

Report to:	Council – Public Excluded	
Date:	6 September 2023	
Subject:	Next steps for the sale and purchase of land relating to the Old Council Building Site	
Prepared by:	W Doughty – Chief Executive Officer	
Input sought from:		
Authorised by:	W Doughty – Chief Executive Officer	

1. SUMMARY

In February 2022 a report was provided to Council with regard to making a formal offer to Te Rūnanga o Kaikōura (TRoK) to purchase Lot 2 DP 5184 in line with the market valuation received at the end of August 2021. The Council unanimously resolved the following:

That the Council:

- 1) *Notes that the two stage demolition process is currently underway with total costs anticipated to be in the region of \$75,000 to \$100,000.*
- 2) *Notes that there have been ongoing discussions at a governance level with Te Rūnanga o Kaikōura with regard to the potential sale and purchase of Lot 2 DP 5184 contained within Certificate of Title Identifier MB3D/211.*
- 3) *Approves that a formal offer to purchase Lot 2 DP 5184 is made to Te Rūnanga o Kaikōura in line with the external valuation received in August 2021.*
- 4) *Delegates the Mayor and Chief Executive Officer to continue discussions and negotiations around the potential sale and purchase of Lot 2 DP 5184 with Te Rūnanga o Kaikōura.*
- 5) *Requests the Chief Executive Officer to report back on the outcomes of the negotiations prior to any agreement being signed or other options for disposal being considered.*
- 6) *Delegates the Chief Executive Officer to determine the release of this public excluded report.*

Moved: Cr N Pablecheque

Seconded: Cr R Roche

CARRIED UNANIMOUSLY

A copy of the full report and appendices are included in this paper for background.

A formal offer was made by the Mayor and CEO to TRoK on the 10th March 2022 (copy of letter attached) with the hopeful intent that the sale and purchase could be completed by the end of the financial year in June 2022. Limited engagement with regard to the offer has occurred despite initially involving Ngai Tahu property representatives. A verbal offer of \$80,000 for the land was outlined by TRoK representatives at a meeting with the CEO in approximately June 2022. This was immediately discounted by the CEO at the meeting as the offer did not cover the final costs for demolition (which was informally discussed as a minimum in preliminary discussion with elected members). Numerous attempts have been made by the CEO to progress further discussions and, after sixteen months, a written email offer of \$170,000 was received via the Rūnanga Company on 27th July 2023.

The final costs for demolition for the old Council building were in the order of \$115,000 (excluding staff time). Incidental expenses for the old Council building from Jul 2021 to December 2022 total approximately \$31,600. (These include electricity, rates and overheads on the old building). This is a total cost approximately \$147, 600.

A revenue from the sale and purchase of \$150,000 has been budgeted in the 2023/2024 annual plan which is currently proposed to offset the civic building loan.

The purpose of this report is to satisfy resolution 5 and to seek direction from elected members on the next steps. Some options for consideration are laid out in the section 3.

2. RECOMMENDATIONS

It is recommended that the Council:

- a) Notes that the final costs associated with demolition of the old Council building are in the order of \$150,000 incurred in the 2022 financial year.
- b) Notes that a formal offer of \$325,000 was made to Te Rūnanga O Kaikōura in March 2022 and that a written counteroffer of \$170,000 was received by Te Rūnanga O Kaikōura in July 2023.
- c) Considers the options outlined for the next steps and confirms by resolution a preferred option.
- d) Delegates the Mayor and Chief Executive Officer to continue discussions and negotiations to complete the sale of a Lot 2 DP 5184 if appropriate.
- e) Delegates the Chief Executive Officer to determine the release of this public excluded report.

3. OPTIONS

Four main options are outlined below for consideration by elected members.

3.1 Option 1: Accept the current offer from Te Rūnanga o Kaikōura

Despite the land being owned freehold by Kaikōura District Council and therefore not being subject to first right of refusal, in 2022 elected members recognised the cultural significance of the land below the old council building and the importance of providing TRoK with an opportunity to obtain the whenua. Informal discussions held at the time indicated, that covering the cost of demolition could be a minimum requirement in terms of cost recovery, despite the land being worth potentially significantly more on the open market.

Accepting the current proposal from TRoK achieves the objective of returning the whenua to TRoK as well as covering the costs of demolition of the old council building. It also exceeds the revenue budgeted for in the annual plan for 2023/24. However, it does not allow Council to maximise the financial return from a limited block of freehold land in a prime location.

3.2 Option 2: Continue to negotiate a revised sale and purchase price with Te Rūnanga o Kaikōura

A second option would be to counteroffer to TRoK. If this was the case, it would be useful for elected members to discuss and agree a minimum sale and purchase price. A counteroffer could result in additional income to Council. However, it is unlikely that the full market value would be agreed and there is a risk of continued protracted negotiations, or a sale not being agreed. In order to mitigate this risk, a time limit could be set for negotiations after which Options 3 or 4 could be considered.

3.3 Option 3: Council withdraws the offer of sale and purchase to Te Rūnanga o Kaikōura and progresses with an open market sale.

This option **may** not achieve the primary objective of returning the whenua to TRoK and given the attempted good faith negotiations to date could have an impact on the relationship with TRoK. This option could result in a higher revenue to Kaikōura District Council and still provides an opportunity for TRoK to compete to purchase on the open market. Given the cultural significance of the site there could be a reputational risk to Council with this option and there is a risk that potential external purchasers are not interested for the cultural significance reason. It should be noted that this option was discounted initially, but this was before an offer was received from Rūnanga o Kaikōura.

3.4 Option 4: Council retains the land and considers potential future use options.

A final option would be for Council to retain the land in question and consider options for future use, including a potential joint venture with TRoK. The adjacent old fire station land is currently subject to the FRR process. No discussions have been held with TRoK regarding future joint possibilities. This option would mean no short-term revenue to Kaikōura District Council, but would leave options open for the future.

4. FINANCIAL IMPLICATIONS AND RISKS

A revenue from the sale and purchase of \$150,000 has been budgeted in the 2023/2024 annual plan which is currently proposed to offset the civic building loan. Should the sale and purchase not proceed this financial year this would need to be addressed.

The risks associated with each option are outlined in section 3.

5. COMMUNITY OUTCOMES SUPPORTED

The issue discussed in this report relates to the community outcomes below.



Community

We communicate, engage and inform our community



Development

We promote and support the development of our economy



Services

Our services and infrastructure are cost effective, efficient and fit-for-purpose

Appendix A: Council report (and appendices) from February 2022.

Appendix B: Formal offer letter to Te Rūnanga o Kaikōura March 2022.

Report to:	Council – Public Excluded	
Date:	23 February 2022	
Subject:	Formal offer for sale and purchase of land relating to the Old Council Building Site	
Prepared by:	Will Doughty	
Input sought from:	Dave Clibbery – Senior Manager Operations	
Authorised by:	Will Doughty	

1. SUMMARY

Following feedback from public consultation in April 2021, the Council approved the demolition of the Old Council Building at 34 Esplanade in May 2021. A two-stage demolition process is currently underway. Given the cultural significance of the area it has always been a consideration to offer the land for purchase back to Te Rūnanga o Kaikōura in the first instance before considering any alternative options for disposal. Ongoing discussions to that effect have been held with Te Rūnanga o Kaikōura representatives at a governance level over the last 12 months. The purpose of this paper is to seek approval to make a formal offer to Te Rūnanga o Kaikōura to purchase Lot 2 DP 5184 in line with the market valuation received at the end of August 2021.

2. RECOMMENDATIONS

That the Council:

- (1) Notes that the two stage demolition process is currently underway with total costs anticipated to be in the region of \$75,000 to \$100,000.
- (2) Notes that there have been ongoing discussions at a governance level with Te Rūnanga o Kaikōura with regard to the potential sale and purchase of Lot 2 DP 5184 contained within Certificate of Title Identifier MB3D/211.
- (3) Approves that a formal offer to purchase Lot 2 DP 5184 is made to Te Rūnanga o Kaikōura in line with the external valuation received in August 2021.
- (4) Delegates the Mayor and Chief Executive Officer to continue discussions and negotiations around the potential sale and purchase of Lot 2 DP 5184 with Te Rūnanga o Kaikōura.
- (5) Requests the Chief Executive Officer to report back on the outcomes of the negotiations prior to any agreement being signed or other options for disposal being considered.
- (6) Delegates the Chief Executive Officer to determine the release of this public excluded report.

3. BACKGROUND

3.1 Current status of the demolition project

Public Consultation in accordance with the provisions of the Special Consultative Procedure of the Local Government Act 2002 was undertaken in April 2022 with respect to the demolition of the old Council offices at 34 Esplanade. Following consideration of responses, the Council resolved to proceed with the demolition at the meeting of the 26th May 2022.

A two stage demolition process is currently underway. The first stage includes the removal of asbestos from the building which will be completed before the end of February. The second stage includes the building and slab demolition and removal which is expected to be tendered locally in March and completed by June 2022.

The total cost of the demolition and clearance process is anticipated to be between \$75, 000 - \$100, 000.

3.2 Discussions held to date with regard to potential sale or disposal of land

As part of the consultation with regard to the potential demolition of the building a number of options were considered as outlined in the Statement of Proposal included in Appendix A. The statement of Proposal highlights that the current old Council building covers two titles, one of which (marked 'B' on Figure 1 and shown below) is freehold, but with the larger part of the building (about two-thirds) being on Local Purpose Reserve (County Buildings) – marked 'A' on that Figure.



Figure 1: General Location – Old Council Offices at 34 Esplanade

Given the cultural significance of the area, it was always intended that discussions would be held with Te Rūnanga o Kaikōura in the first instance should Council wish to dispose of any land. Those discussions have been ongoing at a governance level for the last 12 months to keep Te Rūnanga o Kaikōura up to date with the progress of the project.

Meetings have also been held with both Ngāi Tahu Holdings and the Department of Conservation representatives to confirm the status of the land. Through those discussions it has been confirmed to all parties that Lot 2 DP 5184 contained within Certificate of Title Identifier MB3D/211 (the area marked "B" on Fig 1) is freehold title held by Kaikōura District Council and is not subject to the First Right of Refusal process. Technically, Council could therefore proceed with open market sale of the land in question.

Council also requested a formal valuation of Lot 2 DP 5184 which was completed by Maxwell Valuation at the end of August 2021 (included in Appendix B). The valuation report assessed the current market value at that time to be \$325,000 excluding any GST payable on site.

This valuation has been shared with Te Runānga o Kaikōura in good faith, who have now requested that Kaikōura District Council put any formal offer to purchase in writing to them.

4. PROPOSAL

The recommended proposal is that a formal offer to purchase Lot 2 DP 5184 contained within Certificate of Title Identifier MB3D/211 is made to Te Runānga o Kaikōura at the market value of \$325,000 (noting that this could have increased since 1st September 2021) and that the Mayor and CEO are delegated responsibility to continue the discussions and negotiations.

The Council may wish to indicate an acceptable range for negotiation noting that the cost for demolition of the old Council facilities is likely to be in the order of \$75,000 to \$100,000 and also the fact that Council has very little freehold land available. The Council may also wish to give consideration to the future use of any surplus funds (over and above the cost of demolition) received if the sale of the land to Te Rūnanga o Kaikōura goes ahead. For example, ringfencing those funds for any future joint initiatives or projects.

Alternative proposals considered include:

- Sale of the freehold title on the open market
- Gifting of the land to Te Rūnanga o Kaikōura
- Retention of the land once the old building has been removed.

Given the cultural significance of the area in question it is not considered appropriate that open market sale is considered at this stage. Gifting the land to Te Rūnanga o Kaikōura would mean that the costs for demolition are not recovered as well as potential concerns with regard to the management of valuable Council assets. Likewise, retention of the land once the building has been removed would mean that in the short term the costs for demolition are not recovered. A formal offer to Te Rūnanga o Kaikōura is therefore recommended in the first instance.

5. COMMUNITY OUTCOMES

The issue discussed in this report relates to the community outcomes below.



Our community is resilient, safe and well and has their essential needs met



Our infrastructure, housing and community facilities are easily accessible, cost effective and able to withstand our natural hazards.



Our community participates in decisions and planning in a way that benefits our future.

Appendix A: Statement of Proposal for demolition consultation April 2021

Appendix B: Formal valuation received 30th August 2021.

Kaikoura District Council
Statement of Proposal
Demolition of Old Council Office Building

1. Introduction

At its meeting of 24 February 2021 Kaikoura District Council resolved to consult with the community regarding the proposed demolition of the old Council Office Building at 34 Esplanade, which has been unused since 2015.

Demolition of the structure is proposed because there does not appear to be justification for retaining a building that is old and requires very substantial expenditure (believed to be in the order of \$800,000) to address significant structural deficiencies and to undertake other necessary repairs and renewals to make it useable.

It is believed that should additional space in future be needed for community organisations that this could be provided in a much more cost efficient way than by attempting to restore the old Council building.

2. Purpose of this Statement of Proposal

Whilst Council has expressed the view above, it believes that an opportunity for views to be heard from the broader community needs to be provided before any final decision is made, and proposes to do so through following the Special Consultative Procedure contained in the Local Government Act.

As part of the Special Consultative Procedure the Council must produce a Statement of Proposal, which contains a summary of information that is a fair representation of the major matters in the proposal, and make it available to the community. This document is the Statement of Proposal. The information contained in this Statement of Proposal has been approved by Council for notification and consultation.

Submissions must be made in writing, addressed to kdc@kaikoura.govt.nz or

The Chief Executive, Kaikoura District Council

PO Box 6, KAIKOURA 7300

and must be received by Council by 10 May 2021. Submitters should indicate on their submission if they wish to speak to it at a future hearing convened for that purpose.

3. Summary of Information

THE PREMISES

Figure 1 shows the location of the premises and Figure 2 is an indicative floor plan.

The building is a predominantly concrete structure comprising 256m² of ground floor and 66m² of first floor office space, specifically constructed for use as Council offices. The ground floor is understood to have been originally built in 1946 with subsequent extensions (including addition of a first floor) progressively added until the 1970s.



Figure 1: General Location – Old Council Offices at 34 Esplanade

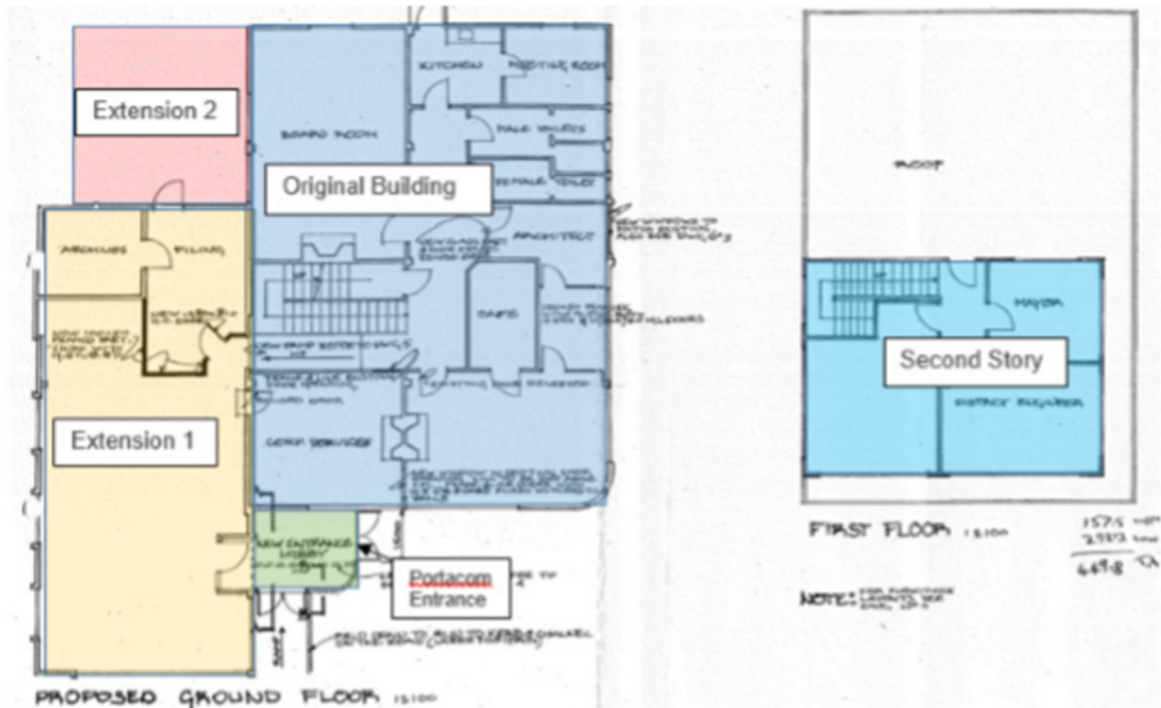


Figure 2: Indicative Floor Plan – Old Council Offices

POTENTIAL FUTURE OPTIONS

Sale

When construction of the new Kaikoura Civic Building was proposed the initial intention was to make the former Council Office building at 34 Esplanade available for sale or rental. A valuation in the range \$350,000 to \$450,000 had been obtained in 2015 for the building, but it was later found that this valuation had been based upon the assumption of the building being sold on a separate freehold certificate of title, which was later identified as not being easily achievable because the building covers two titles, one of which (marked 'B' on Figure 1) is freehold, but with the larger part of the building (about two-thirds) being on Local Purpose Reserve (County Buildings) – marked 'B' on that Figure.

Whilst it might be possible to go through a process to uplift the existing reserve classification on that part of the Local Purpose Reserve which is occupied by the building this would require public consultation and approval by the Minister of Conservation. A particular challenge in this respect is that the prior to its classification as Local Purpose Reserve it had been part of the former Kaikoura Domain, which had been declared under the Public Reserves, Domains and National Parks Act 1928. Such a declaration is considered equivalent to a classification as Recreation Reserve under Reserves Act 1977.

A consequence of this prior declaration is that if the Local Purpose Reserve classification was uplifted the land under section 25 of the Land Act 1948 would likely be required to revert to its former purpose, which is now considered to be Recreation Reserve.

Even without the underlying Recreation Reserve status it seems very unlikely that the Local Purpose Reserve part of the building's site would be granted a freehold title, given the cultural importance of the adjacent Takahanga Domain, which in turn presents a significant challenge in respect of the sale of the building on a leasehold basis since leases of Reserve land can only have a maximum term of 33 years, making recovery of investment more challenging.

Leasing

Because of the difficulties attendant to a sale, the alternative of leasing the building became the option more favoured by Council, and in 2015 it was indicated that a market rental for the building might be in the order of \$30,000 per annum which was considered an acceptable level of return. In September 2015 Council resolved to instruct staff to seek tenants for the building following the relocation of the Council offices to the new Civic Building.

The 2016 earthquake did however prevent such a rental occurring, with the building suffering structural damage, and an increased awareness that the building did not achieve the seismic rating required for a building of that type. As a result the building remained unoccupied.

In March 2018 Opus consultants provided a report on the range of work required to make the building safe for public use. The work identified was in respect of accessibility, fire protection, electrical compliance, structural compliance and replacement of the roof membrane on the original part of the building, together with other general improvement works. An initial estimate for the cost of these works was \$370,000.

Cosmetic improvements such as redecorating, lighting improvements, floor covering replacement and other internal fitout would be in addition to this.

The future of the building was raised in consultation for Council's 2018/19 Annual Plan, with eighteen submissions being received from the community requesting that the building be opened up for community uses. Council then committed \$40,000 loan funding to investigate such use, with the primary focus being undertaking of a detailed assessment by a Structural Engineer and Quantity Surveyor to refine cost estimates.

In November 2019 a report was presented to Council that considered the future options for the building in some detail, mainly focussing on potential alternative lease arrangements.

In this report it was also suggested that in addition to the capital cost to bring the building up to a useable standard, significant ongoing expense – potentially in excess of \$40,000 per annum - would be required to operate and maintain what is now a relatively old building, and staff recommended caution regarding taking on such additional costs unless accompanied by substantial and sustainable additional funding sources.

On this basis Council resolved to seek a detailed engineering assessment of the building and subject to the results of that assessment potentially offer the building for lease to a community trust or similar entity on an 'as is, where is' basis.

Such a detailed assessment was received in December 2020, which estimated the cost of essential works (excluding cosmetic improvements) as being \$694,000. This was almost twice as much as had been initially indicated.

This high figure suggests that a lease of the 'as is, where is' type previously suggested is not realistic.

Any entity taking up a lease of the building would probably need to invest something approaching \$800,000 in essential and cosmetic works and assume other substantial operating costs to lease a building for which a maximum lease term of 33 years is specified by law.

Even if there was not the current requirement for substantial improvement works, the building would still not appear to represent a strong commercial rental proposition. A current market rental valuation from a Registered Valuer has not been obtained, but the following comments made in a previous rental assessment for this building undertaken by Quotable Value are likely to remain valid:

- The market for commercial building space in Kaikoura is very limited and there are large variations between buildings, positions and tenants.
- The rental rate for the first floor as an office would be expected to be significantly less than for the ground floor.
- It is probable that there would not be sufficient demand for office space in the community for the building to be effectively utilised for this purpose on a commercial basis.
- For a more adequate rental return the building would need to be reconfigured for other purposes such as a restaurant or as apartments. The cost of such reconfiguration would need to be factored into the overall assessment of return from the building.

The final point about using the building for such new purposes is however unrealistic because of the constraints imposed by the Reserves Act on the use of Local Purpose Reserve. Section 61 of the Act specifies the purposes for which Local Purpose Reserve can be leased, and these exclude activities such as those suggested above.

Current data on potentially comparable office space in communities such as Picton and Amberley suggests that a rental of between \$140 and \$200 per m² (exclusive of GST) might be appropriate for the ground floor if used as office space.

Given the size and form of the building it does however seem very unlikely that the full area of the building could be consistently let at these rates, and as such an assumption of an average of 50% of the floor area being let at the upper rate of \$200/m² is perhaps a best-case assumption.

On this basis a rental income of just over \$30,000 per annum might potentially be achievable, which is much the same as was indicated in 2015.

Even this should be viewed with caution as there is no assurance that tenants willing to pay such rentals will be found (or can be maintained) in the current market.

Whilst some parties have expressed interest in occupancy of parts of the building, these approaches have been very tentative and not always based on commercial reality, sometimes apparently expecting a space to be provided for free or with only a 'peppercorn' rental.

With KDC ratepayers already substantially contributing to the operation and maintenance of the relatively little used Memorial Hall, and with no apparent shortage of other spaces for community use, heavily subsidising the operation and maintenance of the old Council Building does not seem appropriate.

'Mothballing'

The current practice of leaving the building unoccupied has an annual cost to Council in the order of \$10,000 through the need to pay for rates, insurance and essential repairs such as remedying water leaks.

Under such a regime the building will continue to deteriorate, and there is nothing to suggest that the building in its current form will be an appreciating asset in the future. Even if it was in a sound condition without the need for major repairs everything points to its viability as an investment declining rather than improving over time. It appears that the rental revenue that might be obtained today is little different from what was estimated to be achievable almost 20 years ago when discussions first commenced about the future of the building.

As such maintenance of the status quo cannot be supported.

Gifting

Consideration has been given to the possibility of gifting the building to a community organisation but this also appears problematic

The issue of the larger part of the building lying on reserve land will however still be present. A possibility might be to have a relevant part of the Local Purposes Reserve vested in a community organisation, since the Reserves Act 1977 permits the Minister to vest reserves in *'any trustees empowered by the Act or any other lawful authority'* which might include such a body.

It is however questionable regarding both whether this process is achievable and /or a community organisation would wish to accept such a vesting, since it would place responsibilities and obligations on it that it might not wish to assume. Having part of the building on Reserve land – regardless of whom that land is vested in – will prevent it being a bankable security as it would be if on freehold land, and for this reason party to whom a gifting was made may be constrained or reluctant to invest in its improvement.

It would also be assumed that for a community organisation to accept any such gifting of the building and/or vesting of the reserve land, it would have to be accompanied by a gifting of the piece of freehold land on which part of it lies.

Having such transactions –and in particular the gifting of an unencumbered parcel of freehold land – does however appear to pose a potential risk in respect of public perception. Whilst the gifting of land and building might be done with the intention of the building being utilised for purposes that benefit the broader community there can be no assurance that this will occur in the long term. It would be expected to be very difficult to put in place a water-tight agreement that prevented outcomes such as the demolition of the building and the sale of the freehold land with the organisation retaining the proceeds of that sale.

There is also the risk that if the building was gifted to a community organisation, improved (perhaps using grant funding if that was available) and offered for community use that an expectation would

then be created that KDC might ultimately need to financially support if the economics of ongoing operation of the building proved challenging.

Reflecting on these issues suggested that such a free transfer of building ownership to a community organisation is not a practical solution.

With mothballing, sale, rental and gifting of the building all appearing impractical, it is believed that only one approach remains viable, which is demolition.

Demolition

The demolition of the building would be expected to be a relatively straightforward exercise. It is a simple concrete structure, and whilst it does contain some asbestos (the management of which will increase costs) its demolition is unlikely to pose any significant engineering challenges.

Its location on a very culturally sensitive site will however influence the demolition methodology, as was the case with the motel and restaurant at Oaro. To minimise ground disturbance it might be that demolition is limited to surface level, removing pavement and concrete floor slabs, but leaving deeper foundations in place and placing fill over them. Given the sensitivity of the site it is possible that an archaeological authority and cultural monitoring of the works would be required even if the demolition process was limited to the on-surface structures.

A general guideline for the cost of demolishing simple masonry buildings is understood to be \$100 per m² footprint of single storey, and \$300 per m² footprint of double storey. In this case the resultant guideline cost would be \$40,000, but to that must be added the cost of removing hard surrounds, and also adopting the methodology required by the cultural importance of the site.

Allowing for all these factors, and the presence of asbestos, it still appears very unlikely that the cost of demolition would significantly exceed \$100,000.

The freehold lot that would be made vacant by demolition of the building (LOT 2 DP 5184 SEC 480 TWN OF KAIKOURA) is not large (314m²) and its development would also have to take into account the high cultural value of the area, but the lot's certificate of title has no encumbrances and would still be expected to have significant value.

The land is business zoned but might also potential be developed as a residential lot, though a resource consent would be required since residential development of it would be a restricted discretionary activity under the KDC District Plan.

At this stage a market estimate of the value of the freehold land has not been obtained, and such value will be dependent on what development occurs on the adjacent lots, both the reserve land and that currently occupied by the fire station, which is also expected to be vacated in the relatively near future. It does however seem almost certain that if the old Council building was demolished the value of freehold lot would exceed the cost of the demolition.

The demolition of the building would also create a site on Local Purpose Reserve where if it was needed some form of modest new community facility or building might be constructed in the future, at significantly lower cost than what was needed to reinstate the old office building.

With such potential to construct a fit for purpose building more cheaply it is believed that a decision to demolish would be a relatively straightforward one, on which public consultation is not needed because no real value or potential value to the community would be lost.

4. Submissions on this Proposal

Feedback is invited in respect of the proposed demolition of the building, rather than the potential uses for it unless those suggested uses are accompanied by demonstrably achievable plans on how the associated financial challenges will be overcome.

Submissions must be made in writing, addressed to kdc@kaikoura.govt.nz or

The Chief Executive, Kaikoura District Council

PO Box 6, KAIKOURA 7300

and must be received by Council by 10 May 2021. Submitters should indicate on their submission if they wish to speak to it at a future hearing convened for that purpose.

30 August 2021
REF: GM21-5057

The Senior Manager Operations
Kaikoura District Council
PO Box 6
KAIKOURA 7300

Attention: Dave Clibbery

Dear Sir,

**Valuation of 'Business A' Zoned Commercial Land,
34 Esplanade, Kaikoura**

Further to instructions received, we inspected the above property on 16 August 2021 for the purpose of assessing current market value.

TYPE OF PROPERTY:

An 'L' shaped 314m² parcel of 'Business A' zoned land occupying an esplanade waterfront position in Kaikoura Township. The property partially incorporates the former Kaikoura District Council office building which is due to be demolished.

NATURE OF BRIEF:

Our brief is to assess current market value assuming sale of the property under normal terms and conditions on the basis the existing building is demolished.

VALUATION SUMMARY:

We assess the current market value of the property to be:-

**\$325,000 excluding any GST payable on sale,
(THREE HUNDRED & TWENTY FIVE THOUSAND DOLLARS)**

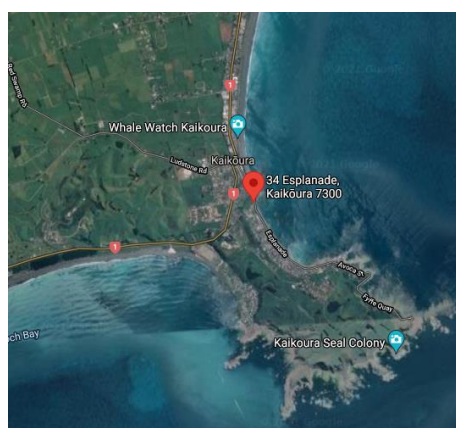


LOCALITY:

The property lies off the western side of the Esplanade forming part of Kaikoura Township within Kaikoura District. The surrounding locality is diverse in nature incorporating the Kaikoura Memorial Hall to the north with the Takahanga Doman and New Zealand Fire Service premises to the south and west. A new premises for the fire service is currently in the process of being developed on Churchill Street and we understand the existing building which lies adjacent will be sold in the short to medium term. The coastal foreshore lies on the opposite side of the Esplanade with the West End commercial precinct lying a short distance to the north. From a commercial viewpoint the property is situated within a fringe location albeit benefiting from ample roadside parking and good exposure to passing pedestrian and vehicle traffic.

Kaikoura caters for primary and secondary schooling together with a wide range of shopping facilities. Christchurch City is located within a comfortable two and a half hours drive to the south with Blenheim being around one and a half hours drive to the north. Normal utility services for the area are reticulated.

The Kaikoura District was impacted by a substantial 7.8 magnitude earthquake in November 2016. This resulted in the closure of State Highway 1 with a number of older commercial buildings having sustained considerable damage (a number have subsequently been demolished). There has been limited new commercial development since the earthquakes with the exception of the new Paper Plus, pharmacy and the former Four Square building. Within the surrounding Kaikoura area other developments include the substantial 118 room Sudima Hotel on the Esplanade which is currently under construction. The Kaikoura Wharf is due to be redeveloped with funding approved from the provincial growth fund (demolition works recently completed). Other new commercial projects include a proposed commercial spa facility along the Esplanade, the new Kaikoura pool complex and a new walkway linking along the coastal foreshore.



RESOURCE MANAGEMENT:

In terms of the Operative District Plan for Kaikoura District the land is zoned '**Business A (Commercial)**'. This zone provides for a broad range of retail, office, commercial and other business activities. Performance criteria for activities which include a maximum building coverage of 60%, 10 metre building height and no residential units on sites with a net area of less than 500m². The District Plan Maps also indicate an archaeological designation (A177) which relates to 'Occupation - Takahanga Lower'. This essentially means any earthworks undertaken in this area would require consent from the Historical Places Trust and also the local Iwi which does lead to higher building costs.

LEGAL DESCRIPTION:

The land is freehold and described as being Lot 2 Deposited Plan 5184 as contained within Certificate of Title Identifier MB3D/211.

There is a historical registration on the title which essentially means any minerals on the land are reserved to the Crown.

We have appended a copy of the relevant pages of the Certificate of Title which should be read in conjunction with this report.

LAND:

The site comprises an 'L' shaped front lot of 314m² with frontage of approximately 10 metres by a depth of around 25 metres.



Aerial Image of Site from Environment Canterbury GIS System

The land widens from approximately 20 metres depth to the south incorporating an additional area of land with a depth of around 7 metres. Contour is virtually level. The land has an open aspect with obstructed views of the Pacific Ocean to the east also including views of the Seaward Kaikoura Mountain Ranges to the north. In terms of our valuation we have assumed the existing building will be demolished with all materials removed from the site. Boundaries appear to lie predominantly open.



Land Photos

VALUATION CONSIDERATIONS:

In order to determine an appropriate value to the subject we have primarily had regard to the direct sales comparison approach to valuation. This approach involves the analysis of sales of properties which have similar characteristics which after making subjective allowances for physical and locational differences are then compared to the subject. Given the existing building will be demolished we have primarily had regard to sales evidence for 'Business A' zoned vacant sites within Kaikoura District. We have also considered sales relating to earthquake damaged or properties with modest buildings to assist with deriving a clearer land value conclusion.

By way of background demand for commercial and industrial properties within the Kaikoura Region has increased during the past 3 years evidenced by an upturn in sales activity. This follows a period of subdued market activity since the peak of the previous property cycle around 2007. New commercial development in Kaikoura has been reasonably limited following on from the global financial crisis. There was a noticeable upturn in the tourist and accommodation related sectors in the period leading up to 2016. Kaikoura was impacted by a substantial 7.8 magnitude earthquake in November 2016. This resulted in the closure of State Highway 1, particularly north of Kaikoura which has now reopened on an unrestricted hours basis. The earthquakes provided some major disruption to the tourist and retail related sectors, although this was compensated for in part by a significant rise in demand for workers associated with the roading and rail network repair projects.

In March 2020 the coalition government initiated a level 4 lockdown due to the COVID 19 pandemic which resulted in the closure of the New Zealand borders. Significant measures have been implemented including softening of the official cash rate, the removal of LVR restrictions and government wage subsidies. Mortgage interest rates have now fallen to historically low levels with residential fixed rates now available in the sub 3% bracket. Local real estate agents are reporting steady enquiry from local investors for commercial investments mainly due to lower returns being achievable from alternative investments (i.e fixed interest). A local number of businesses have experienced trading difficulties since the lockdown period particularly with a lack of international tourism. Whilst this has been compensated for by a rise in domestic tourism the likely extended period of the New Zealand border closures continues to have an impact.

Against this background sales considered indicative of value parameters are outlined hereunder.

Part 13 West End, Kaikoura

Reportedly sold circa April 2018 for \$120,000 in a boundary change to the adjoining owner of the land and buildings at 21 West End (Strawberry Tree). This comprises a circa 185m² parcel of 'Business A' zoned land which occupies a rear position within the West End commercial precinct. The land has been sold without official right of way access and also includes an additional area of potentially usable esplanade reserve land. The sale equates to around **\$650 psm** over the actual land area, although potentially more in the order **\$450 - \$500 psm** after taking into consideration the additional land which would be potentially useable extending through to the flood protection wall adjoining Lyell Creek. Overall inferior to the subject given the lands rear location.

VALUATION CONSIDERATIONS, contd...

17 Yarmouth Street, Kaikoura

Sold May 2020 for \$475,000. This comprises 1,017m² 'Business A' zoned corner site being situated in a fringe commercial location. The property incorporates a derelict 1950's bungalow (100m²) which is of no added value. The land was purchased by a residential developer and we understand their intention is to develop an apartment complex on the land. The sale reflects an effective land price around \$450,000 which equates to **\$442 psm**. Superior on an overall basis due to much larger land size.

49 – 51 West End, Kaikoura

Sold in a private transaction in September 2018 to the tenant for \$500,000. This comprises a prime 453m² parcel of flat 'Business A' zoned land occupying a central position within the West End commercial precinct. The property sold on an 'as is where is' basis with the vendor retaining the insurance settlement. The building (390m²) was originally developed around the 1930's with an extension circa 1950's and was substantially redeveloped during the late 2000's by the tenant for its existing use as the Whaler Bar and Restaurant. The building has sustained some damage during the Kaikoura earthquakes and has a reported estimated repair cost in the range \$800,000 - \$1,000,000. The property had been leased at an annual rental of \$59,500 per annum plus GST and outgoings. In our opinion the sale price lies below land value which reflects the extent of potential earthquake repairs and building strengthening requirements. The sale equates to around **\$1,100 psm** over the land area only. It would appear to represent good buying, although does reflect the vendor has achieved an overall price inclusive of the insurance settlement well in excess of the property's open market value in an 'undamaged' state. Overall superior.

15 West End, Kaikoura

Sold September 2019 for \$580,720 to the adjoining owner in a private transaction. This property had previously sold in June 2017 for \$325,000 to a former tenant of the building (Kaikoura Surf) which had been demolished due to earthquake damage. The site comprises a smaller 255m² 'Business A' zoned front site which lies at the northern end of the West End commercial precinct. The sale indicates a significant premium above the general market for adjoining owner influence (i.e the adjoining owner has the Strawberry Tree Bar and had also acquired vacant land to the rear of the vacant site for redevelopment). The sale equates to **\$2,277 psm** reflecting a significant premium above normal value levels for 'Business A' zoned land within the West End commercial precinct. Similar in terms of size although far superior location.

VALUATION CONSIDERATIONS, contd...

35 West End, Kaikoura

Sold October 2018 at deadline sale for \$701,250 on an 'as is where is' basis. The property was purchased by a local buyer with connections in the building industry and also with another business in the West End (intention is to relocate when their other lease expires into this premises). This comprises the former Kaikoura Four Square premises occupying a 672m² 'Business A' zoned front site within a central location in the West End commercial precinct. The total building equates to 395m² and also benefits from right of way easements over the adjacent access strips to the northern and southern sides. The building has some reasonably significant structural earthquake damage issues (more than \$200,000 estimate to repair). The property had been previously leased at an annual rental of \$48,500 per annum net. This sale appears to represent a very strong price indicating a premium for owner occupation. The building has been subsequently substantially renovated and structurally strengthened incorporating two new retail tenancies. On a land value basis only the sale equates to around **\$1,043 psm**. Overall superior.

Avoca Street, Kaikoura

Sold in a private transaction in July 2021 for \$1,125,000 to the adjoining owner of the Pier Hotel. This comprises a vacant 1,974m² parcel of 'Business B' zoned land comprised within three Certificates of Title located to the eastern side of the Pier Hotel site. The land benefits from dual frontages together with a warm aspect, esplanade waterfront position and panoramic mountain / sea views. The sale equates to approximately **\$570 psm**. This level of value is consistent with historical sales for larger 'business' zoned sites in the Kaikoura District.

26 – 36 West End, Kaikoura

Sold June 2018 for \$2,040,000 to a developer from Christchurch. This comprises the former Adelphi Hotel site which was demolished due to earthquake damage. The land comprises a total area of around 4,333m² within four Certificates of Title. The prime front part of the site comprises around 1,550m² of flat 'Business A' zoned land with a wide frontage of around 62 metres. The balance of the land is accessed off Adelphi Terrace comprising a prime elevated hilltop area of 'Residential A' zoned land plus the steeper limestone cliff. We understand the purchasers intention was to develop seven retail shops along the road frontage within the 'Business A' zoned area with approximately 36 apartments above on the hilltop site which enjoys panoramic mountain and sea views. The sale also included an adjoining residential property which was owned by a different entity. The sale price can be analysed as follows:

Prime Front 'Business A' Land	1,550m ²	@	\$750 psm
'Residential A' Land & Steeper Cliff	2,783m ²	@	\$315 psm

The property is currently under contract in January 2021, although due to confidentially reasons we are unable to disclose the price. Overall a much larger site therefore significantly superior to the subject.

VALUATION CONSIDERATIONS, contd...

The information outlined above indicates underlying land values for 'Business A' zoned sites within the West End commercial precinct typically fall within the **\$700 - \$2,000 psm** range. Prices in excess of this level relate to smaller sites or properties which are well suited to the purchasers requirements (i.e adjoining owner). Lower prices relate to sites in more fringe locations as evidenced by the sales in Avoca and Yarmouth Streets.

In terms of additional information we note the following property which is currently under contract, although due to confidentially reasons we are unable to disclose the price.

88 West End, Kaikoura

This property has been marketed over the past year with an asking price of \$400,000 plus GST. This comprises a vacant 516m² 'Business A' zoned site situated towards the southern fringe of the West End commercial precinct directly opposite the main public carpark. The land incorporates around 200m² of effective land area within the front part which is mainly easy contoured with the balance being in the form of a steep limestone cliff. The property is currently under contract to a local buyer, although due to confidentially reasons we are unable to disclose the price, although we can confirm this lies below the list price. The asking price equates to around **\$2,000 psm** over the lands effective usable area. We acknowledge this site is over 500m² in area which does provide the potential for some residential development. Considered superior to the subject mainly due to the lands more prime location within the West End commercial precinct.

We are also aware of another property which has been under contract in a private sale transaction during recent months, although due to the commercial sensitivity of the information we are unable to disclose any details. The property has not been exposed to the market, although is a 'Business A' zoned site within a fringe location which does provide a reasonable value comparison to the subject.

In considering an appropriate value to the subject in contrast to the sales examined we are mindful of the following:

- The property comprises a smaller 'L' shaped 'Business A' zoned front site which has an open aspect and attractive vista mountain and sea views.
- The property falls within a popular entry level price bracket for vacant commercial sites within the Kaikoura market which is likely to have a wider range of potential buyers.
- The land falls short of the minimum area requirement of 500m² to provide the potential for residential living accommodation.
- The site is flat in contour which should result in lower building costs.
- The site benefits from good exposure to passing vehicle and pedestrian traffic extending along the Esplanade, although from a commercial viewpoint is situated within a more fringe location.
- The property is located within an archaeological area which is likely to result in higher costs for any earthworks which requires consultation with the local Iwi.
- The adjacent Kaikoura Fire Station site is likely to be sold within the short to medium term given the fire service are relocating to an alternative site on Churchill Street.

VALUATION CONSIDERATIONS, contd...

We acknowledge the paucity of directly comparable sales evidence particularly for smaller commercial sites within the Kaikoura District and we therefore consider the parameters of value are wide. Value lies below the most comparable property which is currently under contract at 88 West End mainly due to the lands more fringe commercial location. On balance, taking these factors into consideration we would expect the land to readily achieve within the \$300,000 - \$350,000 price range. In terms of our valuation we have adopted a midpoint and conclude current market value as follows.

VALUATION SUMMARY:

<u>LAND VALUE (314m²)</u>	<u>\$325,000</u>
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The above assessment is **exclusive** of GST.

Our valuation is **subject to** demolition to the existing building to provide for a level vacant front site.

Alternatively our assessment equates to **\$1,035psm**. This reflects the site is smaller in size although is situated in a more fringe commercial location.

We confirm Maxwell Valuation Limited has no financial interest or otherwise in the property and that we have no relationship with the vendor, purchaser or agents.

This report has been undertaken for valuation purposes only and does not purport to be a site or structural survey.

The effective date of this valuation is **16 August 2021**.

COVID 19 - DISCLAIMER

The outbreak of the Novel Coronavirus (COVID-19) was declared as a 'Global Pandemic' by the World Health Organisation on 11 March 2020. We have seen global financial markets and travel restrictions and recommendations being implemented by many countries, including New Zealand. The local real estate market that the subject property is transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. The landscape and market conditions are changing daily at present. As at the date of valuation we consider that there is a market uncertainty. This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value. Given the valuation uncertainty noted, we recommend that the user(s) of this report review this valuation periodically.

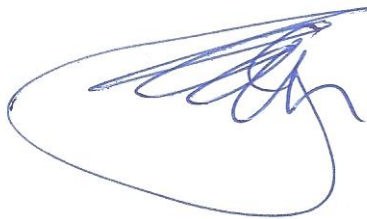
In some instances this report may be transmitted in an electronic format. We encourage any person relying on this report to confirm the valuation is correct in all respects to prevent any fraudulent activity. Please contact the writer for verification.

This report has been prepared by Geoffrey Richard Maxwell, B COM (VPM), SPINZ, ANZIV, MNZIPIM, who has been a Registered Public Valuer since 1999 specialising in the valuation of urban and rural properties in the North Canterbury and Kaikoura Regions.

We trust that this information is sufficient for your requirements but should you have any query regarding this report, or should there be any matter arising, we would be pleased to assist.

Yours faithfully,

MAXWELL VALUATION LIMITED



G R Maxwell

REGISTERED VALUER SPINZ ANZIV MNZIPIM

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DECLARATION OF VALUATION PRINCIPLES:

1 Compliance Statement

This valuation has been performed in accordance with IVS3 and we confirm that; the statements of fact presented in this report are correct to the best of the Valuer's knowledge; the analyses and conclusions are limited only by the reported assumptions and conditions; the Valuer has no interest in the subject property; the Valuer's fee is not contingent upon any aspect of the report; the valuation was performed in accordance with the PINZ code of ethics and performance standards; the Valuer has satisfied professional education requirements; the Valuer has experience in the location and category of the property being valued; the Valuer has made a personal inspection of the property; and no-one, except those specified within the report; has provided professional assistance in preparing the report.

2 Publication

Neither the whole nor any part of this valuation report or any reference to it may be included in any published document, circular or statement without the written approval of Maxwell Valuation as to the form and content in which it may appear.

3 Information & Documentation

Information has generally been obtained from a search of records and examination of documents or by inquiry to Government Departments or Statutory Authorities. Where it is stated in the valuation report that information has been supplied to us by another party, this information is believed to be reliable but we can accept no responsibility if this should prove to be not so. The information provided by the sources detailed in this report is assumed to be complete and correct. We accept no responsibility for the completeness and accuracy of the information provided.

4 Confidentiality & Disclaimer of Liability

Our responsibility in connection with this valuation report is limited to the client to whom it is addressed and for the express valuation purpose stated. The report is not to be relied upon by any other person or for any other purpose. We accept no liability to third parties nor do we contemplate that this report would be relied upon by third parties. We invite other parties who may come into possession of this report to seek our written consent to them relying on this report. We reserve our right to withhold consent or to review the contents of this report in the event that our consent is sought.

5 Structural Survey

We have undertaken a visual inspection in respect of the building, but have not commissioned a structural survey or tested any of the services and are therefore unable to confirm that these are free from defect. We have not inspected the unexposed or inaccessible portions of the building/s and are unable to certify that these are free from defect. Any elements of deterioration apparent to the general state of repair of the building/s have been noted and reflected in our valuation. No undertaking is given about the structural soundness, weathertightness, or durability of any building or building element associated with the structure (where an owner may have joint maintenance liability). No undertaking is given about absence of rot, insect or pest infestation, deleterious substances such as asbestos or calcium chloride, unsatisfactory materials or hidden defects

6 Site Conditions

The inspection undertaken does not constitute a geotechnical survey or environmental contamination survey and no undertaking, representation or warranty is given as to the stability of the land or in any other regard. Unless notified to the contrary or otherwise stated in this report, our valuation is on the basis that these aspects are satisfactory and that the site is clear of underground minerals or other workings, methane gas or other noxious substances. Where a property has the potential to be further developed, we assume that the site is of a suitable load bearing capacity for the anticipated form of development without the need for additional foundations and drainage systems.

7 Title

We have made no survey of the property and assume no responsibility in connection with such matters. Unless otherwise stated it is assumed that all improvements lie within the title boundaries. Unless otherwise stated our report is subject to there being no detrimental registration(s) affecting the land other than those appearing on the title(s) valued in this report. Such registrations may include wahi tapu registrations and Historic Places Trust registrations.

8 Plant and Machinery

The valuation is conditional upon any lifts, hot and cold water systems, drainage systems, electrical systems, air conditioning or ventilating systems and other installations being in proper working order and functioning for the purpose for which they were designed.

9 Site or Environmental Contamination

Our valuation and report is conditional upon the land being free of any contamination or industrial waste problems unless otherwise noted.

10 Measurements

All property measurement is carried out in accordance with the Guide for the Measurement of Rentable Areas issued by PCNZ/PINZ or variations thereof, unless we specifically state that we have relied upon another source of information or method.

11 LIM & PIM

The valuation assumes, unless otherwise stated, that a Territorial Authority Land Information Memorandum / Project Information Memorandum would not reveal any non-complying features and/or requisitions.

12 Resource Management Act 1991, Building Act 2004, Health and Safety in Employment Act 1992, and Evacuation of Buildings Regulations 1992. Disabled Persons Community Welfare Act 1975.

Unless otherwise stated in our report, our valuation is on the basis that the property complies with the above legislation or that the legislation has no significant impact on the value of the property.

13 Mortgage Recommendation

The value provided in this valuation report is Maxwell Valuation Limited opinion of the market value on a willing buyer/willing seller basis. That value may change in the future due to market conditions and changes to the property. Any decision to lend should take these factors into account and allow a reasonable and prudent margin between the amount advanced and the market value given in this valuation. Additionally the margin should also recognise the consequences and costs of a forced sale.

14 Tenant Covenant

Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market's perception of them. Any comments on covenant strength should be therefore be read in this context. If the property is subject to a lease, our valuation is on the basis that the tenant is capable of meeting it's financial obligations under the lease and that there are no arrears of rent or breaches of covenant.



**RECORD OF TITLE
UNDER LAND TRANSFER ACT 2017
FREEHOLD
Historical Search Copy**




R. W. Muir
Registrar-General
of Land

Constituted as a Record of Title pursuant to Sections 7 and 12 of the Land Transfer Act 2017 - 12 November 2018

Identifier MB3D/211
Land Registration District Marlborough
Date Issued 08 August 1980

Prior References
MB1B/765

Estate Fee Simple
Area 314 square metres more or less
Legal Description Lot 2 Deposited Plan 5184
Original Registered Owners
The Kaikoura County Council

Interests
Subject to Section 59 Land Act 1948

Identifier

MB3D/211

References -
Prior C/T 1B/765
Transfer No. -
N/C. Order No. 99692

Land and Deeds 69



REGISTER

CERTIFICATE OF TITLE UNDER LAND TRANSFER ACT

This Certificate dated the 8th day of August one thousand nine hundred and eighty under the seal of the District Land Registrar of the Land Registration District of Marlborough

WITNESSETH that THE KAIKOURA COUNTY COUNCIL a body corporate under the Local Government Act, 1974

is seized of an estate in fee-simple (subject to such reservations, restrictions, encumbrances, liens, and interests as are notified by memorial underwritten or endorsed hereon) in the land hereinafter described, delineated with bold black lines on the plan hereon, be the several admeasurements a little more or less, that is to say: All that parcel of land containing 314 square

metres more or less situate in Block XI Mount Fyffe Survey District being Lot 2 on Deposited Plan 5184

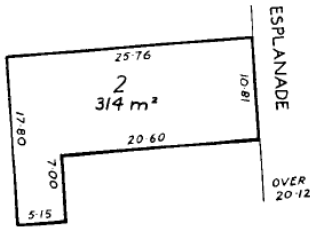
DISTRICT LAND REGISTRAR



MARLBOROUGH, Assistant Land Registrar

Subject to the reservations and conditions imposed by Section 59 of the Land Act, 1948

A.L.R.



Measurements are Metric

No. 3D / 211

No. 3D / 211

Register copy for L. & D. 69, 71, 72