick Conlon and
Kevin Foley)
APPROVED

CS
20/10

LOCKED

CABINET COVER SHEET

- 1. **TITLE** **PURCHASE OF CLIPSAL SITE, BOWDEN**
- 2. **MINISTER** **HON PATRICK CONLON MP
MINISTER FOR INFRASTRUCTURE**
- 3. **PURPOSE** **To seek Cabinet approval for the Land Management Corporation (LMC) to:**
 - purchase the Clipsal site at Bowden at a price of \$52.5 million to enable LMC on behalf of Government to facilitate a transit oriented development of potential State and National importance; and
 - borrow an amount not exceeding \$70 million to fund the acquisition and initial site preparation works of the Clipsal site from the South Australian Government Financing Authority (SAFA) on terms agreed between SAFA and LMC.
- 4. **IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR SA's STRATEGIC PLAN TARGET** **The purchase and subsequent development of the Clipsal site will contribute to a range of South Australia's Strategic Plan targets including:**
 - T1.10 Jobs
 - T1.21 Strategic Infrastructure
 - T1.22 Total population
 - T3.6 Use of public transport
 - T3.5 Greenhouse gas emissions reduction
 - T3.7 Ecological footprint
 - T3.14 Energy efficiency – dwellings
 - T6.7 Affordable housing

In March 2008 the Major Proposals Review Committee of Cabinet endorsed that LMC enter into negotiations with Gerard Corporation to acquire the Clipsal site.
- 5. **ICT COMPONENT** **Does the submission have a material ICT Component? No**
- 6. **RESOURCES REQUIRED FOR IMPLEMENTATION** **Additional resources as required in the form of funding for a Project Director and Project Assistant in initial stages of the project. Expert advice on design planning, feasibility, marketing, engineering, remediation and other areas would be required. These resources will be funded internally by LMC.**
- 7. **COMMUNITY AND ENVIRONMENTAL IMPACT** **Planning policies will require review for the site.**

There is strong market interest in mixed use

development outcomes which provide potential for a wide range of housing and employment generating land for the community including office development, Government services, retailing, and quasi commercial-industrial-technology uses such as those found in the Bioscience Precinct in Thebarton.

The acquisition and subsequent development of the Clipsal site is expected to have a positive impact by increasing the residential population within close proximity to the Adelaide CBD.

8. RISKS

A risk management assessment of the Clipsal site purchase has been undertaken in the form of extensive due diligence, including independent advice and review of site environmental/ remediation issues; infrastructure requirements; planning and development policies and market investigations.

9. CONSULTATION

Given the confidential nature of the proposal, consultation to date has been limited to the Department for Transport, Energy, and Infrastructure and Planning SA. They have indicated strong support for the proposal.

10. COMMUNICATION STRATEGY

Prior to settlement (proposed 8 December 2008) a communication strategy will be developed by LMC in conjunction with the Office of the Minister for Infrastructure.

Its core objectives will be to engage with all relevant stakeholders to communicate Government's vision, gain feedback, input and support and minimise risk. Key stakeholders include: State Government agencies, Local Government, adjacent industrial operators, nearby residents, potential business investors, special interest groups (particularly heritage and environmental) and the broader community.

11. URGENCY

Urgent.

12. RECOMMENDATIONS

It is recommended that Cabinet:

- approve LMC proceeding with the purchase of the Clipsal site at Bowden at a price of \$52.5 million to facilitate a transit oriented development of State and

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signed by the
Treasurer

- national importance; and
- approve LMC borrowing an amount not exceeding \$70m to fund the acquisition and initial site preparation works of the Clipsal site from SAFA on terms agreed between SAFA and LMC.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.



**HON PATRICK CONLON MP
MINISTER FOR INFRASTRUCTURE**

16 October 2008



**HON KEVIN FOLEY MP
TREASURER**

20 October 2008

TO: THE PREMIER FOR CABINET

RE: PURCHASE OF CLIPSAL SITE, BOWDEN

1. PROPOSAL

To seek Cabinet approval for the Land Management Corporation (LMC) to:

- 1.1. purchase the Clipsal site at Bowden at a price of \$52.5 million to enable LMC on behalf of Government to facilitate a transit oriented development of potential State and National importance; and
- 1.2. borrow an amount not exceeding \$70 million to fund the acquisition and initial site preparation works of the Clipsal site from the South Australian Government Financing Authority (SAFA) on terms agreed between SAFA and LMC.

2. BACKGROUND

- 2.1. The Clipsal site is currently zoned Industry and utilised as a manufacturing facility with a mix of mainly older style workshops and offices interspersed with more recently constructed industrial premises. Total building area is approximately 50,000m². The site has frontage to Park Terrace and the parklands to the south-east, the Outer Harbor rail line to the south-west and adjoins industrial and residential properties on the other boundaries. The site is 3 kilometres from the CBD. The property comprises 162 Certificates of Title which include several former public streets. A location plan is contained in Attachment 1.
- 2.2. In May 2007 Clipsal announced that it intended to relocate from the 10.25 hectare Park Terrace site at Bowden owned by the Gerard Corporation.
- 2.3. In March 2008 the Major Proposals Review Cabinet Committee (MPRCC) endorsed LMC entering into negotiations with the Gerard Corporation to acquire the Clipsal site. MPRCC also noted that LMC would seek Cabinet approval prior to entering into any commitment to purchase the site.
- 2.4. Negotiations were held with the owner and a valuation of the property commissioned from Jones Lang LaSalle (JLL) to establish a benchmark for a possible purchase proposal. This valuation was based on an urban development concept scheme prepared by interstate urban planning consultants Urbis. Initial due diligence investigations were undertaken.
- 2.5. Subsequent negotiations stalled when it became clear that Vendor price expectations of \$70 million – \$100 million far exceeded our initial advice and assessment.
- 2.6. The Gerard Corporation, appointed Colliers to sell the site through a staged Expression of Interest (EOI) process commencing in June 2008 and closing 25 July 2008.

- 2.7. LMC participated in the EOI process and on 1 August 2008 was advised it was successful in reaching stage two of the bidding process expected to close 18 August 2008.
- 2.8. This deadline was subsequently extended until 29 September 2008 to allow participants time to complete complex due diligence investigations with a view to making bids unconditional particularly in respect of contamination and remediation.
- 2.9. In order to prepare for the Stage 2 bid LMC undertook further investigations as follows:
- a) Further master planning by Urbis, including consideration of subdivision and staging opportunities with the potential to 'superlot' various potential development sites to reflect the desired high density/medium density residential/commercial and retail use mix (see Attachments 2 and 3 for examples of this work).
 - b) Detailed due diligence investigations including environmental assessments and infrastructure planning with associated development cost assessments. As part of this process, AEC Environmental Pty Ltd were engaged to summarise all previous investigations undertaken on the site which included a review of all historical activities and conduct targeted soil and groundwater investigations within the limited period of the due diligence process. The presence of buildings limited the ability to fully investigate the site to an acceptable standard however this was considered as part of AEC overall assessment of the environmental condition of the site. Parsons Brinkerhoff were also engaged to provide an independent review of AEC investigations.
 - c) A second valuation obtained from Egan National Valuers which was informed by the above detailed staging planning and infrastructure assessment.
 - d) A market depth assessment was undertaken by Colliers International to inform the potential timing of the land release program utilised within the valuation.
 - e) David McArdle an independent property consultant was appointed to overview and challenge the feasibility and resultant site valuations obtained.
- 2.10. In October 2008 Colliers advised that LMC was the preferred bidder and that its conditional offer had been accepted by the Vendor. LMC subsequently entered into a conditional contract to purchase the site. The contract is conditional on LMC Board and Cabinet approval with settlement proposed for 8 December 2008.
- 2.11. A Development Plan Amendment (DPA) was prepared by the land owner for consideration by the City of Charles Sturt in February 2008. The Statement of Intent for the DPA was not endorsed by the Minister for Planning given its sole focus on the Clipsal site and its lack of capacity to achieve the range of Government outcomes expected.

3. DISCUSSION

Purpose

- 3.1. The Clipsal site and the broader Industry Zone in which the site is located represents an unparalleled opportunity of national significance for a sustainable transit-oriented urban infill development.
- 3.2. The Clipsal site on its own or assembled with adjacent sites is ideally placed to be one of the first of a number of transit-oriented developments (TODs) to be built across Metropolitan Adelaide in the next few decades to accommodate a significant proportion of the expected Adelaide population growth and 'future proof' the city against the potential impact of climate change and peak oil.
- 3.3. The purchase and subsequent staged development of the Clipsal site facilitated by LMC would support the State Government's investment in electrifying the Outer Harbor line and the tramline extension to Semaphore via the Entertainment Centre.
- 3.4. The site will help meet housing and employment targets to be set as part of the 30-year *Plan for Adelaide* to be completed by mid-2009.
- 3.5. State Government involvement in the assembly, planning and release of the Clipsal site is more likely to achieve the full range of Government objectives than if the site was sold to the private sector.
- 3.6. While the Development Plan can control outcomes it lacks the flexibility to respond to changing market conditions and to direct development outcomes to the extent required to ensure the successful delivery of a project of this size and complexity.
- 3.7. Successful developments such as Subiaco in Perth, Western Australia, have succeeded through the provision of clear leadership from Government in assembling land, master planning, modifying local planning controls, streamlining approval processes and in providing the significant public investment required to facilitate development.
- 3.8. If the State Government has ownership of the site it is possible to utilise various intervention methods such as building/development encumbrances/guidelines and land management agreements and/or partnering to ensure the private sector delivers the Government's desired policy outcomes.
- 3.9. With control over the Clipsal site, the State Government can also look to leverage returns through assembling other adjacent sites and/or working with owners to ensure successful long term planning and development of the broader area. This can only be successfully achieved through a co-ordinated, master planned approach by the State Government.

- 3.10. Should the Clipsal site be purchased by Government, the governance framework of the project would include:
- 3.10.1 a Project Control Group involving the Department for Transport, Energy and Infrastructure, Planning SA and LMC (as lead agency) and other relevant agencies. Transport infrastructure changes proposed adjacent or in close proximity to the site are likely to be of major significance. Government ownership of the Clipsal site should enable better integration of these works with future site development; and
 - 3.10.2 a Design/Planning Advisory Group with national and possible international membership to ensure the site design and development represents best global practice.

Financial, Budgetary and Economic Implications

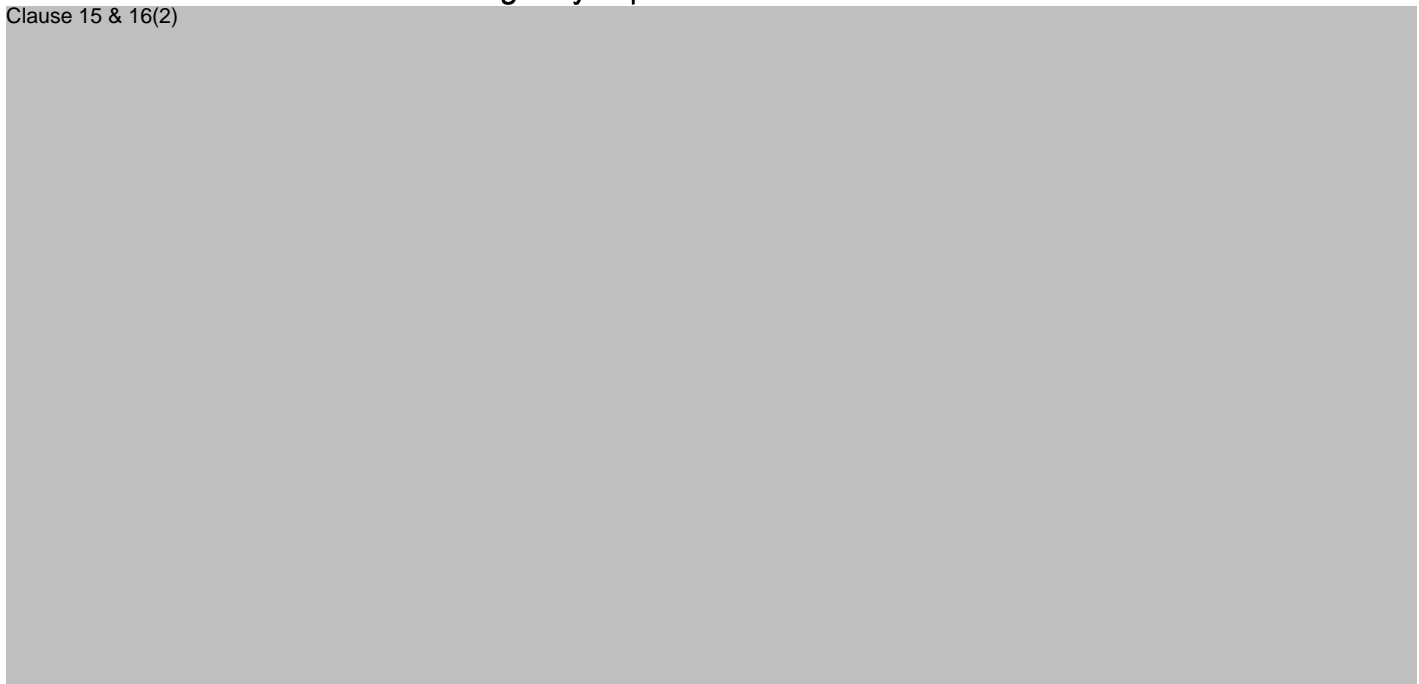
- 3.11. In determining the appropriate site value (the residual land value), two valuations by JLL utilised a direct sales comparison approach and a hypothetical development approach including a feasibility model.
- 3.12. Generally both the JLL and Egan International valuations were consistent for estimates of sale rates and a range of existing and projected land values.
- 3.13. The primary variance in the two valuations was the choice of a discount rate and/or profit risk target with a current market price range of up to \$50 million determined by JLL 's earlier (Stage 1 bid) valuation and \$55 million by Egan's more recent (Stage 2 bid) valuation (see Attachment 4 for Egan Valuation summary).
- 3.14. In determining the terms and conditions of LMC's final bid for the Clipsal property and in particular the price, consideration was given to a number of key factors:
- the strategic nature of this site and the opportunity for Government to demonstrate a number of policy initiatives and objectives
 - the risks to a developer associated with contamination and remediation of the site. (LMC had undertaken considerable work in relation to this issue and is satisfied that the residual risk is manageable); and
 - the potential timing and costs to a private or institutional developer associated with obtaining re-zoning of the site from 'Industrial' to 'Mixed Use' critical to the re-positioning and rejuvenation of the Clipsal site and surrounds.
- 3.15. Based on advice received and our assessment of the Vendor's expectations and market conditions including competing potential purchasers positioning and circumstances the following conditional purchase offer has been made.

Purchase price:	\$52.5 million
Deposit:	\$500,000
Settlement :	1 December 2008
Subject to:	LMC Board and Cabinet Approval

3.16. Based on the terms that LMC has offered for the purchase of the Clipsal Site the acquisition and development will generate a net development profit of Clause 16(2) and a resulting internal rate of return of Clause 16(2)

3.17. Financial and budgetary implications are shown in Table 1 below:


Clause 15 & 16(2)



LMC is a Public Non Financial Corporation (PNFC) and its impacts on the general Government sector's net operating and net lending result is by way of changed contributions (dividend and tax equivalent payments). Dividends are payable at 90% per cent of post tax profit.

The general Government budgetary implications for the acquisition of the Clipsal site are presented in Table 2.

Clause 15 & 16(2)



3.18. Economic Implications:

Economic implications of Government purchase of the Clipsal site include:

- capacity to provide near city sites for incoming new and relocating employment generating businesses
- reduced urban infrastructure capital and operating costs (water, sewer, power, gas, transport) compared with fringe “green fields” development
- promotion and management of higher density residential development as a demonstration project for future TOD and infill development across Adelaide; and
- capacity of Government to generate economic activity in a potentially depressed market.

3.18.1. Required Resources

Additional resources in the form of funding for a Project Director and Project Assistant would be required in initial stages of the project. Expert advice on design planning, feasibility, marketing, engineering, remediation and other areas would be required. These resources would be funded internally by LMC.

3.18.2. South Australia’s Strategic Plan

The purchase and subsequent development of the Clipsal site would contribute to a range of South Australia’s Strategic Plan targets including:

- T1.10 Jobs
- T1.21 Strategic Infrastructure
- T1.22 Total population
- T3.6 Use of public transport
- T3.5 Greenhouse gas emissions reduction
- T3.7 Ecological footprint
- T3.14 Energy efficiency – dwellings
- T6.7 Affordable housing

3.18.3. Information and Communication Technology Requirements

This submission does not have an ICT component.

3.18.4. Staffing implications

LMC has the necessary experience and skills to undertake acquisition, concept and master planning, design guideline preparation, remediation, infrastructure augmentation and staged (super lot) sale of the land.

LMC also has extensive experience in dealing with the contamination and remediation issues in the local area.

Consideration is being given to the appointment of a new Project Director with appropriate experience for major projects of this nature from outside the organisation.

3.18.5. Impact on the community and the environment

Regulatory Impact

The development of the Clipsal site for uses other than industry will require an amendment to the *Charles Sturt (City) Development Plan* and the recognition of the State significance of the project. Subject to Cabinet approval, LMC will work with the City of Charles Sturt and/or Planning SA to amend the Development Plan as required.

Impact on families and communities

The acquisition and subsequent development of the Clipsal site is expected to have a positive impact on families and communities through the provision of a range of services; housing types in particular medium and high density affordable housing to meet the demands of a changing age structure and household profile and to accommodate population growth.

The development could also include a range of services (e.g. child care) and facilities (e.g. parks, shops) that are not currently provided for within the local area.

Impact on business

The Clipsal site is no longer considered suited to its current industrial use because:

- older style manufacturing operations are relocating to more modern facilities offering cheaper, larger and more efficient sites
- the local road network is inappropriate for heavy vehicle movements
- its location adjacent to a residential areas is not suited to 24 hour operations; and
- there is strong market interest in mixed use development outcomes which provide potential for a wide range of employment generating land uses, including office development, retailing and quasi commercial-industrial-technology uses such as those found in the Bioscience Precinct in Thebarton.

The acquisition and subsequent development of the Clipsal site is expected to have a positive impact on business through:

- increasing the residential population within close proximity to the Hindmarsh District Centre and the Adelaide CBD, expanding the customer base of local businesses in these areas
- providing opportunities for compatible industries associated with the Thebarton Bioscience Precinct to expand; and
- providing new employment opportunities and business investment in the inner western suburbs.

LMC is well positioned to work with adjacent industrial operators who may wish to relocate to LMC owned land or land that can be acquired by the LMC. LMC has industrial land opportunities at Gillman, Wingfield (Cast Metals Precinct), Elizabeth West and Edinburgh Parks that may be suitable.

The adjoining 5.7 hectares Origin owned site has severe development limitations because of the heritage and contamination issues associated with the site. If developed in conjunction with the Clipsal site the Origin site will add to the quality/outcome of the greater Bowden 'TOD' development. LMC is currently in discussions with Origin regarding the sale of their site and with the Raptis Group who hold another adjacent strategic site.

3.18.6. Risk Management Strategy

In determining the bid price and hence financial budget implications of the purchase of the Clipsal site particular regard was had to risk mitigation with extensive due diligence undertaken including:

- site environmental investigations to determine potential remediation requirements and associated cost implications based on Urbis/GHD' concept plans and the proposed staged super lot layout
- infrastructure investigations to determine requirements for provision of services (including power, water, sewer, gas and transport infrastructure) for the proposed Urbis/GHD TOD development and associated cost implications
- planning investigations to determine other Government agency and local Council policy and views in regard to the proposed TOD development and resultant timing implications. (It should be noted that whilst current zoning is Industrial given State Government policy objectives for TOD-type developments LMC is confident of obtaining the appropriate zoning allowing for densities upon which we have based our financial projections.)
- market investigations including obtaining 2 valuations from suitably experienced and qualified valuation firms; and
- a market analysis of the state of the Adelaide apartment market.

Additional risk assessment has been undertaken for the project itself in conjunction with our internal auditor, KPMG.

In the event that the project was not able to be progressed for a variety of reasons the site which consists of some 162 separate certificate of titles could be parcelled and sold as larger allotments with existing improvements if required. Future holding costs would be reduced with minimal risk to outstanding expenditure levels.

In summary the risks associated with purchase of the Clipsal site are considered to have been addressed adequately through the due diligence and multiple valuation process including additional

independent expert advice. The long term nature of the project is unlikely to be severely impacted by the current property cycle downturn.

3.18.7. Consultation

Given the confidential nature of the proposal, consultation to date has been limited to the Department for Transport, Energy and Infrastructure and Planning SA. They have indicated strong support for the proposal.

Consultation envisaged in relation to the implementation plan is incorporated within the communications strategy.

3.18.8. Implementation Plan

Further work is required before more detailed design and a delivery model can be considered.

The key tasks for 2008/09 include:

- settlement with Gerard Corporation
- preparation of media announcement for the Premier
- assessment of existing buildings and leases
- preparation of plan to manage groundwater and soil issues
- initiating a Ministerial DPA and/or commencing a structure plan for the Clipsal site and broader area
- continue ongoing negotiations with adjacent land owners
- finalisation of an agreed project governance structure; and
- commencement of a master planning process.

3.18.9. Communication Strategy

Prior to settlement (anticipated 8 December 2008) a communication strategy will be developed by LMC in conjunction with the Office of the Minister for Infrastructure.

Its core objectives will be to engage with all relevant stakeholders to communicate Government's vision, gain feedback, input and support and minimise risk. Key stakeholders include: State Government agencies, Local Government, adjacent industrial operators, nearby residents, potential business investors, special interest groups (particularly heritage and environmental) and the broader community.

Key elements of that strategy will include:

- consultation with State Government agencies and Local Government to identify and workshop proposals and issues in regard to the proposed TOD development, and to gain advocates for the project
- targeted engagement with specific interested parties impacted on by the proposed development to inform and educate them,

identify and resolve issues and, where appropriate, incorporate feedback to inform the planning process.

- Development and delivery of key messages that are accurate, relevant and consistent.
- Development of a range of communications tools to deliver the key messages, enable engagement with key stakeholders and the broader community, and complement the marketing strategy. These will range from printed and web-based brochures of the concept plans to community briefings and open houses, individual or industry-specific stakeholder meetings.
- Media plan to ensure timely communication through print and electronic media on project progress and achievement of milestones and advise opportunities for community engagement.
- A visual presentation of the likely outcomes on the Clipsal Site to educate and market urban infill and transit oriented development.

3.15.10. Executive Council

The proposals in this submission do not require the approval of the Governor in Executive Council

4. RECOMMENDATIONS

It is recommended that Cabinet:

- 4.1 approve LMC purchasing the Clipsal site at Bowden at a price of \$52.5 million to enable LMC on behalf of Government to facilitate a transit oriented development of potential State and National importance; and
- 4.2 approve LMC borrowing an amount not exceeding \$70 million to fund the acquisition and initial site preparation works of the Clipsal site from SAFA on terms agreed between SAFA and LMC.



HON PATRICK CONLON MP
MINISTER FOR INFRASTRUCTURE

16 October 2008



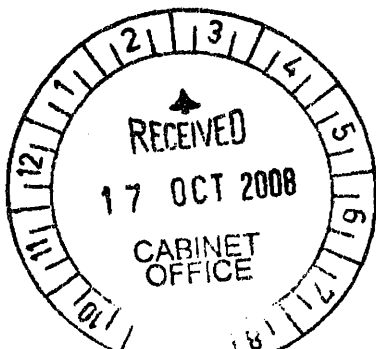
HON KEVIN FOLEY MP
TREASURER

In Cabinet October 2008

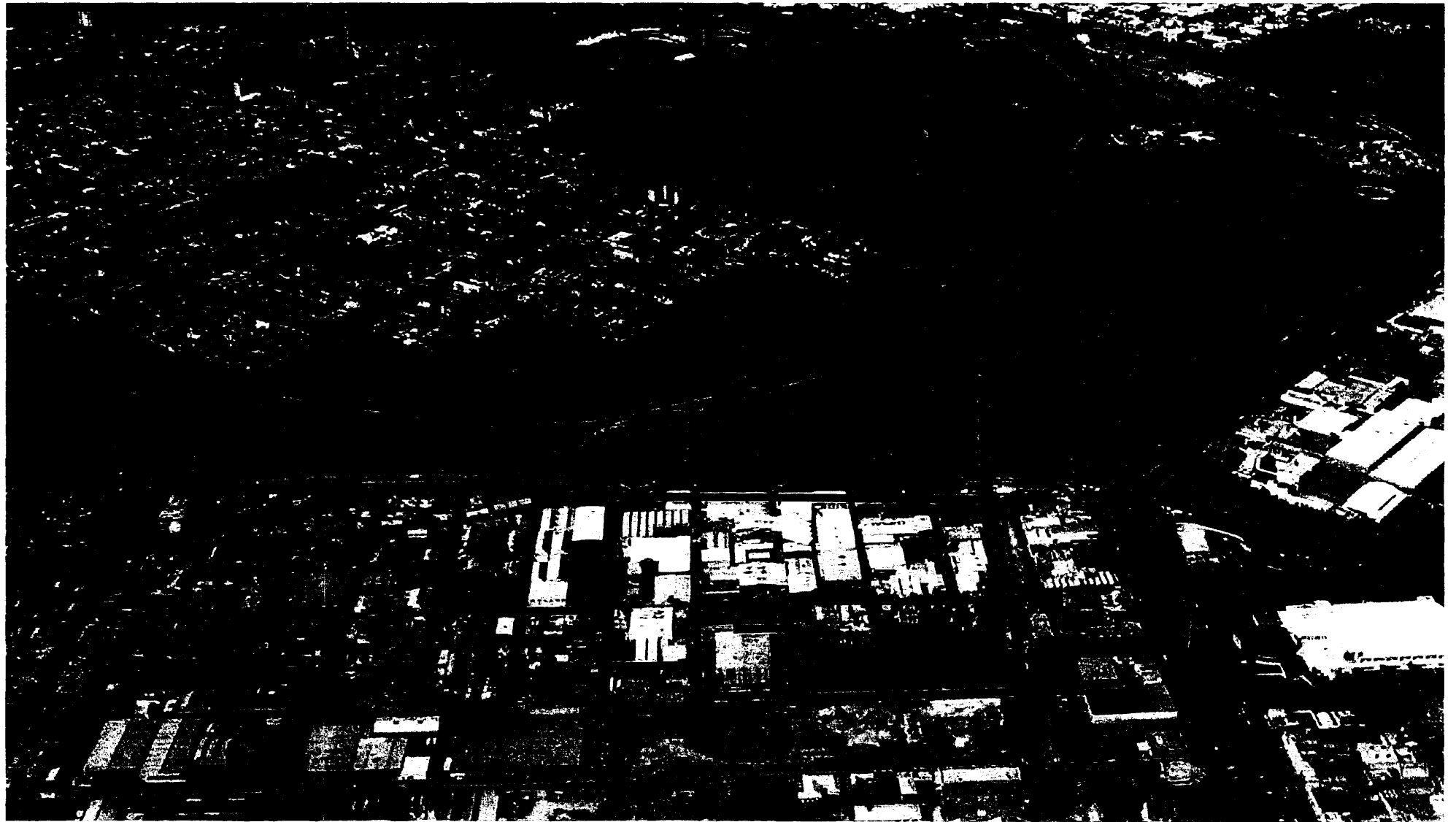
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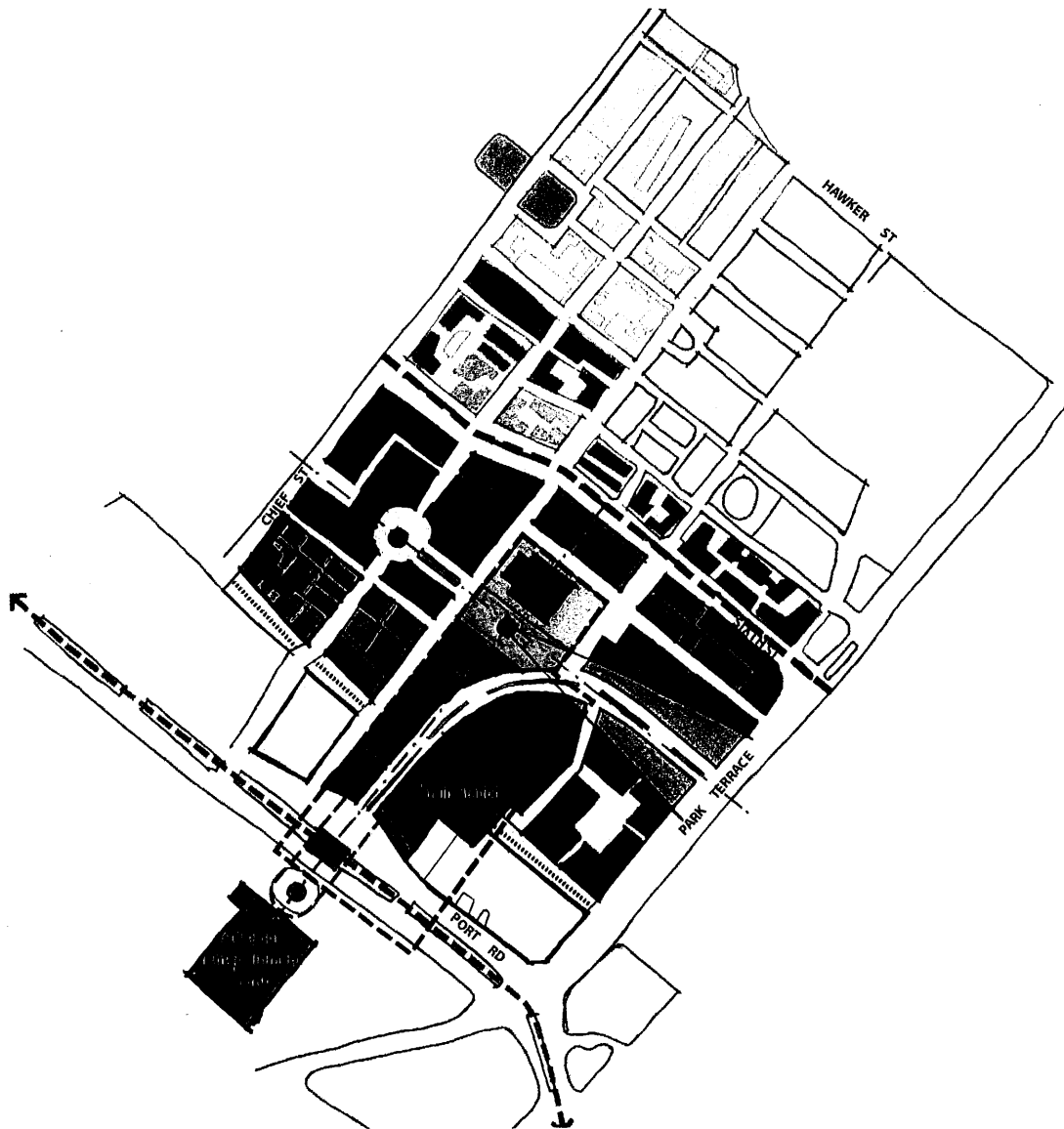
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Attachment 1: Clipsal Site Location Plan



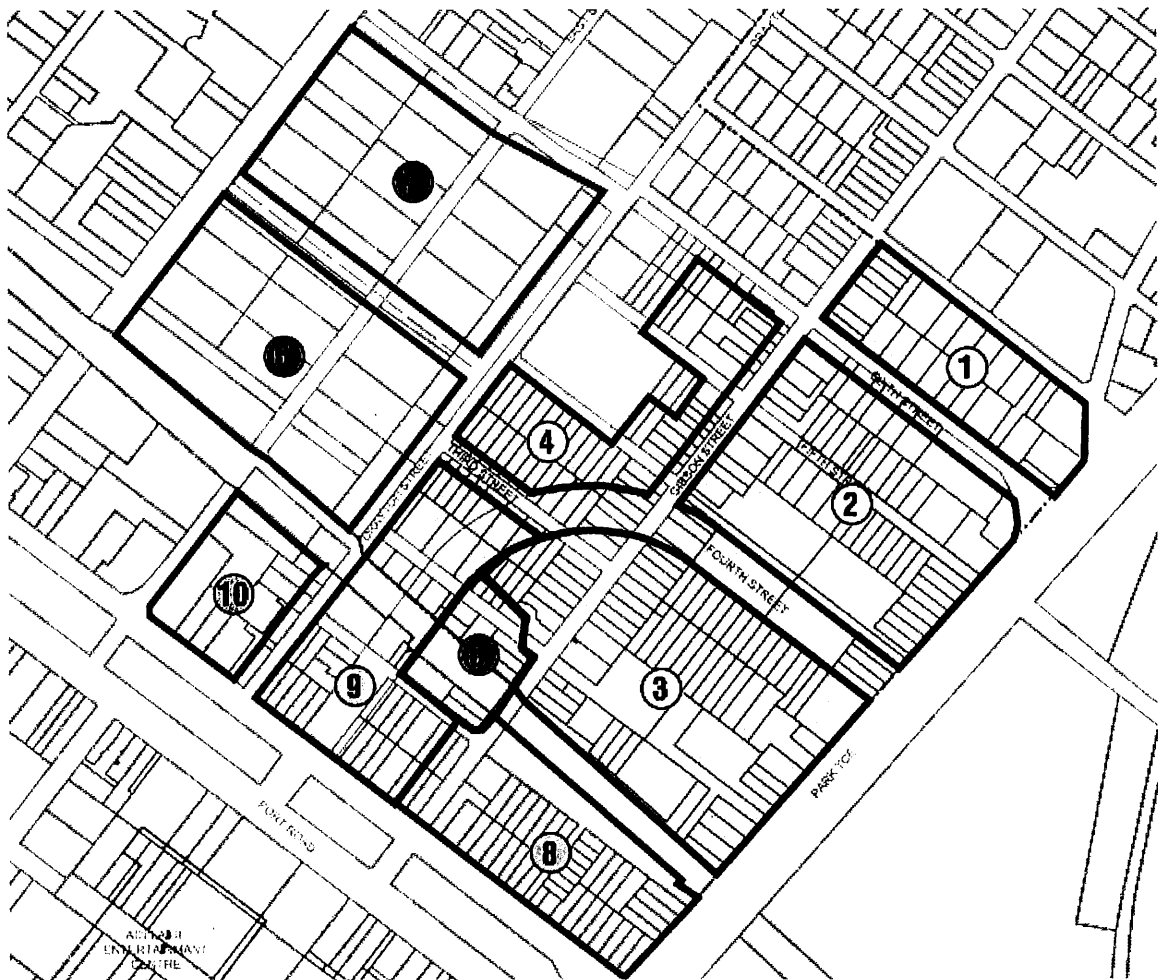
Attachment 2: Preferred Preliminary Design Option



- Core Uses and TOD - 4 - 6 storey**
 Sub regional 25000 - 35000 sqm retail floor space, 1000car spaces
 cinemas, leisure, food and beverage
 accommodation, short term: 500 keys with 250+ 'shop top' dwellings
- Modal Interchange - New Bowden Station**
- Precinct Gateway, complementary retail including Raptis**
 Additional 15000sqm and station west 10000 sqm
- Highest Intensity Mixed Use - up to 15 storey (flight path dependant)**
 20,000sqm complementary retail, integrated fashion, themed, showroom etc (pote
 Office, Target 7000 employees, that is, up to 200,000sqm floor area.
 Residential apartments 1000 no @ 200sqm each equals approx 2200 residents
- Integrated Residential community - 6 - 10 storey**
 Ground level studios, foyers F & B etc, up to 10000sqm.
 Residential apartments 500 no. @ 150sqm each, equals approx. 1100 residents
- Mixed Use, SME and "Sunrise R & D" - 4 - 6 storey**
 Mixed Use up to 30,000 sqm (ie 1000 employees)
 Boutique residential / Loft Apartments, 200-400 dwellings, equals approx. 750-800 residents
- Enviro-Splines: Opportunity for sustainable initiatives**
- New Light Rail**

INDICATIVE PLOT RATIO: 3.2 : 1 Gross

Attachment 3: Super Block Plan



CORE		
<input type="checkbox"/>	CLIPSAL	11.19 Gross
	①	1.23
	②	2.70
	③	3.34
	④	1.27
Subtotal		8.54 Nett
	●	0.53
ORIGIN ENERGY		6.12 Gross
	●	2.59
	●	2.64
Subtotal		5.23 Nett
NON - CORE		
	⑩	1.63
	⑨	1.82
	⑩	0.78

Attachment 4: Valuation

Clipsal Site
Park Terrace, Bowden, SA



Summary - Development Analysis (Whole Site)

Clause 15 & 16(2)

