Development Proposal Information Booklet

27 May 2016

THE Federal GOLF CLUB

Introduction and recommendation

For many years Federal Golf Club ('FGC' or the 'Club') has been working to secure its long-term future with a focus on upgrading ageing infrastructure.

As part of this planning, the Board and relevant sub committees have been working through options to generate funds for the required infrastructure upgrades and ongoing financial sustainability of the Club. The Board believe that it is presenting an option to Members that is superior to all others it has considered and recommends to Members that approval be granted to proceed with the proposal as outlined in the following pages.

You are invited to attend the General Meeting that will be held on Monday 20 June 2016 where Members will be asked to vote on an Ordinary Resolution to permit the Board subject to a satisfactory agreement being negotiated, grant a sub-lease over the proposal area for the development of an over 55's active seniors residential village and the conservation use of an area adjacent to the 13th hole that may include its ultimate divestment from the FGC lease area and inclusion of the area as part of the Red Hill Nature Reserve.

In return, the Club will receive critical infrastructure upgrades and financial contributions as outlined in the Commercial Terms section of this information booklet. The details of the proposal are outlined in the following pages and are the result of a consultation process that has focused on Members, centered around presentations and Member briefings conducted over recent months, rather than external stakeholders at this stage.

This is a very important matter for our Club and ultimately our decision will be vital in determining our future direction.

If you would like to discuss any aspect of the proposal or the content of this booklet please contact Scott Elias via the Club office.

Allan Stewart
President

Bob Correll
Vice President/Chair of Development Committee

Notice of General Meeting

Notice is hereby given of a General Meeting of Federal Golf Club to be held on Monday 20 June 2016. Commencing at 6:30 pm at the premises of the Club at Gowrie Drive, Red Hill.

Business

The business of the meeting is to consider, and if thought fit, pass the following Ordinary Resolution.

Ordinary Resolution

The Members of Federal Golf Club hereby approve that the Board of the Club may:

1. *subject to obtaining the necessary development approval, sublet the portion of the Club's land marked on the Sub-lease area map on page 9 to MBark FGC Retirement Pty Ltd for the construction and management of a multi-unit housing development comprising no more than 125 dwellings, which dwellings may be sub-let to persons over the age of 55; and*

2. *use the land adjoining the Red Hill Nature Reserve adjacent to and in the vicinity of the 13th hole identified on the conservation area map on page 12 for environmental conservation purposes by either disposing the land to the Australian Capital Territory or sub-letting for environmental purposes, or allowing restrictions or encumbrances on the title that reflect such use.*

Proposed by: Allan Stewart

Seconded by: Bob Correll

Noting that:

- The granting of the sub-lease and use of land for conservation will be in exchange for the works in kind and financial contributions to be paid by Mbark set out on pages 14 and 15;
- The Club has received an independent valuation that concludes the proposal is fair and reasonable;
- The pre-transfer condition requiring the proposal to achieve a development approval; and
- The broad terms of the proposal are set out in this booklet and subject to Member briefings already held. The final terms will be reflected in signed and binding legal contracts to be entered into by the parties, which will include a clause to allow the parties to amend the terms of the contract without requiring the further approval of Members, provided that the benefits to the Club and the terms on which they are provided are substantially preserved.

Notes to Members

Background

The Club has in the past considered a number of potential development options. These options have all had one common objective, which was to provide a source of funds to enable ageing infrastructure to be upgraded. The success and financial health of the Club is being significantly impacted by the costs to maintain infrastructure well past its use by date whilst also foregoing the benefits and efficiency made available by advancing technology.

Following recommendations from an independent planning professional regarding the appropriateness of a complementary over 55's development, the Club has investigated this possibility and held discussions with a number of interested potential partners, having formed a view that it is not the core business of the Club to pursue such a specialised development in its own right.

The selection of a partner is critical to the potential success of any proposal and the partner selected, Mbark, has demonstrated capability of the highest order as well as having developed a constructive and transparent relationship with the Board, Development Committee and Club executive.

Following the signing of an MOU with Mbark in October 2015, significant work has been undertaken on many iterations of a potential proposal. Risk analysis has been performed across many classifications and opportunities identified where risks can be avoided or substantially mitigated. This iterative process has considered the views of many including the Members and other local stakeholders such as the Brereton Street neighbours of the Club.

Previous information to Members

Member briefings including Q&A sessions have been held on:

- 1 October 2015;
- 22 February 2016;
- 21 March 2016; and
- 16 May 2016

These briefings have contained the details of the proposal available at the time and the feedback from Members and others has been instrumental in seeking out further information or trying to address concerns. In many respects this process of consultation and engagement with interested parties has resulted in a well-considered proposal that, although not designed in detail at this time, is expected to form the basis upon which formal approvals are sought.

All information presented to Members has been made available via the Members information tab on the website. Additionally members may wish to refer to www.activeandconnected.com.au for further information regarding the proposal.

In addition, members of the Development Committee and the Club executive have been available at regular intervals to answer questions from Members and respond to feedback and the Q&A responses have also been published on the members information tab on the Club website.

We would like to thank all Members that have provided feedback for their valuable contribution and encourage all Members to review the available materials supporting the proposal. We believe you will find them transparent and sufficiently detailed to provide a considered vote in support of moving forward with the proposal.

Effect of Ordinary resolution

The ordinary resolution, if passed, will authorise the Board to negotiate and enter into a package of agreements whereby the Club will grant the sub lease over the development land and the usage rights or divestment of the conservation land.

All contracts will require the condition precedent of a development approval to be obtained before any of the land is sub let, divested or dealt with.

Why is the Board proceeding in this way?

The Board sees a number of major benefits that will arise from the proposal including improvements to the playability and presentation of the golf course, member facilities that will enhance the amenity and experience for all Members using the Club and a level of activity and engagement that will continue to make the Club an attractive social destination. But all of these benefits are subordinate to the pressing issue regarding water supply and distribution.

Water supply storage and distribution is a critical issue for the Club and directly underpins our major asset being the golf course. Persistent supply issues and inefficient and expensive distribution infrastructure are placing our course at risk. Significant steps have already been taken in recent years with the returfing of the course and construction of irrigation ponds, but the Board remains committed to doing whatever it can to mitigate this risk in the short term but a long-term solution must be found.

Water Supply - Recent efforts, using a deep bore, to substantially improve our water supply has had limited success. Potable or town water supply, continues to increase in price and so alternatives must be sought including further bores and increased water storage capacity.

The course changes and development of the over 55's village will seek to catch and keep rain water, recycle grey water wherever possible and increase water storage capacity. The precise location of increased storage capacity and design remains subject to further more detailed technical assessment and golf architect input.

Water Distribution – the ageing of the irrigation and water distribution system has reached a critical point. It is inefficient, costly to repair and maintain, excessively resource intensive and inconsistent in its impact.

Specifically, every year the repair and maintenance costs of the existing system impact FGC's operating budget in the order of 8-10% of the capital cost of complete system replacement. The failing system leaks water in many areas across the course, resulting in ineffective placement of water to the course and wastefully depleting the reserves of such a precious resource. Replacement of the system will result in the minimisation of the cost from the operating budget of the Club, significantly improving financial security, but equally importantly allowing the Club to be a more environmentally responsible organisation.

Other options considered

Membership fees

The Board considers that membership fees are at a level where further increases are challenging. An attempt to significantly raise membership fees or impose a special levy to provide for the necessary capital works may result in a reduction in Members and a net loss of membership revenues. The Board does not consider this a prudent strategy to deal with the need for capital replacement funding.

Borrowings

The Club's bankers have advised that the Club is not in a position to increase its borrowings. Even if increased debt facilities were available to the Club, which they are not, the Board would not recommend additional debt be taken on along with corresponding increased servicing requirements as it considers this to place the sustainability of the Club at risk.

Operating surplus contributions to capital

Whilst the operations of the Club are improving, they are not yet at a position where a material contribution can be made to provide for capital replacement items. This approach would require the Club to continue to operate with the infrastructure it currently has for a period likely to extend beyond 30 years. Given the imminent need to replace this infrastructure, the Board has not considered this a viable option notwithstanding the current financial year efforts made to commence provision for capital replacement in the future.

It should be noted that the current operating position of the Club would materially improve if the costs currently being allocated to the purchase of potable water and the maintenance (including labour time) of the irrigation system were not required to be incurred. It is this fact that gives the Board some comfort that financially sustainable, if not strong, operational results will result from the proposal irrespective of changes to trading patterns.

Need for Member approval before proceeding further

The Board understands that some Members may prefer all of the proposal details and plans at this stage rather than to give the Board an approval to negotiate the final terms of the commercial contracts. The ability to vary the terms of the contracts is important, but will always be subject to the requirement that the Benefits to the Club and the terms on which they are delivered are substantially preserved.

In proceeding this way, the board has recognised that any third party wanting to deal with the Club will want certainty in relation to their proposed interests. That is, any possible third party will want to ensure, at the earliest stage possible, that all approvals and authorisations from Members have been granted. This is so that neither the club nor the third party expend considerable sums of money in relation to the proposal only to then have the proposal rejected by Members in which case the expenditure will be to no benefit and effectively wasted.

For example, the costs of undertaking detailed design and commissioning the many reports required to support applying for the various development consents and approvals will be in excess of $2 million exclusive of GST. No party can be realistically expected to spend this sort of money with any risk that it may be wasted if the Members do not then approve the project.

The development partners selected, Mbark, have already contributed a significant amount of expense in design and evaluation of matters arising to get the proposal to this point, including ensuring the Club has not been required to spend any money. This does not include the considerable time commitments of the principals of Mbark who have been available and willing to engage on any matter relating to the proposal, big or small.

Need for flexibility

The parties also need the flexibility to amend the terms of the final contracts, subject to the benefits to the Club and the terms on which they are delivered being substantially preserved, because of the amount of planning, approvals and consents that will be required and the impossibility of knowing what each of these will demand of the proposal.

For example, Members will see that the proposal contains a number of components and indicative locations for these components. Circumstances may arise that determine that a proposed location is no longer suitable or not able to be approved for reasons not currently able to be determined. However with a minor boundary adjustment to the sub lease area, approval may be gained. Similarly, the Club may, due to changing priorities, request that a portion of the Benefits due to the Club be exchanged or redirected into an alternative component not currently part of the proposal.

Accordingly the Board is putting forward the Ordinary Resolution with its inbuilt flexibility for the approval of Members.

Procedural matters

To be passed, the ordinary resolution requires votes from a simple majority (50% +1) of those Members who are eligible to vote.

Proxy voting is permitted.

The Board unanimously recommends to Members that they vote in favour of the Ordinary Resolution.

Lounge room, Wivenhoe Village

The proposal

The proposal is to create a world class retirement and over 55's community of approximately 120 residences integrated into the Federal Golf Club. The opportunity is to provide architect designed sustainable homes that are low maintenance but without compromise in the lifestyle they afford, within a neighbourhood that is engaged and connected.

The homes will integrate into the beautiful natural environment that the golf course precinct represents and encourage active lifestyles.

This will all be supported by a modern clubhouse and hub for members incorporating all the facilities necessary to support active bodies and minds. A place to relax and unwind after golf, a place to swim and work out, a place to play, and a place to socialise. Above all, it will be about staying active and connected.

Latest Concept Design

Who is involved?

The Board has conducted an extensive search for an appropriate team to help them deliver on the Club's needs.

Importantly, the partners chosen have deep expertise in the creation and operation of the style of retirement and over 55's community contemplated by this proposal and have reached the pinnacle of this industry when in 2014 The Arbour, Berry, was announced as the Best Retirement Village in Australia by the Property Council of Australia.

The team believes their best is yet to come which makes their involvement at Federal very exciting, particularly for those Board members who have visited the villages and found the quality of the environment and the staff to be of a standard that will sit comfortably with the Federal Golf Club.

Whilst the extremely high quality of the village environment and exceptional service and resident experience were important, the Board focused on the consultative approach and deep environmental expertise of the team as their prime consideration. A team that genuinely listens and engages with the community and has a demonstrated track record at delivering enhancement to surrounding natural environmental assets was necessary to respond to what they had heard from the community during previous proposals.

The team are owners and operators of their villages and with that comes a long term perspective, a family business feel and an understanding that success comes from making a contribution – to the lives of residents, their families and to the broader community.

The team that has been selected by Federal has created very high quality retirement communities in sensitive social and environmental areas. Their capability is best evidenced by similar projects that have been successfully delivered with a strong commitment to environmental and community values.

The Arbour, Berry – www.thearbourberry.com.au
Wivenhoe Village, Camden – www.wivenhoevillage.com.au

The success of both The Arbour and Wivenhoe Village is due to the 'bottom up' or site specific approach applied to their design. They were not created from a pre-determined mould but were shaped from consultation, community input and importantly the views, needs and wants of intending residents.

This bespoke detail to their conception and dedicated and intimate management sets them apart as terrific places to live and stay active and connected.

The approach at FGC will be the same. It will look and be unique, because this Club and its environment are unique. There is no template that will be applied but we can take comfort in the fact that all the learning that has been experienced by our partner will be honed and focused toward creating something that is highly appealing and suits the local residents and our Members.

Sub-lease area

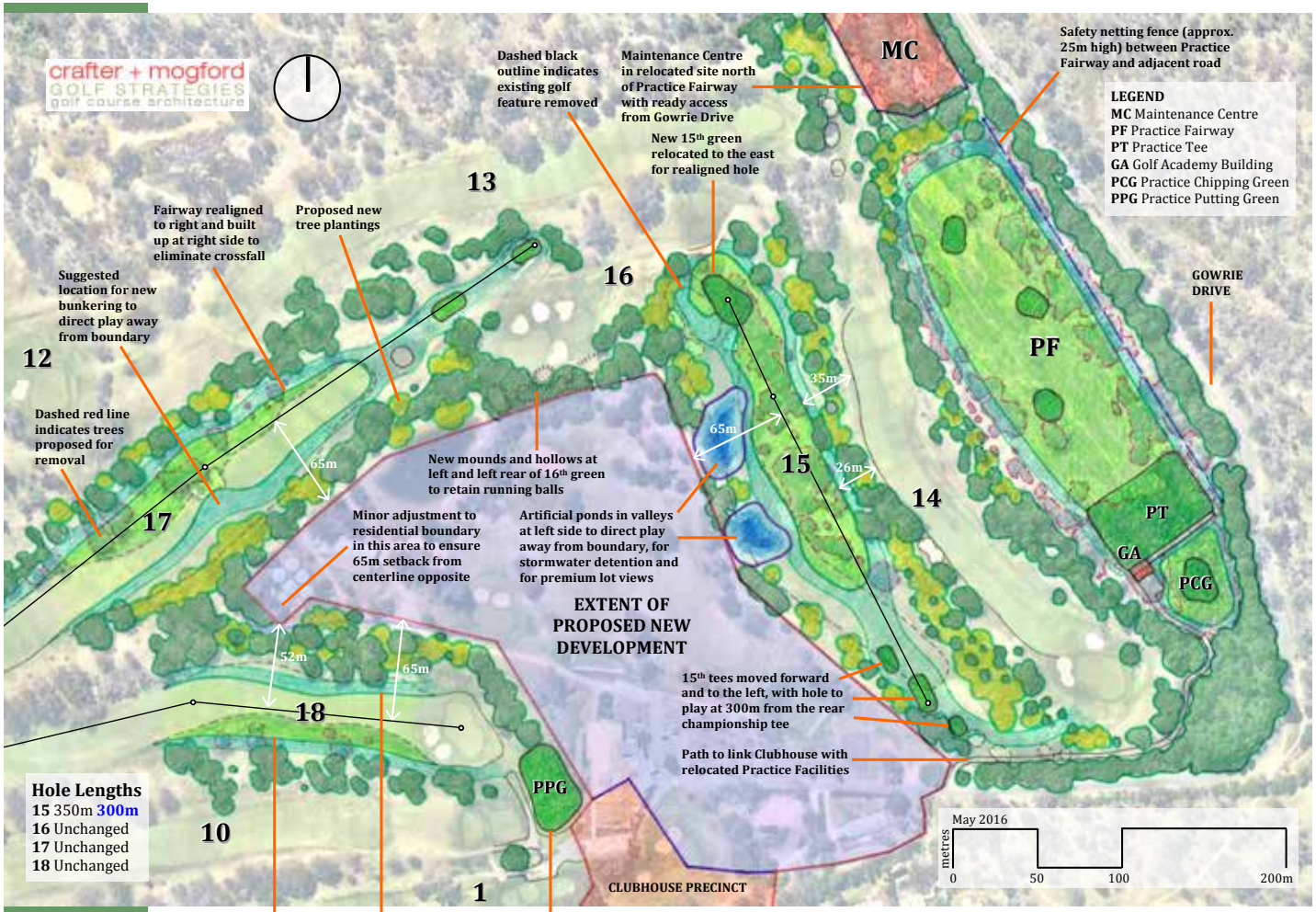
Proposed sub-lease area for over 55's community

Golf course improvements and practice facilities

In March 2016 Crafter and Mogford Golf Strategies ("C&M") was engaged by Mbark to assess the safety aspects of the development proposal and its relationship with the golf course. The brief to C&M was focused on the holes which may be directly impacted by the proposed development area, with a key principle being to minimise the extent of changes as far as possible. In addition C&M were asked to undertake an in principle assessment of the viability of relocating the practice facilities and green shed and maintenance facilities to an area between the 14th hole and Gowrie Drive.

The process of undertaking this assessment was an iterative one, where the Board, Mbark and C&M worked collaboratively to try to maintain the required development yield of approximately 120 dwellings, ensure the safety of golfers and residents is optimised and any opportunities to improve the holes where some modification may be required was taken.

The following plans on pages 10 and 11, prepared by C&M with accompanying notes, outline the proposed changes to holes 8, 9, 15, 16, 17 and 18. These changes were presented by Neil Crafter at the member briefing on 16 May 2016, but are still subject to detailed golf architect design.



HOLE NOTES

Holes 1 – 7
Unchanged

Hole 8 (see next plan)
- New Par 3 hole played to south-east from redeveloped tees
- Lake extended to south-east as hazard for both Holes 7 and 8

Hole 9 (see next plan)
- Tees extended back towards bridge to compensate for length lost at green end of hole
- New green brought forward

Holes 10 – 14
Unchanged

Hole 15
- Tees moved to west and hole shortened to 300m
- Hole realigned further to the east with new green immediately east of existing green
- Ponds and bunkering at left side to direct play away from proposed residential boundary

Hole 16
- Hole essentially is unchanged
- New mounds and hollows at left to retain running balls

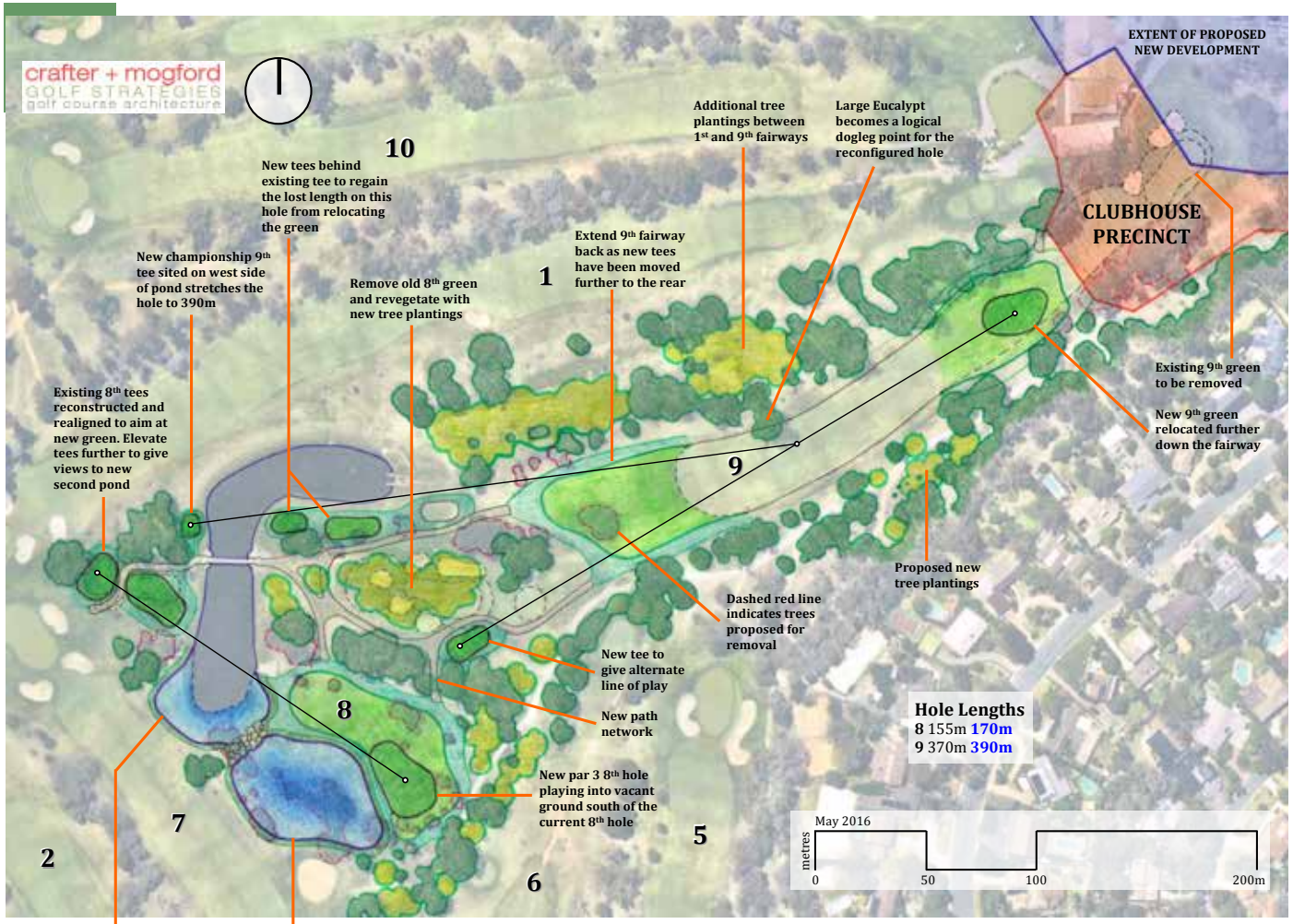
Hole 17
- Rear tee realigned
- First section of fairway realigned to the north and built up at right side to eliminate crossfall
- Suggested left side fairway bunkering to assist in directing play away from boundary

Hole 18
- Second half of fairway realigned to the south to bring hole centerline further away from residential boundary.
- Existing green retained

Current Course Par 72 6240m
Proposed Course Par 72 6225m

Mbark FGC Retirement Pty Ltd

COURSE REDEVELOPMENT SAFETY ASSESSMENT
The Federal Golf Club Concept Plan Holes 15-18



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Holes 10 – 14
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Mbark FGC Retirement Pty Ltd

COURSE REDEVELOPMENT SAFETY ASSESSMENT
The Federal Golf Club Concept Plan Holes 8 & 9

Conservation area

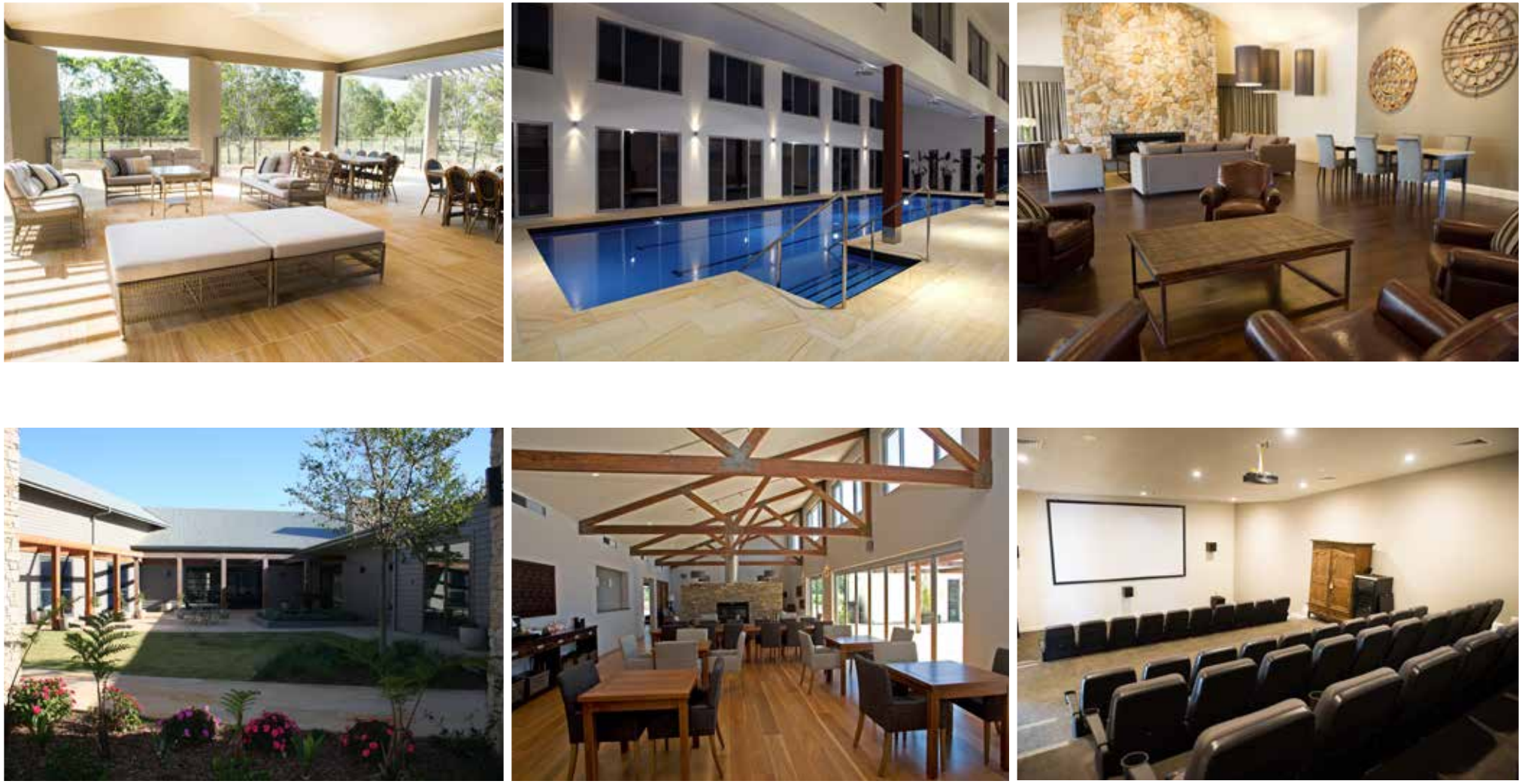
Proposed area for conservation management

Clubhouse

A clubhouse is a vital piece of infrastructure to any golf course, particularly one with the prestige of FGC. Equally, a premium over 55s lifestyle development such as the one proposed by Mbark must include commensurate lifestyle facilities for the residents to enjoy.

Members of The Board have visited The Lodge at Wivenhoe Village and The Enclave at The Arbour, Berry, the private residents facilities at each of the existing Mbark over 55s communities. These buildings are of a standard that is commensurate with the premium nature of the homes at each community, and the level of finish and inclusions would integrate well with the needs of the golfing community at FGC.

The following images capture some of the key elements of these buildings and seek to highlight the level of finish and fit out.



Community facilities at The Arbour, Berry and Wivenhoe Village, Camden

Commercial terms and Benefits to the Club

The following commercial benefits for the Club will be incorporated into formal legal contract documentation should a positive endorsement of the proposal be received from members. It should be noted there will be opportunities to refine the way the Club receives the quantum of benefits and the requirement for deliverying an appropriate standard of Club House.

Benefits to the Club

Value of The Benefits	The commercial and financial benefits ('the Benefits') to the Club will equal $150,000 per approved and constructed Independent Living Unit ('ILU'). The proposal is currently anticipating 120 ILU's that, if approved, would see the Club realise benefits of $18 million. A reduction or increase in the number of approved ILU's will see the total value of the Benefits to be provided to be adjusted accordingly. The value of the Benefits to be provided to the Club is predicated on a sub-lease site that is free of any encumbrances, further expenses or contributions to make it ready for the development proposal to be delivered.
Calculation methodology	Benefit value = No. DA approved ILU's x $150,000
Works in Kind	The Benefits will be delivered to the Club as works in kind and infrastructure upgrades as outlined in the staging of works item below. These items will have a maximum benefit value determined by the calculation methodology outlined above. Any surplus available following the completion of all of the nominated works in kind and infrastructure will be provided to the Club as a direct financial contribution. The works in kind and infrastructure upgrades will be delivered by the development proponent in consultation with the Club and varied only by mutual agreement.
Staging of works in kind delivery	The works in kind and infrastructure upgrades will be staged as follows: Stage 1 ▪ A new irrigation system and water supply improvements ▪ New Greenshed Facilities ▪ New Practice facilities ▪ Golf hole amendments to holes 15, 16, 17 and 18 required to facilitate making the land subject to sub-lease available for development Stage 2 ▪ Clubhouse - Stage 1 of 2 of a new high quality clubhouse incorporating a pool, gym, pro-shop, function and dining rooms, bar, locker rooms, cart storage and balcony deck providing much improved facilities for members and increasing potential returns for the Club. ▪ New and upgraded cart paths and course pathways ▪ Golf hole amendments to holes 8 and 9 required to facilitate making the land subject to sub-lease available for development Stage 3 ▪ Clubhouse - Stage 2 of 2 of a new high quality clubhouse incorporating a pool, gym, pro-shop, function and dining rooms, bar, locker rooms, cart storage and balcony deck providing much improved facilities for members and increasing potential returns for the Club. Stage 4 ▪ New golf holes or course upgrades as directed by the Club and their specialist golf course architects / advisors ▪ Any residual financial contributions **Club House** The Clubhouse redevelopment is a necessary component of the development proposal and will be carried out to a minimum specification to be agreed between the parties. It is the current expectation that $8-10M of the total Benefits will be delivered as part of the Clubhouse redevelopment. **Other** (Staging to be determined if proposal advances) ▪ Upgraded entry road (cost not included in Value of The Benefits) ▪ New and landscaped entry and external car parking facilities (at least the same number of existing parking lots).

Direct financial contributions	Direct financial contributions may be made if all of the Works in Kind are completed within the Value of Benefits amount calculated above. The value of any financial contribution will represent any residual amount not spent as part of the Works in Kind undertaken.
Membership contributions – initial 5 years	The development proposal will contribute 5 years of Membership fees, paid in advance, per ILU upon settlement of that ILU subject to the Club appointing the nominated resident as a Member. There will be one payment of membership fees of this nature per ILU.
Membership contribution – beyond 5 years	Following completion, the Village will underwrite $200,000 per annum in new Member subscriptions where a new Member is considered to be a Member of the Club who was not a Member of the Club at the time of their entry to the Village. To the extent that a shortfall in new Member subscription below $200,000 per annum, the Village will make up that shortfall. The intention of this contribution is to ensure the Club benefits from at least $200,000 per annum in increased Member subscriptions as a result of the proposal. This incremental revenue will support a stronger and more sustainable financial future for the Club, which is also important for the ongoing operations of the Village.
Other benefits	The development proposal will deliver significant other benefits to the Club and its Members through the upgrade of elements of the existing Club infrastructure such as the entrance road and arrival landscaping.

Requirements of the Club to access the commercial benefits

Sub lease	The Club is required to provide a 99 year sub lease over the proposed development area at a maximum annual rent of $1 (other than the rent or licence fees paid to the Club reflecting the benefits noted above)
Clubhouse and facilities licence	The Club is required to provide a licence to access the new Clubhouse and other areas of the Golf Course lease that require reasonable access for residents of the Village that reflects the tenure of the sub lease
Conservation area	The Club is required to provide for the benefit of the development proposal, land adjoining the Red Hill Nature Reserve adjacent to the 13th hole (refer appended map) for the purposes of conservation. This land will not be utilized for direct development purposes but may be used to provide significant net environmental benefits arising from the proposal through its restoration and conservation. As part of the proposal the land may have its conservation tenure secured through a conservation covenant or by dedication and boundary adjustment to formally include it as part of the Red Hill Nature Reserve. Such an action would represent a material environmental and community benefit that we are keen to incorporate and have reflected in the legacy of the proposal.

The Valuation

The Club has received a valuation from CBRE dated 13 May 2016. Given the commercially sensitive nature of the valuation, the Board has decided that it should remain confidential.

The valuation concludes that the proposal represents fair and reasonable value to the Club arising from the proposal.

Following the Vote

Should the Ordinary Resolution be passed at the General Meeting on 20 June 2016, the Board and Mbark will be then be in a position to communicate with Members on the program of activities to be undertaken by Mbark and FGC in order to progress the development proposal, including the program of wider stakeholder engagement and consultation.