

**Kiwipoint Quarry**  
**Indicative Value Impact Report**  
**Prepared for Wellington City Council**

**June 2016**

**CBRE**

**Advisory and Transaction Services**

**Report prepared by:**

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## Glossary of terms

Term	Definition
GFA	Gross floor area
ha	Hectare
m	Metre
NLA	Net lettable area
psm	Per square metre
sqm	Square meters
WCC	Wellington City Council

# 1. Introduction

## 1.1. Background

Wellington City Council (Council) is in the process of reviewing future zoning and remediation options for the Kiwipoint Quarry, Ngauranga.

Strategically, the quarry is an important asset for Wellington City, providing a source of roading aggregate, construction and landscaping products, plus accommodating the Taylor Preston meat processing facility. The overall site is currently subject to a split zoning being part Business 2 with the balance zoned Open Space B.

Council is in the process of preparing a Plan Change to expand quarry operations into an area referred to in this report as Area 2 which is currently partly zoned for Open Space B use. The Plan Change will re-zone the land currently zoned Open Space B to Business 2 (i.e. the same as the rest of the Quarry).

Once quarry operations have ceased on each area of the site, it is anticipated by Council that the land will be rehabilitated to a relatively high standard to provide generally level land suitable for a wide range of business and commercial uses.

Council has instructed CBRE to provide indicative valuation advice in relation to the Kiwipoint Quarry land, on the basis that it is remediated as described by Council.

## 1.2. Scope and Purpose

Council has engaged CBRE to report on the basis of the following scope and to understand:

1. The indicative value of the land as at the date of this report, on the basis that it is remediated to the standard identified by Council;
2. The potential and indicative future value of the land when it becomes available for use under “Hi”, “Base” and “Lo” growth assumption scenarios (*subject to the qualifications and limitations outlined in section 1.3 below*);
3. The types of business and commercial land uses that will likely generate demand for the land in its remediated state; and
4. A high level overview of the market for business and industrial zoned land in the Wellington Region.

## 1.3. Assumptions, Qualifications and Limitations

This report is subject to the following assumptions, qualifications and limitations:

- This exercise has been carried out on a ‘high level’ and desktop only basis to understand indicative and potential value impact only. We have not carried out detailed investigations into the subject site and this report does not meet the minimum reporting requirements of the *Property Institute of New Zealand Valuation and Property Standards* for a full valuation report. Accordingly, this report should not be construed or relied upon as a full valuation report.
- We have been instructed to provide a view of the potential future value of the subject land. We note that we cannot determine or provide the market value of an asset at a future date. However, we have provided three potential growth scenarios to provide an estimate of future value under a specified set of assumptions.

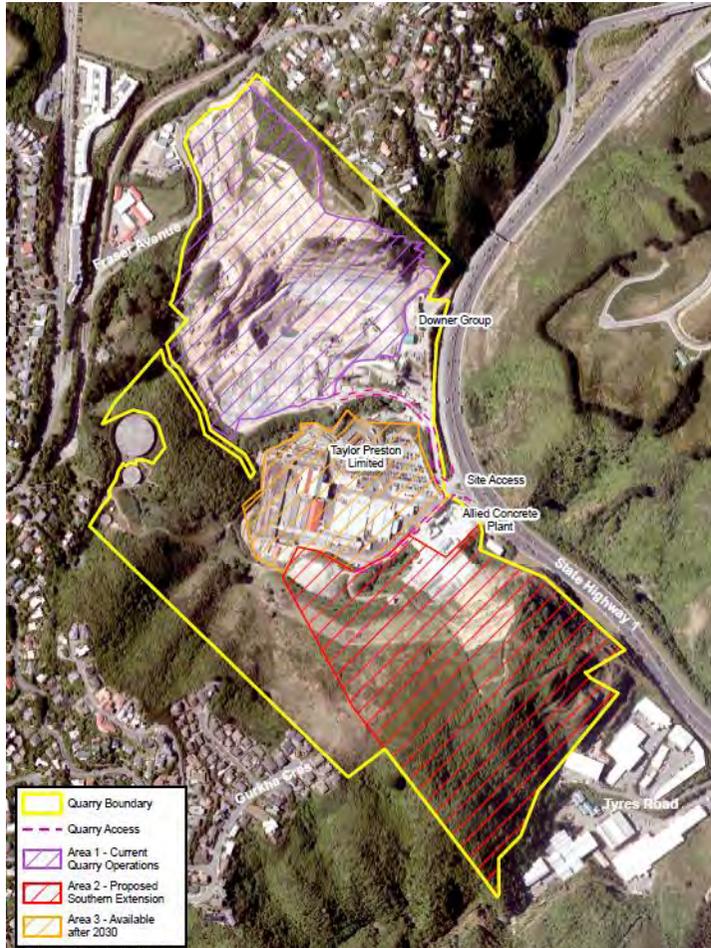
These growth scenarios are premised on our research of historic market conditions for Industrial land in Wellington.

- This indicative advice is provided on the basis of the prevailing market conditions as at June 2016. We note that market conditions are subject to change and future market movements have the potential to materially impact our findings.
- We have not sighted lease documentation and have relied solely on the tenancy information provided to us.
- We have proceeded on the basis that the land will be remediated and made available for development as described by Council; i.e. the land will:
  - Be provided in a “raw” state (i.e. no infrastructure such as roading in place) with generally level and suitably engineered building platforms, of a size suitable for commercial development;
  - Have typical utilities services available at the boundary;
  - Be remediated to a contamination standard suitable for commercial development in accordance with any legislative or regulatory standards applicable at the time;
  - Have north-bound only access and egress from State Highway 1 (as provided at present).
- We have not been provided with costs to remediate the site, neither have we tested the economic feasibility of carrying out the site remediation to the standard identified by Council.
- Our indicative valuation advice is provided on an “as if complete” remediated basis. We have not been instructed and neither have we assessed the indicative value of the land on an “as is” basis (i.e. as the land sits, as zoned, in its present physical state).

## 2. Site Details

### 2.1. Overview

The Kiwipoint Quarry site is situated on the south western side of SH1 in the Ngauranga Gorge, Wellington City. Council has delineated the site into three areas as illustrated in the following aerial photograph:



#### Current State

The northern portion of the site referenced as Area 1 comprises the current quarry operations and is extensively cut with a steep face toward the northern end. The balance of this area is currently terraced with some unsealed roading formed to facilitate quarry access.

Area 2 comprises the southern portion of the site which is largely in sloping to steep terrain in bush and scrub, with the northern section of the site comprising some level terraces accommodating the concrete plant.

Area 3 is the central portion of the site which is relatively level throughout and current accommodates the Taylor Preston processing facility.

#### Proposed Future State

Council proposes that on termination or completion of each of the existing uses operating on the site, any contamination will be remediated and the land engineered to provide generally level developable areas, suitable for commercial or industrial use. The anticipated developable areas for each component as follows:

**Table 1: Developable site areas**

Component	Area
Area 1 – Current Quarry Operations	~ 10 ha
Area 2 – Proposed Southern Extension	~12 ha
Area 3 – Taylor Preston Site	~ 4.8 ha
<b>Total</b>	<b>~ 26.8 ha</b>

## 2.2. Occupancy Details

Noting that we have not sighted actual leases, we have been advised that the site is currently occupied by the following tenancies, with the respective areas becoming available at the dates shown:

**Table 2: Occupancy details**

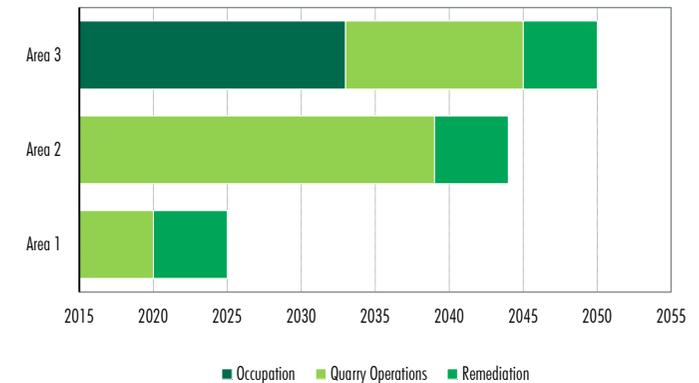
Tenant	Component Occupied	Current Term Expires	Renewal Options	Assumed Available
Downer Group	Area 1	2028	2 x 7yrs	2021
Allied Concrete	Area 2	2026	2 x 7yrs	2040
Taylor Preston	Area 3	2033	1 x 25yrs	2050

In relation to the above, Council has advised that:

- For Downer Group, while the lease extends to 2028, Council has advised that the Quarry operations in Area 1 will cease in 2021.
- For Allied Concrete, Council could choose not to renew the lease in 2026.
- Council can choose not to renew the Taylor Preston lease in 2033 or could specify relocation under a new lease to either Area 1 or 2.
- Remediation for each area will take approximately 5 years once that area becomes available.

The following chart summarises the assumed occupancy of the existing use for each component, remediation period and date of availability of each of the three defined areas, as instructed by Council:

**Chart 1: Summary timeline**



## 2.3. Resource Management Considerations

The site is currently split zoned with the majority of the land adjacent to SH 1 being zoned Business 2, with the balance zoned Open Space B under the Wellington City Council Operative District Plan. Council is preparing a Plan Change that will re-zone the Open Space B land to Business 2 (i.e. the same as the rest of the Quarry).

The Business 2 zone is relatively flexible and accommodates a wide range of Permitted Uses including:

- Specifically quarrying in relation to the subject site;
- Trade supply retail;
- Wholesalers;
- Service uses;
- Ancillary and yard based retail uses; and
- Those activities that comply with the standards in section 34.6.1 of the District Plan.

Controlled Activities are generally those requiring the use, storage or handling of hazardous substances.

Discretionary Activities (Restricted) include those related to, inter alia, transport matters such as parking, movement of vehicular traffic to and from the site, impact on the roading network and the provision and location of facilities for multiple modes of transport. There are also specific provisions in relation to other matters such as noise, lighting and other matters.

The Business 2 zoning provides for a wide range of commercial and industrial uses on the KIWIPPOINT Quarry land, including uses that could be accommodated alongside some of the existing tenants. Examples include archival or data storage, cold storage and logistics or distribution hubs.

## 3. Value Considerations

### 3.1. Market Overview

There are relatively few areas within Wellington City, or indeed the Greater Wellington Region, that are available for new industrial development. The market for industrial land within Wellington City is characterised by smaller 'pockets' or enclaves spread across a number of suburbs, however these areas are generally fully built up.

Within Wellington City, there are greenfields industrial development opportunities however these are generally limited to Grenada North. Brownfields industrial sites are less frequently available, or may be available for specific land uses (e.g. logistics on Kiwirail land in Thorndon) however these invariably require the amalgamation of multiple sites, demolition of obsolete improvements and potentially remediation of associated contamination and other similar complications; this has a negative impact on development feasibility for these sites and adds risk to development as remediation costs are difficult to accurately estimate.

Further afield in the Wellington region, smaller industrial sites are available within Porirua, Broken Hill and off Raiha Street plus within more established areas such as Plimmerton, in Lower Hutt in the established industrial suburbs of Gracefield and Seaview and in Upper Hutt in locations such as Alexandra Road.

However, given the geography and layout of the Wellington region there are a number of limitations for new industrial development:

- Throughout the Wellington Region there are very few sites of any significant scale (i.e. greater than 1-2 hectares) suitable for modern industrial development requirements<sup>1</sup>;
- Traffic congestion and proximity to arterial routes has made some of the more traditional industrial locations less appealing (Gracefield and Seaview for example);
- There is a paucity of suitable sites with close proximity to the main commercial areas;
- Competing land uses have driven higher land values in some locations rendering industrial land uses uneconomic (Rongotai for example where retail land uses tend to 'outbid' traditional industrial land uses).

It is also worth noting that the composition of the industrial market in greater Wellington has changed materially over the last two decades. In particular, large scale manufacturing uses have declined materially with the closure of multiple factories and in their place, albeit of lesser scale, logistics uses have become more prevalent.

In some cases however (Petone for example), adaptive re-use to other "higher and better" uses has absorbed the premises vacated by manufacturers. This has to some extent cushioned the industrial market by removing land and limiting oversupply. However, reduced land supply will only serve to support future land value growth as demand invariably increases.

#### Industrial Vacancy Snapshot

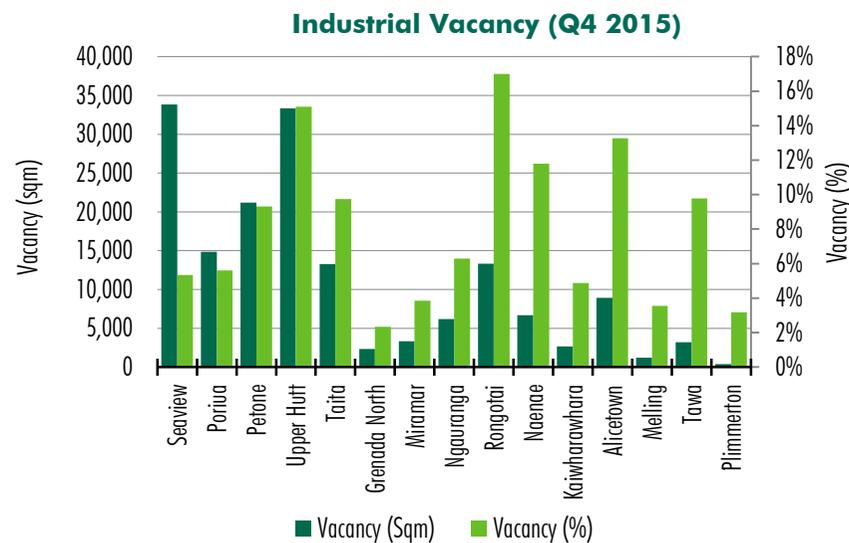
A brief overview of current market conditions is useful at this juncture.

<sup>1</sup> We are aware of industrial occupiers that have been unable to secure suitably sized large industrial sites in the Wellington region (particularly if greater than 1 ha is required), or have had to compromise on location to secure a site – the Car Distribution Group in Mark Ave at the northern end of Grenada Village is a one example.

Prime vacancy fell from 7.2% to 3.8% over 2015. Major contributors were the occupation of 11 Barnes Street, Revera’s purpose built data centres, and the Woodward Group occupying a site at Centennial Highway. The impact of these two relatively small requirements on the overall vacancy level highlights the ‘shallow’ nature of the Wellington industrial market.

Secondary stock also experienced a positive demand environment in 2015 and numerous locations in the Wellington region recorded overall positive absorption in excess of 5,000 sqm.

**Chart 2: Wellington Industrial Vacancy Summary**



Source: CBRE Research, Q1 2016

As a consequence of the declining vacancy situation, industrial rents increased across the market in 2015, Prime by 6.7% and Secondary by 30.3% (net effective).

With high levels of demand, market rental rates are expected to continue to increase in 2016. Over time and as vacancy continues to decrease, this should also place upward pressure on industrial land values as new development activity is triggered, particularly if further industrial land is converted to other uses and no new supply is available.

New developments are increasingly expected as higher occupier demand outgrows the existing supply (much of which is reflected in obsolete stock). Additionally, the Petone Tawa link road is expected to demolish 37 light industrial buildings, and flood protection in Lower Hutt may demolish another 21 industrial properties leading to an expected shortfall of stock for occupiers.

Notwithstanding and offsetting the above, Lincolnshire Farms is zoned Urban Development Area and the Structure Plan (contained in the District Plan) identifies 40-50 hectares of land for future employment uses (this is equivalent to a Business 1 zoning). This area will be opened up for development as part of the Petone to Grenada link road, which has a construction dated of 2019/20.

On balance, the limited anticipated supply environment and increasing demand should help underpin land values and future land value growth. In our opinion, it also highlights the importance of ensuring that sufficient industrial land supply is preserved and is sufficient to cater for future demand.

### 3.2. Industrial Land Values

On balance, the supply and demand dynamic for land supply has been relatively balanced which is reflected in land values. Land values have been static, at approximately \$243 psm average overall (for a typical size industrial lot of greater than 3,000 sqm and less than 1 hectare), as the supply of undeveloped industrial land available matches demand.

The following table summarises indicative land value rates for those sites in the Greater Wellington Region having an area of between 3,000sqm and 1 hectare:

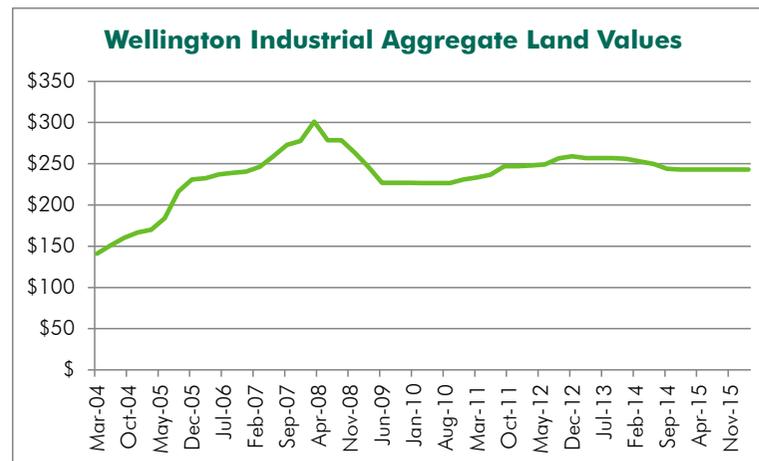
**Table 3: Indicative Industrial Land Values**

Suburb	Land Value Rate
Seaview / Gracefield	\$170 to \$200 psm
Ngauranga / Grenada North	\$225 to \$275 psm
Elsdon / Plimmerton	\$175 to \$225 psm

We note that we typically observe a non-linear and negative correlation between site size and land value rates; i.e. as site size increases, we observe that the land value rate (analysed on a dollar per unit of area measure) decreases.

Whilst relatively static in recent years, the long run trend for industrial land values in Wellington has been positive. The following chart illustrates land value growth since 2004:

**Chart 3: Aggregate Land Value Summary**



The above reflects compounding annual land value growth of 4.6% per annum or 72% overall. However, strong market activity up to the 2008 GFC exacerbated the level of growth observed over this period; post GFC, the past five years growth has been materially lower at a CAGR of 0.8% p.a. or 4.1% overall. In our view, the more recent levels of growth observed are likely to be a more accurate indication of long run future land value growth.

In terms of forecast growth scenarios and based on our research, we have adopted the following growth assumptions for the three growth scenarios adopted within this report:

**Table 4: Scenario Growth Assumptions**

Scenario	Assumption
Low Case Growth ("Lo")	1.0% p.a.
Base Case Growth ("Base")	2.0% p.a.
High Growth Case ("Hi")	2.5% p.a.

### 3.3. Value Rationale for Kiwipoint Quarry Site

#### Summary Overview

In the context of the Kiwipoint Quarry site, we are mindful of the following factors in determining the indicative land value of the "as if" remediated land areas:

- There are very few sites of this scale suitable for industrial development in the Wellington region;
- The site is well located in the context of Wellington City, being close to the CBD and northern Wellington suburbs;
- Access directly from State Highway 1, albeit from a northbound direction only;

- The site could accommodate a wide range of compatible industrial and commercial land uses. Examples of the types of use that we believe would suit this site, once remediated, are:
  - Secure and archive storage facilities;
  - Manufacturing and processing;
  - Cold storage and distribution;
  - Vehicle storage and servicing (both wholesale distribution and depot's for heavy vehicles).

Most if not all of these uses could function in the proximity of the Taylor Preston facility.

- In our view, unless additional access is made available to the site, there is unlikely to be demand for any form of retail use (which would also serve to fragment the existing retail base in Wellington City in any event).

Given the above factors and the relative paucity of suitable industrial land throughout the Wellington region, we believe that on the basis of the land being available on the basis of the physical state proposed by Council, the site would be subject to relatively strong levels of demand. In particular, the large size of the site and its proximity to Wellington CBD and northern suburbs is positive and would go some way to offsetting the northbound only access constraints from State Highway 1.

### Adopted Indicative Values

Having summarised the relevant considerations in the sections above, we have adopted the following indicative values (on an "as if" basis as if the remediated, raw sites were available "today") for each of the three areas that comprise the Kiwipoint Quarry:

**Table 5: Indicative Kiwipoint Land Values as at June 2016**

Component	Area	Land Value Rate	Indicative Value
Area 1	~ 10 ha	\$155psm	<b>\$15.5m</b>
Area 2	~12 ha	\$150psm	<b>\$18.0m</b>
Area 3	~ 4.8 ha	\$180psm	<b>\$8.6m</b>
<b>Total</b>	<b>~26.8 ha</b>		<b>\$42.1m</b>

In relation to the above, we have proceeded on the basis that:

- Each of the areas will be made available as single, un-subdivided and generally level lots at the land areas stated;
- The sites will be available as Business 2 zoned, contamination free and remediated to a standard suitable for industrial development;
- Utility services are available at the boundary;
- Access will remain from SH 1 as at present.

## 4. Summary Conclusions

### 4.1. Methodology

In the sections above we have outlined our assumptions in relation to the market for industrial land and more specifically in relation to the Kiwipoint Quarry site.

Council has instructed us to opine on the indicative value of each of the three areas as they are anticipated to become available, both for existing uses and potential future uses.

For Areas 1 and 2 we have not provided a value for the land “as is” (i.e. as quarry land or zoned Open Space B). However, there will be significant uplift in value from the “as is” land value to the “as if complete” land value for Areas 1 and 2. This will largely be attributable to the change in the physical state of the land, rather than the uses accommodated on the land.

For Area 3, the Taylor Preston land, the “before” and “after” basis of land value doesn’t change – this site is already a generally level Business 2 zoned site land and assuming that it is contamination free (for which we have made no allowance) the basis of value for this site does not change.

In order to derive the indicative land value for each area of the site at a future date, we have grown the current indicative land values for each area at the “Hi”, “Base” and “Lo” growth rates stated for each scenario as outlined in Section 3.2.

### 4.2. Conclusions

Based on the set of assumptions outlined within this report, our summarised analysis is shown in the following table (also referenced within Appendix I):

**Table 6: Implied Value of Areas in Year Available**

Land Component	Indicative Current Value	Year Available	Implied value under growth scenario		
			Lo	Base	Hi
Area 1	\$15.5m	2026	\$17.1m	<b>\$18.9m</b>	\$19.8m
Area 2	\$18.0m	2045	\$24.0m	<b>\$32.0m</b>	\$36.8m
Area 3	\$8.6m	2050	\$12.1m	<b>\$16.9m</b>	\$20.0m

In relation to the above we note the following:

- Future land values cannot be predicted. Whilst we have endeavoured to substantiate our assumptions based on historic market information, future conditions are subject to change and may materially impact our findings.
- The effect of compounding growth can be readily seen for Area’s 2 and 3 which are predicted by Council to become available materially later than Area 1.
- The above values do not consider any of the costs that will be incurred to prepare and remediate the land. Furthermore, we have not investigated the feasibility of remediating the land.

## 5. Contact Details

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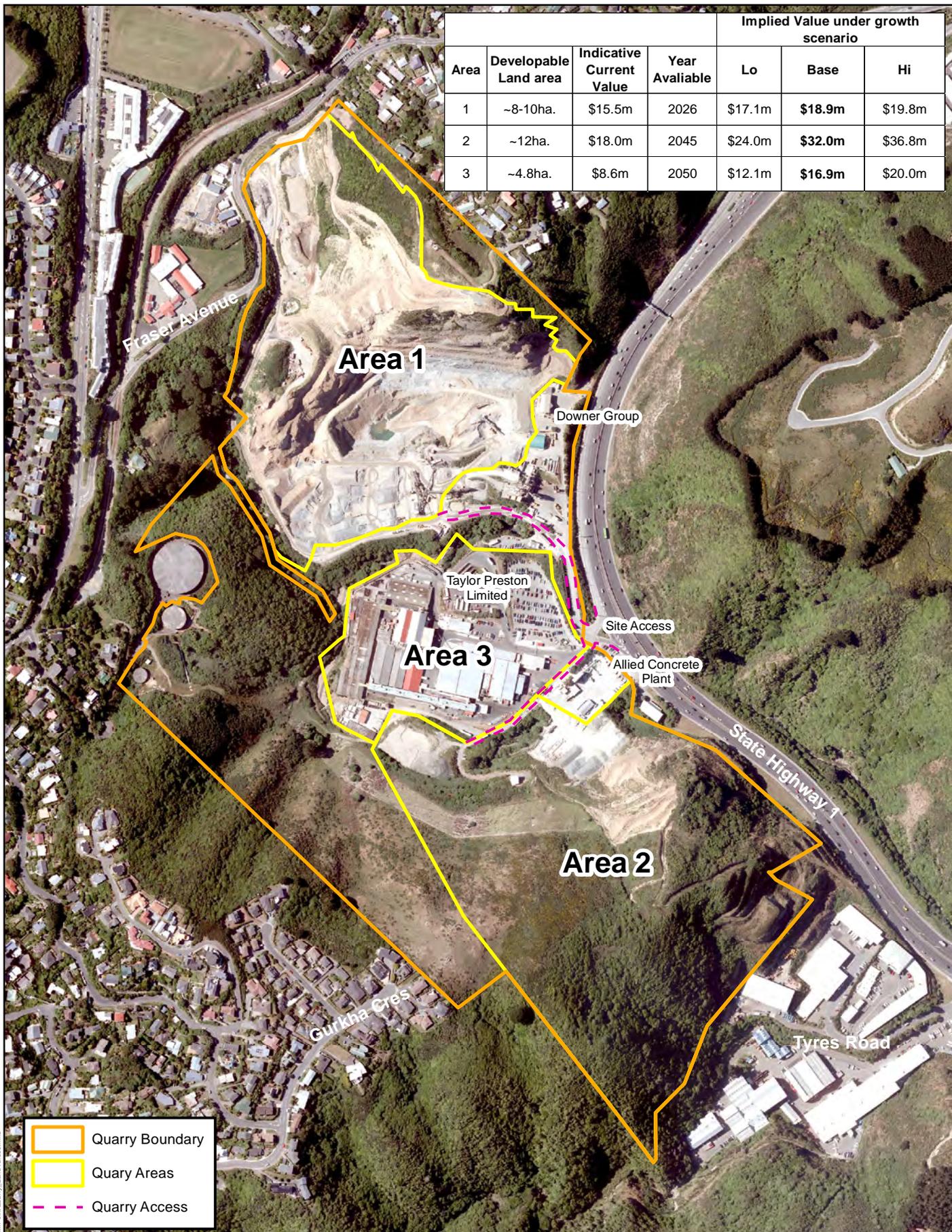
ASB Tower, 2 Hunter Street

PO Box 5053

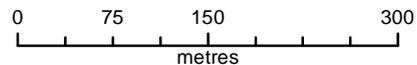
Wellington 6145

## A 1. Indicative Value Summary and Aerial Map

Area	Developable Land area	Indicative Current Value	Year Available	Implied Value under growth scenario		
				Lo	Base	Hi
1	~8-10ha.	\$15.5m	2026	\$17.1m	<b>\$18.9m</b>	\$19.8m
2	~12ha.	\$18.0m	2045	\$24.0m	<b>\$32.0m</b>	\$36.8m
3	~4.8ha.	\$8.6m	2050	\$12.1m	<b>\$16.9m</b>	\$20.0m



## Kiwi Point Quarry Quarry Areas



Scale 1:6,000

Property boundaries, 20m Contours, road names, rail line, address & title points sourced from Land Information NZ. Crown Copyright reserved. Property boundaries accuracy: +/-1m in urban areas, +/-30m in rural areas. Census data sourced from Statistics NZ. Postcodes sourced from NZ Post. Assets, contours, water and drainage information shown is approximate and must not be used for detailed engineering design. Other data has been compiled from a variety of sources and its accuracy may vary, but is generally +/- 1m.

MAP PRODUCED BY:  
Wellington City Council  
101 Wakefield Street  
WELLINGTON, NZ

ORIGINAL MAP SIZE: A4  
AUTHOR: patter3j  
DATE: 2/06/2016

**Absolutely Positively  
Wellington City Council**  
Me Heke Rūpoko