

BEFORE THE TIMARU DISTRICT COUNCIL

IN THE MATTER OF

the Resource Management Act 1991

AND

IN THE MATTER OF

An application for Resource Consent
by Bayhill Developments Limited

STATEMENT OF EVIDENCE OF DARRON CHARITY

Dated: 23 November 2016

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INTRODUCTION

- 1 My name is Darron Charity. I am the New Zealand Director of Select Evolution, a developer of Leisure and Entertainment attractions around the world.
- 2 I hold the qualification of Project Management Professional certification (PMP) from the Project Management Institute (PMI). I am a member of Project Management Institute of NZ (PMINZ).
- 3 I have over 25 years of experience in the commercial construction industry including large scale project delivery in project management and project director roles. I have extensive project due diligence and project feasibility experience including commercial experience for various Government Agencies.
- 4 My specific experience relevant to this evidence includes my previous 15 years experience in Project and Development Management. I have held business management roles with Arrow International (Branch Manager Bay of Plenty) and The Building Intelligence Group (South Island Business Manager). Over the course of the last 15 years I have personally been involved in hundreds of capital construction projects including large scale redevelopment following the Christchurch earthquakes of 2010-11 for a number of Government Agencies.
- 5 I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2014. I have complied with it in preparing this evidence and I agree to comply with it in presenting evidence at this hearing. The evidence that I give is within my area of expertise except where I state that my evidence is given in reliance on another person's evidence. I have considered all material facts that are known to me that might alter or detract from the opinions that I express in this evidence.

SCOPE OF EVIDENCE

- 6 My evidence reviews the analyses from the structural engineers, architects and quantity surveyors and considers the financial feasibility of each option for repair that has been presented and costed.

- 7 I then use a financial feasibility model to assess whether each option constitutes a viable option from an investment perspective for the Applicant.

EXECUTIVE SUMMARY

- 8 The intention of development on the Hydro Grand Hotel site (Hydro Grand) is to provide a sustainable development that will be a legacy for the Timaru community as well as being both commercially and financially viable to undertake.
- 9 Following numerous design explorations, the financial viability for retention of the existing buildings in any form was discovered to be impossible for this owner (as with several before him). I am aware that the Applicant expended in excess of \$100,000 exploring options before retention was discounted and a new build replacement option was further pursued.
- 10 The Timaru market is very limited and tenant tenures are historically long. The project team has worked hard to develop a product that meets a level of commercial rent that is appetising in the local market. Rents exceeding \$280 per square metre (minimum commercial rents required to meet the business case projections) will be a challenge to achieve in rural New Zealand.
- 11 The end product also had to achieve 100% of NBS to have any chance of attracting new tenancies at the highest end of the rental market rates in Timaru. This was considered a baseline position for any new development scheme.
- 12 The Applicant and the design team recognise the local iconic nature and presence of the existing Hydro building. This was never in question. What is in question is enabling development of the site in a manner that is financially viable and will provide development momentum in this area of the high street that has remained derelict and run down for decades.

BACKGROUND

- 13 I have been involved in this project since 2014. At that time Mr Allan Booth had recently purchased the property and was looking for someone to act in an advisory capacity to assist with his development planning on the said land.

- 14 The existing building, the "Hydro Grand" had been vacant for over 10 years and was in a dilapidated and poor state of repair. Over time the building had been extensively changed in terms of its internal fit out and fabric.
- 15 My technical brief to the project design team was to investigate all development options that could provide a commercially sound and financially viable development on the site. This included refurbishment and re-use options.
- 16 The site is bounded by two vacant lots, one to the west and one to the south. Both vacant lots were subject to consideration and/or inclusion in the redevelopment options investigated.
- 17 From the outset of technical investigations it was evident that the one condition that had to be complied with before any refurbishment or rebuilding could be considered was to address the structural issues related to the existing and obvious dilapidated state/structure of the building. Mr Booth and I were both well aware of the need to ensure any new development could meet full structural code standards so as to have the best response from the constrained local market. Of note is the fact that a number of building code changes had been put in place during the 10 years when the building was left vacant. Such changes affect accessibility, structural and fire standards.
- 18 Powell Fenwick (structural engineers) were therefore asked to develop structural schemes that would enable the existing building's structural performance to achieve scenarios of 34%, 67% and up to 100% of the New Building Standard (NBS). During this analysis Powell Fenwick structural engineers advised that for any scheme to be progressed retro fitting/structural strengthening work would need to lead or be the precursor to any architectural refurbishment works associated with the existing building footplate.
- 19 In parallel, The Buchan Group (project architects) were asked to consider refurbishment options for the existing Hydro building. In essence the refurbishment options were to bring the existing building up to current building code and safety standards as well as considering the potential to reconfigure the current footplate and form of the Hydro Grand into a new working hotel.

- 20 The Buchan Group’s design options also explored an option of re-establishing the original multi-gabled roof form in order to provide an additional seven hotel rooms within the attic roof space of the existing building to increase new revenue from the limited nett lettable areas of the existing footprint.
- 21 On completion of the structural investigations by Powell Fenwick, Aecom (quantity surveyors) were asked to price out the structural refurbishment options to repair and strengthen the existing building to the various NBS levels.

COST ESTIMATES - STRENGTHENING

- 22 The existing Hydro Grand footprint comprises a ground floor hospitality offering, with back of house functions to service a 39 bed bespoke hotel. It has a total Gross Floor Area (GFA) of 2,550m², with a Nett Lettable floor area (NLA) of 2,050m² (including hotel rooms).
- 23 Indicative cost results of the structural strengthening schemes, to the various NBS levels were priced by Aecom as follows:

| Element | 34% NBS | 67% NBS | 100% NBS |
|-----------------------------|---------------------|---------------------|---------------------|
| Building Works | \$10,760,000 | \$10,954,000 | \$11,828,000 |
| Construction Contingency | \$1,048,000 | \$1,095,000 | \$1,183,000 |
| Asbestos Removal | \$200,000 | \$200,000 | \$200,000 |
| Building Consents | \$70,000 | \$70,000 | \$70,000 |
| Professional Fees (15%) | \$1,769,000 | \$1,848,000 | \$1,993,000 |
| Total Estimate Costs | \$13,563,000 | \$14,167,000 | \$15,278,000 |
| Excl GST & escalation | | | |
| Table . 1.1 | | | |

*Refer Aecom Report for detailed pricing breakdown

- 24 Of the structural scenarios explored and costed by Aecom, the Applicant chose the 100% NBS solution as the preferred solution if any refurbishment option was going to progress any further. This preference was selected based on providing a direct comparison against a new build replacement building which would also be designed at 100% NBS. There is also a public perception and market preference post Christchurch earthquakes from both customers wishing to stay in accommodation, commercial tenants and national hotel operators for a 100% NBS rating.

- 25 From a financial feasibility perspective the 100% NBS strengthened existing building option was then financially modelled for cost and revenue return. Key financial indicators were:

| | |
|---|---|
| Cost of Construction (Option 1C - 100% NBS) | \$15,278,000 (ex gst & escalation) |
| Client Equity | \$confidential |
| Mixed Use Operating Revenues - - Ground Floor Retail – 510sqmtrs NLA at \$320/sqmtr - First floor commercial offices 620 sqmtrs NLA at \$280/ sqmtr - Common areas – 150sqmtrs | Circa \$400,000 PA |
| Cap Rate at year three (Local real estate agents advised Timaru market should be 7-8%) | 2.6% (this represents an over capitalised investment) At market expectation cap rate of (7-8%) annual rental need to be \$1.1M |
| Return on Investment (year three) | -1.75% |

- 26 These financial indicators demonstrated that the strengthening option was non-financial, therefore this option was not considered further.

COST ESTIMATES – OPTIONS FOR USE OF THE BUILDING

- 27 On completion of the structural strengthening options and financial modelling the project team embarked on exploring numerous other scenarios for possible retention of the Hydro Grand. These included (not an exhaustive list):

- (a) 1c) Strengthen building to 100% NBS and allow for change of use to retail on the ground floor with commercial offices above;
- (b) 2a) Retain the entire exterior façade, demolish the roof and interior and rebuild to match the existing building envelope with the building’s primary use being Hotel;
- (c) 3a) Retain the entire exterior façade, demolish the remaining building and rebuild to a new height of 20m with the building’s primary use being Hotel;
- (d) 2b) Retain the roadside façade, demolish the remaining building and rebuild to match the existing building envelope with the building’s primary use being retail on ground floor and offices above;
- (e) 3b) Retain the roadside façade, demolish the remaining building and rebuild to a new height of 20m with the primary use of the building being retail on the ground floor and offices above;

- (f) 2c) Retain the roadside façade, demolish the remaining building and rebuild to match the existing building envelope with the building’s primary use being residential apartments; and
- (g) 3c) Retain the roadside façade, demolish the remaining building and rebuild to a new height of 20m with the primary use of the building being residential apartments.

28 Tables 1.2 & 1.3 below both indicate the estimated pricing models for each of the seven options. Pricing options were completed by Aecom (refer to their detailed breakdown).

Table 1.2

| Element | Option 1C | Option 2a | Option 3a |
|-----------------------------|---------------------|---------------------|---------------------|
| Building Works | \$12,148,000 | \$17,976,000 | \$24,144,000 |
| Construction Contingency | \$1,215,000 | \$1,798,000 | \$2,414,000 |
| Asbestos Removal | \$200,000 | \$200,000 | \$200,000 |
| Building Consents | \$70,000 | \$80,000 | \$100,000 |
| Professional Fees (15%) | \$2,045,000 | \$3,008,000 | \$4,028,000 |
| Total Estimate Costs | \$15,678,000 | \$23,062,000 | \$30,886,000 |
| Excl GST & escalation | | | |

Table 1.3

| Element | Option 2b | Option 3b | Option 2c | Option 3c |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Building Works | \$16,462,000 | \$24,090,000 | \$16,462,000 | \$22,629,000 |
| Construction Contingency | \$1,462,000 | \$2,409,000 | \$1,462,000 | \$2,263,000 |
| Asbestos Removal | \$200,000 | \$200,000 | \$200,000 | \$200,000 |
| Building Consents | \$80,000 | \$100,000 | \$80,000 | \$100,000 |
| Professional Fees (15%) | \$2,758,000 | \$4,020,000 | \$2,758,000 | \$3,778,000 |
| Total Estimate Costs | \$21,146,000 | \$30,819,000 | \$21,146,000 | \$28,970,000 |
| Excl GST & escalation | | | | |

*Refer Aecom Report for detailed pricing breakdown

29 Costs for each of the above options were then run through a detailed financial feasibility model. Based on a mix of high capital costs and in some models, low revenue projection returns across the options, none of the options explored presented a commercially sound investment or financially viable outcome to progress with in any further detail.

- 30 The project team was then tasked to define a financially viable and commercially sound option for the site. A new build replacement option, built to 100% NBS, was developed (refer to architectural design details completed by the Buchan Group as part of the resource consent application).
- 31 The new build replacement option consists of retail/hospitality on the ground floor and commercial offices above (2,020m² NLA). Pricing metrics for this option are:

Table 1.4

| Element | Replacement Option (New) |
|--|--------------------------|
| Building Works | \$7,500,00 |
| Construction Contingency 8% (lower rate based on less risk based on new build) | \$600,000 |
| Asbestos Removal | \$200,000 |
| Building Consents | \$80,000 |
| Professional Fees (13%) | \$920,000 |
| | |
| Total Estimate Costs | \$9,300,000 |
| Excl GST & escalation | |

- 32 The new build option as defined in Table 1.4 provides an economic solution for the Applicant that is both commercially sound and financially viable. Initial capital cost investment on this option is approximately \$6M less than any other option explored by the project design team and provides a sustainable return on investment for the Applicant as demonstrated below:

| | |
|---|-------------------------|
| Cost of Construction (100% NBS) | \$7.5M (ex gst & escal) |
| Client Equity | \$confidential |
| Mixed Use Operating Revenues (Including GF F&B) | \$700,000 PA |
| Cap Rate at year three (Timaru market should be 7-8%) | 7.25% |
| Return on equity (year four) | 12.5% |

SUMMARY & CONCLUSIONS

- 33 Demolition of heritage buildings should never be undertaken lightly, and the reuse of heritage buildings can be an important opportunity to add character and value to a wider development. The Applicant has therefore fully explored options for the retention, strengthening and repurposing of the Hydro Grand.
- 34 The building is however currently at less than 33% NBS and therefore needs significant structural strengthening works. These works necessitate extensive internal strip-outs of partitions, fabric,

and all existing building services and systems need replacing. Due to the greater complexity of retro fitting a structural system within an existing building envelope (extensively just the exterior skin/fabric in this instance) the cost associated with retention and strengthening is significantly higher than the costs of a new build, with the new build option also providing certainty that 100% NBS will be achieved with attendant benefits in the ease with which tenants can be secured.

- 35 The wider development likewise does not generate sufficient profits to be able to in effect subsidize a large loss-making element on any heritage element/portion of the property. Instead any commercially plausible development of the wider site is considered likely to consist of development on the vacant land with the Hydro Grand remaining unoccupied.
- 36 The client brief has been focussed on securing a high quality urban outcome for Timaru. The Applicant has therefore committed considerable resources towards first fully exploring retention options, and then secondly ensuring a well-designed and specified replacement group of buildings as a positive long-term contribution towards Timaru.
- 37 Such development has to be commercially realistic in order for it to proceed, and unfortunately retention of the Hydro Grand is not commercially possible, as reflected in the fact that the building has sat vacant for well over a decade.

Darron Charity

23 November 2016