

Office of the Mayor

28 June 2019

Hon. W Hodgman MHA
Premier of Tasmania
Level 11, 15 Murray Street
HOBART TAS 7000



Dear Premier *Will*

LK Group proposal for Derwent Entertainment Centre & Wilkinsons Point

I write to confirm our recent discussion that Council, at its closed meeting on 24 June 2019, considered an unsolicited concept proposal from LK Group for purchase of the Derwent Entertainment and Wilkinsons Point. The proposal is to create a home for a potential Tasmanian NBL Team and to develop a sports and entertainment precinct. According to the proponent, anticipated investment is in the range of \$150M to \$200M.

At the meeting, Council decided:

- that the concept proposal offered a range of unique potential features and benefits to the Glenorchy community which justified dealing with LK Group on an exclusive basis
- to enter into a 120 day exclusive negotiation period with the proponent
- to seek acceptable outcomes on a range of identified parameters during the exclusive negotiation period.

The proponent has made it clear that his proposal is also contingent on Tasmanian government support; and admission of a Tasmanian team into the National Basketball League.

Close co-operation between Council and the State government will be critical to a full exploration and realization of the potential of this exciting proposal. Council officers have already been liaising closely with their State government counterparts to this end.

I look forward to meeting with you in the near future to discuss ways in which Glenorchy City Council and the Tasmanian government can work together on this transformative project.

Yours faithfully




Alderman Kristie Johnston
Mayor



PREMIER OF TASMANIA

Alderman Kristie Johnston
Mayor
Glenorchy City Council
PO Box 103
GLENORCHY TAS 7010

24 JUL 2019


Dear Mayor

Thank you for your letter regarding the LK Group proposal for the Derwent Entertainment Centre and Wilkinsons Point.

As discussed at our meeting on Monday 1 July 2019, the Tasmanian Government has agreed to commence formal discussions with LK Group and the NBL to investigate the proposal and the opportunities it presents. The Department of State Growth will lead these discussions, and will be supported by a small project team that brings together relevant parts of Government. Members of this team have already been in contact with Council officers.

We will seek to maximise opportunities to share information and work closely with Council as both parties explore the potential opportunities presented by the LK group proposal.

This proposal represents an exciting opportunity for our State and I look forward to working with Council and the proponent over the coming months.

Yours sincerely

A large black rectangular redaction box covering the signature area.

Will Hodgman MP
Premier

GCC Files: DEC Proposals
Enquiries: Tony McMullen
Direct Phone: [REDACTED]
Email: gccmail@gcc.tas.gov.au



11 December 2019

Mr Larry Kestelman
Executive Group Chairman
LK Group
Level 16, 10 Queens Road
MELBOURNE VIC 3004

Dear Mr. Kestelman,

SALE OF THE DERWENT ENTERTAINMENT CENTRE AND WILKINSONS POINT

I note that Kim Evans, Secretary of the Department of State Growth, wrote to you last Friday with respect to Tasmanian Government investment in the upgrade of the Derwent Entertainment Centre (DEC) and a Tasmanian National Basketball League team. I understand that the Tasmanian Government has indicated that its investment in the upgrade of the DEC can only proceed if the DEC is publicly owned.

The Tasmanian Government's position in relation to the tenure of the DEC has significant flow-on implications for the shape of the negotiations undertaken to date between LK Group and Glenorchy City Council with respect to sale of Wilkinsons Point and the DEC, including:

- Council is now dealing with two purchasers, not one;
- The consideration from the Tasmanian Government for its proportion of the DEC title is nominal only;
- The likely reduced consideration for the DEC title greatly reduces Council's capacity to reinvest sale proceeds back into capital works benefiting the precinct.

In light of this, I would like to meet with you at your earliest convenience to discuss the reshaping of the negotiation to accommodate the Tasmanian Government's position on DEC tenure.

On a without prejudice basis, Council proposes the following arrangements for sale of Wilkinsons Point, including the DEC:

- Part 1: Sale of the DEC and sufficient surrounding land to enable construction of a multisport facility and elite training facility, to the Tasmanian Government on 1 July 2020.

- Part 2: Sale of the DEC front car park, Brooker Highway frontage and the remainder of Wilkinsons Point, minus land agreed to be retained by Council, to LK Group for a sum of \$8 million (plus GST) on 1 July 2020.

The sale price for Part 2 is not negotiable given the significant reduction in sale proceeds to Council associated with this proposed restructure of the sale, and the future requirement for Council to undertake works on the retained foreshore land, to the seawall and on the north-eastern portion of Loyd Road.

In addition, for reasons of the likely different tenure and reduced sale proceeds, Council will not now make the other contributions described on a conditional basis in my letter to you dated 23 October 2019, such as the realignment of Loyd Road within the Wilkinsons Point site.

A key Council objective of the sale of the land (Parts 1 and 2) is to ensure the development of the sports and entertainment precinct as proposed by LK Group.

To that end, Council will require conditions on the sale of Part 2 that will ensure that LK Group substantially develops the entire site in a timely manner. The final sale agreement will need to have conditions that will reflect Council and community expectations and these conditions are likely to include, but may not be limited to the following:

- To ensure the purchase, Council requires a deposit paid on signing of the agreement and a bank guarantee to protect the obligation to buy;
- To ensure the timely commencement of works, having completed the purchase, Council requires a bank guarantee of \$10 million, with this stepping down against specified development milestones;
- To protect the obligation to develop the site, Council requires automatic reversionary transfer of the title(s) for Part 2 if \$100 million worth of development has not occurred by 1 July 2025;
- Council requires a caveat on the title(s) until all obligations above are completed and the land will not be able to be mortgaged until the caveat is removed.

I look forward to mutually satisfactory discussions over the coming days with respect to these points, and to realising draft sale agreements for the DEC and Wilkinsons Point in the coming weeks.

Yours sincerely,



Tony McMullen
General Manager

12 December 2019

Mr Tony McMullin
General Manager, Clenorchy City
PO Box 103
Glenorchy TAS 7010

Dear Mr McMullin

Sale of Derwent Entertainment Centre and Wilkinsons Point

Thank you for your letter dated 11 December 2019 which outlines Council's proposed sale terms for the DEC and Wilkinsons Point.

We are in receipt of correspondence from the Tasmanian Government which summarises its proposed acquisition of land and development commitments.

We accept as a result of the State Government's recent intervention, the proposed transaction for Wilkinsons Point does need to be restructured.


The terms proposed in your letter in relation to Part 2 are not acceptable to LK Group. Our key reasons follow:

- Part 2 of the land has been previously valued at \$3m. Please advise how Council has arrived at a sale price of \$8m.
- The timing and success of the DEC and associated sports facilities is critical to our capacity to create commercially viable facilities. LK Group has never committed in our previous discussions with Council to undertake development at Wilkinsons Point – this will depend on a number of factors, including the success of the DEC and economic and market conditions.
- Once the DEC and associated sports facilities are complete and providing the necessary activation to support other development, LK Group would be in a position to commence that development.

LK Group remains committed to securing the land and contributing to the redevelopment of Wilkinsons Point but if Council's position as set out in your letter is final, LK Group will withdraw from the process.

Alternatively, we would like to meet to progress an outcome and way forward. This needs to happen as a matter of urgency, so the parties can negotiate a tripartite agreement as soon as possible and maintain our mutually agreed schedule.

Yours sincerely,



Larry Kestelman
Group Executive Chairman

Sale of Derwent Entertainment Centre and Wilkinsons Point

We accept as a result of the State Government's recent intervention, the proposed transaction for Wilkinsons Point does need to be restructured.

The terms proposed in your letter in relation to Part 2 are not acceptable to LK Group.

LK: Part 2 of the land has been previously valued at \$3m. Please advise how Council has arrived at a sale price of \$8m.

GCC: This proposal does not involve simply "part 2" of the land – i.e. the Wilkinsons Point titles. These titles have previously been valued at \$3.1M.

It also involves the balance of the DEC title in front of the DEC building. This incorporates the DEC car park and the Brooker Highway frontage area. Council places a value on these titles of \$4.9M.

In a previous meeting with Larry Kestelman, LK admitted that he did not see the value as a residing in the DEC rather in the development potential of the land around it given its highway frontage position.

The written down asset value of the green and blue DEC carparks is \$ 1.38M. Replacement value is \$2M.

A per square metre rate can be deduced by dividing the Wilkinsons Point value by land area (\$3.1M/92600 sqm = \$33.48 per sqm.

The land area of the frontage area is approximately 36200 sqm – which would yield a value on the same above per sqm basis of \$1.09M. One would also expect a markup on that figure to accommodate its greater street presentation as a result of its proximity to the Brooker Highway.

This gets us to an estimated value for the balance DEC land of \$2.5M – at a pinch \$3M with the markup.

... and an overall value for the balance of the land not acquired by the government of \$5.5M to \$6M before carve-outs for the foreshore and road lots.

LK: The timing and success of the DEC and associated sports facilities is critical to our capacity to create commercially viable facilities. LK Group has never committed in our previous discussions with Council to undertake development at Wilkinsons Point – this will depend on a number of factors, including the success of the DEC and economic and market conditions.

Once the DEC and associated sports facilities are complete and providing the necessary activation to support other development, LK Group would be in a position to commence that development.

GCC: A significant factor in Council's agreement to entertain an exclusive negotiation period was the LK Group proposal to create a sports and entertainment precinct on Wilkinsons Point.

Indeed, LK Group made representations to Council that it would be necessary for it to acquire the Wilkinsons Point land to subsidise the operation of the DEC – given the investment required in its upgrade.

This is now likely to be largely provided by the State Government.

It is not true to say that the Council has not flagged development guarantees as an issue earlier in the negotiation. The MOU states at 5(iv) *key milestones for the development of the Property by LK Group (or its nominee) and appropriate security for Council to ensure the milestones are met.*

LK Group remains committed to securing the land and contributing to the redevelopment of Wilkinsons Point but if Council's position as set out in your letter is final, LK Group will withdraw from the process.

Alternatively, we would like to meet to progress an outcome and way forward. This needs to happen as a matter of urgency, so the parties can negotiate a tripartite agreement as soon as possible and maintain our mutually agreed schedule.

Treasurer
Minister for the Environment, Parks and Heritage

Level 9 15 Murray Street HOBART TAS 7000 Australia
Ph: +61 3 6165 7670



Mayor Kristie Johnston
Glenorchy City Council
PO Box 103
GLENORCHY TAS 7315

20 December 2019

Without Prejudice

Dear Mayor

I refer to our recent meetings during which we discussed the current status of negotiations with the LK Property Group (LKG) for the purchase and development of the Derwent Entertainment Centre (DEC) and the Wilkinsons Point precinct land, the establishment of a Tasmanian NBL team and the upgrade of the DEC.

As discussed, the State Government is of the view that the requirement for significant public funds to facilitate an upgrade of the DEC as well as the provision of four public courts and the support for a Tasmanian NBL team necessitates public ownership of the facility.

I understand that the most important outcomes for Council are to divest the DEC and to facilitate development of the precinct, thereby creating jobs in your municipality and achieving a reasonable return on the land. Further, I acknowledge that Council was seeking to agree a series of development conditions which LKG have not agreed to.

In parallel the State Government has continued to progress discussions with LKG regarding the fundamental terms of an agreement for the upgrade and operation and management of the DEC (which includes addressing the terms of community access to and usage of the upgraded DEC going forward) as well as the potential terms of a sponsorship agreement for an NBL team. As part of these discussions, LKG proposed that the State Government purchase the entire Wilkinsons Point and DEC site from Council, with LKG and the State Government to separately come to an agreement on the related matters.

Furthermore discussions are well advanced with the Federal Government in relation to a funding contribution and whilst positive I note that due to the public investment required we will need to obtain a formal commitment from them prior to any deal proceeding.

Given the current state of negotiations between all parties, and noting that there is a time imperative regarding an upgrade to the DEC in order to establish an NBL team that can enter the 2021/22 season, I would like to propose the following as a way forward for all parties to reach agreement:

- State Government to purchase from the council all titles/parcels of land that make-up the Wilkinsons Point and DEC precinct for a price to be negotiated subject to the State Government being able to agree suitable terms with LKG (noting that council have indicated \$8m would be acceptable)
- State Government to negotiate acceptable guarantees with LKG regarding timelines for the broader development of Wilkinsons Point, with an undertaking to closely involve Council
- Council would retain ownership of the foreshore land
- Council to reinvest a portion of the sale proceeds (to be negotiated) back into the site noting that the General Manager's letter to LKG acknowledged the future requirement for Council to undertake works and the State Government's investment will be limited to the DEC upgrade and four court community sporting facility
- Council agreeing to not levy rates, fees and charges on the State for the publicly owned land whilst development of the publicly owned assets is ongoing for a period of up to 5 years (on the basis that no revenue is currently received).

With respect to development within and of the precinct, I can confirm the State Government's intention for the DEC upgrade (valued at some \$46 million to facilitate not only NBL games but an increased level of other sporting, community and entertainment activities) to occur over the period mid 2020 through to mid-2021, in time for the venue to host NBL games during the 2021/22 season commencing in late September/early October 2021. The Government is of the view that the construction of community sporting facilities (estimated to cost some \$20 million) would follow the completion of the DEC upgrade, commencing in the 2021/22 financial year, with the elite training facility to proceed concurrently or subsequently depending on sufficient funding being secured.

With respect to broader development of the Wilkinsons Point precinct, the State Government shares the Council's desire to see the precinct developed and as noted above will seek to negotiate with LKG acceptable terms under which this can practically and commercially be realised within a reasonable timeframe. These negotiations would be progressed early in 2020, noting the extent of current uncertainties including with respect to the planning scheme amendment.

I acknowledge that this proposal would need to be worked through in some detail to the satisfaction of both the State Government and Council. The identification and resolution of the size of the foreshore title to be retained by Council, which would require survey work to be completed, is one example of this. I am of the view that these matters can be progressed in the New Year.

I understand this proposal will need to be considered by Council and in this regard I look forward to your feedback at your earliest convenience. Should Council be in a position to accept this proposal in principle, it would be my view that we aim to agree the detail of these matters to our mutual satisfaction in early 2020.

I am confident we can work together to realise this exciting opportunity for the residents of Glenorchy and the broader Tasmanian community.

Yours sincerely



Peter Gutwein MP

Treasurer

Department of State Growth

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Mr Tony McMullen
General Manager
Glenorchy City Council
PO Box 103
GLENORCHY TAS 7010

Dear Mr McMullen *Tony*

I refer to the letter dated 2 January 2020 from Mayor Johnston to the Treasurer regarding the sale of the Derwent Entertainment Centre and Wilkinsons Point.

It is pleasing that the Council has made a decision to accept the Government's proposed approach to progressing this matter as set out in the without prejudice letter from the Treasurer dated 20 December 2019. This is an important step in realising a set of mutually agreeable and beneficial outcomes, including establishment of a Tasmanian NBL team, major refurbishment of the DEC, development of community sporting facilities and commercial development of the surrounding land.

I am conscious that your Council will be seeking an update on progress at its next meeting and can provide the following information. Discussions between the Tasmanian Government and the LK Group are positive and ongoing at this time. The parties are working towards the development of a detailed term sheet over the coming weeks that will set out the key elements of the agreement, with the detailed legal documentation to be developed subsequently over the following month or two.

Similarly, I anticipate providing a draft term sheet to Council, via the General Manager as per the delegation noted in your letter, in the coming weeks. Once agreed this will underpin the negotiation of a detailed land sale agreement between Council and the Tasmanian Government for the DEC and Wilkinsons Point, which will be subject to the Government reaching terms with the LK Group.

I acknowledge that future employment arrangements for Council staff currently working at the DEC is an important issue and understand that Council had a number of discussions about this matter with the LK Group during 2019. It would be our aim that the intent of those discussions is able to be reflected in the agreements to be negotiated, noting that the Tasmanian Government does not expect to take on additional employees through these transactions.

The Office of the Crown Solicitor has already commenced work on developing the term sheets and the land sale agreement and my office will be in contact in the near future to arrange a meeting to progress these matters.

Thank you once again. I look forward to working with you to achieve a positive outcome for the residents and ratepayers of Glenorchy and the Tasmanian community more broadly.

Yours sincerely



Kim Evans
Secretary

28 January 2020

Department of State Growth

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Your Ref: / Our Ref:



Mr Tony McMullen
General Manager
Glenorchy City Council

By email: [REDACTED]@u

Dear Tony

I am writing in relation to the Glenorchy City Council's decision on 28 February 2020 to sell the Derwent Entertainment Centre and Wilkinsons Point to the Tasmanian Government subject to Council and the Tasmanian Government reaching a final agreement for the sale, which is to be generally in accordance with the key terms provided to you on 24 February 2020.

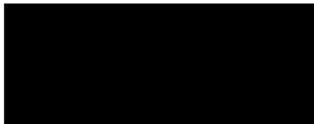
In developing the detailed land sale agreement between the Crown and Council, and to also inform the development and negotiation of related transaction documents between the Crown and the LK Group, it is necessary to undertake an appropriate level of due diligence and collect information about the DEC and the surrounding land that will be relevant to its ongoing and future use and management. In this regard, with the assistance of the Crown Solicitor, a request for information has been prepared and is enclosed with this letter.

I acknowledge there may be a significant volume of documents to be provided in response to the request. In this regard, a 'dataroom' or similar will be established for you to upload documents. The details for this facility will be shared with you separately by email. For ease of identification, each relevant document should be cross-referenced in your response to the enclosed request for information, with electronic documents to also be consistently named.

Given the broad timeframes for this project are tight it would be appreciated if you are able to provide a complete response to this request for information by the end of March 2020. Please advise at your earliest convenience if you consider additional time will be required to provide your response.

If you have any queries about this request or wish to discuss it in further detail, please contact Alison Turner, Project Director, by email at alison.turner@stategrowth.tas.gov.au or telephone on (03) 6166 3461 for more information.

Yours sincerely



Kim Evans
Secretary

12 March 2020

Encl.