

**Absolutely Positively
Wellington City Council**

Me Heke Ki Pōneke

Ordinary Meeting of Te Kaunihera o Pōneke | Council

Rārangi Take | Agenda

1:30 pm Rāapa Wednesday, 4 Whiringa-ā-nuku October 2023

Ngake (16.09), Level 16, Tahiwī

113 The Terrace

Pōneke | Wellington



MEMBERSHIP

Mayor Whanau (Chair)
Deputy Mayor Foon (Deputy Chair)
Councillor Abdurahman
Councillor Apanowicz
Councillor Brown
Councillor Calvert
Councillor Chung
Councillor Free
Councillor Matthews
Councillor McNulty
Councillor O'Neill
Councillor Pannett
Councillor Paul
Councillor Randle
Councillor Wi Neera
Councillor Young

Have your say!

You can make a short presentation to the Councillors, Committee members, Subcommittee members or Community Board members at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-499-4444, emailing public.participation@wcc.govt.nz, or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about. All Council and committee meetings are livestreamed on our YouTube page. This includes any public participation at the meeting.

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1. Meeting Conduct

1.1 Karakia

The Chairperson will open the hui with a karakia.

Whakataka te hau ki te uru, Whakataka te hau ki te tonga. Kia mākinakina ki uta, Kia mātaratara ki tai. E hī ake ana te atākura. He tio, he huka, he hauhū. Tihei Mauri Ora!	Cease oh winds of the west and of the south Let the bracing breezes flow, over the land and the sea. Let the red-tipped dawn come with a sharpened edge, a touch of frost, a promise of a glorious day
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At the appropriate time, the following karakia will be read to close the hui.

Unuhia, unuhia, unuhia ki te uru tapu nui Kia wātea, kia māmā, te ngākau, te tinana, te wairua I te ara takatū Koia rā e Rongo, whakairia ake ki runga Kia wātea, kia wātea Āe rā, kua wātea!	Draw on, draw on Draw on the supreme sacredness To clear, to free the heart, the body and the spirit of mankind Oh Rongo, above (symbol of peace) Let this all be done in unity
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1.2 Apologies

The Chairperson invites notice from members of:

1. Leave of absence for future hui of the Wellington City Council; or
2. Apologies, including apologies for lateness and early departure from the hui, where leave of absence has not previously been granted.

1.3 Announcements by the Mayor

1.4 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1.5 Confirmation of Minutes

The minutes of the meeting held on 7 September 2023 will be put to the Te Kaunihera o Pōneke | Council for confirmation.

1.6 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Wellington City Council

The Chairperson shall state to the hui.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent hui.

The item may be allowed onto the agenda by resolution of the Wellington City Council.

Minor Matters relating to the General Business of the Wellington City Council

The Chairperson shall state to the hui that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent hui of the Wellington City Council for further discussion.

1.7 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any hui of the Council or committee that is open to the public. Under Standing Order 31.2 a written, oral or electronic application to address the hui setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the hui concerned, and subsequently approved by the Chairperson.

Requests for public participation can be sent by email to public.participation@wcc.govt.nz, by post to Democracy Services, Wellington City Council, PO Box 2199, Wellington, or by phone at 04 499 4444 and asking to speak to Democracy Services.

4. Public Excluded

Recommendation

That Te Kaunihera o Pōneke | Council:

1. Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
4.1 City Activation project	<p>7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>7(2)(i) The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p>	<p>s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.</p>

CITY ACTIVATION PROJECT

PUBLIC EXCLUDED

Grounds: Section s48(1)(a) - That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

Reasons: Section 7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

Section 7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Te Kaunihera o Pōneke | Council requests
 - a. Approval of the acquisition of the underlying fee simple estate in the Reading Courtenay land at 80 Courtenay Place, Te Aro, Wellington legally described as Lot 1 Deposited Plan 85458 and held on Record of Title 38963 ('the Land').
 - b. Approval of the leaseback of the Land to the New Zealand entity of Reading International Inc., currently Reading Courtenay Central Limited.
 - c. Approval that the above initiative will be on no less favourable terms to the Council than outlined in this report.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- | | |
|--|--|
| Strategic alignment with priority objective areas from Long-term Plan 2021–2031 | <input type="checkbox"/> Sustainable, natural eco city |
| | <input checked="" type="checkbox"/> People friendly, compact, safe and accessible capital city |
| | <input type="checkbox"/> Innovative, inclusive and creative city |
| | <input type="checkbox"/> Dynamic and sustainable economy |
| | <input type="checkbox"/> Functioning, resilient and reliable three waters infrastructure |
| | <input checked="" type="checkbox"/> Affordable, resilient and safe place to live |
| | <input type="checkbox"/> Safe, resilient and reliable core transport infrastructure network |
| | <input checked="" type="checkbox"/> Fit-for-purpose community, creative and cultural spaces |
| | <input type="checkbox"/> Accelerating zero-carbon and waste-free transition |
| | <input type="checkbox"/> Strong partnerships with mana whenua |

Relevant Previous decisions

N/A

Significance

2. The decision is **rated medium significance** in accordance with schedule 1 of the Council's Significance and Engagement

Policy.

The costs of the proposed land purchase is large (although less than the 10% threshold of rates income identified in the Significance and Engagement Policy) and there is an opportunity cost, in that the purchase will decrease Council’s headroom. Officers anticipate that this transaction would likely generate a low to moderate level of community interest. There are no inconsistencies with existing policies or strategies.

Financial considerations

- Nil
 | Budgetary provision in Annual Plan / Long-term Plan
 | Unbudgeted \$32m

3. The purchase price for the Land (\$32 million) is supported by a current market valuation obtained by Council from Colliers.
4. The Council’s proposed involvement in the initiative is based on the requirement that it is fiscally neutral to the Council, at the Council’s sole discretion.
5. However, there is an opportunity cost to this initiative. It is proposed that the purchase of the Land will be funded by debt. The purchase will therefore decrease the Council’s debt headroom and ability to borrow for other projects by \$32 million.

Risk

- Low
 | Medium
 | High
 | Extreme

6. Based on the risks discussed under ‘Considerations for Decision Making’ within this report, this initiative is of medium risk.

Authors	Sarah Houston-Eastergaard, Treasurer Sean Greig, Development Manager Phil Becker, Manager Build Wellington
Authoriser	Andrea Reeves, Chief Financial Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That Te Kaunihera o Pōneke | Council:

- 1) Receive the information.
- 2) Approve the commercial terms outlined in this report.
- 3) Agree to the acquisition by the Council of the underlying fee simple estate in the Reading Courtenay land at 80 Courtenay Place, Te Aro, Wellington legally described as Lot 1 Deposited Plan 85458 and held on Record of Title 38963 ('the Land').
- 4) Agree to the Council granting a ground lease of the Land to the New Zealand entity of Reading International Inc, currently Reading Courtenay Central Limited.
- 5) Delegate authority to the Chief Executive Officer to conclude negotiations with Reading and finalise all matters relating to the purchase and leaseback on terms no less favourable to the Council (as a whole) than those detailed in paragraphs 31 – 34 of this report and execute the relevant formal agreements.
- 6) Note that this proposed initiative will be funded by debt and is estimated to increase the Debt to Revenue ratio by between 1% and 3% over the 10-year period of the upcoming Long-Term Plan.
- 7) Note that the revenue received by the Council from the ground lease will cover Council's cost of holding the debt.

Whakarāpopoto | Executive Summary

7. In January 2019, Reading Courtenay was closed due to an engineering assessment identifying significant structural risk in the event of an earthquake. The building has effectively been 'mothballed' since. In addition, the adjoining multi-storey carpark at 24 Tory Street was demolished in 2016 following the Kaikōura Earthquake.
8. Feedback received is that closure of Reading Courtenay and the demolition of the adjoining carpark building has contributed to a cycle of economic decline in the area, affecting surrounding businesses, and increasing anti-social behaviour. Further, property owners and the development sector provide frequent informal feedback describing how these conditions reduce the appetite for investment and development in the city, including the Courtenay precinct.
9. In October 2022, the US owners of Reading International Inc. came to Wellington and met with the Mayor, officers and economic stakeholders. The purpose of the visit was to reaffirm their commitment to Wellington and desire to work with Council to accelerate the reinstatement of Reading Courtenay.
10. Following that meeting, a non-binding Memorandum of Collaboration and Understanding ('MOCU') was signed between Reading (Note that any reference to 'Reading' within this report includes the New Zealand entities and Reading International Inc.) and Council in December 2022. The MOCU records the basis upon which Reading and Council would endeavour to reach agreement on the commercial terms and the Reading Courtenay civic outcomes.
11. The premise for Council's involvement in the reactivation of Reading Courtenay, informed by stakeholder feedback arising from other Courtenay Place precinct related initiatives, was to provide an opportunity to assist with:
 - a. Accelerating and influencing the redevelopment of Reading Courtenay.

-
- b. Addressing the economic, social, and physical 'shadow' cast by the vacant building.
 - c. Restoring economic activity to the Courtenay Place precinct.
 - d. Reducing the risk of prolonged inactivity and improve the perceived cycle of decline in the area.
 - e. Addressing the perceptions of reduced personal safety arising from on-street behaviour.
 - f. Bringing forward redevelopment timeframes for the wider Reading landholding that will form a platform to support investment decisions for neighbouring sites.
12. Officers have completed negotiations with Reading on the key commercial terms outlined in this report which, subject to Council approval, provide an agreed, non-binding framework for the further negotiation and completion of a formal and, if executed, legally binding agreement (subject to satisfaction of all conditions in the formal agreement) that will involve:
- a. Reading selling the underlying Reading Courtenay land – 80 Courtenay Place, Te Aro, Wellington, legally described as Lot 1 Deposited Plan 85458 and having an area of 7,143m² more or less ('the Land').
 - b. Council purchasing the Land for \$32 million, which is based on an independent valuation process.
 - c. Reading leasing back the Land from the Council on a 21-yr perpetually renewable ground lease.
 - d. Reading having a buy back right during the first 15 years of the initial ground lease term.
 - e. Council having the ability to sell its interest in the Land after the 10th anniversary of the commencement date of the ground lease.
13. Officers are satisfied that this proposed arrangement is the most reasonable option that: will generate sufficient funding for Reading to commit to the redevelopment, accelerates the re-opening of Reading Courtenay, and provides Council a level of influence over the design e.g., Council's approval is required for Reading's concept design which will achieve specific Reading Courtenay civic outcomes.
14. Council's involvement is based on the initiative being fiscally neutral to the Council, at its sole discretion, and otherwise generally on usual market terms acceptable to the Council.
15. The Board of Directors of Reading Courtenay Central Limited approved the key commercial terms on 30 August 2023.

Takenga mai | Background

16. Reading International Inc. is an entertainment and real estate company listed on the Nasdaq stock market within the US. Ellen Cotter is its CEO and Margaret Cotter is the Chair of the Board.
17. Reading International Inc. is the owner of Reading Courtenay Central Limited and through two separate entities (Courtenay Carpark Limited and Reading Wellington

Properties Limited), owns circa 15,000m² of land in Te Aro. All three companies are incorporated in New Zealand.

18. The landholding is split across five parcels with frontages to Courtenay Place, Tory Street and Wakefield Street, as shown in Attachment 1.
19. Four parcels are currently vacant and utilised as at-grade carparking with the main 7,143m² parcel fronting Courtenay Place being occupied by the currently vacant Reading Courtenay building (shown in red in Attachment 1). It is this land parcel that is the subject of this report.
20. In January 2019, Reading Courtenay, housing a multiplex cinema with food and retail outlets, was closed due to an engineering assessment that identified significant structural risk in the event of an earthquake. The building has effectively been 'mothballed' since with seismic work not required to be completed until March 2035.
21. Following the Kaikōura Earthquake, the adjoining multi-storey car park at 24 Tory Street was demolished in 2016.
22. Reading advise that Reading Courtenay was positioned and operated as a safe, family friendly facility that received daily visitation of approximately 6300 people before closure, and therefore generating significant footfall to the Courtenay Place precinct. The impact of this is addressed further in the following "Engagement and Consultation" section, but feedback received is that closure, and therefore cessation of visitors, has contributed to a cycle of economic decline in the area, affecting surrounding businesses, and increasing anti-social behaviour. Further, property owners and the development sector provide frequent informal feedback describing how these conditions reduce the appetite for investment and development in the city, including the Courtenay precinct.
23. The closure of Reading Courtenay has also led to a loss of income for Council through the reduction in rateable values. Further, in accordance with Council's Rates Remission Policy, a rates remission of the targeted rates for "*property under development or earthquake strengthening*" has been provided to Reading.
24. Financially, Reading has advised it is the subject of the double impact of a loss in revenue due to Reading Courtenay's earthquake-related safety concerns, followed by Covid-related losses in revenue throughout their global entertainment portfolio. Consequently, Reading advises that their current financial position means that they are unable to easily, independently fund the redevelopment in the near future.
25. In October 2022, the US owners of Reading, Ellen and Margaret Cotter, came to Wellington and met with the Mayor and officers. They affirmed their commitment to Wellington and strong desire to work with the Council to accelerate the redevelopment of Reading Courtenay.
26. Following that meeting, Reading and Council discussed, in principle, how Council could support the redevelopment of Reading Courtenay. The MOCU was subsequently signed between Reading and Council in December 2022.
27. The MOCU is non-binding except in limited circumstances (including information sharing, confidentiality, public announcements, and costs). It records the basis upon which Reading and Council would advance closer, collaborative discussions, to endeavour to reach agreement on the key commercial terms and the Reading Courtenay civic outcomes. It also contains the following commercial terms principles:

- a. All necessary internal, governance and other approvals required must be obtained in respect of all the commercial terms.
- b. The commercial terms must meet the commercial return and/or commercial objective requirements of each party.
- c. The programme(s) on which the relevant work(s) may be carried out should reflect the parties' shared intent to achieve, on a timely basis, the Wellington community, and wider public benefits to be gained from:
 - I. The re-establishment of Reading Courtenay as a nationally significant cinema and retail destination; and
 - II. Associated community, pedestrian, and visitor benefits to the central city environment, including the positive reactivation of Wellington's important Courtenay Place precinct.

Kōrerorero | Discussion

28. Council's participation in the revitalisation of Reading Courtenay provides an opportunity to positively influence the redevelopment of Courtenay Central, extending beyond standard regulatory oversight. This initiative is driven by the desire to revive the economic, social, and physical aspects of the Courtenay Place precinct and in particular to:
 - a. *Restoring Economic Vitality:* The vacant site of Reading Courtenay casts a detrimental 'shadow' over the Courtenay Place precinct, affecting economic activity, social vibrancy, and the overall appeal of the area. By actively participating in this redevelopment, the Council are supporting economic vitality and helping to restore Courtenay Place as a thriving hub for residents and visitors alike.
 - b. *Mitigating Prolonged Inactivity:* With Reading unable to easily and independently finance the redevelopment in the near future, there's a risk of prolonged inactivity on their wider landholding. Council's involvement mitigates this risk by ensuring timely progress, preventing economic stagnation, and fostering a renewed sense of vibrancy in the precinct.
 - c. *Enhancing Community Safety:* The re-opening of Reading Courtenay is expected to address personal safety concerns, creating an environment perceived as safe and family friendly. This contributes to a more secure and pleasant atmosphere for residents, visitors, and local businesses.
 - d. *Attracting New Residents and Businesses:* Accelerating the redevelopment of Reading Courtenay is projected to expedite broader redevelopment efforts on Reading's landholding. This, in turn, attracts new residents and businesses, fosters economic growth, and supports investment decisions for neighbouring properties, cultivating a thriving ecosystem.
 - e. *Fostering Connectivity:* Our involvement in Reading Courtenay's redevelopment aligns with our vision for a connected and accessible city. It enhances the experience of visiting Tākina and creates a seamless connection to the Courtenay Place, further promoting Wellington as a vibrant destination.
29. Engaging in this initiative aims to address community and economic challenges and supports the strategic positioning of the city precinct for growth. This aligns with

Council's Economic Wellbeing Strategy (2022), specifically Outcome 3: 'A Business Friendly City' and Outcome 6: 'A Dynamic City Heart and Thriving Suburban Centres'.

30. By accelerating the Reading Courtenay redevelopment the aim is that it acts as a catalyst project to revitalise the central city property market, enhancing the visitor experience of Tākina and strengthening connectivity to Courtenay Place. This approach also aims to instill renewed confidence and momentum in the broader area beyond Reading Courtenay.

Key Commercial Terms

31. Key commercial terms in accordance with the MOCU have been negotiated with Reading. Without limiting the commercial terms principles in the MOCU discussed at paragraph 27, the commercial terms negotiated by the parties record that:
- a. Reading will complete the redevelopment of Reading Courtenay at the earliest, reasonably practicable, opportunity.
 - b. Council wishes to assist the redevelopment of Reading Courtenay in a manner that Council is satisfied, at its sole discretion, is fiscally neutral to it and otherwise generally on usual market terms acceptable to Council.
 - c. Commencement, progression, and completion of the redevelopment of Reading Courtenay is to be in a way that promotes the realisation of the civic outcomes beneficial to Wellington, its residents, and visitors, creating a premier, nationally significant entertainment destination and draw card for the long-term benefit of Wellington City.
32. Subject to Council approval, the commercial terms negotiated with Reading provide an agreed, non-binding framework for the further negotiation and completion of a formal and, if executed, legally binding agreement that will involve:
- a. Reading selling the underlying Land to Council.
 - b. Council purchasing the Land for \$32 million, based on an independent valuation process.
 - c. Reading leasing back the Land from the Council on a 21-yr perpetually renewable ground lease with the annual ground rent during the initial 21-year term reflecting Council's cost of funds on the purchase price. Thereafter, the annual ground rent will be reviewed to the current market rent for the Land.
 - d. Reading having a right to buy back the Land during the first 15 years of the initial ground lease term.
 - e. Council having the ability to sell its interest in the Land after the 10th anniversary of the commencement date of the ground lease.
33. The purchase price payable by Council for the fee simple estate in the Land (i.e., excluding improvements) has been agreed at \$32m, which represents a fair and reasonable current market value based on separate independent valuations. Council's valuer, Colliers, assessed the current market value of the Land at \$31.9m.
34. The following table outlines the key commercial terms Officers have negotiated with Reading, which were approved by, the Board of Directors of Reading Courtenay Central Limited on 30 August 2023:

Key Commercial Terms

Term	Details	
Purchase price	<p>\$32m (as discussed above).</p> <p>In two parts: \$6m deposit, and balance of \$26m – subject to conditions.</p>	
Deposit	<p>\$6m, payable upon execution of the formal agreement.</p> <p>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.</p> <p>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.</p>	
Conditions	<p>Conditions precedent will include:</p> <ol style="list-style-type: none"> 1. Reading obtaining resource consent and all other regulatory approvals required. 2. Agreement as to initial key design outcomes. 3. Establishment of an indicative Construction Programme, satisfactory to Council. 4. Confirmation of funding capacity for the construction budget, satisfactory to Council. 5. Agreement on a process on how to achieve the Reading Courtenay civic outcomes, including: <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>	
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> <ol style="list-style-type: none"> a. the interest rate payable. b. all associated fees and other charges. c. 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</p>

		rent shall be reviewed to the current market rent for the Land.
	<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.
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; and b. 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>	
Security/ Guarantors	<p>Reading's obligations under the formal agreement (including the ground lease) will be guaranteed by a Reading parent entity.</p>	

35. An indicative timeline of the above key commercial terms has been provided as Attachment 2.
36. The formal agreement will include provisions providing sufficient certainty in relation to the intent and nature of the Reading Courtenay redevelopment, which will require Reading to progress and complete this in a timely manner, including an agreed sunset date.
37. Entry into any formal agreement will be subject to Council due diligence, which will include approval of:
 - a. Audited statements of financial position of the Reading entities.
 - b. Project feasibility, including costings and budget.
 - c. Credit assessment in relation to Reading's ability to pay the annual ground rent on an ongoing basis.
 - d. Key design outcomes and concept design.

Kōwhiringa | Options

38. Council could:

a. Option 1 – Do nothing.

Council provides no assistance to Reading (monetary or otherwise) to accelerate the redevelopment of Reading Courtenay. Reading would likely therefore independently pursue alternative options. The deadline for completing seismic work to Reading Courtenay is March 2035.

b. Option 2 – Facilitate third party involvement.

Council uses its established relationships with the Wellington development community to assist Reading in procuring a development partner. This may involve Council providing alternative financial support to Reading and / or a third party to achieve the desired development outcomes.

c. Option 3 – Purchase and leaseback the Land (Recommended).

As set out in the commercial terms discussed above.

d. Option 4 – Provide more limited involvement.

Council could seek to acquire part of the Land and/or the wider Reading landholding to ensure a particular outcome for the development, e.g. a through-site link between Wakefield Street and Courtenay Place.

39. An assessment of these options has been provided at Attachment 3. Note, Options 2 and 4 were discussed with Reading but they were not favoured by Reading.

40. Based on the analysis at Attachment 3. Option 3 is recommended as it has been assessed as the most reasonable of the options that meets the key objectives of:

- a. Accelerating the re-opening of Reading Courtenay.
- b. Providing Council with some additional influence over the redevelopment.
- c. Removing the economic, social, and physical 'shadow' cast by the vacant site.
- d. Restoring economic activity to the Courtenay Place precinct.
- e. Assisting in addressing the existing personal safety issues.

41. Officers have explored the potential for additional influence over the wider Reading landholding. However, Reading was unable to commit to any redevelopment outcomes for these sites and Officers did not pursue this further with Reading as it was detracting from the key objective of reactivating Reading Courtenay.

Whai whakaaro ki ngā whakataunga | Considerations for decision-making

Alignment with Council's strategies and policies

42. The redevelopment of Reading Courtenay contributes to Outcome 3: 'A Business Friendly City' and Outcome 6; 'A Dynamic City Heart and Thriving Suburban Centres' of Council's Economic Wellbeing Strategy (2022).

43. The proposed redevelopment contributes to Council's long-term strategic vision 'Pōneke: The creative Capital where people and nature thrive' and supports the social community objective.

44. The reactivation of Reading Courtenay will assist in addressing the existing personal safety issues, aligning with the Pōneke Promise to 'make central Wellington safe, vibrant and welcoming'.

Engagement and Consultation

45. Given the commercial and confidential nature of this arrangement, no public engagement or consultation has been undertaken into the proposed arrangement with Reading, as this would lead to the disclosure of a large amount of information commercially sensitive to Reading.
46. Under the Local Government Act 2002 (LGA), Council must ensure that it gives consideration to the views and preferences of people likely to be affected by, or have an interest in this matter. This does not in itself mean that consultation is required.
47. The Courtenay Place precinct rated lowest on perceived safety across Wellington within the 'Wellington at Night Survey's' completed in 2021 by Council's Strategy, Policy, and Research team. This feedback, along with specific mention of reactivation/development of Reading Courtenay in open text fields of the survey indicates that Council involvement would be supported.
48. During the recent stakeholder engagement sessions for the Courtenay Place precinct plan (August 2023), all stakeholder groups (hospitality, business, residents) noted the impact the closure of Readings has had on the area – loss of indoor space, reduction in foot traffic and change in patron demographics.
49. Part of the 'Our Central City' within the Strategy for Children and Young People highlights the need for indoor play spaces and safe spaces for children; a gap that the closure of Reading Courtenay left.
50. It is reasonable to acknowledge that public opinions on Council's involvement in this proposed initiative will vary. While some members of the public will question the use of public funds to support a listed US company, others will perceive the potential urban revitalisation benefits that could result from the redevelopment of Reading Courtenay and its positive impact on the broader Courtenay Place precinct. These differing perspectives underscore the nature of the decision, highlighting the need for careful consideration of both the financial aspects and the potential urban outcomes associated with this initiative.
51. Given the above, Council may reasonably determine that it has sufficient understanding of the views of affected or interested people as is. Further information is included in 'Legal Considerations' below.

Implications for Māori

52. 27 and 37A Taranaki Street (shaded green in Attachment 1), which form part of the wider Reading landholding sits within the area identified as Te Aro Pa in the District Plan. This opens opportunities for engagement with mana whenua and interpretation of the cultural significance of the area.
53. Under the commercial terms negotiated to date, Council's approval is required for Reading's concept design which will provide an opportunity for Council to explore with Reading the inclusion of iwi design elements in the redevelopment.

Financial implications

Primary financial impact

54. Council's involvement in this initiative is predicated on a fundamental requirement that it is fiscally neutral to Council, in Council's sole discretion.
55. One of the key implications is the opportunity cost to this initiative. It is proposed that the purchase of the Land will be funded by debt. The purchase will therefore decrease the Council's debt headroom and ability to borrow for other projects by \$32 million.
56. The Council has a portfolio of ground leases not integral to delivering core Council services. Officers are currently considering the portfolio of leases to determine, subject to Council approval, whether there is a possibility for some of these being liquidated. The purpose of this consideration is to ensure the Council is maximising its returns from its investments. The proceeds from any sale would likely be recommended for reinvestment to achieve a higher rate of return, diversify Council's portfolio, and mitigate risk. However, there is an opportunity to identify selected ground leases that could reduce Council's overall debt by the purchase price of this lease.
57. The borrowing is estimated to increase the Council's Debt to revenue ratio by between 1% and 3% over the 10-year period of the upcoming Long-Term Plan.
58. It will be fiscally neutral to hold the debt on Council's balance sheet as the cost of holding the debt will be covered by the ground lease payment. The ground lease rental will be structured to cover the interest cost, fees and other charges that are directly attributable to Council drawing the debt and holding it for the initial term of the ground lease.
59. The purchase price for the Land is supported by an independent market valuation obtained by Council from Colliers.

Secondary financial impact

60. Based on the current capital value of \$28.8m (nil improvement value), Council's 2023/24 rates revenue from Reading Courtenay is approximately \$0.32m (not including any remissions). If adopting an indicative redeveloped value of \$85m, as advised by Reading, the rates payable to Council by Reading would increase by approximately \$0.62m to \$0.94m.

Legal considerations

61. Council's Legal Services team has worked closely with Bell Gully lawyers who have been engaged to assist with negotiating and documenting the commercial terms, preparing the formal agreements, and overseeing the conveyancing aspects of the proposed arrangements.
62. As noted above, the MOCU and the commercial terms negotiated between Officers and Reading to date do not (except in limited circumstances, including information sharing, confidentiality, public announcements, and costs) create any legally binding obligations on Council.
63. This decision by Council on this proposed initiative has been assessed as a medium significant decision under Council's Significance and Engagement Policy. This means that Council is required to ensure its decision-making processes promotes compliance

with the requirements for decision-making under section 76(1) of the LGA. In summary, these requirements relate to the identification and assessment of options, alignment with Council policies, and the consideration of the views and preferences of people likely to be affected or have an interest in the matter. The Council does not necessarily need to ensure, however, that all provisions have been “appropriately observed”.

64. Council has a qualified discretion to make judgements about the decision-making requirements in the LGA based on proportionality with the significance of the decision to be made. This includes, in particular:
 - a. the degree to which benefits and costs are to be identified and assessed,
 - b. the degree to which benefits and costs are to be quantified,
 - c. the extent and detail of the information to be considered, and
 - d. the extent and nature of any written record to be kept of the manner in which the local authority has complied with these requirements.
65. In making these judgements, Council must have regard to the significance of all relevant matters, as well as to the principles set out in section 14 of the LGA (discussed below), the extent of the local authority’s resources, and the extent to which the nature or circumstances of a decision allow the local authority scope and opportunity to consider a range of options or the views and preferences of other persons.
66. In this instance, which is assessed as being of medium significance, Council has not undertaken any specific engagement or consultation on the proposed decision due to the confidential nature of this decision. To undertake consultation on the commercial terms would require the disclosure of information that is commercially sensitive to Reading, and which Reading does not wish to disclose. However, Council may reasonably determine that it has sufficient understanding of the views and preferences of other people: several reports and research have been undertaken that identify the impact that the closure of Reading Courtenay has had on the area, as discussed under ‘Engagement and Consultation’ above.
67. Section 14 of the LGA sets out the principles that Council should consider in making this decision. All are applicable, however, the most relevant here are:
 - a. **a local authority should undertake any commercial transactions in accordance with sound business practices.**

The Council is ensuring adherence to the principle of sound business practices by carefully evaluating the financial aspects of the proposed Reading initiative. This includes assessing the feasibility of the investment, conducting thorough financial analyses, and securing the transaction through debt funding offset by ground lease rentals, aligning with responsible financial management practices.
 - b. **when making a decision, a local authority should take account of the diversity of the community, and the community’s interests, the interests of future as well as current communities; and the likely impact of any decision on each aspect of the Well-beings.**

By addressing the concerns related to the Courtenay Place precinct’s safety and the economic well-being of the central city area, the proposed Reading initiative demonstrates a commitment to improving the well-being of both current and future communities. This aligns with the Council’s obligation to assess the likely

impact of its decisions on various aspects of the well-beings, fostering a safer and economically vibrant city for all residents.

Risks and mitigations

68. Risk 1: Funds allocation by Reading

- Description: Reading may not allocate the deposit funds received by Reading from Council for the purchase of the Land to agreed cost categories.
- Impact: This could result in extended project timelines, increased financial burden on Council, and inability of Reading to complete the redevelopment works.
- Mitigation: To mitigate this risk, a comprehensive precommitment due diligence period will be conducted by officers to assess Reading's financial position and project feasibility. The formal agreement will also include conditions precedent requiring suitable funding capacity confirmation and an agreed construction program. Further, the deposit can only be allocated by Reading to agreed, specific pre-construction works, with immediate repayment requirements and bank guarantees in case of termination of the formal agreement.

69. Risk 2: Financial impacts on Council

- Description: Debt drawn for the agreed purchase price (\$32m) could place undue pressure on the Council's already constrained financial capacity.
- Impact: The primary impact will be the opportunity cost.
- Mitigation: The primary mitigation will be for the initiative to operate on a fiscally neutral basis, accompanied by prudent debt management, including ongoing financial analysis and reviews.

70. Risk 3: Construction Risks and Delays

- Description: Construction delays could occur, which might prolong the current economic conditions in the Courtenay Place precinct.
- Impact: Prolonged construction delays could further affect surrounding businesses, contribute to anti-social behaviour, and hinder investment and development in the area.
- Mitigation: To mitigate this risk, the formal agreement will include, and be conditional on, specific requirements for Reading to promptly proceed with appointing experienced contractors and carrying out the redevelopment. Timely construction will help restore economic activity in the precinct and minimise negative impacts.

71. Risk 4: Public Perception and Opposition

- Description: There is negative public reaction to the Council assisting a private entity in the proposed project.
- Impact: Public opposition could lead to reputational risk and potential obstacles in project execution.
- Mitigation: To mitigate this risk, clear communication strategies will be developed to convey the project's benefits to the community, emphasising the

restoration of economic activity and addressing what is perceived as a 'market failure'. While upholding confidentiality obligations throughout the life of the initiative, public engagement and transparency will be maintained throughout the project to garner community support.

72. Risk 5: Rental payment default by Reading

- Description: Reading may default on rental payments for the ground lease, potentially causing financial setbacks for the Council.
- Impact: Rental payment defaults could affect the Council's revenue stream and create financial uncertainties.
- Mitigation: To mitigate this risk, a comprehensive credit assessment will be conducted to evaluate Reading's ability to meet annual ground rent obligations. Furthermore, the ground lease will include provisions for immediate termination in case of non-payment, transferring all improvements to the Council (as lessor under the ground lease) without compensation to Reading. The ground lease will also be guaranteed by a Reading parent entity.

73. Risk 6: Delayed Redevelopment of the Wider Reading Landholding

- Description: A delay in the redevelopment of Reading Courtenay could also delay the redevelopment of the wider Reading landholding.
- Impact: Delayed redevelopment could postpone the arrival of new residents and businesses to the area, impacting investment decisions for neighbouring sites.
- Mitigation: To mitigate this risk, the formal agreement will emphasise Reading's commitment to complete the Courtenay redevelopment promptly, aligned with the overall project's goals. This will help expedite wider landholding redevelopment, enhancing the area's economic prospects. Tagging the Reading initiative with requirements to redevelop Reading's wider landholding has been considered but discounted due to likelihood of inhibiting future development partners in respect of that land.

74. Risk 7: Risk of Precedent-Setting for Future Council Assistance

- Description: There is a risk that this initiative could set a precedent for the Council to financially assist other private enterprises in redevelopment projects.
- Impact: Setting an unsustainable precedent could lead to financial strain on the Council and create expectations for similar assistance in future projects.
- Mitigation: To mitigate this risk, the project's unique opportunity to revitalise the Courtenay Place precinct, likely not addressable by other initiatives, will be highlighted. This will clarify that this assistance is exceptional and highly unlikely to be a standard practice for the Council. Future decisions on similar initiatives are at the discretion of the Council.

75. Risk 8: Inadequate Project Feasibility

- Description: The risk that the project's feasibility will not align with expectations.
- Impact: Inadequate feasibility could result in financial losses, project delays, and a failure to achieve project objectives.
- Mitigation: To mitigate this risk, a rigorous precommitment due diligence period will assess project feasibility. The formal agreement will include provisions to

ensure that Reading confirms its funding capacity and establishes an agreed construction program, reducing the likelihood of inadequate feasibility.

Disability and accessibility impact

76. The initiative is subject to resource consent and as such will be assessed through this process by the Council in its regulatory capacity. Notwithstanding, an agreed civic outcome for the redevelopment is that Reading will provide publicly accessible toilets on the ground floor and ensure universal access throughout the redeveloped Reading Courtenay.

Climate Change impact and considerations

77. The existing building is being refurbished rather than demolished and rebuilt, therefore recycling the existing structure, which is a good outcome for emissions. Overall, emissions will be incurred in the redevelopment, and operational emissions should be the same as they were for the original building. The key commercial terms of the contract do not include any specifications over the quality of the build or its operational emissions footprint. In terms of climate risk, this rests with Reading and it is noted that the site is generally low lying but doesn't have a basement, and services for the building are either at ground level or on the roof.

Communications Plan

78. A communications plan will share the impacts the project will have on stakeholders, the community, public, local businesses, and nearby residents. There are wide ranging positive economic and social benefits, as described in this report which can be addressed and discussed in public forums.
79. The MOCU contains legally binding confidentiality obligations on both parties (including in relation to public announcements relating to the proposed initiative). Consequently, subject to Council approval, it is anticipated that any communications plan will be agreed with Reading upon execution of the formal agreement, which is anticipated to be Nov/Dec 2023.




Health and Safety Impact considered

80. Health and safety implications for the Council associated with the recommendations are minimal, and Reading will be responsible for all site-specific health and safety matters during the proposed redevelopment.

Ngā mahinga e whai ake nei | Next actions

81. Subject to Council approval, Officers will finalise and enter into a non-binding commercial terms sheet with Reading, reflecting the commercial terms negotiated with Reading as outlined in this report.
82. Officers will then proceed to undertaking the required due diligence and subject to officers' satisfaction of this process; negotiate, prepare and finalise the formal agreement. Noting that the commercial terms negotiated with Reading to date give officers the right to obtain further Councillor approval to enter into the formal agreement, should it wish to do so.

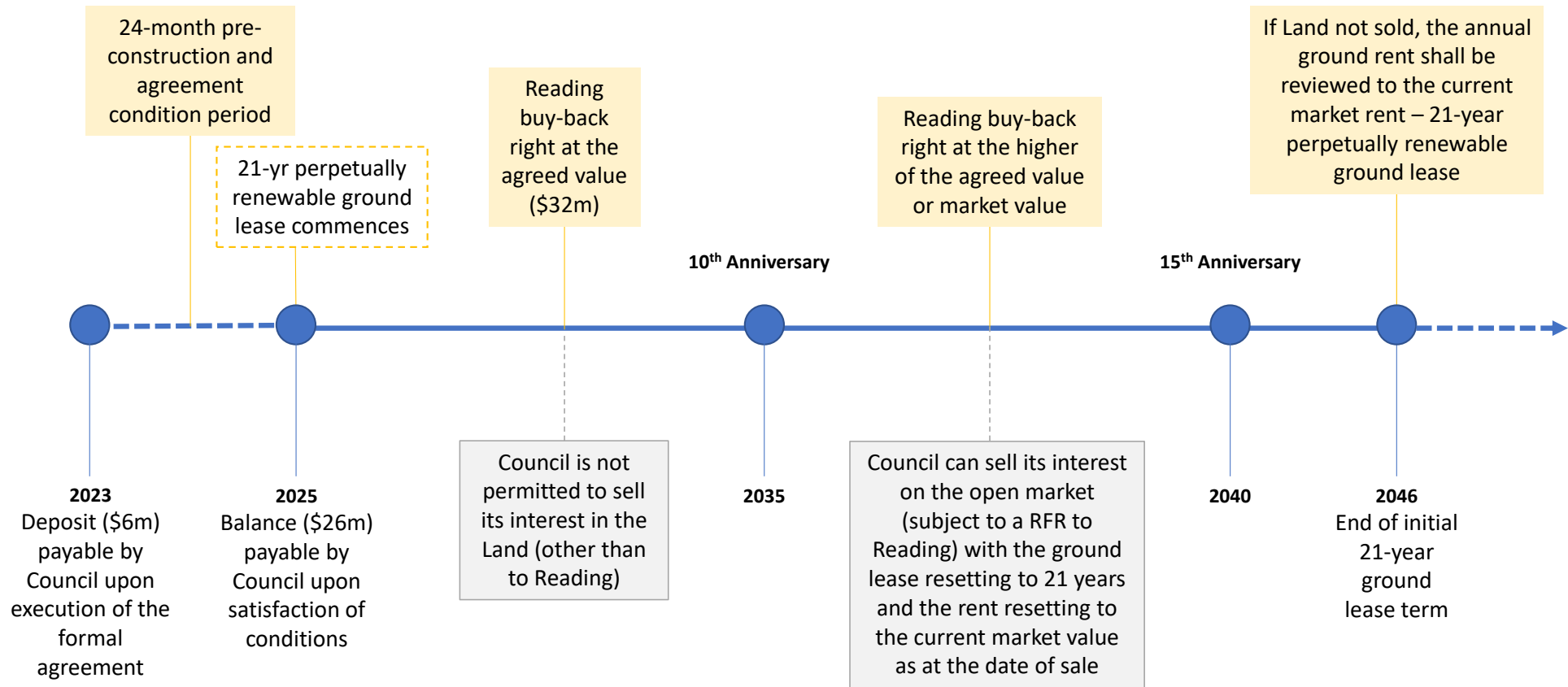
Attachments

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Attachment 1: Reading landholding



Attachment 2: Timeline on Initiative Structure



Attachment 3 – Options Analysis

A high-level assessment of the pros and cons for each of the options outlined within the body of this report is presented below.

Option	Pros	Cons
Option 1 – Do Nothing	<ul style="list-style-type: none"> No capital outlay by Council and therefore, no implications arising through additional debt. Could accelerate Reading's appetite to pursue an alternative option e.g., commercial partner. Avoids the risks associated with taking a proactive approach. 	<ul style="list-style-type: none"> Reading has advised that they are currently unable to self-fund the redevelopment in the near future. Therefore, until such time that Reading's financial position improves, Reading secures a commercial partner, or Reading divests part of its wider landholding, Reading Courtenay will remain vacant. The at-grade parking revenue may be sufficient to cover Reading's holding costs, prolonging the period of inactivity. Council would have limited influence over the redevelopment to secure additional civic outcomes, beyond the regulatory process. The timeframes for developing Reading's wider landholding would likely be extended. Extended timeframes for the redevelopment of Reading Courtenay and development of the wider landholding will delay the anticipated rates revenue.
Option 2 - Facilitate third party involvement	<ul style="list-style-type: none"> No (or limited) capital outlay by Council and therefore, no (or limited) implications arising through additional debt. Council has good relationships with the Wellington development community. 	<ul style="list-style-type: none"> Timeframes to secure a development partner are unknown [refer to Option 1 for specific cons in relation to timeframe]. Any desired civic outcomes by Council could be limited due to a reduced level of influence over the redevelopment (compared to Option 3).
Option 3 - Purchase and leaseback the Land (Recommended)	<ul style="list-style-type: none"> Accelerates the redevelopment of Reading Courtenay with the formal agreement requiring Reading to redevelop at the earliest opportunity and meet an agreed construction programme. Provides the opportunity for Council to secure additional influence over the redevelopment 	<ul style="list-style-type: none"> Opportunity cost. It is proposed that the purchase of the Land will be funded by debt. The purchase will therefore decrease the Council's debt headroom and ability to borrow for other projects by \$32 million as Council.

Option	Pros	Cons
	<p>e.g., design outcomes that will incorporate agreed civic outcomes.</p> <ul style="list-style-type: none"> • Council's involvement in this option is predicated on the fundamental requirement that it is fiscally neutral to it, at Council's sole discretion. Fiscally neutral meaning the cost of holding the debt will be covered by the ground lease rental payments. • Reading has advised that the capital contribution by Council would satisfy its funding requirements to commence redevelopment. 	<ul style="list-style-type: none"> • The agreed commercial terms prevent Council from selling its interest in the Land (other than to Reading) until after the 10th anniversary of the commencement date of the ground lease. • As Reading's buy-back right for the first 10 years of the ground lease is at the agreed purchase price (\$32m), Council does not benefit from any increase in market value for that period, however, it should be noted that Council would not be exposed to any drop in market value.
<p>Option 4 – Council provides more limited involvement</p>	<ul style="list-style-type: none"> • Reduced capital investment by Council (compared to Option 3). • Provides the opportunity for Council to secure specific development outcomes for the site e.g. land acquisition for a through-site link. 	<ul style="list-style-type: none"> • Not sufficient to make the redevelopment of Reading Courtenay financially feasible in the near term for Reading. • Would still require Reading to secure alternative funding e.g. commercial partner, which remains uncertain at this stage (refer to Option 1 for specific cons in relation to timeframe). • Reduces the Council's influence over the redevelopment (compared to Option 3).