

## Email memorandum

To	Jeff Farrell
From	Debby Sanders, Greg Ball, Graeme Bates
Date	9 March 2018
Subject	Base Value for Recent Sales – Voluntary Retreat Package

Jeff,

Whakatāne District Council (Council) has requested The Property Group Limited (TPG) consider the appropriateness of clause 5.1.9 of TPG's Awatarariki Fanhead, Matatā Acquisition Strategy of July 2016. This request is made as a result of feedback received by Council from those parties who have purchased properties since 2013 (Recent Sales). The property owners of Recent Sales consider the Voluntary Retreat Proposal formula for their properties should ignore the effect of the 2005 event and reflect the general market increase in property values since their purchase. There are three properties which come within the category of Recent Sales.

This memo outlines the process which TPG has undertaken to consider the appropriateness of clause 5.1.9 and subsequent recommendations.

In summary we consider there are grounds to amend clause 5.1.9 so the owners obtain capital gain since the date of their purchase, but that any discount on value that they received at the time of purchase still needs to be taken into account. We set out our reasoning and the specific details below.

### **Existing clause 5.1.9 Recent Sales**

The following is the existing clause 5.1.9 Recent Sales as per TPG's Awatarariki Fanhead, Matatā Acquisition Strategy of July 2016.

#### ***Recent Sales***

*A small number of properties have changed ownership over the last three years. It is not the intent of this Strategy that those owners who have purchased properties at a discounted rate*

*due to the available knowledge of the debris flow risk, make a substantive capital gain through the Voluntary Retreat Acquisition Strategy implementation. Our recommendation, in these circumstances, is to substitute the market sale price paid for the Base Value in the Voluntary Retreat Proposal formula. Other baseline and discretionary factors would apply equally.*

## **Subsequent Market Research, Analysis and further Consideration**

TPG has considered the valuation evidence which indicates that each of three Recent Sales were transacted at an amount below the respective property's market value should the 2005 event not have occurred. The difference between the purchase price and the market value (ignoring the event) at the date of purchase is considered to be a purchase discount, and the price paid is the Discounted Purchase Price.

The following information is known regarding each of the three Recent Sales:

- **Date of sale/purchase.** One in each 2013, 2014 and 2015.
- **Sale/Purchase price paid and how this compares to the Market Value at that time.** The sale price is known but TelferYoung's (TY) estimated Market Value at the time of the sale/purchase is yet to be determined.
- **Market Value for the property as determined by TY as at 1 July 2016 ignoring the event.** Known for each.
- **Percentage of increase in property values between TY's 2005 and 2016 market value estimates ignoring the event.** Known for each.
- **Quotable Value (QV) percentage increase between 2013 and 2016 Rateable Values for Matatā township excluding the properties which are subject to the Voluntary Retreat Offering.** Known for Matatā.
- **Market Sales evidence for property sales in Matatā over the past 24 months and how the Sale Price compares to 2016 Rateable Values.** Sales figures known.

This information shows that:

- The difference between the actual purchase price of each of the respective Recent Sales and TY's estimated market value as at 1 July 2016, ignoring the 2005 event, ranges from \$105,000 to \$295,000, or an increase in value of between 15% and 80% per annum.
- Based on TY's estimated market values as at 2005 and 2016, ignoring the event and removing outliers, e.g. properties which have had improvements removed since 2005 and therefore are now bare land, the values over the ensuing 11 years have changed by -4% to 48%, or an average increase in estimated market value of circa 4% per annum.
- QV state that based on their 2016 assessment of rateable values for Matatā, excluding those properties which are the subject of the Voluntary Retreat Package, there has been an increase in rateable values of 24.8% over the 2013 to 2016 3 year period. This equates to an average increase of 8% per annum. By way of comparison the average increase in values in Whākatane was 18% for the same 3 year period which equates to an average of 6% per annum.
- Based on records available on bonafide market sales for properties within the Matatā township over the past 24 months, excluding the properties which are the subject of this Voluntary Retreat Package, the market sale price is generally close to the 2016 rateable value set by QV which suggests that the 2016 rateable values are reasonably aligned with market.

- At this time we know the most recent price paid for the Recent Sales but we do not know TY's estimated market value as at the time of the sale/purchase by the current owner of each Recent Sale. These figures need to be determined by TY to enable any individual purchase discount to be identified/calculated and we understand that Council will instruct TY accordingly.

The above information has been analysed and considered in the development of the following formula to determine the Base Value for Recent Sales. The formula will be the same for each Recent Sale but values will be property specific.

TPG considers that the key to ensuring the formula to determine the Voluntary Retreat Package offer for Recent Sales is fair and reasonable to all stakeholders is that it exclude the amount equivalent to The Purchase Discount but include any increase in market value of the property since its purchase. Recent Sales were purchased for less than market value and therefore the Voluntary Retreat Package offered needs to reflect this. This can be achieved by deducting The Purchase Discount from the market value determined by TY at the time the Voluntary Retreat Package is offered. All property owners, including Recent Sales, will therefore enjoy a market aligned capital gain (but not greater than market) on their property. This formula will have the Voluntary Retreat Package offer for the owners of Recent Sales and other properties developed from an equal basis point.

The **Calculation of the Purchase Discount (\$)** component of the formula determines the amount that the property was purchased below the then market value; The Purchase Discount. The **Calculation of the Base Value (\$)** has The Purchase Discount deducted from the market value which is yet to be assessed by TY for the purpose of calculating the actual Voluntary Retreat Package offer.

### Proposed Amendment to Base Value Formula for Recent Sales

#### Calculation of the Purchase Discount (\$)

- + Market Value of the property at the time of sale/purchase, ignoring the 2005 event
- The purchase price paid by the current owner of the property
- = The Purchase Discount (where the purchase price was less than TY's assessed market value)

#### Calculation of the Base Value (\$)

- + Market Value determined by TY at the time the Voluntary Retreat Package will be made to all property owners within the Awatarariki Fanhead. Estimated July 2018.
- The Purchase Discount
- = Base Value for the Recent Sale
- + Other baseline and discretionary factors would apply equally to all property owners of Recent Sales
- = Voluntary Retreat Offering for Subject Recent Sales property.

## Revised clause 5.1.9 Recent Sales

TPG recommends clause 5.1.9 is amended as follows:

*A small number of properties have changed ownership over the last three years. It is recommended that these be considered on a case by case basis and where considered fair and reasonable the Base Value be calculated as per the following formula:*

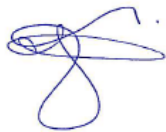
### **Calculation of the Purchase Discount (\$)**

- + Market Value of the property at the time of sale/purchase, ignoring the 2005 event
- The purchase price paid by the current owner of the property
- = The Purchase Discount (where the purchase price was less than TY's assessed market value)

### **Calculation of the Base Value (\$)**

- + Market Value determined by TY at the time the Voluntary Retreat Package will be made to all property owners within the Awatarariki Fanhead. Estimated July 2018.
- The Purchase Discount
- = Base Value for the Recent Sale
- + Other baseline and discretionary factors would apply equally to all property owners of Recent Sales
- = Voluntary Retreat Offering for Subject Recent Sales property.

Based on the information considered it is TPG's recommendation that clause 5.1.9 Recent Sales is accepted as a variation to TPG's Awatarariki Fanhead Matatā Acquisition Strategy of July 2016 as it is regarded as fair and reasonable to all stakeholders.



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