

NGĀI TAI KI TĀMAKI

Tapuwae o Nuku · Tapuwae Ariki · Tapuwae o Tai



NGĀI TAI KI TĀMAKI TRUST - SPECIAL RESOLUTION

Information Package on Proposed Purchase of Land at Macleans College - February 2021

MĀ TE TUHI RAPA A MANAWATERE KA KITEA

INTRODUCTION

Over the past nine (9) months the Ngāi Tai ki Tāmaki Trust (**PSGE**), the Ngāi Tai ki Tāmaki Charitable Investment Trust (**CIT**), and the management team have been undertaking due diligence for Ngāi Tai to buy the land at Macleans College from the Crown. As this is a Treaty settlement matter, tribal members will decide if the purchase proceeds.

Because the purchase price for the land (~\$97 million) is greater than half of the PSGE's assets, the proposed purchase will constitute a Major Transaction as defined in the PSGE and CIT trust deeds. Any such Major Transaction must be approved by adult tribal members by way of a Special Resolution.

This information package outlines the background and detail for the Special Resolution including the process to establish the land value and purchase price, the proposed co-investment partnership with Hāpai Commercial Property LP (**Hāpai** comprising six other Iwi groups), and the expected risks and returns from the purchase.

Any Special Resolution requires at least seventy five percent (75%) of the valid votes cast for the resolution to be approved. In addition, any Special Resolution requires a quorum of at least 50 registered adult tribal members and four PSGE Trustees to be present at the Special General Meeting (**SGM**) for the Special Resolution to be discussed and voted on. As a result, the trustees would like to encourage all adult tribal members to attend the SGM.

If the Special Resolution is approved, the management team will finalise any outstanding legal and administrative matters with the Crown and acquire the property in partnership with Hāpai. If the Special Resolution is not approved, the PSGE and CIT will consider presenting the proposal again to the tribal members for reconsideration. If there is no approval forthcoming, the PSGE will decline the opportunity and the Crown will retain ownership of the Macleans College land.



HOW CAN I VOTE ON THE RESOLUTION?

You can vote in **ONE** of three ways:

1

At the Special General Meeting (SGM)

OR

2

By post

OR

3

By internet vote

See the enclosed voting paper for voting instructions.

The PSGE and CIT Boards seek formal support of tribal members to buy the Macleans College land from the Crown for ~\$97 million and hold it through a co-investment partnership with Hāpai, and we strongly recommend the tribal members to vote FOR the resolution.

WHAT IS THE LAND WE ARE TALKING ABOUT?

As part of the Ngāi Tai ki Tāmaki Deed of Settlement finalised in 2018, the Crown and Ngāi Tai agreed that Ngāi Tai could commence the process to buy the Macleans College land within two years of settlement. Macleans College sits on approximately 13 hectares of land at Macleans Road in the Ngāi Tai heartland at Bucklands Beach as described below.

This land constitutes a “Deferred Settlement Property”. This means that Ngāi Tai may follow a process within a defined timeframe (comprising around 2-3 years) to buy the land. If the Iwi does not buy the land within this timeframe then the opportunity is passed over. Only land is involved – not buildings which remain in Crown ownership.



Approximate boundaries of Macleans College land are in red lines

What does the Deed of Settlement provide?

The Deed of Settlement process sets out the steps to agree the land value through an active process involving both parties – being Ngāi Tai and the Crown – appointing valuers respectively and seeking to agree. Once the land value is agreed the purchase price is calculated at 80% of the land value. Ngāi Tai is then given a short time period to decide whether it wants to purchase the land at the purchase price.

The parties have indicatively completed the valuations and have agreed that the land value is around \$121.3 million (+/- \$1 million). This means that the purchase price is around \$97 million (+/- \$1 million). Whilst the PSGE and CIT approve the proposed purchase of the land, such approval is subject to Ngāi Tai tribal members approving the Special Resolution.

What is the lease arrangement attaching to the land?

The Deed of Settlement also includes the terms of a perpetually renewable lease (to the Ministry of Education) attaching to the land. These terms are generally not negotiable with the Ministry of Education. The form of the lease was not negotiable during the diligence process. The rental review period is every seven years and based on a valuation

process at that time. The valuation for the land may go up or down. If it goes up, there is an annual cap on compounding growth (being 4%). There is no limit on how far the valuation may go down. The lease provides a gross rental return of 6% on the purchase price.

Why are we partnering with a co-investor and not doing this deal ourselves?

When Macleans College land was initially discussed as a Treaty settlement property with the Crown in around 2011 the land value was estimated at \$16 million. The land value is now estimated to be over \$120 million – a staggering increase which the PSGE is separately and formally communicating with Ministers on.

At the purchase price of ~\$97 million, Ngāi Tai simply cannot afford to acquire the property by itself either by way of using our own tribal equity or obtaining debt funding e.g. bank funding. In addition, the geographic and asset concentration risks from Ngāi Tai owning this one property do not favour Ngāi Tai owning the property wholly by ourselves. However, because of the mana whenua and attractive investment aspects involved, the PSGE/CIT Boards have considered how to engage with partners to co-invest with Ngāi Tai to buy the land.

Who is the preferred partner?

The PSGE/CIT Boards and the management team have talked with many potential partners to buy the land. The potential partners include sovereign wealth funds, high net worth individuals/families, other Iwi/Māori groups, and banks. Ultimately, Hāpai is considered the preferred partner for the proposed purchase of the Macleans College land.

Hāpai is made up of six different Iwi based commercial entities – the Pare Hauraki fisheries business (in which Ngāi Tai is a small owner), Ngāti Raukawa (Tokoroa-South Waikato), Taranaki Tūturu, Ngāruahine, Ngāti Maru (all from Taranaki), and Ngāti Tama (Te Tau Ihu with Taranaki-Waikato origins). Hāpai is managed by Koau Capital and has commercial property investments across Aotearoa NZ with a focus on Crown tenanted investments like the Macleans College land. The PSGE/CIT Boards consider Hāpai to have long term intergenerational aspirations and values that are very similar to Ngāi Tai. Hāpai is ready to be a partner over many generations and has demonstrated whanaungatanga and other tikanga and values in negotiations with the PSGE and CIT. Hāpai also approached Ngāi Tai early in the process on an unsolicited basis to discuss the potential to buy the land together – the only group to do this.

What is the proposed co-investment partnership?

During kōrero with Hāpai, the parties have agreed the following co-investment partnership details:

- The Iwi will acquire the land from the Crown and immediately following the purchase will transfer the land into a partnership into which Hāpai will invest;
- Ngāi Tai will retain 13% of the partnership for “no money down”. The Ngāi Tai net asset value significantly increases because of this arrangement.
- Ngāi Tai will invest ~\$2.6 million of equity (cash) to retain a further 7% of the partnership. This money is currently invested at Craigs IP in a conservative investment allocation.
- As a result Ngāi Tai will own 20% and Hāpai 80% of the partnership. The parties agree that Ngāi Tai can increase its ownership interest in the partnership over time thereby reducing the Hāpai ownership interest.
- The partnership will invest ~\$37 million equity (cash) to fund the purchase of the land. The partnership will take debt to cover the remainder of the purchase price.
- The partnership will engage a third party to manage the passive investment on behalf of the partnership.
- If Hāpai seeks to exit the partnership, Ngāi Tai retains a right of first refusal to buy the Hāpai interest in the partnership.
- It is expected that the interest cost for the debt will initially be around 3.0% and the partnership will seek to protect the interest rate by hedging 80% at an average 7 year term against any interest rate fluctuations.
- The Crown will pay rent to the partnership, and after interest costs (for the debt) and minor management costs have been paid, the surplus will be distributed across Ngāi Tai (20%) and Hāpai (80%).
- Under the interest rate assumptions, Ngāi Tai expects to receive approximately ~\$750-\$775k per annum for our 20% ownership interest in this partnership (and at least annually until the first rental review).
- We expect the cash on equity return for the partnership to be around 10.4% and initially for Ngāi Tai to be around 30%.

We note that Hāpai has provided excellent tautoko for the valuation, due diligence, and transaction costs associated with the proposed purchase.

Why do the PSGE and CIT want to buy this land?

The proposed purchase of the land and resulting commercial upside are considered by the PSGE and CIT to be fully aligned with the key strategic settings for the organisations:

- Enhancing Ngāi Tai ki Tāmaki mana whenua, mana moana and manawa as well as our other values like rangatiratanga; and
- Increasing the net monetary worth of Ngāi Tai iwi, hapū and whānau.

Co-investing in the land is considered to have significant appeal for the tribe’s investment settings.

First, the co-investment is very low risk as it involves an excellent secondary school in a unique location that cannot be replicated (e.g. the Crown will not be able to easily build another secondary school in Bucklands Beach).

Second, the Crown is considered to be a very good counterparty for a lease of land for such a school. The tribe and co-investment partnership will be leasing to the Crown. If the Crown decides to leave the property, the partnership will enjoy significant opportunity to develop the land.

Third, the investment creates passive annual income. Ngāi Tai urgently needs this type/scale of income to fund the Iwi operations and deliver our strategic objectives. The annual income will very likely be recurring over generations.

Fourth, the Iwi has negotiated very favourable co-investment conditions with our preferred partner Hāpai. Hāpai comprises a number of whanaunga Iwi groups and has intergenerational alignment with Ngāi Tai. In particular, Hāpai has agreed to the Iwi taking 13% of the investment with “no money down” and 7% of the investment via cash injection.

As a result of these factors (and others) the PSGE and CIT boards, independent property and investment advisers, and tribal management, consider that at this time and on balance, the “risk-adjusted return” to Ngāi Tai for the proposed purchase in partnership is very attractive and far superior to investing in term deposits and bonds (low return) or equities investments (moderate volatility). The risk-adjusted return is also achieved within suitable cultural, social, and environmental parameters required by the boards.



Has the Crown completed all regulatory matters in relation to the proposed purchase?

As at the date of this information package, the Crown needed to complete three matters to progress the purchase:

- 1. Agree final valuation number.** There continues to be a <1% difference of opinion for the land value. The PSGE and CIT consider that this matter will be closed out quickly with Crown officials.
- 2. Issue all titles for the land.** The Ministry of Education is working with LINZ to complete the issuance of titles for the land.
- 3. Endorse co-investment partnership approach.** In good faith, Ngāi Tai has sought the Crown to approve the partnership approach between Ngāi Tai and Hāpai. Ngāi Tai and Hāpai do not consider that this is a formal requirement to give effect to the proposed purchase and co-investment in the land, but have approached the matter on a genuine and transparent basis.

Who have the PSGE/CIT Boards used to assist with due diligence?

The PSGE/CIT Boards have used a range of expert independent advisers to assist with due diligence including McCaw Lewis and Bell Gully (legal), PWC (property), Anthony Long (valuation), MyFiduciary (investment modelling), as well as the management team. These parties are considered “best of breed” for their respective areas of expertise.

What are the risks associated with the proposed purchase?

The key risks for the proposed purchase and PSGE/CIT responses (*in italics*) are as follows:

- Crown/RFR – the Crown may seek to formally stop the proposed partnership approach with Hāpai. *The PSGE does not consider formal Crown approval is required for the partnership approach and has communicated with the Crown in good faith and transparency, with other examples, to demonstrate the pathway for the Crown to endorse the approach proposed.*
- Interest rates may move – *The partnership’s investment with interest rate swaps at an average of 7 years tenor alongside and in the context of perpetual lease arrangements. It is expected that the partnership will work with the bank to protect against interest rate fluctuations for a longer period.*
- Valuation/Revenue – income could soften at the rental review period in 7 years. *This is a typical risk that long term leasehold properties have – however the partnership believes that the valuation will remain steady over time especially with underlying housing zoning which has shown strong historical growth.*
- Maximum value from opportunity – the partnership may not generate the maximum financial value for the Macleans opportunity. *The PSGE and CIT consider that the partnership approach strikes the right balance across financial and other indicators e.g. relationships, whanaungatanga.*

FURTHER INFORMATION

If you require further information regarding the information package, or would like to discuss this further, please email admin@ngaitaitamaki.iwi.nz. The management team will then coordinate under the direction of James Brown as Chairperson of the PSGE, any information to be distributed to you.

RECOMMENDATION

The PSGE and CIT Boards seek formal support of tribal members to buy the Macleans College land from the Crown for ~\$97 million and hold it through a co-investment partnership with Hāpai, and we strongly recommend the tribal members to vote FOR the resolution.

