

File Reference: 5817627

23 December 2014

Manager Community Services
City of Busselton
Locked Bag 1
BUSSELTON WA 6280

Attention: Ms Maxine Palmer

Dear Madam,

RE: MARKET RENTAL ASSESSMENT FOR A CAFÉ AND ALLIED HEALTH SUITES AT THE GEOGRAPHE LEISURE CENTRE AND CAFÉ AT THE NATURALISTE COMMUNITY CENTRE

We refer to your instructions dated 20 May 2014 and associated request for a quotation dated 6 May 2014, and subsequent request of 17 December 2014 in regards to determining lease rates for:

- A café at the Geographe Leisure Centre, Recreation Lane, Busselton.
- Allied Health Suites at the Geographe Leisure Centre, Recreation Lane, Busselton.
- A café at the Naturaliste Community Centre, Dunsborough Lakes Drive, Dunsborough.

We have given consideration to the draft Commercial Lease Opportunity Expression of Interest for the Geographe Leisure Centre Café and the associated plans in relation to the current and future areas available for lease.

The subject premises were inspected on the 23rd of December 2014, and earlier on the 4th and 5th of June 2014 in conjunction with onsite City of Busselton representatives. The Geographe Leisure Centre is located on the northern side of Recreation Lane, being immediately adjacent to Queen Elizabeth Avenue and contained within the locality of West Busselton. The Geographe Leisure Centre is a highly functional community facility that incorporates both indoor and outdoor pool areas, sports hall containing a number of courts with timber parquet flooring, gymnasium, changeroom and ablution facilities, crèche, staff areas, reception and entry foyer. Substantial onsite carparking is also provided, with the location easily accessible as Queen Elizabeth Avenue extends from the Busselton Bypass in the south through to Bussell Highway in the north.

At the time of inspection a new gymnasium facility was recently completed adjoining the south eastern portion of the building. The refurbishment work with the café is well progressed and the health suites appear largely complete with some minor finishing off items and final clean required.

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Value made visible

The café area is situated behind the reception desk, which has been shifted forward in the front foyer towards the existing entry. The cafe area is constructed of a vinyl floor, painted brick elevations and a ceiling of painted plasterboard with recessed lighting. There are aluminium framed windows to the pool area, with this area containing linoleum flooring, downlights and recessed fluorescent lighting. The rear portion of this area previously contained two offices and a storeroom constructed of brick elevations and these walls have been removed to make way for the café area. There is also a brick wall behind the existing reception area, which has also been removed. From the Expression of Interest document provided, the café area is to have a footprint of 22.38 square metres with an adjoining public seating area available under licence of 39.1 square metres.

We have assumed for the purpose of this assessment that the café area will be complete in terms of construction and available for fitout by the occupant.

The former gymnasium located on the western side of the entry has been refurbished into a spin cycle room, meeting room, general office, manager's office, store and four health suites. Therefore in total four Allied Health Suites will be available for lease.

From plans provided, each of these suites appears to have areas ranging from 12 square metres to 20 square metres and present as a basic consulting room each containing a hand basin. Each office is provided with carpet flooring, floor to ceiling painted plasterboard elevations, suspended mineral fibre ceiling, lighting and individual air conditioning. The front façade and adjoining courtyard has been altered to incorporate shop fronts and individual entries, thus opening up exposure to these suites. It is anticipated the use will be for health professionals that complement the sporting activities undertaken at the centre. Such uses may include sports physio, remedial massage, nutritionist, naturopath, chiropractor and the like.

The manager of the Geographe Leisure Centre indicates that there are approximately 600,000 visits to the Centre on a per annum basis, which is significant and is a factor of the availability of the pool facilities being able to be utilised on a year round basis, as well as the other supporting gym and sporting opportunities. Therefore, there is a steady stream of potential clientele, as well as visitors, such as parents waiting for children during swimming classes and training.

In considering the market rents for the proposed space, we have given consideration to market rental evidence from throughout the City of Busselton as well as the wider South West region. The rents have generally been analysed on a rate per square metre basis, as well as on a rate per week, as this is how some premises are leased, net of outgoings.

In regards to the potential café area at the Geographe Leisure Centre, we note the lease terms being offered are for an initial term of 5 years together with an option of renewal for 5 years with annual increases to Consumer Price Index and a rent review to open market every 5 years. We have given consideration to these conditions within our assessment, however, they would appear to be generally normal commercial terms for retail accommodation of this nature.

In considering the market rent for the proposed café at the Geographe Leisure Centre we have given consideration to a wide range of rental evidence of cafes. The overall analysed rental range is from approximately \$150 to \$400 per square metre per annum net of outgoings and GST. Towards the lower end of the range is Hodge Podge Café situated in the Monaghan's Store development that occupies an area of approximately 103 square metres and at the initial lease the premises presented in quite a poor condition with the tenant having substantial fitout requirements to enable occupation. This is a much larger tenancy and although having a reasonable degree of exposure, is less likely to have the same level of passing pedestrian traffic. Accordingly, a higher rate per square metre should be reflected for the proposed subject café area.

We are aware that the general range in rentals for cafes/restaurants within the Dunsborough town centre ranges from approximately \$275 per square metre up to around \$380 per square metre per annum net of outgoings and GST. We have also given consideration to cafes contained within shopping centres which in broad terms reflect rates of around \$400 per square metre per annum net of outgoings and GST.

In this regard, we are aware of a small café of approximately 25 square metres at the West Busselton Shopping Centre that is currently leased for approximately \$390 per square metre per annum net. This represents a similar sized area and although door counts are not available for this centre, we would envisage that a similar level of patronage may be possible given the centre contains an IGA Supermarket as well as supporting small specialty retail shops and a newsagent. Accordingly, a similar rate per square metre for the proposed subject café would not be unreasonable.

Further evidence in this regard is a small, well located café of 65.6 square metres located within a neighbourhood shopping centre that occupies a mall position and has a passing rent of approximately \$400 per square metre per annum net. This café is opposite a major supermarket and would perhaps indicate that a similar rate per square metre may be applicable for the proposed subject cafe.

Therefore, based upon the advised lease area of 22.38 square metres we have adopted a rate of \$400 per square metre per annum net of outgoings and GST and rounded to an overall rate of \$9,000 per annum.

We note that there is an associated public seating area that is available under licence of 39.1 square metres. We have allowed for this public seating area in the rate adopted for the café, as the majority of rental evidence analysed does incorporate an alfresco or public seating area which is available for use, however, is generally not separately charged for.

In regards to the proposed Allied Health Suites, from the proposed plan they are to range in area from approximately 12 square metres to 20 square metres and be outwardly facing to the southern elevation and essentially being a consulting office room with wall mounted hand basin and finished to a standard office accommodation level.

We have again considered market evidence in assessing the potential rental value of these health suites on both a rate per square metre basis and per week. We have also undertaken a rationalisation analysis on what a potential occupier could afford to pay based upon estimated turnover.

The majority of rental evidence for medical and associated facilities is generally on the basis of larger tenancy areas within purpose built medical centres or part of smaller strata titled units. The rental level achieved is a factor of many constituents, however, in general terms the smaller the space the higher per square metre rate applicable. For large medical centres in excess of a couple of hundred square metres you would expect a rental range of approximately \$200 to \$380 per square metre per annum net of outgoings and GST, depending upon location, standard of improvements, etc. Smaller strata titled type medical uses for supporting ancillary and complementary units are more likely to be within the range of approximately \$275 to \$380 per square metre per annum net of outgoings and GST.

In terms of specific evidence, for example we note that West Coast Radiology who occupy 210 square metres at 11-13 Bussell Highway, Busselton currently pay a rent of approximately \$213 per square metre per annum net of outgoings and GST. This is obviously significantly larger than the proposed suites, however, does occupy a superior main road location. Given the size differential, we would suggest that a higher rate per square metre should be applicable for the subject suites.

Another example is a small medical related strata unit in Dunsborough of approximately 45 square metres that occupies a secondary location within a mall and not having external exposure that is currently leased for approximately \$270 per square metre which also equates to approximately \$234 per week. A larger unit occupying an inferior location and we consider a similar to higher weekly rent should be reflected for the subject suites.

We have also given consideration to evidence of individual rooms let on a casual or semi permanent arrangement, which are generally within an established facility. For example, Optimum Health is situated behind the Bayside Shopping Centre in Geographe and comprises a single level medical facility with a number of consulting rooms. Use on a half day basis is \$66, while full day use is \$100, which is fully inclusive. We would expect that on a longer term or more permanent arrangement, a lower rate on a comparative per day basis should be reflected.

We are also aware that a residence converted to consult rooms located on Bussell Highway charges approximately \$200 per week for occupancy of a consult room, which is essentially a bedroom that has been converted for office purposes.

We do point out that there is perhaps an issue to be considered in relation to capacity to afford rent. Certain medical disciplines such as pathology and orthopaedic surgeons can afford to pay higher rents based upon their bill out rates and turnover, compared to say a masseuse who is limited in terms of rates that can be charged and number of people serviced on an hourly basis. This should perhaps be borne in mind when seeking potential occupiers and therefore it is not unreasonable to suggest that a broad range in rents may apply as ideally the suites should contain a range of services available to the public and that complement the centre.

For example, we have undertaken a subjective analysis on what a masseuse could potentially generate in terms of income. Allowing for 4 massages a day at approximately \$50 per hour would generate a gross income of approximately \$48,000 per annum. In terms of the cost allocation able to be afforded by a business, we would expect the rent to be approximately 30% of turnover, equating to approximately \$14,400 per annum which also equates to approximately \$277 per week. This would appear to be comparable to the rates charged at Optimum Health as well as the inferior consult room accommodation in a converted residence along Bussell Highway. We therefore suggest that an upper limit in the rental for the suites should be around this level.

We again reiterate that there may be a varying capacity to afford rentals based upon the nature of the business and this should be borne in mind when attempting to attract a mix of potential tenants that will benefit the patrons who use the Geographe Leisure Centre.

We therefore suggest that a value range of \$235 per week to \$275 per week should be applicable to these suites, (\$12,220 to \$14,300 per annum) which based upon the calculated proposed areas of 12 square metres to 20 square metres therefore reflects a rental range of \$611 to \$1,192 per square metre net of outgoings and GST. The comparatively high rate on a per square metre basis is a function of the small areas.

A café is also proposed to be entertained within the Naturaliste Community Centre, which is reasonably located within the southern periphery of the Dunsborough playing fields and contains an entry foyer, offices, library, crèche, sports hall and function rooms. Situated just off the main corridor towards the sports hall, and adjoining one of the function rooms, is an existing servery area which has been designated for incorporation of a potential café.

From our measurements, the net lettable area for the café is approximately 28.4 square metres, with construction currently comprising a vinyl covered concrete floor, plastered and painted brick elevations and painted plasterboard ceiling with recessed fluorescent lighting. There is an overhead stainless steel extraction fan unit, ceramic wall tiling to the benchtops, hand basin along with a double stainless steel sink and various benches, open storage and plant and equipment. The plant and equipment includes a fridge, two 2-door glass fronted display fridges, stove with cook top and hotplates, microwave, urn and three movable steel trolley/benches. The area currently has a servery window to the foyer as well as a secondary window to the adjoining function room.

It is also proposed that the adjoining passage area could be used for alfresco purposes and is currently set up with tables. There is also an outside area with shade-cloth sails over brick paving, although use of this area is likely to be more seasonal as it is effectively open to the elements.

We have some reservations as to the potential trading viability of a café in this location as unlike the Geographe Leisure Centre, the Naturaliste Community Centre does not have a pool to attract patrons on a year round basis, with the visitor numbers being substantially less than the Geographe Leisure Centre. Accordingly, this relates to the potential trading ability of a café in this location. We also consider that the existing location is somewhat removed from the main entry and is not highly visible. For example, anyone going to the Library would probably not even see the servery window, in its existing format.

We are aware that a number of classes are held at the Centre during the day and evening, however, due to the strong level of competition of established cafes within Dunsborough, these are clearly a strong alternative for patron use, which is currently the case. We would anticipate that there would be limited day trading at this location.

We do note that an operator on a mobile basis did set up outside the Naturaliste Community Centre, however, limited numbers resulted in trading at other locations being more successful. It was therefore not continued.

Clearly, lower rental rates should be applicable at the Naturaliste Community Centre, compared to the Geographe Leisure Centre due to anticipated traffic numbers and for the Geographe Leisure Centre we adopted a rental rate of \$400 per square metre. We are unsure of the level of demand that may exist for an operator to run a café in this location, however, we consider it may be somewhat limited as we suspect a sound operator would need to attract people to this location from the existing cafe locations within Dunsborough, or otherwise would not be able to trade at a sustainable level.

We perhaps consider that if there are limited operators, then it may be more practical to suggest rent being payable on the basis of a percentage of turnover, although there obviously are inherent problems in terms of tracking and auditing figures, etc. This may be a solution if limited interest is shown.

We therefore arbitrarily assess that a market rent for the café premises at the Naturaliste Community Centre would be approximately 50% of that set for the Geographe Leisure Centre. Therefore, on this basis we consider a rent of \$200 per square metre per annum net of outgoings and GST should be applicable, which applied to the net lettable area of 28.4 square metres therefore reflects a rental of \$5,680 per annum net of outgoings and GST.

Therefore in summary, we consider the market rents to be as follows:

- \$9,000 per annum net of outgoings and GST for the café at the Geographe Leisure Centre.
- \$12,220 to \$14,300 per annum net of outgoings and GST for the Allied Health Suites at the Geographe Leisure Centre.
- \$5,680 per annum net of outgoings and GST for the café at the Naturaliste Community Centre.

Although we have set these rents in terms of market levels, there may need to be some consideration in terms of flexibility to the rental, based upon the level of demand for these areas, as well as attracting operators that are best going to provide a high quality level of service to customers.

We trust that this information is sufficient for your requirements and if you have any further queries then please do not hesitate to contact the undersigned.

Yours sincerely



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Important

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