

## Hastings Dining Licences

### Fee Options Modelling and Advisory

Project	191522
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Status	Draft
Version	1
Confidential and reliance	Hastings District Council (HDC)
Purpose/s	HDC outdoor dining fee settings/ policy decisions
Valuer/s	Pat Turley and Nikki Whelpton of Turley & Co - assisted by Dayna Campbell
Review/audit by	Nikki Whelpton and Dayna Campbell
Information sources	Turley & Co, Rotorua District Council and Christchurch City
Key notes	GST excluded all dollar values except where stated Rounding applies areas m2 and \$m2 and dollar sum finding/s <b>Red</b> or <i>italics</i> text denotes unconfirmed or currently estimated
Refer to related work	Turley & Co stage 1 advisory report 19 Aug 19
Subject to	Reporting further notes and explanations Notes this worksheet TCL universal advisory limitations and disclaimers

### Outdoor Dining Licence Fee Considerations

#### Licence fee topic considerations and advisory

- Council is the only public street place provider/ supplier (has a monopolistic position)
  - Public space will be licenced to a private user for commercial gain/ benefit
  - Public space could be retained as footpath or used as carparking
  - Public space loss is footpath or parking space
  - Public gains may be use of excess footpath in higher amenity value adding locality vibrancy (wider commercial and community benefits)
  - Council loss may be parking revenues (substituting parking for licenced dining space)
  - Council increased costs may be administration of dining licences
  - Council investment in build-outs and streetscape features may be significant (indirect staff and direct costs)
  - Council gains may be increased city vibrancy, higher commercial property rents, values, land values and rates revenue (hard to measure)
  - Private business users/ licenceholders would expect to pay a licenced area fee and potentially fair value/ market value
  - The value to a private business user/ licenceholder is much greater than the public space value as next best use say carparking
  - By licence permissibility, the space highest and best use is/ becomes elevated to commercial space (tantamount to rezoning)
  - The proposed outdoor dining licence will create a licenceholders high-surety good duration (5 yrs) interest in public real estate
  - Licence surety and certainty is likely to encourage licences take-up with associated private business and property investment
- Fee rate and method (if any) should:
- (a) be at least locality consistent to be fair
  - (b) apply equally to all licenceholders to be fair (existing and new)
  - (c) clear and ideally not prone to valuation debate (and ideally relatively simple, and to give licenceholders best certainty)
  - (d) ideally the Council would be able to set the licence fee and review this per policy method without valuer services costs
  - (e) be fee periodically reviewable for market values escalation adjustments and by a clear and ideally indisputable method
- Fee rate is potentially dual-faceted:
- (1) a land occupied fee layer (occupied paved land value)
  - (2) a build-out or structures fee layer (improvements added value, if any)

#### Turley & Co valuation modelling key references

##### (1) Licence agreement for fees valuation:

Proposed 'HDC Outdoor Dining Policy' and 'LICENCE FOR OCCUPATION OF LEGAL ROAD- FOOTPATH HOSPITALITY / DINING LICENCE'.

The core terms and conditions of a lease/ licence inform competitive market rent/ licence fee. The lease/ licence and any unusual content according to valuation case law and principles, are relative rent/ fee value potentially influential. The relative rights and obligations of the parties influence relative value.

**(2) Highest and best use:**

The land economy concept of highest and best use is the property's use that supports the highest competitive value at a particular time, which is: **practically feasible, legally permissible** and supported by **adequate market demand**.

The determination of a property's/ premise's highest and best use is necessary to reliable valuation. In the case of outdoor dining licences, this use is the highest and best use (that has land occupation higher economic value than car parking).

**(3) Valuation principles definition of market rent:**

"The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

**Licence Fee Options Summary**

**Layer 1: Occupied paved land fee rate options:**

			Rounded
Rotorua method - land value related	\$27 /m2 for licence area →	20 m2	\$500 pa
Carparking value method - revenues related	\$47 /m2	20 m2	\$900 pa
Range to off-street parking licences	\$64 /m2	20 m2	\$1,300 pa
Christchurch method - prime rent related	\$54 /m2	20 m2	\$1,100 pa
Licenceholder method - commercial value related	\$108 /m2	20 m2	\$2,200 pa
Range to market added value	\$162 /m2	20 m2	\$3,200 pa
Mid-rate licenceholder value estimate	\$135 /m2		

**Layer 2: associated build-out and streetscape HDC capital expenditure that enables street place dining:**

Built component layer 2 fee - capex amortisation	\$148 /m2	20 m2	\$3,000 pa ?
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**Suggested Fee Method**

**Suggested dining licence fee method notes:**

- Benchmark off-street carparking licence value for relative simplicity and ease of setting, and periodic reviews (with least value debate)
- Carparking licence value though undervalues outdoor dining space (that is a higher and better use)
- Therefore: adjust for dining licence higher and better use of street space (adjust for licence commercial hospitality use permissibility)

**Layer 1 licence fee for paved land only:**

Car park land area excluding access circulation land	13 m2 [TCL measured]
Nearest off-street car park licence fee   monthly	\$80 pa incl GST
Nearest off-street car park licence fee   annual	\$960 pa incl GST
Parking equated value   excl GST	\$835 pa excl GST
Parking equated value	\$64 /m2

			Rounded
Commercial adjustment for land use elevation	2.0 adjustment factor		
Licence fee dining use value	\$128 /m2	20 m2	\$2,600 pa plus GST
Compares to mid-rate licenceholder value est.	\$135		

Potentially add a layer 2 fee for HDC associated build-out and streetscape items 20 m2 \$3,000 pa plus GST

## Rotorua method - land value related

### Rotorua method policy document extracts:

The policy is to transpose the 'averaged' land value rate per square metre from sites adjoining the footpath and apply to that amount a rental return, not dissimilar to the process used in determining annual rentals under ground lease arrangements.

In Rotorua ground lease rentals have generally been settled in the range of 5.75% to 8% of their equivalent land value. While there are variations to this, by and large the returns fall within these parameters.

Before applying adjustments to these ground rental return rates on footpath values, it is necessary to compare the differing terms and conditions of occupancy applicable to the ground lease and the footpath permit. [Refer to Rotorua policy document.]

One key purpose of this policy is to encourage footpath trading that contributes to the vibrancy of commercial areas within the inner city. All inner city properties except for the Eat Street premises are exempt from charges. For the Eat Street premises, the policy will allow for a tenant to utilise 1 metre depth along the length of their tenancy frontage, free of charge. The use of this area will need still need to comply with all other terms of this policy.

By way of example and assuming compliance with other terms of this policy, if a tenant wished to use an area of 3m in depth along the frontage of their tenancy which was 20m in frontage, then the calculation would be:

Tenancy frontage	Depth of requirement	Total area required	Less area exempt of charges	Total area charged
20m	3m	60m <sup>2</sup>	1*20 = 20m <sup>2</sup>	40m <sup>2</sup>

### Rotorua method Hastings if nil exemption fee:

#### 200 Block East Land Value per QV RV Aug 16 | southerly side

Lowest	\$325.13
Highest	\$549.65
Average LV rate	\$420.49 /m <sup>2</sup> land area

#### 200 Block East Land Value per QV RV Aug 16 | northerly side

Lowest	\$291.35
Highest	\$641.51
Average LV rate	\$400.50 /m <sup>2</sup> land area

Example outdoor dining area - refer above

	20 m <sup>2</sup>	
Adopt predicted 2019 LV rate	\$450 /m <sup>2</sup> land area	
Adopt LV rent/ licence fee rate - say	6.00% pa 'ground rent rate factor'	
Indicated licence area value   m <sup>2</sup>	\$27 /m <sup>2</sup>	20 m <sup>2</sup>
Indicated licence area value   pa	\$540 pa	Rounded \$500 pa plus GST

## Carparking value method - revenues related

### HDC street side metered carparking:

Car park land area excl. access circulation road	13 m <sup>2</sup>	
HDC advised metered car park revenues 200 Blk E	\$700 pa incl GST	
Revenue value   excl GST	\$609 pa excl GST	
Revenue value   \$/m <sup>2</sup>	\$47 /m <sup>2</sup>	20 m <sup>2</sup>
		Rounded \$900 pa plus GST

### HDC licenced off-street carparking:

Car park land area excl. access circulation land	13 m <sup>2</sup>	
HDC advised CBD car park licence fee   monthly	\$80 p-mth incl GST	
HDC advised CBD car park licence fee   annual	\$960 pa incl GST	
Revenue value   excl GST	\$835 pa excl GST	
Revenue value   \$/m <sup>2</sup>	\$64 /m <sup>2</sup>	20 m <sup>2</sup>
		Rounded \$1,300 pa plus GST

## Christchurch method - prime rent related

### Christchurch City anchors the prime retail shop rent rate:

Licensed Area	Rental Calculation (per annum + GST)	
0m <sup>2</sup> - 30m <sup>2</sup>	30% of Prime Rental Rate to	0m <sup>2</sup> - 30m <sup>2</sup>
31m <sup>2</sup> - 60m <sup>2</sup>	30% of Prime Rental Rate to 30m <sup>2</sup> Plus: 26% of Prime Rent	0m <sup>2</sup> - 30m <sup>2</sup> 31m <sup>2</sup> - 60m <sup>2</sup>
61m <sup>2</sup> - 99m <sup>2</sup>	30% of Prime Rental Rate to 30m <sup>2</sup> Plus: 26% of Prime Rental Rate Plus: 20% of Prime Rental Rate	0m <sup>2</sup> - 30m <sup>2</sup> 31m <sup>2</sup> - 60m <sup>2</sup> 61m <sup>2</sup> - 99m <sup>2</sup>
100m <sup>2</sup> and more	30% of Prime Rental Rate to 30m <sup>2</sup> Plus: 26% of Prime Rental Rate Plus: 20% of Prime Rental Rate Plus: 15% of Prime Rental Rate	0m <sup>2</sup> - 30m <sup>2</sup> 31m <sup>2</sup> - 60m <sup>2</sup> 61m <sup>2</sup> - 99m <sup>2</sup> 100m <sup>2</sup> and more

### The Christchurch method:

- Is prescriptively clear but complex
- Pragmatically indexes commercial premises relative value as reflected in market rent level by location/ locality
- Requires valuer input for a valuation process, potentially value debate and possibly arbitration (with time costs and fees expense)
- Produces a firmer licence fee valuation compared to a parking value related method
- Understates private business user commercial value of licensed area use (undervalues from a licenceholder viewpoint)

### Hastings example applying Christchurch method:

Example outdoor dining area   dimensions	10 m frontage (w)	2 m depth (d)	20 m <sup>2</sup>
Example outdoor dining area   m <sup>2</sup>	20 m <sup>2</sup>		
Coinciding hospitality/ retail premises rent rate	\$180 /m <sup>2</sup>		
Licence area ratio of prime rent rate per ChCh	30%		
Indicated licence area value   \$/m <sup>2</sup>	\$54 /m <sup>2</sup>		
Indicated licence area fee rate   pa	\$1,080 pa	20 m <sup>2</sup>	Rounded \$1,100 pa plus GST

## Licenceholder method - commercial value related

### Licenceholder commercial value viewpoint:

Example hospitality/ retail premises   scale	10 m frontage		12 m depth	120 m <sup>2</sup>
Example hospitality/ retail premises   net rent	120 m <sup>2</sup>	@	\$180 /m <sup>2</sup>	\$21,600 pa
Added value of: outdoor dining licence est.	\$21,600 pa	@	10% added value	\$2,160 pa
Added value of: outdoor dining licence est.	\$21,600 pa	@	15% added value	\$3,240 pa

### Licenceholder viewpoint rate analysis:

Example outdoor dining area - refer above	20 m <sup>2</sup>		20 m <sup>2</sup>
Indicated licenceholder value   \$/m <sup>2</sup>	\$108 /m <sup>2</sup>		\$162 /m <sup>2</sup>
Indicated licenceholder value   pa	\$2,160 pa		\$3,240 pa
	\$2,200 Rounded		\$3,200 Rounded

## Built component layer 2 fee - capex amortisation

### Example fee-setting for build-out or framework capital costs (if applicable):

Construction costs incl fees - Council external	\$25,000 say
Council internal project costs (capitalised)	\$0 ?
Capital costs subtotal	\$25,000 plus GST

Amortisation   interest rate	3.50% pa	[Council borrowing rate]
Amortisation   period	10.0 years	
Amortisation   repayment	\$247 monthly	
Annualised	\$2,967 pa	
Sum total repayments	\$29,666 nominal	

Example outdoor dining area - refer above	20 m2		
Amortisation repayment   \$/m2	\$148 /m2		Rounded
Layer 2 licence fee for build structures   \$/m2	\$148 /m2	20 m2	\$3,000 pa plus GST

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