IN THE MATTER OF	the Resource Management Act 1991
AND	
IN THE MATTER OF	an application by the Church of Jesus Christ of Latter-day Saints Trust Board to demolish the Block Plant building

STATEMENT OF EVIDENCE OF DOUGLAS JOHN SAUNDERS ON BEHALF OF THE CHURCH OF JESUS CHRIST OF LATTER-DAY SAINTS TRUST BOARD

INTRODUCTION

1. My full name is Douglas John Saunders and I hold the position of Director at Telfer Young. I have been in this position since 1989.

2. I hold the Qualification of Bachelor of Commerce (Valuation and Property Management) from Lincoln University.

3. I have 34 years' experience of valuation in Hamilton and the greater Waikato area. My experience has primarily been associated with commercial and industrial property but has also involved residential development of land and multi-unit residences.

4. My experience in this residential field has included the valuation of development property including the Village Quarter on Lake Road, Parkhaven on Tristram Street, the valuation of the Hamilton City Council's pensioner housing portfolio and a feasibility assessment of a multi-level office building on the Hamilton CBD fringe for redevelopment as offices, apartments or as student accommodation.

5. My recent work has also involved commercial valuation of multi-level office development including the Bryant Trust's Alexandra Street tower and the new Genesis office building on Bryce Street. I also gave evidence for the Church of Jesus Christ of Latter-day Saints Trust Board (**Trust Board**) on its earlier application to remove the David O McKay Building.

6. I was approached in late February 2020 to provide advice on the economic feasibility of alternative use of the Block Plant building (**Block Plant**). The initial brief to the project team was to provide input into the decision on what was the likely highest and best alternative use of the Block Plant. This input was made in conjunction with other experts including a structural engineer, quantity surveyor, architect, heritage architect and planner.

7. I have been asked by the Trust Board to prepare this brief statement of evidence to summarise the key matters of the application to demolish the Block Plant (the **Application**) relevant to my expertise.

8. This evidence is intended to supplement the information contained in the Application and the assessment of environmental effects (**AEE**) and the s 92 response, including the appendix which I prepared.

9. I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note and that I agree to comply with it. I confirm that I have considered all the material facts that I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise.

SCOPE OF EVIDENCE

10. This evidence will address the following matters:

(a) The economic feasibility of the three proposed redevelopment options of the Block Plant for alternative use by comparing the market value "As Proposed" of each option against the cost to complete each option;

(b) Comments on submissions;

(c) Response to the Officer's Report;

(d) Comments on the draft conditions; and

(e) Conclusion.

EXECUTIVE SUMMARY

11. Three options for redevelopment were identified as.

(a) Commercial offices.

(b) Residential apartments.

(c) Place of Assembly (Gymnasium/Men’s Shed).

12. Beca provided advice on seismic and other engineering requirements, a plan with elevations and building areas was prepared by Walker Community Architects for each option and with an estimated cost to build prepared by CJM Consultants Ltd.

13. The market value of the three options were assessed “As Proposed” and I made the assumptions that development would not occur unless the larger tenant (commercial) had been secured, a twelve month sell down period would be required (residential) and that the gym would be secured under lease for the Place of Assembly option.

14. On this basis the valuations assessed “As Proposed” would be seen as being more positive than might be expected if considering the brownfield concept afresh.

15. The substantial development cost for each option clearly shows that the redevelopment of the Block Plant building is uneconomic. The building is shown to have no added market value to the land.

IDENTIFICATION OF ALTERNATIVE USE OPTIONS

16. Three options were identified as being suitable forms of redevelopment keeping in mind the Heritage listing and the need to retain the building form as much as possible in terms of external appearance:

(a) Commercial – Three office suites, the southern space being the larger and having an area of first floor accommodation.

(b) Residential – Six apartments, one of which will be two level. Open car parking will be provided on site.

(c) Place of Assembly – Approximately two-thirds of the building would accommodate a gymnasium with part at first floor, with the balance accommodating a community based 'Men's Shed'-type activity.

Physical characteristics

17. Temple View is a residential area built around the Temple of the Church of the Latter-day Saints (**Church**) and the former Church College of New Zealand campus and is predominantly inhabited by members of the Church. Local services include a primary school[1] and a small local store. Community amenities have been developed as part of the Temple View redevelopment project.

18. The location is some 6km distance south west of the Hamilton city centre and is accessed from the residential area of Dinsdale on the western periphery of the City, which is 3.5km north of Temple View.

19. Temple View has its own identity through the development of residential and other activities in conjunction with and in association with the Church and typically would not be considered by the wider Hamilton market.

20. The site area occupied by the Block Plant building is set back from the main road, being slightly elevated over adjoining land and would be accessed by internal roading. It forms part of a larger titled landholding of 87.24ha, the balance of which does not form part of my valuations.

21. I have estimated the area that would be occupied by the building and as would be required for access and parking requirements associated with the redevelopment options to be 2,100m².

[1] Koromatua Primary School located 2 km to the south of Temple View

Planning context

22. The property is zoned Temple View Zone (Special Character). The Zone identifies those areas of Temple View which, through a combination of built and landscaped features derive significant influence from the facilities built by the Church and which have produced a distinctive character. Controls are in place to protect that special character as the community changes and grows.

23. Our assessment of the market value as part of the three proposed redevelopments referred to in paragraph 16 above are made subject to appropriate planning consents having been obtained for each of the three development options.

Building Act context

24. A Seismic Assessment of the Block Plant building has been completed by Beca dated 6 March 2020. This was an update of Beca's earlier Seismic Assessment Report for the building dated July 2009. The building is assessed as being between 40% - 50% New Building Standard (**NBS**).

25. The valuation is being made on the basis of the redevelopment being inclusive of the cost of strengthening the building to meet current code requirements in accordance with the Earthquake Prone Buildings Amendment Act 2016 and that, as a minimum, compliance with those requirements would be to 67% NBS).

VALUATION CONSIDERATIONS

26. For the purpose of assessing the economic feasibility of the redevelopment I firstly assessed the "As Proposed" value of each option, and then made comparison with the costs associated with the redevelopment.

27. These costs include a holding cost during the period of development, a profit allowance for undertaking the development and the actual (indicative) cost of development as provided by quantity surveyors CJM Consultants Ltd.

28. Other key factors include that;

(a) The cost estimates provided by CJM Consultants Ltd have been based on the same building plans that I have valued.

(b) The valuations are made subject to full and satisfactory completion of each option with a site area of approximately 2,100m² that would have a separate freehold title.

29. The market post the initial COVID-19 lockdown and since the return from Alert Level 2 for the country and Alert Level 3 for Auckland has been strong through the residential sector pushed by low mortgage interest rates, investors that might have been travelling looking to place capital outside of bank deposits, and the growing national net migration numbers fuelling demand over supply. Similar strength is seen in the industrial investment market although property associated with office, retail and hospitality/tourism use attracts limited demand at present given the uncertainty that still shades the outlook over the short to medium term.

VALUATION EXERCISE

30. I have adopted various valuation approaches in assessing the market value of each redevelopment option "As Proposed".

31. My report dated 29 April 2020 and my subsequent letter dated 8 October 2020 contained the full detail of those valuations. In those reports I set out each of the valuations separately and discussed the approaches used, the market evidence applicable to each and the valuation breakdown under each assessment.

32. The following is a summary of those valuations.

COMMERCIAL REDEVELOPMENT OPTIONS

Introduction

33. This option included three office suites, the larger of which was assumed to have been subject to a six year lease on completion as an anchor tenant for the development (ie before redevelopment would commence). The remaining two suites would be vacant on completion and take between six months and nine months to secure tenants. Allowance was made for the shortfall of rental income and the unrecovered outgoings during this time as well as the agents' fees.

Valuation considerations

34. Two of the office suites of 200m² and 205m² were appealing to the suburban office market of one or two partner professional businesses while the larger suite of 365m² was assumed to have been secured prior to development starting given the risk of finding a larger tenant for this suburban location. On-site parking appropriate to each office size would be provided. The offices would have an average standard of office fitout including floor coverings and air conditioning.

Approach(es) to valuation

35. Two approaches were utilised:

(a) Income Approach; and

(b) Market Comparison

Income Approach

36. This Approach includes two methods:

(a) Income Capitalisation; and

(b) Discounted Cashflow.

37. Income Capitalisation encompasses the conversion of net income (actual, market or notional) to value via the application of a capitalisation rate or yield (investment return). The basic premise of income capitalisation is that a property investor expects a pre-determined rate of return on their investment. The yield varies according to a number of factors including: risk, type & scale of investment, location, residual lease term and expected income and capital value growth. The two main variables, namely income and yield, are analysed from available rental and sales evidence.

38. I adopted a market approach under this method and capitalised the net market rental income at an equivalent yield. This is the yield on market rent adjusted for income discrepancies eg. rental surplus/shortfall, vacancy, CAPEX, etc. The present value of the discrepancy is calculated based on the equivalent yield. In this instance I made allowance for the unrecovered rental and outgoings from the vacant suites and the letting fees. A summary of the market value obtained on this approach from my report is included below.

Income Capitalisation				
Net market income			**$187,191**	
Rental adjustments				
▪ Managment Allowance	@	3.00%	($5,616)	
Total net market income			**$181,575**	
Net Market Income Capitalised	@	6.75%		
Market value- fully leased at market level				**$2,689,998**
Capital adjustments				
▪ Present Value of Initial Vacancy Void			($63,063)	
▪ Leasing Costs			($17,301)	
▪ Present Value of OPEX During Vacancy			($8,473)	
Total capital adjustments				**($88,836)**
Market value				$2,601,162
			adopt	**$2,600,000**

Sensitivity Analysis				
Equivalent Yield	@	6.50%	=	$2,790,000
	@	**6.75%**	**=**	**$2,685,000**
	@	7.00%	=	$2,585,000

Benchmark Analysis	
▪ Yield on Market Income	6.98%
▪ Initial Yield	N/A
▪ Equivalent Yield	6.75%
▪ $/m^2 of Rentable Floor Area	$3,375

Discounted Cashflow

39. The Discounted Cash Flow (**DCF**) method is a variation of the Income Capitalisation Method whereby cash flows are explicitly forecast over a ten-year investment horizon. Allowances were made within the cash flow projection to account for the market's expectation of rental growth, or where appropriate, structured rental adjustments in accordance with the leases. Deductions for costs associated with property ownership were then made to establish the net annual cash flow. Costs of ownership may include unrecovered outgoings, vacancy (actual or potential) and capital expenditure.

40. Having determined the net annual income, I then established the terminal value of the property based on a hypothetical sale at the beginning of year 11 of the investment horizon, and discount the cash flows at a market based discount rate, as analysed from sales, reflecting the cost of capital, risk and required return.

41. Specific assumptions made are illustrated in the following table:

Discounted Cashflow Method Assumptions										
▪ Cashflow Period:	10 years									
▪ Growth Forecasts:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
- Secondary Warehouse	0.00%	0.00%	1.90%	1.90%	2.00%	2.10%	2.20%	2.30%	2.50%	2.50%
- Secondary Office	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
- Expenses	1.80%	1.90%	1.90%	1.90%	2.00%	2.10%	2.20%	2.30%	2.50%	2.50%
▪ Initial Vacancy										
- Tenant 2:	6 months									
- Tenant 3:	9 months									
▪ Future Vacancy Allowance										
- Tenant 2:	3 months from October 2026									
- Tenant 3:	4 months from January 2025				and	4 months from June 2029				
▪ Management Allowance:	3%									
▪ Leasing Commissions:	17.00%									
▪ Annual Net Cashflow:										
- Period End:	Apr-2021	Apr-2022	Apr-2023	Apr-2024	Apr-2025	Apr-2026	Apr-2027	Apr-2028	Apr-2029	Apr-2030
- Net Cashflow	$93,083	$182,200	$186,910	$188,411	$176,860	$178,623	$175,657	$200,095	$204,509	$173,533
▪ Terminal Capitalisation Ra	7.00%									
▪ Discount Rate:	7.25%									

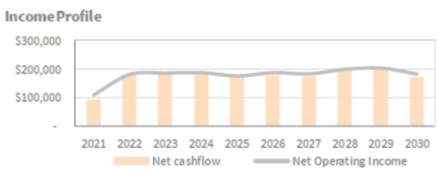
42. The aggregate of the present value of each cash flow establishes market value via this method, as per the below summary table from my report:

Discounted Cash Flow Method											
Year ending	Apr-2021 Year 1	Apr-2022 Year 2	Apr-2023 Year 3	Apr-2024 Year 4	Apr-2025 Year 5	Apr-2026 Year 6	Apr-2027 Year 7	Apr-2028 Year 8	Apr-2029 Year 9	Apr-2030 Year 10	Apr-2031 Year 11
Rental Income											
▪ Suite 1	$85,422	$85,422	$89,999	$89,999	$93,459	$93,459	$97,346	$97,346	$101,800	$101,800	-
▪ Suite 2	$23,560	$47,120	$47,120	$47,834	$48,548	$48,548	$36,810	$50,144	$50,144	$50,524	-
▪ Suite 3	$13,823	$55,294	$55,571	$56,405	$42,304	$52,919	$57,730	$58,794	$58,890	$40,075	-
Total income	$122,805	$187,836	$192,690	$194,238	$184,311	$194,926	$191,886	$206,283	$210,834	$192,399	-
Vacancy Allowance											
▪ Management Allowance @ 3% pa	($3,684)	($5,635)	($5,781)	($5,827)	($5,529)	($5,848)	($5,757)	($6,188)	($6,325)	($5,772)	-
Operating Expenses											
▪ Less Opex During Vacancy	($8,628)	-	-	-	($1,922)	($643)	($1,945)	-	-	($2,833)	-
Total operating expenses	($12,312)	($5,635)	($5,781)	($5,827)	($7,451)	($6,490)	($7,702)	($6,188)	($6,325)	($8,605)	-
Net operating income	$110,493	$182,200	$186,910	$188,411	$176,860	$188,436	$184,184	$200,095	$204,509	$183,795	-
Leasing & Capital Expenses											
▪ Commissions	($17,410)	-	-	-	-	($9,812)	($8,527)	-	-	($10,261)	-
Total leasing & capital expenses	($17,410)	-	-	-	-	($9,812)	($8,527)	-	-	($10,261)	-
Net cashflow	$93,083	$182,200	$186,910	$188,411	$176,860	$178,623	$175,657	$200,095	$204,509	$173,533	-
Reversionary value											
▪ Net Market Cashflow at Period End											$207,666
▪ Capitalised At Terminal Yield of: 7%											$2,966,663
▪ Plus PV Rental Surplus To Market Rental Reversion											$2,496
▪ Less Disposal Costs of: 0%											-
Net reversionary value											$2,969,159

Net present value of net cash flows	$1,236,125
Present value of terminal value	$1,465,977

Indicated market value	$2,702,102
adopt	**$2,700,000**

Discounted cash flow summary	
PV of Net Income:	$1,236,125
PV of Terminal Value:	$1,465,977
Total Net Present Value:	$2,702,102
Disposal Costs:	-
Capital Items:	-
Adopted value (via this method):	**$2,700,000**



Sensitivity analysis			
	Terminal Yield		
Discount Rate	6.75%	7.00%	7.25%
7.00%	$2,806,454	$2,750,913	$2,699,202
7.25%	$2,756,352	**$2,702,102**	$2,651,594
7.50%	$2,707,409	$2,654,418	$2,605,081

Market Comparison

43. The Market Comparison Approach provides an indication of value by comparing the asset with identical or similar assets for which price information is available. In this regard, I used a Comparable Transactions method to value. In assessing value via this method, a unit of comparison that is used by market participants is first identified to establish valuation metrics, and then comparative analysis of qualitative and quantitative similarities and differences between the comparable sales and the subject is performed. The analysed valuation metrics are then applied to the subject development to establish the market value. A summary of that analysis, based on the final rates per square metre obtained through that Comparable Transactions method, is included below.

Component	Area		Rate		Total
Buildings					
Office	797.4 m²	@	$1,750 per m² =	$1,395,450	
Total buildings value					**$1,395,450**
Other improvements					
Site Improvements				$140,000	
Total other improvements value					**$140,000**
Land					
Site	2100 m²	@	$475 per m² =	$997,500	
Total land value					**$1,000,000**
Market value					$2,535,450
				Adopt	**$2,535,000**

Conclusions regarding commercial option

44. The market value "As Proposed" under each approach are summarised below and the ultimate adopted market value shown.

Method	Value
Income Capitalisation	$2,600,000
Discounted Cash Flow	$2,700,000
Market Comparison	$2,535,000
Adopted Market Value	**$2,600,000**

RESIDENTIAL REDEVELOPMENT OPTION

Introduction

45. This option would produce five single level apartments and one two level apartment. Open on-site parking would be provided.

Valuation methodology used

46. A Market Comparison approach was adopted, which is also referred to as Direct Comparison.

Valuation considerations

47. The units will have no outdoor living area and in some of the units there will be a lack of natural sunlight due to an insufficient number of windows. There are limited sales evidence available in the Temple View area, therefore I have also included unit sales from Hamilton. This is a unique property, and I would expect a longer marketing period of up to 12 months.

Approach to valuation

48. As I indicated above, the Market Comparison approach involves reference to sales of properties which have similar attributes to the subject property. Comparisons are drawn between the subject property and the sales evidence. Subjective adjustments are applied where necessary to account for factors which have a direct impact on the sale price and value. For a residential development, these include the following:

(a) Land: eg location, area, shape, position, aspect, view, contour and standard of surrounding development.

(b) Unit: eg age, construction, size, number of bedrooms, quality and street presentation.

(c) Site development: eg landscaping, garaging, any additional features.

49. Based on my analysis of the sales, I have concluded an indicated Market Value 'As Proposed' of:

Unit	Land	Improvements	Chattels	Market Value
Unit 1	$150,000	$370,000	$20,000	$540,000
Unit 2	$150,000	$458,000	$22,000	$630,000
Unit 3	$150,000	$248,000	$12,000	$410,000
Unit 4	$150,000	$248,000	$12,000	$410,000
Unit 5	$150,000	$370,000	$20,000	$540,000
Unit 6	$150,000	$268,000	$12,000	$430,000

Single Line Transaction

50. This approach is used to establish the value of multiple units held in single ownership where if all were exposed to the market by a lender at the same time, the volume may affect the individual sale price relative to the sale of a single unit in the market. It is the accepted methodology used where there is no convincing evidence as to comparable sales, and where developers intend to sell individual finished buildings.

51. Normally a single purchaser of all units would require a margin for buying and on selling or a higher return for managing the multi units as a single investment. The valuation is on an "As Proposed" basis with the costs being selling expenses and holding costs. Taking into consideration the scale of the subject property, I have adopted a 15.0% margin plus costs in my analysis, as summarised in the table below.

Unit 1				$540,000
Unit 2				$630,000
Unit 3				$410,000
Unit 4				$410,000
Unit 5				$540,000
Unit 6				$430,000
Gross Realisation				**$2,960,000**
Less GST				$386,087
				$2,573,913
Selling Costs			4.50%	$115,826
Legal	6 Units	@	$750	$4,500
Finance	1.0	yr	6.0%	$77,217
Margin			15.0%	$386,087
				$1,990,283
			Adopt	**$1,990,000**

Conclusion regarding residential option

52. The market value as a single line transaction “As Proposed” is **$1,990,000**

PLACE OF ASSEMBLY REDEVELOPMENT OPTION

Introduction

53. Occupancy of the Block Plant building by a gymnasium and a Men’s Shed has been adopted under this Places of Assembly option for the purposes of modelling a highest and best use under the definition in the District Plan. The gym will occupy approximately two-thirds of the building and the Men’s Shed the northern residual area. On site parking will be provided for both occupancies.

Valuation considerations

54. The valuation assumes that the Gym would be subject to a lease before the redevelopment started, as an anchor tenant. The ground floor space will be fitted out with changing room amenities and toilets, have floor coverings, air conditioning and acoustic insulation. The Gym would be of “new” quality “As Proposed” and the fitout would be provided by the owner.

55. The use as a Men’s Shed is typically community-based and usually occupies space that does not have demand for alternate use. The level of rental income is normally constrained by limited funding (if any) for the groups that occupy and therefore the level of rental is constrained for an investor.

Approach(es) to valuation

56. Two methods were adopted

(a) Income Capitalisation; and

(b) Market Comparison.

57. In the interests of brevity, I do not set those methods out again, but refer to their earlier description under the Commercial Office redevelopment option, before including the summary tables from my report below.

Income Capitalisation

Income Capitalisation				
Net market income			**$149,532**	
Rental adjustments				
▪ Managment Allowance	@	3.00%	($4,486)	
Total net market income			**$145,046**	
Net Market Income Capitalised	@	7.15%		
Market value- fully leased at market level				**$2,028,616**
Capital adjustments				
▪ Present Value of Initial Vacancy Void			($7,003)	
▪ Leasing Costs			($3,623)	
▪ Present Value of OPEX During Vacancy			($2,551)	
Total capital adjustments				**($13,177)**
Market value				$2,015,439
			adopt	**$2,015,000**

Discounted Cashflow Approach

58. Specific assumptions made are illustrated in the following table:

Discounted Cashflow Method Assumptions										
▪ Cashflow Period:	10 years									
▪ Growth Forecasts:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
- Secondary Warehouse	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
- Expenses	1.60%	0.20%	0.50%	1.30%	1.70%	2.20%	2.40%	2.30%	2.50%	2.50%
▪ Initial Vacancy										
- Tenant 2:	4 months									
▪ Future Vacancy Allowance										
- Tenant 2:	2 months from February 2023				and	2 months from May 2025				
▪ Management Allowance:	3%									
▪ Leasing Commissions:	17.00%									
▪ Annual Net Cashflow:										
- Period End:	Oct-2021	Oct-2022	Oct-2023	Oct-2024	Oct-2025	Oct-2026	Oct-2027	Oct-2028	Oct-2029	Oct-2030
- Net Cashflow	$131,956	$145,149	$140,863	$149,451	$143,401	$150,838	$152,329	$152,708	$155,818	$156,205
▪ Terminal Capitalisation Rat	7.50%									
▪ Discount Rate:	7.25%									

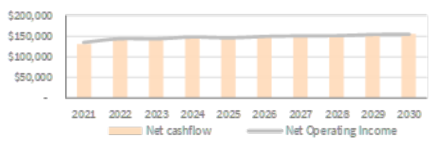
59. The summary from my letter on this analysis is included below:

Discounted Cash Flow Method											
Year ending	Oct-2021 Year 1	Oct-2022 Year 2	Oct-2023 Year 3	Oct-2024 Year 4	Oct-2025 Year 5	Oct-2026 Year 6	Oct-2027 Year 7	Oct-2028 Year 8	Oct-2029 Year 9	Oct-2030 Year 10	Oct-2031 Year 11
Rental Income											
▪ Gymnasium	$128,220	$128,220	$132,445	$132,445	$134,971	$133,653	$135,081	$135,362	$138,458	$138,746	-
▪ Mens Hut	$14,232	$21,419	$17,941	$21,629	$18,111	$21,850	$21,959	$22,069	$22,180	$22,290	-
Total income	$142,452	$149,639	$150,386	$154,073	$153,082	$155,503	$157,040	$157,431	$160,637	$161,037	-
Vacancy Allowance											
▪ Management Allowance @ 3% pa	($4,274)	($4,489)	($4,512)	($4,622)	($4,592)	($4,665)	($4,711)	($4,723)	($4,819)	($4,831)	-
Operating Expenses											
▪ Less Opex During Vacancy	($2,593)	-	($1,339)	-	($1,375)	-	-	-	-	-	-
Total operating expenses	($6,866)	($4,489)	($5,851)	($4,622)	($5,968)	($4,665)	($4,711)	($4,723)	($4,819)	($4,831)	-
Net operating income	$135,585	$145,149	$144,535	$149,451	$147,114	$150,838	$152,329	$152,708	$155,818	$156,205	-
Leasing & Capital Expenses											
▪ Commissions	($3,629)	-	($3,672)	-	($3,713)	-	-	-	-	-	-
Total leasing & capital expenses	($3,629)	-	($3,672)	-	($3,713)	-	-	-	-	-	-
Net cashflow	$131,956	$145,149	$140,863	$149,451	$143,401	$150,838	$152,329	$152,708	$155,818	$156,205	-
Reversionary value											
▪ Net Market Cashflow at Period End											$152,271
▪ Capitalised At Terminal Yield of: 7.5%											$2,030,283
▪ Plus PV Rental Surplus To Market Rental Reversion											$9,091
▪ Less Disposal Costs of: 0%											-
Net reversionary value											$2,039,374

Net present value of net cash flows	$1,050,805
Present value of terminal value	$1,006,910
Indicated market value	$2,057,715
adopt	**$2,060,000**

Discounted cash flow summary	
PV of Net Income:	$1,050,805
PV of Terminal Value:	$1,006,910
Total Net Present Value:	$2,057,715
Disposal Costs:	-
Capital Items:	-
Adopted value (via this method):	**$2,060,000**

Income Profile



Sensitivity analysis		Terminal Yield	
Discount Rate	7.25%	7.50%	7.75%
7.00%	$2,128,432	$2,093,043	$2,059,936
7.25%	$2,092,282	**$2,057,715**	$2,025,379
7.50%	$2,056,957	$2,023,193	$1,991,607

Market Comparison

Component	Area		Rate		Total
Buildings					
Gymnasium ground floor	460.0 m²	@	$1,600 per m² =	$736,000	
Gymnasium 1st floor yoga	100.6 m²	@	$1,000 per m² =	$100,600	
Mens Hut	236.8 m²	@	$1,250 per m² =	$296,000	
Total buildings value					**$1,132,600**
Other improvements					
Site Improvements				$140,000	
Total other improvements value					**$140,000**
Land					
Site	2100 m²	@	$475 per m² =	$997,500	
Total land value					**$1,000,000**
Market value					$2,272,600
				Adopt	**$2,275,000**

Conclusions regarding Places of Assembly option

60. The market value "As Proposed" under each approach are summarised below and the adopted market value shown.

Method	Value
Income Capitalisation	$2,015,000
Discounted Cash Flow	$2,060,000
Market Comparison	$2,275,000
Adopted Market Value	**$2,100,000**

OVERALL CONCLUSIONS REGARDING VALUATION EXERCISE

61. We have considered the market value "As Is" which is represented by the Market Value "As Proposed" less the cost of development which includes the estimated cost of the work undertaken by CJM Consultants Ltd as well as the cost of sale and an allowance for holding costs during the period of development and a profit return to the developer.

62. The residual value is what a developer could afford to pay for the property to acquire, then complete the work and on sell the project to make the ascribed profit.

63. The summary outcomes for each of the three options from my report and letter are set out below.

Office Option

Office Redevelopment Option				
"As Proposed"				$2,600,000
deduct				
Estimated Cost of Development			$3,286,786	
Legal Costs			$5,000	
Selling Costs	2.50%		$65,000	
Holding Cost	6mths	7%	$115,706	
Profit & Risk	20%		$433,333	
				$3,905,825
Current Value				-$1,305,825

Residential Apartment Option

Residential Redevelopment Option				
"As Proposed" Gross Realisation				$2,573,913
deduct				
Estimated Cost of Development			$3,993,556	
deduct				
Legal Costs	6 units	$750/unit	$4,500	
Selling Costs	4.50%		$115,826	
Holding Cost	12mths	6.0%	$77,217	
Profit & Risk	15%		$335,728	
				$4,526,827
Current Value				-$1,952,914

Places of Assembly Option

Place of Assembly Redevelopment Option				
"As Proposed" Gross Realisation				$2,100,000
deduct				
Estimated Cost of Development			$3,642,512	
deduct				
Legal Costs			$5,000	
Selling Costs	2.50%		$52,500	
Holding Cost	6mths	6.0%	$31,500	
Profit & Risk	20%		$350,000	
				$4,081,512
Current Value				-$1,981,512

64. All three models show a negative result after allowing for the costs of development to be deducted from the "As Proposed" value. This clearly shows that the repurposing of the former Block Plant building for any of the proposed three options is not economically feasible. In those circumstances, the highest and best use of the site and existing improvements being the former Block Plant building would be clearing the site for residential development in conjunction with the adjoining land, as is proposed by the Church.

COMMENTS ON SUBMISSIONS

65. No submissions touch on the economic viability or otherwise of the proposed redevelopment options.

RESPONSE TO OFFICER'S REPORT

66. I have reviewed the initial and supplementary Section 42A report prepared by Lana Gooderham. I note that she agrees in the initial Section 42A report regarding the economic unfeasibility of the Commercial Office and Residential development options. Above, I have addressed the further Places of Assembly option raised in that Report and concluded that it is also economically unfeasible. I also note the comments from a peer review of CJM Consultants' cost estimate that, in the reviewer's opinion, the costs may have been overstated by approximately $100,000. However, I agree with both the reviewer and Ms Gooderham that a $100,000 adjustment (in the context of shortfalls in the millions) is of minor significance and does not alter the unfeasibility of those options.

67. I agree with the conclusion in the supplementary Section 42A report that the primary consideration of the structural integrity and seismic strengthening is the economic implications of undertaking the work in conjunction with establishing an alternative use.

68. Reference has been made in the supplementary comments made by Ms Turvey to the potential for a lower cost of refurbishment of the building for the chosen Places of Assembly use, and a further potential alternative use of the building for storage.

69. The consideration of refurbishment as a Place of Assembly use as requested by Council effectively requires the higher seismic strengthening which is a material part of the cost.

70. A lower standard of refurbishment for the Places of Assembly option than recommended and considered by Beca and Walker Architects would in my opinion lower the rental return from the tenancies, in particular the gym, and create greater risk around the sustainability of the gym business by reducing the attractiveness of the premise to potential members of the gym. As a consequence, there would be more risk around the gym being able to keep paying the rental which would require a higher return on the investment income that combined with reduced rental because of the inferior quality premise would lower the value.

71. While a lower development cost might be seen to improve the feasibility, in fact it is likely to reduce the value of the asset and feasibility of the project.

72. The reference to storage as another possible use is outside the Places of Assembly activities that the Council planers requested be considered. It is also an industrial type activity that does not seem appropriate to the nature of the surrounding residential development and would likely have an adverse market impact on that residential use.

CONCLUSION

73. Within the scope of the assessment agreed with Council planners, the repurposing of the Block Plant under the options as office, residential or as a Place of Assembly, to a standard that could return sustainable rental cashflow, generate costs that make the redevelopment of all three options uneconomic.

Douglas John Saunders
9 November 2020