

Friday, 4 May 2012

Greater Wellington
Long Term Plan
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SUBMISSION ON DRAFT LONG TERM PLAN

1. This is a submission on Greater Wellington's draft Long Term Plan on behalf of the Heart of Wellington Association. Heart of Wellington is a group of Wellingtonians with an interest in promoting and protecting Wellington's liveable and compact central business district.

What makes Wellington special?

2. Wellington's compact CBD is largely a result of geography. It means Wellingtonians can walk between most places of work. It ensures that few Wellington CBD workers are isolated from each other within our city. It makes our city attractive to live and work in.
3. Wellington city has identifiable zones of specialisation but they are not remote from each other. Public sector workers are not in a ghetto. Professional firms can attract people anywhere in the CBD. We all have a sense of sharing Wellington's energetic CBD.
4. Heart of Wellington fears that a large scale office park proposed by CentrePort puts at risk that feature of what makes Wellington CBD successful. The proposed development has been referred to publicly by CentrePort as the "Harbour Quays development". Currently, only small and medium scale buildings exist on the land, primarily occupied by Customs and the Bank of New Zealand. Heart of Wellington understand that new, large office blocks (up to 10 stories high) are proposed for large government tenants on land near the Westpac Stadium.
5. If fully developed, Harbour Quays could suck out of the CBD 5,500 office workers. Unless the economic fortunes of Wellington suddenly improve and those workers are replaced, Harbour Quays could contribute to empty restaurants and shops appearing elsewhere, and perhaps even on Wellington's 'golden mile'. Instead of the 'compact little capital' we love and enjoy, Wellington will have more of an

Auckland feel, where taxis and long journeys are required for meetings and social engagements in the city.

6. This is not an objection to new building. Heart of Wellington is not against development, including development outside the current CBD if it stands on its merits. But our client is concerned that Harbour Quays is only possible because its developer is not subject to normal commercial disciplines.

7. CentrePort appears to be plunging into property development:

(a) With land it may need for port uses, including logs;

(b) With capital obtained at rates that do not match the normal cost of capital in the risky business of property development;

(c) Where the land is put into ventures at deemed values way below their open market value as building sites;

(d) Without thought as to the adverse impacts on its owner, or Wellington City Council;

(e) Without regard to the design principle that Wellington City and Wellingtonians support – maintaining the walkability and liveliness of our city.

8. There is also a new consideration that new building overhang (the risk of subsidised over supply) could prevent Wellington's aging and earthquake prone buildings being remodelled and strengthened as would otherwise be driven by the market.
9. Heart of Wellington is advised that large new office development is not commercially viable in the current market. Wellington office rents are low. They fear that CentrePort can be acting rationally in its promotion and development of the Harbour Quays project only if it accesses Council funds at rates that do not reflect development risk. Heart of Wellington cannot be sure. The information publicly available does not make it clear. CentrePort has not been transparent on how past transactions have been funded and the basis of valuations that lead to its reported investment results. The draft LTP raises more questions than it does answers.

Lack of assessment of options

10. The Council's draft LTP has described vague "community outcomes" and action points without assessment of relevant options to secure them. It does not present counter considerations of the options presented against each of the outcomes and what Wellingtonians value. Heart of Wellington submit that the Council's plan has skated over some key features that make Wellington a great city.
11. Particularly, the Council does not appear to have examined the impact of the investment policies, and WRC Holdings Ltd, on other aspects of the LTP. The draft LTP describes Council work plans under various outcomes without assessment of

conflicting considerations and alternatives. It does not consider CentrePort's Harbour Quays proposal and the risk that it may weaken other claimed objectives in the draft LTP. There is no discussion of the risk of undermining the usefulness and value of current infrastructure, retail and transport within the CBD.

Legislative requirements of LTP

12. Section 93 of the Local Government Act 2002 ("the Act") sets out the purpose of long-term plan. It is to (our emphasis) –

(a) describe the activities of the local authority; and

(b) describe the community outcomes of the local authority's district or region; and

(c) provide integrated decision-making and co-ordination of the resources of the local authority; and

(d) provide a long-term focus for the decisions and activities of the local authority; and

(e) provide a basis for accountability of the local authority to the community; and

(f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the local authority.

13. In considering the LTP, section 77 of the Act requires the Council to:

(a) seek to identify all reasonably practicable options for the achievement of the objective of a decision; and

(b) assess those options by considering the benefits and costs of each option in terms of the present and future social, economic, environmental, and cultural wellbeing of the district or region.

14. The draft LTP makes little effort to link the listed "community outcomes" with the specific proposals and policy options that are presented. The purpose of the document should be to present the options the Council has assessed, listing the considerations in favour and against each option consistent with the community outcomes. Despite the legislative requirement, the draft LTP fails in that regard. For example, options consistent with a "strong economy" may conflict with the outcome of "healthy environment". No commentary is provided on the prioritisation.

Specific vulnerabilities in relation to Harbour Quays development

'Strong economy' community outcome

15. The draft LTP describes the 'strong economy' community outcome as:

[Achieving] a thriving and diverse economy supported by high quality infrastructure that retains and grows businesses and employment

16. The Harbour Quays development is inconsistent with the Council's economic objective. Current assets of CentrePort Ltd disclosed in its 2011 annual report were only \$8m. Heart of Wellington fear that the additional funds required for Centre Port Ltd to complete the Harbour Quays development will come from the Council. The draft LTP would allow for that.
17. The LTP allows the Council to fund investment activity through borrowing "as appropriate"¹. Presumably that means within prudent leverage limits rather than limiting borrowing only for investments consistent with the "community outcomes". The point should be clarified by removing the final bullet point under "borrowing limits" on page 27 or replacing the words "as appropriate" with "for projects and activities consistent with the outcomes of this long-term plan".
18. The draft LTP suggests that internal interest rates are calculated using the Council's costs of borrowing rather than a cost of capital that reflects the risk of the investment. The draft LTP states at page 30:

Internal borrowing

Greater Wellington reviews and sets the interest rates charged in relation to internal borrowing as part of the Long-Term Plan process. Rates are set in line with the forecast long-term weighted average cost of debt, based on advice from Greater Wellington's external treasury advisor. A borrowing premium is applied to provide certainty of costs. The treasury function manages all external investment and borrowing activity, in accordance with the treasury risk management policy and the policy parameters detailed in this strategy.

19. Heart of Wellington believes this policy is misconceived. Applied to CentrePort it subsidises high risk activity with low borrowing costs attributable to the Council's ability to tax property owners. Heart of Wellington are advised that a market cost of debt for large scale property development could be twice the rate of Council sourced debt.
20. Heart of Wellington fear that the Harbour Quays development, if funded through the Council is a subsidisation of what is already a thriving and competitive Wellington commercial property market. Instead of supporting a thriving and diverse economy, the draft LTP may allow CentrePort to access capital at an artificially low cost. If such funding is used by CentrePort for property development the transparency and stability of the market, conditions of which are essential for growth and private investment, are lost.
21. The Council risks, for the sake of a development reported to cost \$500 million², far more private investment, due to the crowding out or postponing uncertainty created.

¹ Refer page 27 of draft LTP.

² Refer to <http://www.stuff.co.nz/business/industries/6783139/Bright-future-ahead-for-CentrePort>

22. For consistency with the 'strong economy' community outcome, Heart of Wellington ask that the Council amend the draft LTP to:

- (a) Ensure that internal borrowing (i.e. for use by CCO/CCTO investment vehicles) is limited to investments that are consistent with the community outcomes contained in the LTP. The requirement is already in the draft LTP for equity investments by the Council in CCO/CCTOs³;
- (b) Ensure that internal borrowing rates are consistent with the open market costs of capital for the same class of investments. The Council should ensure that the internal interest rate reflects the risks of the investment the borrowing is applied to.

'Resilient community' community outcome

23. The draft LTP describes the 'resilient community' community outcome as:

A community that plans for the future, adapts to change and is prepared for emergencies.

24. The draft LTP acknowledges that the Council has a role in ensuring that Wellington is resilient to natural hazards and that Wellington faces a significant challenge in ensuring that building stock is upgraded to new earthquake standards.

25. For Wellington to be resilient, there must be the economic incentive for property owners to invest in the necessary strengthening work on existing structures. The economic climate and the drop-off of growth in the numbers of government office workers has lead to commercial property returns that do not justify the essential upgrading and seismic work on existing building stock.

26. Any subsidisation of the Harbour Quays development jeopardises commercial property returns for the CBD climbing back to the historical averages necessary for essential strengthening projects within the existing CBD natural limits. Even if the Council considered subsidising property development as a good outcome for the economy, the effects are inconsistent with the stated aim of a resilient community.

27. Heart of Wellington see prospects of a partially tenanted CBD, as the port develops effectively new office space for thousands of workers.

'Connected community' community outcome

28. The draft LTP describes the 'connected community' community outcome as:

People are able to move around the region efficiently and our communications networks are effective and accessible.

³ Refer to page 30:

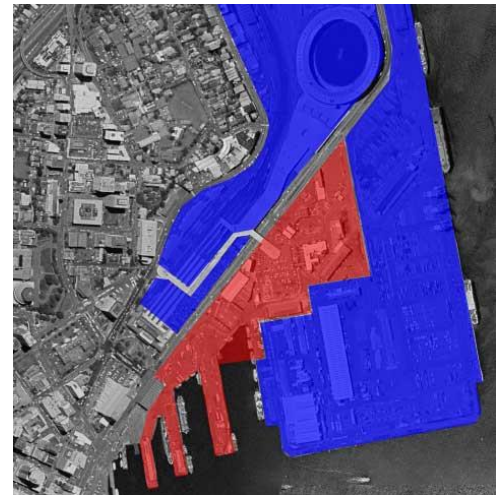
Direct equity investments in CCO/CCTO

Investments in CCOs and CCTOs are made for strategic purposes, consistent with Greater Wellington's Long-Term Plan and to hold revenue earning investments.

29. Wellington has significant advantages in moving its citizens. The CBD is generally walkable, meaning for most trips within the CBD the Council bears no public transport or infrastructure cost. Harbour Quays has the potential to pull 5,500 workers to a remote site. The additional transportation costs and financial burden on the Council do not appear to have been assessed.

30. Further, pedestrian no go areas, particularly on the railway land mean that Harbour Quays will remain a peninsula in a sea of inaccessibility.

31. Because of the railway border, Harbour Quays is cut off from neighbouring Thorndon. It jeopardises Wellington's connectivity by artificially stretching the CBD to an area not pedestrian friendly.



32. The stretching of the CBD undermines the key advantage Wellington enjoys for public transport. A walkable CBD allows public transport to take advantage of the natural transport arteries dispersing from the City. The draft LTP does not assess the implications of the CBD spreading or necessary options for intra-CBD transportation if the CBD is stretched to port land. Heart of Wellington submit that the Council should not undermine that walkability.

No assessment of whether Harbour Quays consistent with quality of life outcome

33. The draft LTP describes the 'quality of life' community outcome as:

An engaged community that takes pride in our region, values our urban and rural landscapes, and enjoys our amenities and choice of lifestyles.

34. The draft LTP makes no assessment of what Wellingtonians take pride in and features that make the Wellington region attractive to live in. It lists regional leadership, water supply, parks, environment and flood protection and control works as contributors toward the community outcome. But without knowing what is valued, how will the Council assess whether it is contributing to the quality of life outcome?

35. Heart of Wellington submit that a key feature of our region is the compact CBD, a feature jeopardised by the Harbour Quays proposal.

Investment by the Council

36. Heart of Wellington cannot tell how the land used for development is being valued by the port. We have filed information requests with this submission. Our client fears that CentrePort are obfuscating the true profitability of the development projects by using valuations of land based on current (port) use, rather than what would be expected on the open market if the land was sold to developers.

37. Heart of Wellington cannot tell from the information publicly available whether the Council is likely to receive an adequate return from CentrePort's property investment. The Council may consider it acceptable to allow CentrePort to use its credit for what can be risky property development but it should ensure that risk is properly priced.

Office building property development is risky

38. People forget how risky is large scale Wellington office development. For example the Majestic Centre was commissioned by expert developers as a premium building. It was probably just outside the area it should have been for its scale and ambition. The developers thought they would shift the center of gravity of the city toward them.
39. It was budgeted at \$150million. After the developers went broke and the receivers finished it the total cost in 1991 was reportedly \$205million including funding costs.
40. It was sold to Kiwi Income Property Trust for only \$48 million 3 years later.
41. The most recent annual report of Kiwi Income Property Trust Limited shows the current fair value of the Majestic Centre at \$101million, less than half the cost of development over 20 years ago.
42. It is now understood that at least \$35million is needed to be spent to upgrade its earthquake status to 70% of the current code.
43. This story is not unusual. As the late 1980s showed, only very skilled (and sometimes lucky) developers do not spend more on buildings than they prove to be worth.
44. Has the Council considered the risks Harbour Quays represents to future dividends from CentrePort? Should the Council allow an otherwise successful company to gamble future returns for ratepayers on risky development projects? Other than potentially cheap access to borrowing through the Council, what advantage does CentrePort have over expert property developers?

Sell surplus port land to ensure transparent and fair deal for ratepayers

45. The Harbour Quays development demonstrates that the CentrePort considers the land surplus to requirements. Heart of Wellington is advised that the lifespan and scale of the buildings proposed suggests that the CentrePort has no realistic intention of returning the land to port use. Harbour Quays is only referred to in CentrePort's annual report in the context of an investment vehicle rather than a strategic holding of land.
46. The choice to retire the land from port use may be short-sighted. Heart of Wellington understand that efficient log handling requires large volumes to be stored so that larger, more efficient ships can be used for export. It understands

that CentrePort's existing land is already too small to handle growing log volumes and shippers are using space off-site to store, then double handle the cargo

47. The Council should get assurance that the port is not undermining its future operations.
48. Assuming that the Council is confident that the Harbour Quays land is indeed surplus, has the Council considered selling it to ensure that ratepayers are not subsidising and taking unnecessary risk with CentrePort's proposals? If not, why not?
49. Heart of Wellington submit that the Council ensure that the LTP state that surplus land held by investment vehicles is put to best economic use, consistent with the LTP community outcomes.
50. Heart of Wellington request to submit orally.

Yours faithfully



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