

Hearings Panel
(Proposal for Baches at Taylors Mistake and Bays)
ATTACHMENTS UNDER SEPARATE COVER

Date: Monday 11 February 2019
Time: 9:30am
Venue: Council Chambers, Level 2, Civic Offices,
53 Hereford Street, Christchurch

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License Fee Consultancy

Taylor's Mistake Baches
Christchurch City

Client: Christchurch City Council

Valuation Date: 19 January 2019

Report Status: Draft

TelferYoung (Canterbury) Limited



Our Ref: CAN-148014

TelferYoung
Canterbury

4 February 2019

Christchurch City Council
COFP Property Consultancy Team
P O Box 73015
Christchurch 8154

Attention: Luke Rees-Thomas

License Fee Consultancy
Taylor's Mistake Baches, Christchurch City
Purchase Order Number: 4500436943
Report Status: Draft

1.0 Background & Instructions

The beachfronts of Taylor's Mistake, Hobsons Bay and Boulder Bay have a long history of being occupied by clusters of small baches. The baches occupy Council owned land (legal road reserve) and have no certainty of tenure. Many of the structures are vulnerable to sea inundation and rockfall and cliff collapse particularly post the Canterbury Earthquake Sequence.

We have been advised that the owners of these baches may be offered the opportunity to enter into a license to occupy agreement with the Council. Should this option be adopted, the bach owners will benefit from having a degree of security of tenure. In consideration for the agreement and associated tenure, the bach owners would pay a license fee.

We have been instructed to establish market-based license fee parameters to assist Council representatives in their decision making.

2.0 License to Occupy

We have not been provided with a copy of the license to occupy agreement which will be used between Christchurch City Council and the bach owners. All terms and conditions are yet to be finalised.

It is important to note that a license to occupy agreement may be offered rather than a lease agreement. License to occupy agreements convey less rights to the bach owner than a lease agreement.

The license fee cannot be established until the terms and conditions of the agreement are finalised, however, the broad parameters of how the fee is established are explored.



3.0 Valuation Rationale

3.1 Valuation Methodology

There are two accepted methodologies for establishing a market-based license fee. We briefly discuss these as follows:

3.1.1 Traditional Approach

With the traditional approach, the land value is firstly established by reference to vacant land sales and to this a market-based ground rental return is applied which is analysed from rental settlements for properties held under similar terms and conditions.

3.1.2 Classical Approach

With the classical approach, rental settlements for other similar license to occupy properties are analysed on a rental rate per square metre and then, following adjustment, are applied to the property under consideration to establish an annual license fee.

3.1.3 Discussion

The Christchurch market has very few ground lease properties. There are a number of these at the Port of Lyttelton with many of the others relating to land owned by Canterbury Regional Council and Christchurch International Airport.

This situation relates to a license to occupy rather than a lease which conveys fewer rights of occupation to the licensee. Market evidence of license to occupy agreements for effectively permanent structures are extremely rare in the region. For this reason, the classical approach is not suitable given the lack of comparable evidence. The traditional approach is preferred in this instance given we have evidence of vacant land sales and evidence of the returns required by the market for occupying the land.



4.0 Traditional Approach

4.1 Valuation Methodology

To establish the market-based license fee under the traditional approach we first look to sales of vacant sites in the same area as the baches. We then adjust these benchmarks to reflect the scale and characteristics of the bach sites. We then apply this adjusted value to a standard level of return a property owner would expect in the Christchurch market.

4.2 Market Sales Evidence

We first look to sales evidence of vacant sections in the Taylors Mistake locality. A selection of these sales as follows:

| Address | Area (m ²) | Price |
|--|------------------------|-----------|
| 139 Taylors Mistake Rd, Taylors Mistake | 831 | \$235,000 |
| 151 Taylors Mistake Rd, Taylors Mistake | 670 | \$181,000 |
| 89H Taylors Mistake Rd, Taylors Mistake | 845 | \$145,000 |
| 209 Taylors Mistake Rd, Taylors Mistake | 635 | \$290,000 |
| 23 Smugglers Cove, Taylors Mistake | 872 | \$240,000 |
| 137B Taylors Mistake Rd, Taylors Mistake | 1,068 | \$290,000 |
| 89D Taylors Mistake Rd, Taylors Mistake | 1,039 | \$227,000 |

The above sections sold between early 2015 and mid-2018.

209 Taylors Mistake Road is the best comparable property as the site benefits from desirable views over the bay and is the closest physically to the baches. This property sold for \$290,000 late 2015. We would expect modest value growth from late 2015 to 2019.

We have looked further afield for sales of properties which benefit from 'front row' position and superior views and aspect. 27 Beachville Road in Redcliffs sold in October 2018 for \$465,000 and is 405m². This is a superior property to the Taylors Mistake bach sites but indicates the desirability of sites with direct access to water. This site has direct access to The Estuary.

18 Sumner Road in Lyttelton is a site of 359m² which is steep in contour and overlooks the harbour/port. The views available from the site make it one of the more desirable sites within the Lyttelton market. The property sold in August 2018 for \$150,000. Developing the site would likely be expensive.

We have also had regard to vacant land sales in desirable locations which have challenging access and buildability issues due to a steep contour and access for machinery.

| Address | Area (m ²) | Price |
|-------------------------------|------------------------|----------|
| 9 Selwyn Rd, Lyttelton | 470 | \$75,000 |
| 22 Cressy Tce, Lyttelton | 657 | \$73,000 |
| 4 La Costa Ln, Mt Pleasant | 1,046 | \$75,000 |
| 9 Rifleman Ln, Redcliffs | 1,068 | \$81,000 |
| 10 De Thier Ln, Richmond Hill | 1,326 | \$85,000 |
| 11 De Thier Ln, Richmond Hill | 1,020 | \$85,000 |
| 27 Clifton Tce, Clifton | 654 | \$90,000 |



The sales have occurred during 2016 and 2017 with prices ranging from \$73,000 to \$90,000. A substantial discount is revealed from what 'prime' sites with drive-on access and a level building platform sell for in the same locality.

One further sale of interest is 6 The Zig Zag in Clifton. This property is relevant because it only has walk-on access. The contour is also steep and would be expensive to build on. The enduring inconvenience of only having walk-on access is a substantial detriment. The property sold in November 2016 for \$47,500 and is 683m². Nearby sections with drive-on access would likely sell for \$275,000 - \$375,000. The discount is substantial in this instance.

Our sales evidence has indicated what the market has been prepared to pay for sites in the Taylors Mistake locality. We have also had regard to prices paid for prime 'front row' properties overlooking water in Redcliffs and Lyttelton. From this evidence, we can establish what a prime 'front row' site in Taylors Mistake would sell for. We have adopted a notional site of 650m² and established the value at **\$300,000**. This notional site would have front row views, have an average contour (not necessarily level), and would provide a building platform and have drive-on access with the capability of garaging.

Our market evidence of sections with steep contour, walk on access and building challenges indicates the level of discount the market considers when purchasing land with these characteristics. We draw upon this evidence to make our adjustments.

Before we can apply our notional site value to the baches we need to look at the land the baches occupy in terms of scale, hazard risk and distance from vehicle access.

4.3 Bach Location

We have not been asked to provide a license fee assessment for each individual bach but rather provide some broad perimeters which could apply to a number of baches which will also retain a level of consistency between the bach owners.

The baches can broadly be split into 3 geographic categories:

- + Boulder Bay
- + Taylors Mistake – Rotten Row
- + Taylors Mistake and Hobsons Bay waterfront baches

The Boulder Bay baches are more isolated than the other baches with access being via foot either from the Summit Road at the Godley Head end above the bay or by a longer walk from Taylors Mistake beach.

The Rotten Row baches at Taylors Mistake are generally positioned on orthodox building platforms, set back from the water and are not as vulnerable to sea inundation or cliff collapse. Access is provided via a short walk from the Taylors Mistake car park or dirt track behind the baches.

The Taylors Mistake and Hobsons Bay baches generally have direct sea views and frontage, are more susceptible to cliff collapse, rockfall and sea inundation hazards.

We have looked at aerial photography to estimate the footprint of the buildings in these areas and also the land they occupy in terms of decking and pathways round the perimeter of the baches. We have estimated the average areas as follows:



+ **Boulder Bay**

| Description | Area (m ²) |
|--|------------------------|
| Average Site Area (building, deck, pathways, small garden) | 95 |
| Average Building Footprint (ground floor only) | 40 |

+ **Taylors Mistake – Rotten Row**

| Description | Area (m ²) |
|--|------------------------|
| Average Site Area (building, deck, pathways, small garden) | 130 |
| Average Building Footprint (ground floor only) | 45 |

+ **Taylors Mistake and Hobsons Bay Waterfront**

| Description | Area (m ²) |
|--|------------------------|
| Average Site Area (building, deck, pathways, small garden) | 75 |
| Average Building Footprint (ground floor only) | 30 |

We now take our notional site of 650m² with a value of \$300,000 established from Taylors Mistake sales evidence and make adjustments to reflect the smaller section sizes, the lack of sewer connection and the lack of drive on access. Our adjustments reflect the discounts analysed from the sales evidence previously detailed of more challenging sites throughout the broader region.

Our adjustments in this regard are as follows:

| Description | Boulder Bay | Rotten Row | Beach Front |
|---|------------------|-------------------|------------------|
| Base notional site – 650m ² | \$300,000 | \$300,000 | \$300,000 |
| Average site area in each location | 95m ² | 130m ² | 75m ² |
| Adjusted value to reflect smaller area | \$88,000 | \$120,000 | \$69,000 |
| 10% adjustment for lack of sewer reticulation | \$79,200 | \$108,000 | \$62,100 |
| Adjustment for lack of drive on access | 50% | 25% | 25% |
| Adjusted value | \$39,600 | \$81,000 | \$46,575 |
| Adopt | \$40,000 | \$81,000 | \$47,000 |

Our base values established at \$40,000 for Boulder Bay, \$81,000 for Rotten Row and \$47,000 for the beachfront sites are supported by our broader evidence for sites with access challenges whilst still offering a level of desirable amenity in terms of view and outlook.

4.4 Additional Hazards

A number of the baches are vulnerable to cliff collapse and rockfall vulnerability and vulnerability to sea inundation. If these 'higher risk' properties were to be offered a license to occupy, a further adjustment/discount may be required to the base land value.



4.5 Return

We now turn our attention to the return property owners seek in exchange for a ground lease. Our market evidence is listed as follows:

| Location | Tenant | Rent Review Term | Return |
|-------------------|-----------------------|------------------|---------------|
| Lyttelton | BP | 4 years | 6.35% |
| | BP | 4 years | 6.35% |
| | Z Energy | 4 years | 6.50% |
| | Z Energy | 4 years | 6.50% |
| | Z Energy | 4 years | 6.00% |
| Sawyers Arms Road | North Shore | 5 years | 6.25% |
| Johns Road | NZTA | 5 years | 6.25% |
| Orchard Road | Air NZ | 5 years | 6.35% |
| Sawyers Arms Road | Far Corners | 5 years | 6.00% |
| | Morrow | 5 years | 6.00% |
| | Musson | 5 years | 6.00% |
| | Penny Wang | 7 years | 6.20% |
| Logistics Drive | Fairfax | 5 years | 6.35% |
| | Calder Stewart | 5 years | 6.35% |
| | Russley Business Park | 5 years | 6.35% |
| Range | | | 6.00% - 6.50% |

These transactions represent orthodox ground lease arrangements which convey exclusive occupation rights to the lessee with long term tenure. These agreements convey a level of certainty over the property which allows the lessee to invest in building improvements with the knowledge that they will benefit from the utility created.

We have no market evidence of the differential in returns achieved between typical ground leases and license to occupy agreements. A discount is certainly justified. The returns range from 6.00% to 6.50% for orthodox ground leases. We do not know the terms and conditions to be offered to the bach owners. In the absence of the agreed terms and conditions, it is likely the appropriate return for the license to occupy will be **5.00% to 5.50%** of market value.

5.0 Summary

We have established the average market value of the bach sites for 3 separate locations. Additional adjustment may be required depending on the level of hazard on a property by property basis. The provisional level of return has been established at 5.00% to 5.50% of land value depending on the final terms and conditions within the license to occupy agreement. License fees are likely to range from **\$2,000 to \$4,455** (excluding further hazard discount) per annum.

Note: All figures are established on an 'Including GST (if any)' basis.



6.0 Concluding Comments

In our view, the approach provides a robust measure of establishing an underlying market-based land value and then an appropriate level of return to the landowner.

Once the actual license to occupy document has been finalised, variations to the return component will be appropriate.

We have averaged the footprint of each bach (ground floor) and the site area they occupy based on aerial photography. It will be prudent to have these areas accurately surveyed in case some baches are significantly larger or smaller than the 'average' and an additional adjustment to land value is required.

We have based our report on information received from the Council and sourced from the following website:

<https://gis.ccc.govt.nz/portal/apps/MapTour/index.html?appid=64a34d42482943fe857343fb53273a69#map>

DRAFT



7.0 Statement of Limiting Conditions and Valuation Policy

Purpose

This valuation report has been completed for the specific purpose stated. No responsibility is accepted in the event that this report is used for any other purpose.

Responsibility to Third Party

Our responsibility in connection with this valuation is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of TelferYoung (Canterbury) Limited and the author of the report. TelferYoung (Canterbury) Limited reserves the right to alter, amend, explain or limit any further information given to any other party.

Reproduction of Report

Neither the whole nor any part of this valuation and report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's signature.

Date of Valuation

Unless otherwise stated, the effective date of the valuation is the date of the inspection of the property. This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value.

Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 90 days from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Legislation

We have not obtained a Land Information Memorandum (LIM) or Property Information Memorandum (PIM) for this property which, unless otherwise stated, is assumed to conform to all requirements of the Resource Management Act 1991, the New Zealand Building Code contained in the First Schedule to the Building Regulations 1992, the Building Act 2004 and any Historic Places Trust registration. Our valuation reports are prepared on the basis that properties comply with all relevant legislation and regulations and that there is no adverse or beneficial information recorded on the Territorial Local Authority (TLA) property file, unless otherwise stated. Legislation that may be of importance in this regard includes the Health & Safety at Work 2015, the Fire Safety and Evacuation of Buildings Regulation 1992, and the Disabled Persons Community Welfare Act 1975.

Registrations

Unless otherwise stated, our valuation is subject to there being no detrimental or beneficial registrations affecting the value of the property other than those appearing on the title. Such registrations may include Waahi Tapu and Historic Places Trust registrations.

Reliability of Data

The data and statistical information contained herein was gathered for valuation purposes from reliable, commonly utilised industry sources. Whilst we have endeavoured to ensure that the data and information is correct, in many cases, we cannot specifically verify the information at source and therefore cannot guarantee its accuracy.

Assumptions

This report contains assumptions believed to be fair and reasonable at the date of valuation. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, TelferYoung (Canterbury) Limited reserves the right to reconsider the report, and if necessary, reassess values.



GST

The available sources of rental data upon which our valuation is based are generally not specific as to the GST content. Unless it has been necessary and possible to specifically verify the GST status of a particular rental agreement, it has been assumed that the available commercial rental data has been transacted on a plus GST (if any) basis, which is in accordance with standard industry practice for most commercial property. Should this interpretation not be correct for any particular rental used as evidence, we reserve the right to reconsider our valuation.

Rental evidence relating to a residential property or a residential component of a commercial property is not subject to GST. Unless it has been necessary and possible to specifically verify the GST status of a particular residential rental agreement, it has been assumed that the available residential rental data has been transacted with no GST, which is in accordance with standard industry practice for residential property. Should this interpretation not be correct for any particular rental used as evidence, we reserve the right to reconsider our valuation.

Land Survey

We have made no survey of the subject property and assume no responsibility in connection with these matters. Unless otherwise stated, the valuation has been assessed conditional upon all improvements being within the title boundaries.

Unless otherwise stated, we have not undertaken investigations or been supplied with geotechnical reports with respect to the nature of the underlying land. Unless otherwise stated, the valuation has been assessed conditional upon the land being firm and suitable ground for the existing and/or potential development, without the need for additional and expensive foundation and retaining work or drainage systems.

Leases

The interpretation of leases or other contractual agreements referred to in this report is solely the opinion of the author and should not be construed as a legal interpretation. Furthermore, summaries of contractual agreements which may appear in the report or appendices, are presented for the sole purpose of giving the reader an overview of the salient facts thereof.

Tenancies

Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market perception of them. Unless otherwise advised, our valuation has been assessed subject to the tenant being independent of the owner and capable of meeting all financial obligations under the lease, and that there are no arrears of rent or undisclosed breaches of covenant. Further, our valuation is conditional upon all rents referred to in this report representing the rental arrangement stipulated in the contractual agreements pertaining to the tenant's occupancy, to the extent that such rents have not been prepaid, abated or inflated to reflect extraordinary circumstances, unless such conditions have been identified and noted in this report.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully

TelferYoung (Canterbury) Limited

Martin Winder - B Com (VPM), ANZIV, MPINZ
Registered Valuer
Director

Email: martin.winder@telferyoung.com



National Head Office:

TelferYoung Limited
Level 7, 52 Swanson Street
PO Box 105553,
Auckland City 1143

TelferYoung (Northland) Limited

17 Hatea Drive
PO Box 1093
Whangarei 0140
Telephone: 09 438 9599
Email: northland@telferyoung.com

TelferYoung (Auckland) Limited

Level 7, 52 Swanson Street
PO Box 5533
Auckland 1141
Telephone: 09 379 8956
Email: auckland@telferyoung.com

TelferYoung (Waikato) Limited

7 London Street
PO Box 616
Waikato Mail Centre, Hamilton 3240
Telephone: 07 839 2030
Email: waikato@telferyoung.com

TelferYoung (Tauranga) Limited

Level 2, 49-51 The Strand
PO Box 455
Tauranga 3144
Telephone: 07 578 4675
Email: tauranga@telferyoung.com

TelferYoung (Rotorua) Limited

1243 Ranolf Street
PO Box 2121
Rotorua 3040
Telephone: 07 348 1059
Email: rotorua@telferyoung.com

TelferYoung (Taranaki) Limited

143 Powderham Street
PO Box 713
New Plymouth 4340
Telephone: 06 757 5753
Email: taranaki@telferyoung.com

TelferYoung (Hawkes Bay) Limited

25 Pandora Road
PO Box 572
Napier 4140
Telephone: 06 835 6179
Email: hawkesbay@telferyoung.com

TelferYoung (Wellington) Limited

Level 4, 94 Dixon Street
Wellington 6011
Telephone: 04 472 3683
Email: wellington@telferyoung.com

TelferYoung (Nelson) Limited

Level 3, 105 Trafalgar Street
PO Box 621
Nelson 7040
Telephone: 03 546 9600
Email: nelson@telferyoung.com

TelferYoung (Canterbury) Limited

Level 1, 58 Armagh Street
PO Box 2532
Christchurch 8140
Telephone: 03 379 7960
Email: canterbury@telferyoung.com

TelferYoung (Otago) Limited

Level 3, 8 The Octagon
PO Box 497
Dunedin 9054
Telephone: 03 477 5796
Email: otago@telferyoung.com

TelferYoung (Southland) Limited

135 Spey Street
PO Box 370
Invercargill 9840
Telephone: 03 218 4299
Email: southland@telferyoung.com

17 Dee Street
Timaru 7910
Telephone: 03 687 1220
Email: canterbury@telferyoung.com

Level 1, 130A Percival Street
PO Box 138
Rangiora 7440
Telephone: 03 313 5355
Email: rangiora@telferyoung.com

23 Medway Street
PO Box 334
Gore 9740
Email: southland@telferyoung.com

telferyoung.com

