

Notice of Motion of Revocation: City Activation

Te Kaunihera o Pōneke | Council

Background – Reading Courtenay



Source: stuff.co.nz

- Closed 2019 - Reading voluntarily closes centre in January 2019, citing prioritising safety of visitors after receiving engineering assessment that identified significant structural risk in the event of an earthquake.
- Reading needed to pause development plans following COVID-19 pandemic. Seismic Strengthening not required to be completed until 2035.
- Closure >> cycle of economic decline in the area.

Reading landholding

27 & 37A Taranaki St
Land Area: 862m²
Rating Value*: \$3.5m
Comments: Two separate titles

80 Courtenay Place
Land Area: 7,143m²
Rating Value*: \$28.8m
Market Value: \$32m
Comments: Earthquake prone - deadline for seismic work: 10 March 2035. Right of Way off Wakefield St - RL8

200 Wakefield St
Land Area: 3,500m²
Rating Value*: \$15.25m
Comments: Nil

24 Tory St
Land Area: 3,459
Rating Value*: \$11.5m
Comments: Contaminated (former Gasworks)

*all sites have nil improvement value

Why Reading Courtenay?

Primary purpose

- Enable regeneration of Courtenay Place and surrounds
 - Fiscally neutral –no cost to the ratepayer.
- **Issue:** Closure of Reading Courtenay has negatively affected Courtenay Place precinct – the economic, social, and physical shadow.
 - **Impact:** Decreased street-level activity, impacting pedestrian traffic and local businesses.
 - **Consequences:** Contributed to the area's decline, tenant quality, and safety concerns.
 - **Reading Commitment:** Committed but needs support to reopen Courtenay given inability to independently fund strengthening work.

Primary Project

- City Revitalisation - alongside rephasing of Golden Mile and investment in city safety initiatives.
- Anticipated opening 2027.

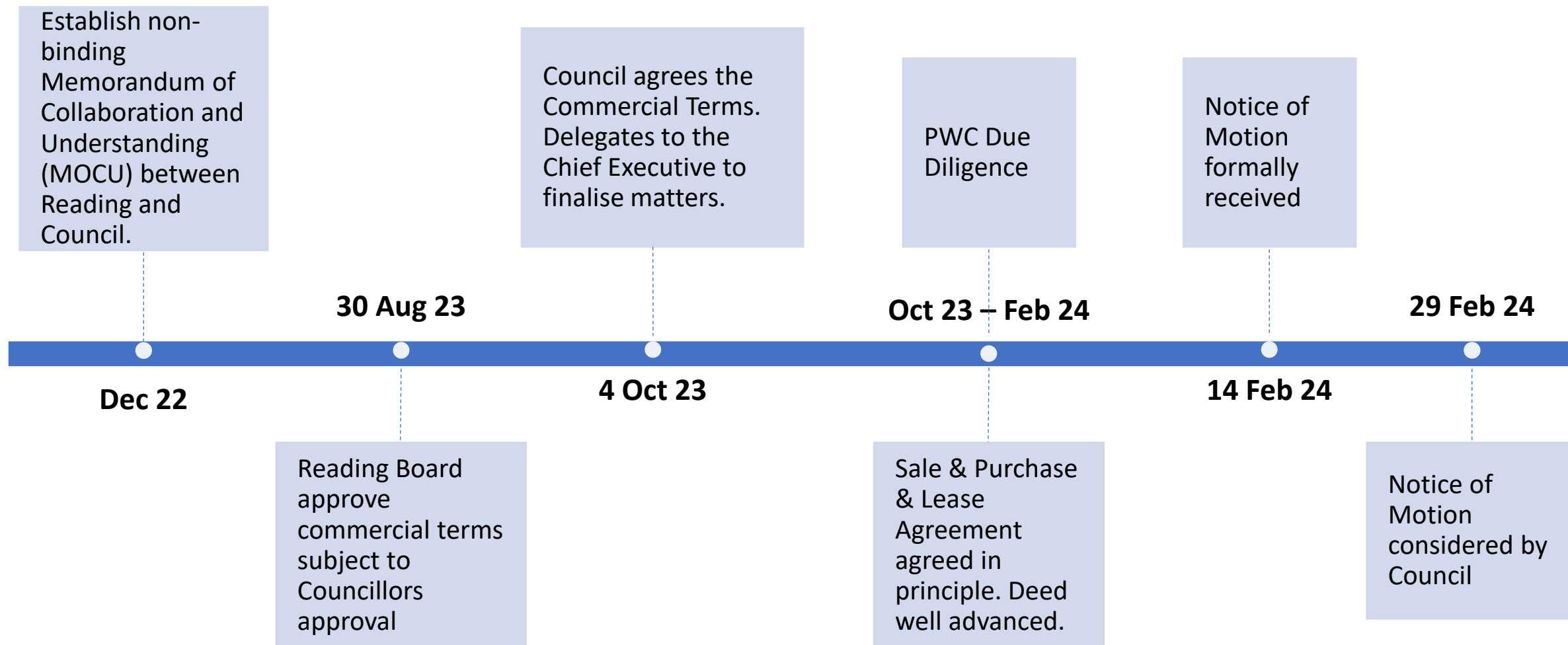
Community Support: Accelerating reopening aligns with community sentiments raised in many forums.

Strategic Move: Support is a strategic investment, fiscally neutral with required city outcomes.

Redevelopment Platform: Fast-tracking Reading Courtenay redevelopment aids neighbouring site investments.

Investment: visible action to address Courtenay Place's revival and address economic decline.

Negotiation Status



The Initiative – Structure and Key Objectives

Structure:

- Council purchases the underlying Reading Courtenay land from Reading at Colliers market appraisal - \$32m.
- Council leases back the land to Reading based on a 21-yr perpetually renewable ground lease.
- 100% sales proceeds directed to project – selling an asset to fund the development. Balance of project funded by Reading.
- Reading has a buy back right during first 15 years of the initial ground lease term. The first 10 years at Council's purchase price, thereafter at the greater of Council's purchase price and market value.
- As Council owns the land, it can recoup its purchase price anytime after 10 years by selling the land.

Key Objectives:

- Reading completes the redevelopment at the earliest, reasonably practicable, opportunity.
- Council's position - the initiative must be fiscally neutral to Council, at its sole discretion.
- Redevelopment:
 - promotes realisation of the civic outcomes
 - creates a premier, nationally significant entertainment destination and draw card for the long-term benefit of Wellington City.
 - Is in accordance with the agreed Outline Plans and Specification

Confidentiality Considerations

- Council subject to confidentiality provisions
 - in place prior to the 4 Oct Council meeting – ongoing
- In accordance with the Memorandum of Collaboration and Understanding we have agreed with Reading that certain information can be released.
 - Slides can be released. These slides reflect the key economic terms of the proposed transaction and both WCC and Reading have agreed to release them publicly.
- All other information remains confidential. Should not be discussed or disclosed
 - Includes CTS / MOCU / other documentation
 - WCC party to confidentiality provisions / NDA / indemnities

Key Commercial Terms - Details

Key Commercial Terms	
Term	Details
Purchase price	\$32m In two parts: \$6m deposit, and balance of \$26m – subject to conditions
Deposit	\$6m, payable upon execution of the formal agreement. Reading is to apply the deposit to certain agreed pre-construction works to ensure that, upon satisfaction of the conditions within the formal agreement, construction will commence in a timely manner. The deposit is fully refundable (plus costs) should the formal agreement not go unconditional or is terminated and will be supported by an on-demand bank guarantee from a major NZ bank, approved by Council, to the benefit of Council. Rent is to be paid on the deposit by Reading, based on Council's cost of funds – refer below for further discussion on the Rent.
Security/ Guarantors	Reading's obligations under the formal agreement (including the ground lease) will be guaranteed by a Reading parent entity.

Key Commercial Terms - Details

Term	Details
Conditions	<p>Conditions precedent will include:</p> <ul style="list-style-type: none">Reading obtaining resource consent and all other regulatory approvals required.Agreement as to initial key design outcomes.Establishment of an indicative Construction Programme, satisfactory to Council.Confirmation of funding capacity for the construction budget, satisfactory to Council. <p>Agreement on a process on how to achieve the Reading Courtenay civic outcomes, including:</p> <ul style="list-style-type: none">Internal pedestrian access through Reading Courtenay.Temporary laneway between Reading Courtenay and Wakefield Street.Courtenay Place active frontage.Courtenay Place ground floor façade.Publicly accessible toilets on ground floor.Option, at Council's discretion, for Council to lease ground floor space.Universal access. <p>The above conditions must be satisfied by no later than the date being 24 months from the date of the execution of the formal agreement with the balance of the purchase price (\$26m) to be paid by Council upon satisfaction of all conditions.</p>

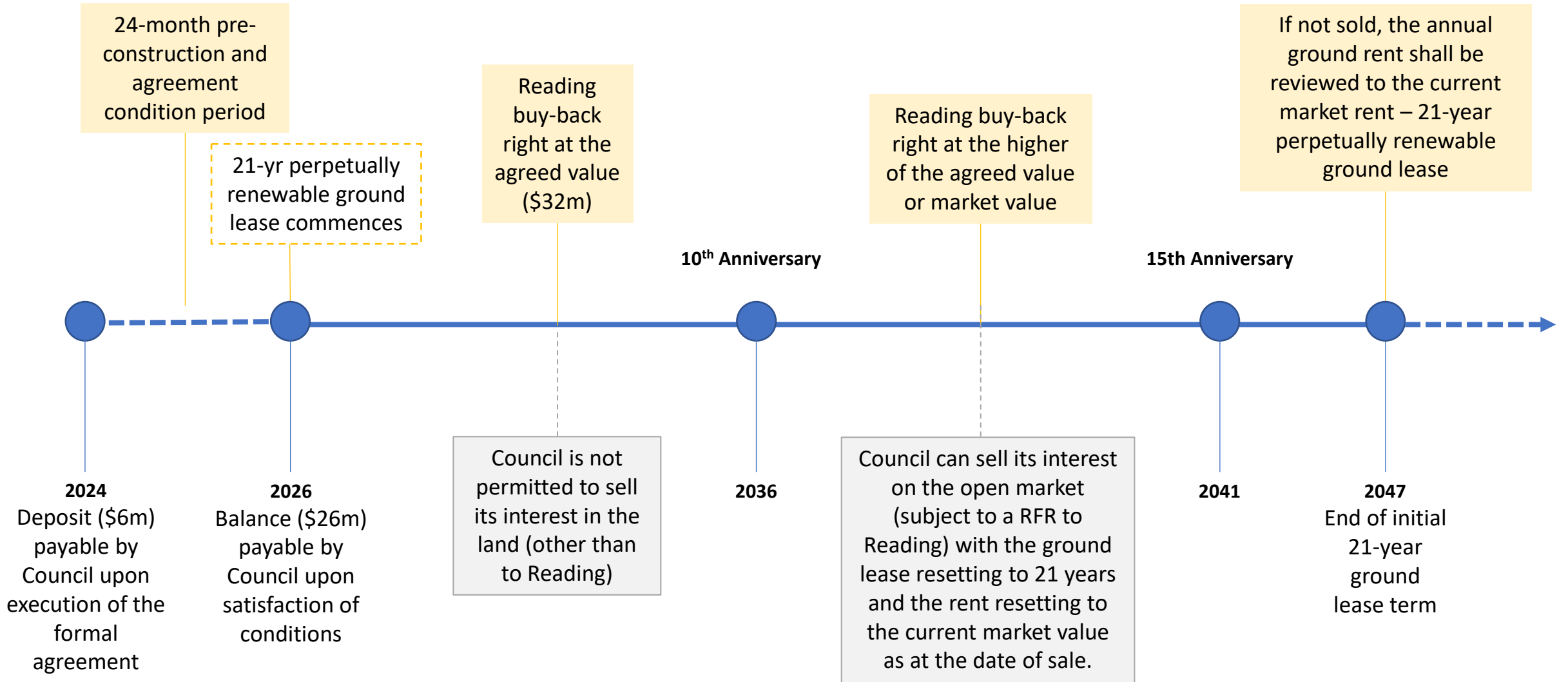
Key Commercial Terms - Details

Term	Details	
Lease	<i>Term</i>	Perpetually renewable 21-year ground lease.
	<i>Rent</i>	<p>During the initial 21-year term, the annual ground rent will be based on Council's cost of funds on the purchase price, comprising:</p> <ul style="list-style-type: none"> • the interest rate payable. • all associated fees and other charges. • plus, any other amount, or adjustment, to satisfy Council that the lease is fiscally neutral to it. <p>Following the initial 21-year term, the annual ground rent shall be reviewed to the current market rent for the land.</p>
	<i>Outgoings</i>	Reading will be responsible for the payment of all outgoings of any nature in respect of the property, including utilities, sewer, and rates.
	<i>Improvements</i>	The improvements will be owned by and at the risk of Reading, who will be responsible for all maintenance, repair, and replacement.

Key Commercial Terms - Details

Term	Details
Buy-back	<p>Reading will have the right to buy-back the land during the first 15 years of the initial term of the lease, as follows:</p> <ol style="list-style-type: none">1. During the first 10 years, Reading will have the right to buy-back the land at the agreed value (\$32m), plus any accrued and unpaid rent.2. Between the 10th anniversary and the 15th anniversary, for as long as WCC remains the lessor, Reading will have the right to buy-back the land at the higher of the agreed value (\$32m) or the market value of Council's interest in the land, plus any accrued and unpaid rent, with the market value calculated on the basis that:<ol style="list-style-type: none">a. the lease has reset to 21 years on and from the date the buy-back option is exercised; andb. the annual ground rent has been reset to the then current market rent for the land as at that date. <p>Note, Reading will reimburse Council for any lending related break fees payable by Council should the exercise of the buy-back right result in such fees.</p>
Sale by Council	<p>Council will not be permitted to sell its interest in the land (other than to Reading) until after the 10th anniversary of the commencement date of the ground lease. If Council elects to sell during the period between the 10th anniversary and the 15th anniversary, Reading will have a right of first refusal on the same basis as the buy-back right above (i.e., as per 2. of the 15 year buy-back right above).</p>

Timeline of Initiative Structure



Primary risks and mitigations

Risk 1: Funds allocation by Reading

Potential Impact: Delays, Cost Overruns, Non-Completion

Mitigation: Comprehensive due diligence is being undertaken. The formal agreement will be conditional on confirmation of funding capacity and an agreed construction program. The \$6m deposit may only be used for certain works with immediate repayment requirements including bank guarantee.

Risk 2: Financial Impacts on Council

Potential Impact: Financial pressure, opportunity cost

Mitigation: Initiative will be fiscally neutral (no impact to ratepayers on rates), and there will be ongoing analysis, reviews and prudent debt management undertaken by WCC officers.

Risk 3: Construction Risks and Delay

Potential Impact: Economic downturn, business impact

Mitigation: Formal agreement will require timely appointment of experienced contractors to complete the redevelopment and development to an agreement program. Timely construction will help restore economic activity in the precinct.

Risk 4: Public Perception

Potential Impact: Reputational damage

Mitigation: Clear communication, information regularly provided to public throughout the project to highlight progress

Primary risks and mitigations

Risk 5: Rental Payment Default

Potential Impact: Revenue impact

Mitigation: Credit assessment to evaluate Reading's ability to pay rent. A parent company guarantee of lease obligations will be provided by Reading. WCC has an ability to terminate immediately for non payment (and all improvements would be transferred to WCC)

Risk 6: Delayed Wider Redevelopment

Potential Impact: Delayed growth

Mitigation: The agreement acknowledges Reading's commitment to complete the Courtenay development promptly

Risk 7: Precedent-Setting Concerns

Potential Impact: Financial pressure, future expectations

Mitigation: This is a unique opportunity to revitalise the Courtenay Place precinct and does not set a precedent.

Risk 8: Feasibility Challenges

Potential Impact: Financial loss, delays

Mitigation: Rigorous due diligence is being undertaken. The formal agreement will be conditional upon the establishment of a construction program and confirmation of Reading's funding capacity.