



Hyatt Coolum DA

RESPONSES TO QUESTIONS

Lend Lease

Q. *Cr Zrinka Johnston – what is your application for? Glen Wright – it is for a preliminary approval for a master planned community, which is the current designation at the local level. Cr Zrinka Johnston – wasn't this the case before? Glen - it is now an MCU because it is adding additional commercial and residential uses. Cr Zrinka Johnston – I would like this question answered technically.*

A. The site we refer to as Hyatt Coolum is designated under Maroochy Plan 2000 within Planning Area 10 – Mount Coolum, Precinct 8 – Coolum Hyatt Resort, Master Planned Community Precinct.

The Master Plan Community precinct designation recognises that a master plan or local area structure plan is to be prepared for the precinct. These plans are prepared to nominate broad land use intentions across the precinct and, depending on the site, could include residential, tourist, commercial, open space, recreational and conservation areas.

With reference to the existing designation of the Hyatt Coolum site, the uses identified under the MCU application currently before Council are consistent with the uses permitted within the precinct designation and those identified by, and constructed in accordance with, the existing approvals. Whilst the uses are consistent, the MCU application proposes a new master plan for this precinct that also seeks to address the issues relating to ongoing viability and support for the Hyatt Coolum Resort.

The formal process for adopting a Master Plan on the site is via the lodgement of a development application for a Preliminary Approval for a Material Change of Use over the subject land. Pursuant to section 3.1.6 of the Integrated Planning Act, the Preliminary Approval would establish precincts and sub-precincts with defined development provisions concerning land use intent, levels of development assessment (i.e. use rights), building height and density, which are contained within the Preliminary Approval Document.

This is the same application process that was followed for the Coolum Ridges, Bundilla Lakes and Wisers Farm master and structure plans in Maroochy Shire.

Q. *Cr Zrinka Johnston – with regard to your agreement with the President's and Ambassadors' Clubs to use the resort's facilities, do Lend Lease intend having that kind of agreement with future owners?*

A. Agreements will be put in place with future occupants of the proposed residential community, but these will differ from the agreements used for the Clubs as these relate to a timeshare scheme.

Future occupants of the proposed communities will be granted access to Resort Facilities via Resort Access Licences. These contractual arrangements are already in place and operating for The Lakes, Visage and Vantage residential precincts at Hyatt Coolum. These contractual arrangements have been in place and working well for "The Lakes" residents for many years. Hyatt International administers these Resort Access Licences.

Hyatt International will manage resort access and will ensure resort guests and President's and Ambassador's Club members are afforded the highest level of resort access privilege.

Q. *Mayor Joe Natoli – what are you going to do to incorporate other local residents so that you can utilise the revenue and improve access to facilities for these residents?*

- A.** Since acquiring the resort it has been Lend Lease's strategy to open the doors and encourage the local community to frequent the underutilised facilities. Under the development of the master plan, this strategy will continue, e.g. the community can continue to use the restaurant facilities around the Village Square and will also be able to use the new beach club café/ restaurant.

In considering the master plan and the positive impact it will have on resort operations, projections have been made and reviewed by Jones Lang LaSalle that indicate there will still be sufficient capacity for the community to utilise the resort facilities following the completion of the development.

The general public will continue to be able to book resort facilities for events and ceremonies. In stating this, there may be times when Hyatt are required to close these facilities to the public for special events, but generally the majority of the time these facilities will be available. As explained by Maurice Holland; the key is more revenue.

Additional comments from Maurice Holland; General Manager – Hyatt Regency Coolum:

- * There is a lot of support from the local community that many may be unaware of. We have a lot of people that come and use the facilities including the village square, the gymnasium and so on
- * The previous stigma from when the resort was not open to the public is a "ghost" that is hard to remove
- * We have a lot of local people who are members of golf, gym and spa which assists in living down that stigma, and we certainly encourage the local community to use the facilities
- * Whilst the local use is encouraged and welcome, it is certainly not the answer. Other revenue streams are required

- Q.** *John Knaggs – you are saying the proposed development outcome is the saviour of the resort. How confident are you that the new population and the existing community is the saviour?*

- A.** Lend Lease, its partners and its consultants have done a lot of work on this issue and remain very confident that the master planned development of Hyatt Coolum will enable the creation of a viable resort operation.

There are resorts that have headed down this same path, therefore providing us models that we can look to. With Jones Lang Lasalle and Hyatt International, Lend Lease have analysed utilisation rates and take up rates from different resort and residential communities.

This has included benchmarking studies on golf courses, where residential communities are established around resorts like Hyatt Sanctuary Cove. Based on this analysis, we have formulated our own financial forecasts and are confident that the extra revenue realised from the golf course, spa, restaurants and other sources will move the resort to a profitable and viable position (refer to letter at Attachment 1 from Jones Lang Lasalle Hotels).

There is also a secondary benefit associated with the provision of additional holiday accommodation that does not compete and is complementary to the existing hotel accommodation. This additional holiday accommodation will enable Hyatt to "top up" and benefit during peak periods and during major conference or special events that occur from time to time.

Q. *Cr Greg Fahey – if you are comparing the Hyatt Coolum with places like Sanctuary Cove that have gone along this road, you must have figures, and I would like to see them.*

A. Lend Lease and its consultants; Ernst & Young and Jones Lang LaSalle Hotels (JLL), have undertaken a research and benchmarking analysis to project future utilisation and the financial impact on the resort's performance.

Regarding the golf course, our consultants have carried out an analysis of membership take-up and utilisation of golf courses within resort and residential communities. This included analysis of over 15 golf courses including Sanctuary Cove, Royal Pines, Noosa Springs, Hope Island, and more. For example, at Sanctuary Cove, approximately 22% of the resident population are members of the golf course and similar take-up has occurred at Noosa Springs. At Visage (at Hyatt Coolum), over 25% of the resident population are members of the golf course.

With reference to Food and Beverage (F&B) utilisation as a result of the proposed master plan, JLL have provided advice and forecasts based upon their experience across a wide range of resort and leisure operations. A more targeted analysis was also carried out across a range of operations including "The Lakes", an established residential community adjacent to the Hyatt Coolum, and "North Shore Coastal Village", an established residential community adjacent to the Twin Waters Resort. To give specific examples, at Twin Waters there has been an increase in the number of covers at restaurants by 25-30% (depending on outlet) as a result of the establishment of the "North Shore Coastal Village". Usage of Hyatt Coolum restaurants by "The Lakes" residents averages over \$5,700 per dwelling per annum. Examples such as these have enabled us to confidently forecast the likely F&B usage resulting from the new residential communities proposed.

Other additional sources of resort revenue resulting from the proposed master plan that form part of our financial model include:

- * New revenue from proposed new Beach Club café/restaurant
- * Resort Access Licence Fees and Buggy Licence fees
- * Increased utilisation and memberships of gym and sun spa facilities (note 20% take-up by Visage residents at Hyatt Coolum)
- * Increased utilisation of other recreational facilities including tennis, resort activities and driving range and tuition
- * Child minding associated with Kid's Club facilities
- * Maintenance of common and private areas within new communities
- * Leasing and maintenance of resort buggies, and
- * Provision of security services

This new revenue results in high incremental profitability as, in many instances, there are only marginal increased expenses and overhead costs required, in addition to the existing high fixed cost base, to support the extra utilisation.

In summary, we have carried out both broad and targeted market research to develop forecasts for our financial model of the resort operation.

Q. *Cr Bruce Dunne – in the 1980s, these resorts were everywhere and they did not work. Now the trend is to add a residential component. Is this sustainable? Are there examples, globally, of where resorts have taken a different trend and been successful?*

A. As presented by JLL, all resorts of this type in this country have adopted a similar strategy, i.e. to create residential around the existing resort to support its operations. As stated by Maurice Holland, Hyatt International has known from the start that additional real estate was envisaged. The realisation then, as it is now, was that this is necessary to enhance the resort operation.

The Federal Government sponsored Tourism Task Force Report (2003) acknowledged and highlighted the problems and challenges associated with resorts in this country. To return these resorts to profitability the recommendations in this report included:

- * Creating mixed-use (e.g. residential to drive higher utilisation of facilities)
- * Adding new income streams (e.g. broader community, resort licence fees, maintenance fees, etc)
- * Refurbishing accommodation and facilities
- * Implementing operational efficiencies

Integrated resort residential development has been carried out throughout the United States of America, particularly in states such as California and Florida.

There are also examples of resorts outside Australia that have expanded with new hotel accommodation, but clearly this is only in instances where sufficient demand justifies such an approach. As stated in the meeting, there are no resorts within Australia that have been able to justify such an expansion and instead have sought additional revenue streams through real estate development. It is no different at Hyatt Cooloom.

In the newer golf resort developments undertaken in Australia, residential development has been carried out around the resort facilities and golf course in addition to the hotel accommodation (e.g. Magenta Shores currently being developed by Mirvac on the NSW Central Coast).

Where it is not possible to “unlock” surplus land around existing resorts, the ongoing operational viability of the resort is under even more pressure as evidenced by the Novotel Palm Cove example presented by David Gibson from JLL. In this instance, the golf and resort operation is being closed down to make way for a pure real estate development.

- Q.** *Cr Tom Hulett – doubt regarding height. Do you have an alternate option if that is too much in terms of GFA? Also, there is a high rise building inside the current café building – what is its height and how does it compare to what you are requesting now?*
- A.** Lend Lease do not have alternative options regarding height. As explained by Andrew Stevens from Ken Hicks and Associates, it is a unique site given the topography and vegetation around it. The site permits buildings to that height with very minimal impact on the surrounding amenity and enables a 40% open space amenity to be maintained within the Beachside Precinct.

As explained by Andrew Stevens in his presentation, the site is also unique in that there is no height designation.

With reference to the existing building on the site, you refer to the building incorporating the viewing tower in the village square. This building is actually 22.5 metres to its peak, not the 21.5 metres as advised in the meeting. The proposed maximum height of the buildings within the Beachside precinct, the highest under the proposed master plan, is 20.8 metres.

Community Groups

- Q.** *Cr Greg Fahey – Brian Raison, you said, if this was approved, it would be detrimental to the financial viability of the resort. What material do you have to back this up?*
- A.** The Resort itself will no longer be a beachside Resort. The accommodation in the Resort will suffer due to tourists preferring to stay “beachside” in privately owned villas.

Attached is a Western Australian Government Taskforce Report (***a copy has been placed in the Councillors’ lounge, Maria, 25/1/07***) that supports and expands on our concerns. The report, endorsed by Cabinet in January 2006, is the product of a taskforce established by the Minister for Planning and Infrastructure. He was concerned about *“the potential impacts of mixing tourism and permanent residential uses in a single development in respect to land use conflict, impact on the tourism experience, the residential amenity provided in such developments, and the loss of suitable and available land for future tourism development.”*

Here are a couple of quotes from the report:

- *“A sustainable tourism industry requires investors to be able to achieve reasonable operational returns, facilitating funding of marketing, maintenance and improvement of facilities. This is not achieved where development is real estate driven and not based on growth in tourism demand.”*
- *“A rezoning or scheme amendment to provide for a tourism development with a residential component on a high-value tourism site will result in a loss of ability to accommodate future tourism demand and will have a detrimental impact on tourism growth.”*

The report clearly indicates that, if a residential component of a resort is greater than 20-25% of the total, the tourism experience will degrade. The planned 660 dwellings proposed is **more than double** the 324 rooms available presently at the Hyatt. The Hyatt may possibly survive as a local 3 star resort and attract some local support as a result of lower prices, but we have no doubt that its status as an international 5 star resort and convention centre will disappear. Council must decide if they want to retain and enhance their world class tourist resort or replace it with a high density high rise suburb. They can't have both!

Q. *Cr Greg Fahey - can someone clarify – there is already a current approval for the site on the eastern side for 300 room hotel and 105 villas?*

A. ***Response from DA Branch***

On 6 August 2003, Council resolved to allow the applicant to proceed with undeveloped use rights associated with the previous rezoning approvals (stage 2), pursuant to Section 3.2.5(1) (a) of the Superseded Planning Scheme (1985). Development was to include a 300 room Resort Hotel up to 4 storeys in height and 105 Villas east of the David Low Way, plus 46 additional units (Visage), an additional 9 hole golf course, a child care centre and outdoor entertainment (Special Events Program) west of the David Low Way in accordance with an approved 1998 Plan of Development. Development under the existing approval must commence before 5 September 2007, or the approval lapses. The currency period for the approval cannot be extended under IPA.

The applicant has indicated to Council (in the current Preliminary Approval application) that proceeding with hotel expansion and additional 9 hole golf course is **not** financially viable and that development under the 2002 approval will not proceed. The Lend Lease *Community and Stakeholder Consultation Report* (dated 21 December 2005) identified the option of allowing the resort to fail followed by an application for residential development as an alternative to the current Preliminary Approval application.

A. ***Response from Community Groups***

There is an existing approval for a 300 room hotel on the eastern side of David Low Way. We would like to emphasise that a 300 room hotel is not equivalent to 300 dwellings for planning purposes.

Q. *Mayor Joe Natoli – if you, as residents, are not supportive of this, what would you see as an appropriate context and outcome if you understood Lend Lease's position, and what is a much more suitable development?*

A.

- * To remain a World Class Tourist Facility
- * Building height to be 2 storeys
- * The golf course on the eastern side of David Low Way should remain. Neither the original approval, the Consent Order by the P&E Court, nor the current Maroochy Plan 2000 provide for the existing golf holes on the beachside to be anything but recreational green space
- * All beachside accommodation to be available for holiday letting
- * *Are Councillors and Council decision makers so naive as to believe that a land developer buys a hotel with surrounding property, then discovers it is not profitable, and so recommends redevelopment to make it profitable? **In buying the land, Lend***

Lease must have assumed they could change the law, develop the land to obtain the maximum return and then move on. The community does not need to understand Lend Lease's position; neither does Council.

- Q.** *Cr Tom Hulett – this resort has had 25 years of no profit. I would like a response on the idea of leaving it as it is. You stated that this proposal will effectively stop the use of the Hyatt Coolum as a tourist facility. Can you give some verification of this? Are you saying this will result in future tourists using this area? You need to deliver on this – it is a bold statement requiring support.*
- A.** Councillor Hulett's question is similar to Councillor Fahey, therefore, see above. However, before Lend Lease purchased Coeur de Lion, due diligence would have indicated that the property was either a good investment or not. The premise that Lend Lease now finds that the Hyatt is not profitable, therefore, the only way to save it is to redevelop it, is spurious to say the least. Perhaps Lend Lease should have adopted "Caveat Emptor - let the buyer beware." Everybody else in the Maroochy Shire has to abide by this rule in business.
- Q.** *John Knaggs – Lend Lease, in their application, indicates that the financial viability of the resort is a critical issue and sees this development as a means of enhancing a population to support the resort. Council has been told that, if nothing is done, the resort will close and this will affect the Coolum economy. Council is between a rock and a hard place in one sense. My next question is similar to Cr Hulett's – if we have said that the viability of the resort is only going to be improved by a re-development of the Hyatt Coolum, what do you suggest to Council is the more moderated balanced outcome?*
- A.** CEO John Knaggs question has been covered in both Councillor Hulett's and Mayor Natoli's questions above.
- * There are thousands of Holiday Apartments on the Sunshine Coast earning excellent returns
 - * The CEO's statement reinforces the concerns and suspicions of the residents who fear that Council will allow a developer to continue developing the Resort until it is reduced to a very small component purely to maximise profit
 - * This question contains implied acceptance of the Lend Lease argument that redevelopment is necessary to save the Hyatt. Council must obtain an independent assessment to examine the veracity of the Lend Lease argument
- Q.** *Cr Zrinka Johnston – what is your take on the Lend Lease and hotel argument that they are now open to residents and expect that Master Plan improvements will attract more and more local use of the resort to balance out the unevenness in revenue flows? They are saying they do not get enough community use. One of the alternatives is that the community becomes the user. What is your take on that?*
- A.** To date, there has never been any genuine advertising campaign aimed at the local community. If Lend Lease are keen to attract more local use of the resort to "balance out unevenness in revenue flows," an intensive marketing campaign promoting their services should be implemented.

President's Group

- Q.** *Cr Zrinka Johnston – I would like to know the nature of your agreement with Lend Lease and nature of your rights as owners, and responsibilities to use the facilities that are given in that agreement, and I will ask Lend Lease whether they intend having that kind of agreement with future owners. Due diligence aspects are very important to us.*
- A.** A Resort Administration Agreement has been entered into between various parties, including the President's and Ambassador's Clubs, and certain entities controlled by Lend Lease. This agreement provides for the operation of the Hyatt Regency Coolum as a 5 Star Resort for the

benefit of the parties to the agreement and owners of shares in the President's Club villas or Ambassador's Club villas and residences.

Amongst other things, this agreement provides for the operation of the Resort (via a hotel management agreement), the letting of the Clubs' villas and residences, as well as certain financial matters. The Clubs and owners of the villas and residences are entitled to enter and use the facilities at the Resort.

If the Council wishes to understand the details operation of this agreement, then the Clubs do not object to a copy being made available, provided that Lend Lease consent to this.

Q. *Mayor Joe Natoli – with regard to the economic assessment proposal put forward, you mentioned you are supporting limited additional development including the 300 room hotel and 105 villas. If I was an owner I would think that would pose more of a threat to viability of the ownership of the club on the beach which I think would be preferential to options at the resort itself. Wouldn't there be some concern that, if the development was to go ahead in its current form, it would be a threat? Do you have any idea on how much can become available? Are you as owners happy with your return on investment?*

A. The Clubs firstly wish to clarify their position with regard to the Mayor's comment indicating the Clubs' support "limited additional development". The Clubs' position is that they do not object to the existing master plan for the Resort, nor do they object to sensible development of undeveloped Resort land that is commensurate with the operation of the Resort as a 5 Star facility and which does not interfere with the existing golf course layout including the existing golf holes to the east of David Low Way (being signature golf holes which characterise the Resort).

In respect of the Mayor's comments (regarding his views if he were an owner), the Clubs, in their respective submissions and through the work performed by KPMG, have raised town planning grounds to support their views on the Lend Lease development proposal. The Clubs consider it serves no purpose to comment or speculate on threats to the Resort if the Lend Lease proposal was to go ahead in its current form. We respectfully submit that Council's role is to decide the application having regard to its planning scheme.

With regard to the Mayor's question about owners being happy about investment returns, the directors of the Clubs are unaware of any owner, other than Lend Lease, having expressed disappointment or concerns with their returns on investment. The directors suspect that many owners place a higher value on the quality, character and amenity of the existing Resort.

Q. *Cr Bruce Dunne – when is your Supreme Court action coming up? Matthew Austin – soon, in the next 3-4 months.*

A. The Supreme Court litigation concerns the interpretation of clause 2.9 of the Resort Administration Agreement and the need for written consent of the Clubs to be obtained. Clause 2.9 of this agreement provides that:

"The Developer and Administrator must not change the fundamental character of the Resort or make significant changes to the Resort Facilities without the prior written consent of the Clubs."

The Supreme Court action was commenced by the Clubs in December 2006. It is likely that the Court will hear this matter in April or May 2007.

Q. *Cr Tom Hulett – I would like to get your attitude with regard to density vs spread. I am talking about scope. I would like to know clearly where you stand on that issue. I would like your notion that, whilst you agree that some development was always envisaged, have you taken into account that IPA and the draft Regional Plan talked about an increase of 15 dwellings per hectare? Are you still operating on a figure that may be out of date? If not 660, then what? If the Hyatt Coolum can verify that it has not made a profit in 25 years, what do you do if the Hyatt Coolum closes and it becomes totally residential?*

- A.** The submissions made by the Clubs on the Lend Lease development application addressed concerns regarding the height and density of development. The clubs do not consider it appropriate to comment on what would be an appropriate number of dwellings to be developed at the Resort. Consistent with the SEQ Regional Plan, we respectfully say that it is Council's task to consider population projections on a Shire-wide basis to determine appropriate development densities rather than on a site specific basis. As noted in the Clubs' submissions on the application, the current strategic planning designations in the Maroochy Shire Plan for the Resort site are for recreation and tourism purposes.

With regard to the question relating to profitability of the Resort, we are unaware of Hyatt's financial arrangements and are therefore unable to comment on this issue. However, we would be most surprised if Hyatt has continued to make a loss. If the relevant financial information from Hyatt could be made available to the Clubs, then we would be more than happy to provide our further comments.

The Clubs understand that there is a long term management agreement between Hyatt and Lend Lease. We would expect that neither Hyatt nor Lend Lease could seek to close the Resort without being exposed to a substantial liability for damages.

Finally, Lend Lease seeks to justify its proposed development plans on the basis that the Resort in its current form is not currently viable. We would expect that Lend Lease had full knowledge of the performance of the Resort as well as access to other financial information as part of its due diligence investigations when considering whether to acquire the Resort.

- Q.** *Cr Zrinka Johnston – I would like to know your attitude on community uses of the facilities which you co-own, with or without the fees and charges.*
- A.** The Clubs are unable to provide comments or hold a view on community use of the Resort facilities. These facilities are controlled by Hyatt Management and Lend Lease. The Clubs have no say as to who uses the Resort.



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24 January 2007

TO WHOM IN MAY CONCERN

Jones Lang LaSalle Hotels LLH were engaged by Lend Lease Development Pty Ltd (Lend Lease) to perform a modeling overview in relation to the impact on the Hyatt Coolum Resort operational performance as a consequence of the Masterplan Development being proposed.

Our role included review of financial models and projections prepared by Lend Lease including:

- checking for accuracy of calculations;
- test the reasonableness of assumptions used by Lend Lease;
- comment on the likelihood of the projections coming to fruition;
- application of our industry expertise to analyse projections;
- forming a view as to whether the facilities will be able to cope with the demand levels forecasted.

The methodology adopted to form our view included the testing of Lend Lease assumptions and research against our relevant experience, databases, publicly available statistical information, historic performance levels at the Hyatt Coolum Resort and where possible comparable hotel/resort properties to ascertain if the key drivers were reasonable. As we sourced relevant information which had an impact on these key drivers in the model, we advised Lend Lease. Where our views differed, Lend Lease in turn made the necessary adjustments to these assumptions.

The analysis concluded that the Resort operation would achieve profitability in conjunction with the development of the residential community. This is forecast to occur as a result of additional revenue associated with resort facility utilisation and other services provided to the residential community population.

Based on our experience in the accommodation industry and asset management experience on the Hyatt Regency Coolum property over the past 3 years, we believe that the projections developed by Lend Lease are fair and reasonable.

Yours faithfully
Jones Lang LaSalle Hotels

A handwritten signature in black ink that reads "David Gibson".

David Gibson
Chief Executive Officer
Asia Pacific