**Public Excluded** **Report PE-00.172**

15 March 2000
File: N/50/1/28

Report to the Landcare Committee
from Peter O'Brien, O'Brien Property Consultancy Limited

## Review of Rent, Shandon Golf Club

## 1. Purpose

To seek approval of the Committee to the review of the Shandon Golf Club rent (at a sum which is considered to be less than the current market rent).

## 2. Exclusion of the Public and Confidentiality

Grounds for the exclusion of the public under Section 48(1) of the Local Government Official Information and Meetings Act of 1987 are:

> *That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists, (i.e., to preserve commercial confidentiality and to enable the Council to carry on negotiations without prejudice or disadvantage).*

Interests protected:

Wellington Regional Council

Shandon Golf Club

## 3. Background

Gear Island was acquired by the Hutt River Board for flood protection purposes during 1905. After utilising the land required for flood protection work, the Board issued three leases to a market gardener, a farmer and a sausage skin manufacturer. These leases ran for the period 1905 to 1930.

From 1926 part of the land leased to the farmer was subleased to the Shandon Golf Club. In 1927 the *Hutt River Board (Gear Island) Empowering Act* was enacted which authorised the Hutt River Board to develop and control Gear Island as a sports area, pleasure ground and ornamental park and for those purposes to issue leases to sports bodies. The stated purpose of the leases was for the members of the leasing bodies to have facilities and opportunities to engage in football, cricket, tennis and golf. Leases granted were not to exceed 50 years, charges for admission could be levied and the Public Reserves and Domains Act 1908 was not to apply to the Island. This Act has long been revoked.

In 1930, at the end of the farmers lease, a lease was issued to the Shandon Golf Club. The golf club has remained on-site under various leases from that time. It is the golf club, at its own cost, which has developed the land to its present condition and standard.

The current lease runs for a term of 25 years from 1 January 1981 with the rent to be reviewed after the first five years and then three yearly for the balance of the term. The lease provides for the land to only be used as a golf course, (sheep grazing is an allowed exception) and the lessee is to keep the land free of vermin and noxious weeds. The lessee is to maintain the stopbanks on the land and the Council as lessor has the ability at any time to enter on the land for any purpose to undertake any work which is the business of the Council, including construction of stopbanks. This right of entry is exercised and at present the Council is occupying parts of the site to drill test bores into the aquifer.

The Council is under no obligation to protect the land from flooding and is not liable to the lessee for any loss or damage which might occur. The lessee is required to permit the public to play on the course, except on tournament days and subject to payment of green fees, i.e., it is a public course rather than private. Given the level of membership fees at this and other golf clubs in the Wellington Region, the lessee has very limited scope to increase the membership fees to any significant degree. Any increase in fees is likely to result in loss of membership.

The lessee is part way through a redevelopment of the course. Greens and fairways are therefore of variable type and quality. To retain membership, the redevelopment must continue to completion. The cost of redevelopment significantly impairs the ability of the club to pay for occupation of the land. The annual cost to maintain the course is increased due to the variable modes of design and ground preparation. The lessee is able to consult with the Council to mitigate wasted cost and to be aware of future stopbank requirements and development timing. Council intrusion for stopbank upgrade is likely to be no earlier than 10 years and more probably 15 years hence.

## 4. This Review of Rent

For the review period of three years from 1 January 1998, an assessment of rent was obtained from Allison Associates, public valuer and ex District Valuer for Valuation NZ, Hutt Valley who was very familiar with this property. The rent assessed for the raw or unimproved land was $18,600.

In light of O'Brien Property Consultancy Limited (O’Brien) dealings with the river, land acquisitions and rents for other tenants and knowledge of other market transactions, O’Brien considered the rent assessed to be far too low. O’Brien undertook an assessment of the raw land at $70,000 per annum. With the passing rent at $15,000 O’Brien recognised a potential problem for the club and its cash flow and therefore entered a consultative process. That process has now arrived at an agreed position and forms the basis of this report and recommendation.

## 5. The Issues for Review

Rent for the land has historically been set at or less than 50 percent of the recognised market rent level, which has equated to between 6.5 and 10 percent of the lessees subscription income.

O’Brien has studied the rent reviews and arbitral awards for the Remuera, Howick, Takapuna, Waiuku, Muriwai, Waitemata, Aviation Country Club, Chisholm Park and Springfield golf clubs and found a distinct pattern that golf club rents are more aligned with affordability, and therefore subscription income than with the market worth of the land. Invariably the use as a golf course is recognised as the least intensive use that the land can be put to and market rents are typically rebated to a range between 35 percent and 50 percent of market.

O’Brien has, in consulting with the club, had full disclosure of club accounts and the future development plans and projected costs. In simple terms, any rent over $30 - 35,000 will place the clubs future continuance in jeopardy. The assessed market rent for the raw land, having regard to other similar land leased for similar purposes, at $70,000 per annum. It is interesting to note that one of the Club’s representatives is a director of a large valuation company in Wellington and he has, in writing, agreed that in market terms the $70,000 assessment is acceptable.

At 50 percent of market, this indicates a rent of $35,000. The club has advised that it has the ability to pay a rent of $30,000 while retaining its viability and ability to continue with its upgrade programme. The clubs 1999 income is projected to be $773,000 with subscriptions contributing $471,500. At 6.5 to 10 percent this indicates an affordable rent of $30,600 to $47,000. The club has expressed a desire to be flexible and inventive in setting the rent for review and also wishes to avoid a similar debate arising in the future which will impact on both parties and be expensive to administer.

This stance is supported and the key issues are believed to be:

- That the club, at its cost, developed the land to its present standard.
- There is an historical recognition that the club is unable to pay a market rent and retain viability.
- The Region benefits from the presence of the course and the ability of the public to use the facility.
- The lease dictates that the land must be used as a golf course.

- Golf courses must be modernised to retain membership and this is known to be a very expensive exercise.

- Membership fees have little room to be increased. Ability to increase revenue is therefore limited.

## 6. The Proposal

It is proposed that the Council and the club jointly agree to terminate the present lease at the end of the present review period (31 December 2000) and to put in place a new lease. The club agrees to this course of action. Details are:

- A new lease be set in place as from 1 January 2001 on terms and conditions similar to those contained in the present lease.

- The rent for the present lease be reviewed for the three years from 1 January 1998 at no less than $30,000 with every endeavour made to achieve review at $35,000 being 50 percent of the assessed market rent and 7.4 percent of the subscription income.

- The new lease to be for a period which reflects the lessee's estimate of the time to complete the programmed upgrade of the course.

- During the new lease the rent to be no less than $35,000 per annum or 7.5 percent of the then subscriptions received or 50 percent of the assessed current market rent, whichever is the greater.

- The rent for the new lease to be reviewed each seven year period of the term but is to be no less than the rent for the previous year and shall each year move at the positive rate of inflation recorded in the CPI (Consumers Price Index).

- At the term end of the new lease, (when course redevelopment is completed), a subsequent lease shall be issued where the rent shall be set at the current market rent for the land. Balance terms of lease to be similar to those contained in the present lease and the rent shall be reviewed at seven yearly intervals.

The above formula should provide the club with the financial viability/security it needs, will enable the club to proceed with course development to modernise and retain membership and potentially increase membership in the long-term and will lead, in the long-term, to the Council enjoying a better level of rent income, reflecting market rents.

## 7. Recommendations

*(1) That the report be received and the contents noted.*

*(2) That the Committee recommend to Council that:*

*(a) approval be granted to a rent, for the three year review from 1 January 1998, being negotiated which is less than market and which has reference to the financial ability of the club to pay and retain viability.*

(b) *approval be granted to termination of the current lease at 31 December 2000.*

(c) *approval be granted to issue of a new lease for the duration of the course upgrade programme where the initial rent shall be set at the greater of $35,000 or 7.5 percent of the subscription income or 50 percent of the assessed market rent. The rent to be reviewed 7 yearly and shall each year move at the positive rate of inflation and be set at the greater of the passing rent at the time or 7.5 percent of the subscription income or 50 percent of the assessed market rent.*

(d) *approval be granted to issue of a further lease commencing from completion of the course upgrade programme where the rent shall be set at market rent and the rent to be reviewed seven yearly.*

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