

Naomi Searle
Director Community and Commercial Services
City of Busselton
38 Peel Terrace
Busselton, WA 6280

6 November 2017

By email: Naomi.Searle@busselton.wa.gov.au

Dear Naomi,

**PROPOSED HOTEL DEVELOPMENT – BUSSELTON JETTY FORESHORE, WA:
PACIFICA DEVELOPMENTS PRELIMINARY PROPOSAL**

Background and Appreciation

The City of Busselton is located in Western Australia's south west region, and is the perfect base to explore the internationally renowned Margaret River region. The Mediterranean style climate offers pleasant summer months and mild winter rainfall. The Region is bordered by the Indian and Southern oceans, with the coastline featuring some of the best surfing beaches in Australia, towering forests, sheltered bays and an established food and wine scene. The Busselton district has one of the fastest growing populations outside the Perth metropolitan area, experiencing an average annual growth rate of around 4% per annum. To accommodate Busselton's population growth, there are several major projects recently completed, underway or in the planning phase. One of these major projects involves the Busselton foreshore being transformed into a first class recreational hub complete with state-of-art skate park, cafes and restaurants, public open space and commercial opportunities for short stay hotel accommodation.

Within the Busselton Foreshore Master Plan and Structure Plan adopted by Council in February 2016 the City of Busselton has identified a land parcel of 2,265 square metres referenced as Site 2 within the Hotel/Short Stay Accommodation Precinct ('the Site') for the development of a hotel. The City of Busselton has through EOI processes evaluated, selected and offered exclusivity to a number of preferred proponents over the last 12 months to provide an integrated single source development and operation outcome. To date all

proponents have failed to deliver an outcome for the City of Busselton. Based on our experience the approach adopted by project sponsors for these type of assets limits the efficacy of solutions and inhibits the ability for a proposal to come to fruition.

The Busselton location would be a valuable addition to our strategic portfolio of hotel developments. Our portfolio enables us to aggregate substantial marketing budgets and provide an integrated offering across all the hotels in different locations to the benefit of travellers and local economic impact. Within this context we would like to discuss commercial terms for the Site with the City of Busselton and achieve mutually acceptable heads of terms by the end of January 2018. As part of this process we will complete a sketch design, feasibility and commercial framework for a development and operation proposal ('the Proposal') for the Site in conjunction with our preferred operator. We will require an exclusivity period in order for us to progress the Proposal and make commercially sensitive information available to the City of Busselton.

Proponent

Pacifica Developments is the proponent for the Proposal that incorporates the design, funding, construction and operation of an upscale mid-tier hotel at the Site. Pacifica Developments is lead by Russell McCart and John Zandler; property and construction professionals with substantial experience developed through roles at BHP, AV Jennings, Mirvac, Lend Lease, Ausco, Hickory and CIMC. They have between them delivered projects in the residential, marina, hotel, student accommodation, mining accommodation and retirement sectors valued at hundreds of millions of dollars. Through their projects they have been involved in successful joint ventures with organisations such as Lend Lease and P&O and the government sector and are highly respected at all levels of government in NSW, QLD and WA. They have been involved in the initiation and creation of successful businesses including RetireAust, Unilodge and Meridien Marinas. Pacifica Developments current focus is on developing a national hotel portfolio and has identified several locations in WA, some of which are currently in negotiation. Pacifica Developments most recent completed hotel asset is the Sage Hotel on James Street, Fortitude Valley in Brisbane (www.nexthotels.com/sage/james-street-brisbane/). Further information on Pacifica Developments can be found on the web site at www.pacifica.com.au.

Operator

We have obtained a letter of understanding from Mantra Group and held preliminary discussion with Hilton and Rydges for the purposes of establishing a commitment to the Site and Proposal and informing the headline terms and metrics of the operational aspects of the hotel. These headline terms are currently being resolved with the objective of reaching binding contractual arrangements in parallel with the resolution of the commercial terms with the City of Busselton.

Proposed Scheme

The Proposal currently envisages the following in relation to the physical hotel asset. These aspects are being discussed with the potential operators:

- 120 rooms
- Maximising the massing of the site within planning parameters
- Amenity and services located at ground level
- Meeting and board room facilities
- Rooftop bar/viewing deck
- Food and beverage facility aligned with the brand offering and cognisant of the food and beverage offering within walking distance of the hotel
- 14 month development period
- Sketch plan and elevation will be resolved during exclusivity period

Milestone Schedule

The milestone dates listed below address the need for resolution of key commercial parameters in a timely manner to ensure our capital partners remain engaged and our track record of decisive resolution of decision frameworks is kept intact.

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| • Preferred proponent status | 23 November 2017 |
| • Heads of terms for commercial framework complete | 23 January 2018 |
| • Milestone: proceed with or exit transaction | 24 – 30 January 2018 |
| • City of Busselton LGA requirements and process | 30 March 2018 |
| • DA submission by Pacifica Developments | 30 May 2018 |
| • Legal close | 5 August 2018 |

Post legal close:

- Pre-construction/construction/pre-opening 380 days

We have already committed resources to the resolution of the preliminary commercial parameters to inform the decision framework required to enable an informed discussion with City of Busselton and to meet the objectives of the milestone schedule. These activities have included modelling of the expected development and operation cash flow for the evaluation of the valuation and capital stack metrics. Initial output from these activities highlights some aspects particularly in relation to the cost-value relationship which ultimately impacts the capital stack. From the outset of the exclusivity period in December we would like to discuss these aspects on an open book basis and how they can be resolved to the benefit of all parties.

Next Steps

- Formal confirmation of preferred proponent status and exclusivity period from City of Busselton.

We look forward to engaging with you on this exciting opportunity. Please do not hesitate to contact me should you have any queries in relation to the content of our preliminary proposal.

Regards,

John Zandler

Director

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