
REPORT 1
(1215/52/IM)

OVERSEAS PASSENGER TERMINAL PROPOSAL

REPORT 1 – AUTHORISATION OF 125 YEAR GROUND LEASE

1. Purpose of Report

Wellington Waterfront Limited (WWL) has selected Willis Bond and Co as the preferred developer to redevelop the Overseas Passenger Terminal (OPT). WWL is now seeking approval to enter into a 125 year ground lease of the OPT site.

2. Executive Summary

The Waterfront Framework calls for the OPT to be retained and developed as part of the development of the Waitangi Park Precinct.

After a comprehensive selection process, Willis Bond was selected as the preferred developer and invited to exclusively take part in the final stage of this process. After an extended due diligence period and subsequent design refinements, the finalised proposal was presented to the Waterfront Development Sub-Committee (WDSC) on 8 May 2006. WDSC accepted that the proposal met the requirements of the design brief and the Waterfront Framework and agreed to a programme of public feedback.

The results of the public feedback programme showed that, apart from marina berth holders who had a specific issue with one aspect of the redevelopment - car parking - there was general support for the design concept.

The Willis Bond redevelopment proposal is sensitive in terms of bulk and form to minimize the impact on views and retains significantly more heritage aspects of the site than any other proposal. The design was superior to all other proposals considered and promises to rejuvenate this Wellington landmark. The proposal has been fully endorsed by the management and Board of WWL and the Technical Advisory Group.

WWL and Willis Bond have negotiated a conditional development agreement, on the basis of a 125 year lease which is considered to be an appropriate, commercially sustainable term for both WWL and the developer. Total consideration for the 125 year lease will be in the order of \$32.155 million, including around \$16.7 million in wharf strengthening and a further \$15.5 million in cash and other public development benefits.

Officers have considered whether this is a significant decision in terms of the Council's significance policy, and concluded that it is not. Notwithstanding this conclusion, it is noted that the Council undertakes a high level of consultation with the public on all waterfront developments, in recognition of the importance of this area. The consultation highlighted a number of matters, including the proposed 125 year lease, for consideration by Council.

The Strategy and Policy Committee (SPC) is being asked to agree to recommend to Council the approval of the above lease term, subject to being satisfied with the commercial terms of the proposal. Due to the commercially sensitive nature of these terms, they are discussed in Report 2 in a Public Excluded forum. WWL requires Council approval for any lease over 10 years.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Note that Waterfront Development Subcommittee has agreed that the Overseas Passenger Terminal concept design proposal meets the requirements of the design brief and the Waterfront Framework.*
3. *Note that Waterfront Development Subcommittee has undertaken a programme of public feedback on the proposal.*
4. *Note that Wellington Waterfront Limited intends to enter into a conditional development agreement and lease for the Overseas Passenger Terminal proposal with Capital Wharf Ltd, a subsidiary of Willis Bond.*
5. *Note that Waterfront Development Subcommittee has supported the proposal, while noting that the 125 year lease and commercial terms are outside its delegations.*
6. *Note that due to the commercially sensitive nature of the terms of the agreement, these are discussed in a separate public excluded report (Report 2).*
7. *Note that Wellington Waterfront Limited has provided an update on the negotiations with marina berth-holders in the publicly excluded report (Report 2).*
8. *Recommend to Council that, having considered the Significance Policy, it agrees that the decisions are not significant and that the Overseas Passenger Terminal is not a strategic asset.*
9. *Recommend to Council that it agrees to enter into a 125 year ground lease with Capital Wharf Ltd, subject to agreeing the commercial terms outlined in Report 2 (public excluded).*

10. *Note that total consideration for the 125 year lease will be in the order of \$32.2 million, including around \$16.7 million in wharf strengthening and a further \$15.5 million in cash and other public development benefits.*

4. Background

WWL is implementing the development of the waterfront in accordance with the Waterfront Framework, through an agreed development plan. This includes a range of public spaces and commercial and residential developments.

The Waterfront Framework states that the Overseas Passenger Terminal and Clyde Quay Wharf should be retained and developed as part of the development of the Waitangi Park Precinct.

The development selection process has been carried out in three stages between April 2004 and April 2006. Nine proposals were selected from six development teams. These were short-listed to three, from which Willis Bond was selected as the preferred developer in April 2005.

Willis Bond was granted a due diligence period to investigate the structural condition of the wharf, test the commercial assumptions made, finalise the concept design and submit a binding offer.

The OPT concept design proposal was tabled on 8 May 2006 and WDSC confirmed that the proposal met the requirements of the design brief and the Waterfront Framework. Further to this, WDSC agreed that Council officers should carry out a programme of public feedback and report back to them on 26 June.

A programme of public feedback on the Willis Bond proposal was undertaken from 8 May 2006 to 9 June 2006, as part of the WDSC approval process. Seventy-four submissions were received. A further 8 verbal submissions were heard by the WDSC at the 26 June meeting. The recommendation from the Council officers stated that, with the exception of marina berth holders who have a specific issue with one aspect of the redevelopment - car parking - there are mixed views on the OPT proposal, but general support for the design concept.

In July 2006 the WDSC passed a resolution to recommend to the SPC that the WDSC supports the OPT proposal and to ask the SPC to consider the 125 year lease provided the officers report included an update on negotiations with the marina berth holders.

A briefing session was held with the SPC Committee on 26 July 2006 to discuss the OPT proposal prior to the scheduled SPC meeting on 27 July 2006. It was decided during the briefing session that the negotiations with the Chaffers Marina berth holders should be further advanced before the SPC committee was asked to approve the 125 year lease term and the paper was removed from the 27 July agenda.

Since June 2006 WWL has been negotiating with the Chaffers Marina Board to reach an agreement on the ongoing provisions for marina berth holder car parking. An update on progress with negotiations is provided in Report 2.

An overview of the design proposal and a summary of the key issues considered by WDSC are given below (if further information is required, reference should be made to Appendices 1-5 which comprises the reports and relevant appendices from the WDSC and SPC meetings):

- The Willis Bond proposal is a mixed use development, with public uses such as restaurants and marine chandleries proposed for the ground floor and up to 70 residential apartments proposed for the upper levels. Public access will be retained around the wharf perimeter and WWL will have the option to take a head lease on up to 700 square metres on the ground floor to ensure that an appropriate mix of uses is available to the public
- Independent assessment of the wharf has confirmed that it is in a very poor condition and that if this is not addressed in the next 20 years, further deterioration will render the wharf unsafe. The Willis Bond proposal accepts full responsibility for the necessary repair of the wharf and in so doing relieves Council of the likely \$10 million basic strengthening cost, and the additional \$6.7 million cost of the strengthening required to support a commercial development of the scale being proposed
- An assessment of the OPT has identified the intrinsic heritage values of the building and the Willis Bond proposal has sought to retain these wherever practicably possible.

5. Discussion

5.1 Developer/Investor

As a result of the tendering process, WWL intends to enter into a conditional development agreement with Capital Wharf Ltd (CW), which is a development company established by Willis Bond for the purpose of implementing this project.

Willis Bond is an investment banking company specialising in commercial property and private equity markets in New Zealand. Willis Bond was established seventeen years ago in 1990 and has a proven performance history with WWL having successfully completed Shed 22 (Macs Brewery), NZX and Wellington Free Ambulance building redevelopments. Willis Bond is also currently developing the Chews Lane site.

The Development Agreement between WWL and Capital Wharf Ltd is in the final stages of negotiation.

5.2 Ground lease

Negotiations with the developer have assumed a ground lease term of 125 years, noting that the lease term would be subject to Council approval.

The ground lease will be a strata title that shrink-wraps the proposed building, wharf structure and piles directly under the building footprint including the underlying seabed. WWL will retain control of the remaining parameter of the wharf to ensure that the ongoing obligations to the Chaffers Marina (access issues) and CentrePort (permitted berthing of vessels) can be best achieved. Control of the outer wharf will also ensure that the public continue to enjoy unencumbered access around the wharf for activities such as walking and fishing.

Willis Bond has requested a lease period of 125 years as this provides the ability to offer longer, more desirable leasehold titles to the property market. WWL requires Council approval to enter into any lease over 10 years.

The commercial terms of the agreement are detailed in Report 2 (Public Excluded).

5.3 WWL ground floor head lease

To ensure that the ground floor space within the OPT is occupied by users delivering the Waterfront Framework values and principles, restrictions are included in the ground lease. In addition, the Development Agreement makes provision for WWL to enter into a six year head lease over 700 square metres of ground floor space to ensure an appropriate mix of ground floor uses are available to the public.

The final mix of uses for the ground floor of the completed development is still to be determined; however the existing marine chandleries and amenities that occupy the building remain the primary focus for this space. Commercial terms and arrangements with the existing tenants have not been negotiated at this stage.

The option over the ground floor lease is for a term of six years, with six yearly lease extensions through to 2057. The leases will be subject to three yearly rental adjustments.

5.4 LGA decision-making

The LGA 2002 requires that local authority decisions are made in accordance with the decision making requirements. In particular, this proposal should be considered within the Council's Significance Policy.

5.4.1 Significance Policy

The first consideration is whether the proposal involves a strategic asset. The OPT is not listed as a strategic asset in Council's Significance Policy, although it should be noted that the waterfront land and assets *as a whole* are on the

Council's list of strategic assets. The Significance Policy provides that where Council is making a decision that relates to only a part of a group of assets that are recognised collectively as a strategic asset, and the decision will not affect the overall strategic nature of the assets or their ability to meet Council outcomes, then that part of the asset is not, by itself, a strategic asset.

The assessment of significance occurs firstly by reference to financial thresholds - any decision which exceeds 10 per cent of total rates revenue in any one year to which the proposal relates indicates that a decision may be significant, but it is not an absolute measure.

While the consideration to Council for the OPT lease will be spread over financial years, and it is not currently known what the rates revenue will be when the consideration is actually provided to Council, it is prudent to consider the total consideration as a whole and to use the targeted 2006/07 rates revenue of \$180 million as an indicator.

In light of this, an assessment of the financial impact indicates that the OPT proposal may exceed the financial threshold of 10% when considering the proposal as a whole.

Consideration of significance then turns to the general criteria. Assessment of the OPT proposal against these criteria lead officers to consider that the decision to approve the ground lease for the OPT does not constitute a significant decision, in particular:

- the proposal does not have a 'substantial' impact on Council's overall financial resources and ability to deliver
- in terms of community effect, the proposal does not materially affect all or a large portion of the community.

Further, the Significance Policy also states that "if a proposal or decision flows logically from existing policies or a decision(s) in the LTCCP, it would indicate that the decision is not significant". The LTCCP makes specific reference to the Wellington Waterfront Framework as the guiding policy for the waterfront development. The Framework makes it clear that the OPT is to be redeveloped. The public consultation which has already taken place on the specific proposal for the OPT development, including its leasing, supports a view that the decision in front of this Committee flows logically from existing policies and that, as a consequence, the decision is not significant.

Finally, there have been no other identified reasons for concluding that the OPT decision is significant.

5.4.2 Other consultation and decision-making elements

Notwithstanding this conclusion, it is noted that this proposal is an important decision for the Council. The process adopted has ensured that WWL and the Council is aware of community views and is satisfied that the OPT proposal has

been assessed against any other viable options to achieve the object of retaining and developing the OPT.

In particular, the transfer of ownership or control of individual sites through long term leases has been recognised in the LTCCP as being necessary to develop the waterfront in accordance with the terms of the Waterfront Framework. Further, in May and June of 2006, a well advertised programme of public feedback was undertaken, specifically for the OPT proposal and the resultant feedback was considered by WDSC.

The OPT proposal received a total of seventy-four submissions of which twenty-five were in favour of the proposal and twenty-one were against it. The main reason for supporting the proposal was the attraction and activity it would bring to an area considered to be in need of rejuvenation. The main opposition to the proposal came from marina berth-holders, an issue which WWL has been working on resolving with the berth-holders. The accompany paper (Report 2) on the OPT discusses progress in discussions with the marina berth-holders in more detail.

Seven submitters opposed the lease, principally on the basis of private use/ownership of public space within the Wellington Waterfront area.

It is noted that the area to be leased preserves the perimeter of the wharf for public access and recreation and, in addition, the public access and use of the ground floor will be ensured through the arrangement set out in this paper and, for the commercial aspects, in Report 2.

In the course of arriving at the Willis Bond proposal, all practicable options were explored. It is considered that the long term lease is necessary to ensure an appropriate security of tenure for any party undertaking the development to deliver the objectives of the Waterfront Framework. It is noted that the status quo option (i.e., to do nothing) is not viable, as not only would it not achieve the objective of developing and retaining the OPT, it would also give rise to significant issues regarding wharf maintenance and associated costs.

Further to this, the selection process adopted to select the OPT proposal has ensured that the proposal best achieves Council's objective of retaining and developing the OPT.

5.5 Design features and public benefits

The following outlines the key non-commercial features of the OPT proposal:

- Ground floor spaces remain predominantly public use
- Ease of access around the wharf for pedestrians and vehicles is maintained
- The wharf deck promenade will be upgraded to improve surfacing, lighting, seating, access to the water and public safety
- A total of 28 public car parks provided on the wharf deck (10 located on

western side)

- An innovative under-wharf car park provides an effective parking solution for the development, preventing an additional demand on public parking in the Waitangi Park area
- Increases in the height and bulk of the building are minimised
- The estimated \$16.7 million cost for the structural upgrade of the wharf to support a commercial development is borne by the developer
- Marina office and opportunities for marine related services to be accommodated within the building, supporting the maritime activities associated with this area of the waterfront
- Up to seventy residential apartments will occupy the upper levels of the development
- WB is sponsoring the fit-out of a ground floor artist studio for visiting artists to live and work. The studio would be accommodated within the WWL head lease area
- WWL will be granted an option over a head-lease over 700 square metres of the ground floor to enable the preferred uses to be accommodated
- Destination restaurants proposed for both the northern and southern ends of the building
- Key heritage qualities of the OPT are maintained. The design review from the TAG noted that the central portion of the three-part composition is strongly reminiscent of the existing building, and that the design maintains the form and character of the existing building in a recognisable form. The TAG assessment of the Willis Bond proposal is attached in the appendices to this paper.
- The money from the lease will be invested into the development of waterfront public spaces.

5 Conclusion

Elements of the OPT wharf are in an extremely poor state and if no action is taken the OPT will become a safety hazard and will ultimately need to be condemned. The OPT building is also under strength seismically and the Building Act requires local authorities to arrange a programme of seismic upgrading. It is currently estimated that the cost of these repairs would be \$10 million and that Council would be liable for this. An additional \$6.7 million of strengthening would be required to support a commercial development such as that being proposed.

WWL has carried out a comprehensive and robust process to identify the most appropriate development proposal and has delivered an outcome that meets all aspects of the design brief and the Waterfront Framework.

Council Officers consider that the Willis Bond redevelopment proposal offers the best outcome for the City. The design is sensitive in terms of bulk and form to minimize the impact on views and retains significantly more heritage aspects of the site than any other proposal. The design was superior to all other proposals considered and promises to rejuvenate this Wellington landmark. The proposal has been fully endorsed by the management and Board of WWL and the Technical Advisory Group.

Committing to a lease of 125 years is considered appropriate as it provides an optimal, commercially sustainable term for both WWL and the developer. Entering into head-leases over a substantial portion of the ground floor of the development will enable WWL to secure the desired uses.

The key elements of the proposal – the term of the lease (125 years), the design features, and the financial terms – have been resolved between WWL and the developer. Subject to approval of the commercial terms outlined in the public excluded Report 2, Council officers recommend that the OPT proposal for the 125 ground lease is approved by this Committee and referred to Council. The final details of the agreement, within the terms agreed to by Council, would then be finalised between WWL and Willis Bond.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The Waterfront Development Plan would contribute to the following Council outcomes:

More Liveable – Wellington will be a great place to be, offering a variety of places to live, work and play within a high quality environment.

Stronger sense of place – Wellington will have a strong local identity that celebrates and protects its sense of place, capital-city status, distinctive landform and landmarks, defining features, history, heritage buildings, places and spaces.

More Eventful – Wellington will maximise the economic value from promoting and hosting high-profile events.

More Prosperous – Wellington’s urban form, and flexible approach to land use planning in the central city, will contribute to economic growth and prosperity.

2) LTCCP/Annual Plan reference and long term financial impact

C378 Wellington Waterfront Project; A312 Wellington Waterfront Operations; CX131 Wellington Waterfront Development.

3) Treaty of Waitangi considerations

Maori have had a long connection with the harbour and waterfront that continues today. There are several sites of significance for iwi around the waterfront including Waitangi Lagoon and Te Aro Pa.

4) Decision-Making

This is not a significant decision. The decision has been assessed under the decision-making framework of the LGA as appropriate following the consideration of section 79 LGA 2002. It is noted that the decision does not give rise to any inconsistent decisions, and indeed is consistent with the Waterfront Framework.

5) Consultation

a) General Consultation

Consultation was undertaken on the proposal. All affected parties were included, and any feedback was reported back to the Subcommittee.

b) Consultation with Maori

Representatives from Council’s mana whenua Treaty partners – Wellington Tenth Trust and Te Rūnanga o Toa Rangatira were involved in the development of the Wellington Waterfront Framework that underpins the Waterfront Development Plan.

6) Legal Implications

The LGA decision-making framework has been addressed in this paper.

7) Consistency with existing policy

This report is consistent with existing WCC policy on waterfront development.

Appendix 1

Appendix 2

Appendix 3

Appendix 4

Appendix 5