

**Briefing note to Trustees in relation to Community Lands Valuer's Opinion concerning Greytown District Trust Lands Trusts' (the Trust) Community Leasehold lands and grant considerations in Asset Valuation Reporting.**

Trust management engaged its registered valuer, Gwendoline Callaghan of Colliers Valuation Services Wellington, to provide an expert opinion on the valuation treatment as it relates to the current financial arrangements in respect of the community lands portfolio.

The Trust, by virtue of the ground leases in place, is entitled to and receives ground rentals for the sites in accordance with the respective deeds of leases. The Trust makes annual grants available to each Lessee that are more or less equivalent to the rents so charged. The Trust is under no obligation to make such grants, and this is clearly communicated to each lessee when grants are made. The Trust has provided such grants annually, upwards of 40 plus years, without fail.

Management was keen to understand how/if such financial arrangements were taken into account in terms of the Financial Reporting Valuation under International Financial Reporting Standards.

The valuation opinion from Colliers is clear in that in the absence of a written agreement that the Trust will grant annually the equivalent of the rental charged, then the existing valuation methodology employed when undertaking the annual asset valuations is correct. However, from a legal perspective, the actions and intent of the parties over what has been a considerable period of time may well be argued that prescriptive rights could be claimed (noting the valuer does not believe this to be the case, whilst also acknowledging that the valuer is not a lawyer).

The overall issue at play with the respective ground leases is, in my opinion, the unintended consequences arising from employing commercial lease arrangements with what are essentially non-commercial lessees who utilise the grounds in effectively a non-commercial manner. This is further compounded by the relatively recent change in zoning to residential, which has greatly accelerated the increase in value and by default, the rentals charged under the respective ground leases.

When the ground leases were executed, I seriously doubt for example, that the Lessor & Lessee of 123 East St would have anticipated the annual rental to be assessed by the Lessors valuer at \$90,000 in 2021.

In my updates to Trustees, I have stated on more than one occasion that should the Trust look to provide the Community Lands at perpetual peppercorn rents, then it must be recognised that the existing commercial valuations will effectively become zero. It is worthwhile highlighting the valuer's opinion that the Trust could report two values, one being the commercially standard highest & best use with the other reflecting the actual historical intent and actions of the parties.

I believe that in the event Trustees alter the existing arrangements whereby perpetual leases with peppercorn rents are employed, while in return increasing community utilisation of the lands, the community lands will hold a far greater level of enduring community value, providing a more widespread level of community return than the existing arrangements.

Such an outcome is clearly contemplated under the Trusts Act, section 139(c) – *holding lands for the purposes of public utility and for the purpose of maintaining and promoting in the district the general well-being of the public*

**Paul Broughton**

Technical Property Advisor

10 February 2022