

10. 170 FITZGERALD AVENUE OPTIONS REPORT

Officer responsible
Property Manager

Author
Tom Lennon, Property Consultant, DDI 941-8053

The purpose of this report is to outline the options available for the future use of the Council's property at 170 Fitzgerald Avenue and to seek the Board's recommendation to pursue one of the options available.

CONTEXT OF REPORT

In accordance with its resolution of 28 August 2003, the Council called for registration of interest from community/social agencies for the establishment of a community/social development type use at 170 Fitzgerald Avenue. This report summaries those groups who have expressed interest and outlines the options available for this property.

In terms of the current annual plan, sale of this property has not been anticipated although this was the preferred outcome advised earlier by the Property & Major Projects Committee.

BACKGROUND

The property is known as 170/172 Fitzgerald Avenue comprises Part Lot 8 Deposited Plan 5018 contained in Certificate of Title 426/56 and Lot 7 and Part Lot 8 Deposited Plan 5018 contained in Certificate of Title 433/025 (the dwelling site).

The property, which has a total combined area of 1,164 square metres, was originally purchased by the Council for the purposes of a pumping station with the pumping station straddling the boundary of the two titles.

The Council at its meeting of 28 August 2003 considered a report regarding the results of an internal notification process undertaken with Council business units. In that instance the Community Advocate advised the interest of some external groups. The report outlined the four external submissions received through the Community Advocate. It should be noted that through this internal process no units of Council required this property for any operational purpose; all the uses identified were for community initiatives promoted through staff.

The Council's resolution of 28 August 2003 in regard to this matter was as follows.

1. *That the Council seek proposals from community/social agencies for social/community development type use of the property at 170 Fitzgerald Avenue, to enable comparison with disposal options.*
2. *That City Housing let the property on the open rental market pending the completion of the Request for Proposal process.*
3. *That the Council note the Property and Major Projects Committee's preference that the property be sold once water services are decommissioned, and that this matter be considered when officers are evaluating proposals from those community/social agencies who have expressed interest in using the property.*

EXECUTIVE SUMMARY

The property at 170 Fitzgerald Avenue was acquired by the Council's Water Service Unit for the purposes of wells and a pumping station. These wells and pumping station are due to be decommissioned within the first half of 2005 or earlier if required and this report is to look at the future options for this property.

Through an external advertising process Council invited community/social agencies to make submissions in regards to the possible occupation of the property for social/community development type use. This report outlines the possible uses for the property and analyses the advantages and disadvantages of each of the available options.

RELEVANT CURRENT POLICY

There are three policy issues relevant to this project:

1. Future use of properties that are no longer required for operational purposes must be determined in accordance with the "property decision making flow chart". The main steps in this process are:
 - Step 1 Identifying that a property asset is no longer required for operational purposes or is under utilised.
 - Step 2 Assessment of the property, ie features, legal status etc.
 - Step 3 Internal circularisation for the purpose of establishing whether there are other Council/public uses.
 - Step 4 Property Unit assessment of internal/public submissions and preparation of an Options Report.
 - Step 5 Council Resolution on future use or sale.

We are currently at step five which is the assessment of the public submissions (tenders) and the preparation of this options report to achieve a Council resolution on the future use or sale of this parcel of land.
2. Should the Council resolve to sell the property, it will firstly need to be offered back to the prior owner under the Public Works Act and then, if the option to purchase is not exercised sold by public tender in accordance with Council Policy.
3. The Request for Proposals (RFP) process has been conducted in consideration of the Council's Social Wellbeing Policy. The assessment of the submissions received for the establishment of a community/social development type use at the 170 Fitzgerald Avenue took into consideration the relationship and interface between the proposed use and the Social Wellbeing Policy.

DESCRIPTION OF OPTIONS

Option 1 - Retain the property for use by a community group in partnership with the Council.

Through the external advertising process the Council received expressions of interest from community/social agencies to utilise the property. These community groups were assessed against a predetermined matrix agreed with the Community Advocate which judged each group against outcomes such as their community outcomes/relationship with Council policy, ability to financially resource the property, and operational approach/ability.

The community groups that have responded to the Council's call for registration of interest are as follows:

1. Agender New Zealand

The group would utilise the property to provide support to transgender people including the provision of short to medium term residential accommodation for periods between three months to two years. Under the proposal the property would operate for the purposes outlined above on a continuous basis, seven days per week

As part of Agender's proposal the property would also be utilised for office purposes with one full time supervisor and the possibility of increasing staff numbers as required.

Agender New Zealand would like to lease the property for a period of up to twenty years at an annual rental of \$15,600 subject to annual reviews.

2. Inner City Inter Agency Trust

This group proposes to utilise the property for the provision of a daytime centre for homeless people in Christchurch. The existing facilities would be utilised for group meetings, workshops, support services and office space as well as providing the homeless with access to a range of practical facilities such as laundry, shower toilet and telephone.

The centre would operate from 8.30am to 5.30pm seven days per week. The centre would be supported by one full time coordinator and three part time support staff.

The Inner City Inter Agency Trust proposes an annual rental of \$16,000, however they have indicated that this rental could be subject to further negotiations with the Council. Under the Inner City Inter Agency Trust proposal, the property would not be utilised for residential purposes. No details in regards to the lease term have been provided.

3. Schizophrenia Fellowship of New Zealand Ltd – Pegasus Bay

This group have been in existence within the Canterbury region for twenty-five years. The group plans to utilise the property as a meeting place for supporting families who have a family member with mental illness. Within Canterbury eight thousand people experience mental illness.

Under this proposal the hours of operations of this service would be 8:30 to 5 pm Monday to Friday and on occasional basis during weekends.

The Schizophrenia Fellowship of New Zealand Ltd – Pegasus Bay proposes an annual base rent of \$11,400. Under this proposal the property would not be used for residential purposes.

Summary

The outcome of the Predetermined Matrix's are as follows for each applicant:

1. Agender New Zealand	54%
2. Inner City Inter Agency Trust	78%
3. Schizophrenia Fellowship of NZ Ltd	90%

Financial Evaluation

1. Agender New Zealand	20 year lease @ \$15,600 per annum
2. Inner City Inter Agency Trust	unspecified lease term @ \$13,000 per annum
3. Schizophrenia Fellowship of NZ Ltd	unspecified lease term @ \$11.400 per annum

Option 2 - Sell the property following decommissioning of water works

The property will be utilised by the Water Services Unit pending the decommissioning of the two wells and a pumping station currently located on site. It is anticipated that the wells and pumping station will cease operating during the first half of 2005. This progression however could be expedited making the property available for disposal potentially by late this year.

An independent registered valuer has valued the property and recommends that the current market value for 170 Fitzgerald Av is \$480,000. The valuer's report also indicates that in the current market conditions a fair selling range for this property would be in the order of \$474,000 - \$500,000. These indications of value are on the basis of Council removing the structures associated with the water works such as pumping station and well heads. A cost estimate for the removal of these structures is in the order of \$50,000.

Option 3 - Leave as Public Rental – Either long or short term.

Currently City Housing is managing the property as a public rental. The property has been tenanted until recently at the reduced rent of \$220 per week on the basis of the Council retaining access to the site as part of the ongoing monitoring of the water works. However, the valuer has determined that, following the decommissioning of the pumping station and wells, the property has the potential to achieve a rental of \$320 per week in the open market.

ISSUES FOR CONSIDERATION

Presently the three options to consider are whether the property should be utilised as a public rental, the establishment of a community development type use or sold on the open market.

Council's Water Services Unit visits the property on a regular basis as part of the ongoing monitoring of the water service. The decommissioning of the pumping station and wells will take effect within the next eight to 10 months or earlier if the Council decides to sell the property.

The creation of easements to enable the early sale of the property is not considered to be a feasible option mainly due to the costs associated with the creation of such interests, the potential detrimental effect on the sale price and the fact that the decommissioning of the water works will be actioned relatively soon.

The use of the property for a community/social development type activity is a non complying use within the current zoning and would require appropriate resource consent through the Council. Local residents, who have been made aware of the Council's call for registration of interest for a community/social development type activity within the property, have indicated their preferences for the property to continue being use for standard residential purposes.

Due to the age of the main building the ongoing maintenance costs are expected to be considerably higher than other standard rental residential property. The current market rental for the property in its current condition is estimated to be in the order of \$320 per week. The gross rental income generated if the property was leased on a long term basis would barely cover the anticipated medium to long term maintenance costs.

Advantages and disadvantages of each option:

OPTIONS	ADVANTAGES	DISADVANTAGES
<p>Option 1 Utilise the property as a community facility</p>	<ul style="list-style-type: none"> • Guarantees long term occupation of the property and provides a rental return to the Council. • Provides a good outcome to the community and fits with Council policy 	<ul style="list-style-type: none"> • The Council could have ongoing involvement in the property depending on the community group chosen. • The property is within a residential zoning and any other use other than residential may encounter opposition for surrounding residents
<p>Option 2 Sell the property following the decommissioning of the water works</p>	<ul style="list-style-type: none"> • The property would be sold as soon as the pumping station and the wells are decommissioned. • The sale of the property would represent a net financial return to the Council. 	<ul style="list-style-type: none"> • The sale of the property could prevent the establishment of a community/social operation at this location.
<p>Option 3 Leave as public rental either long or short term</p>	<ul style="list-style-type: none"> • Access by the Water Services Unit is available as required until the water works are decommissioned. 	<ul style="list-style-type: none"> • It is a property inconsistent with the portfolio in only fair condition. • Due to the age of the dwelling significant maintenance expenditure will be required over the coming years. • Following the decommissioning of the water works, it is likely that the Council may have to fulfil its obligations under the Public Works Act and offer the property back to the previous owners or their successors.

FINANCIAL ANALYSIS OF EACH OPTION

The financial analysis of each option is based on the information available in terms of the current market value of the property, the average rental proposed by the community groups and the anticipated residential rental for the property in the open market. Cost to the Council associated with each of these options have also been taken into account.

Current Market Value
\$480,000

Average Community/Social Group rental Return (based on submissions)
\$13,300 per annum

Anticipated Current Residential Market Rental
\$16,640

On going costs to the Council if the property is retained for rental purposes

* \$5,800

* It should be noted that this figure only covers basic expenditures such as insurance, rates, minor repair and maintenance and management costs.

One off costs associated with selling the property in the open market (including decommissioning / demolition of waterworks infrastructure and real estate agent's commission)

\$69,200

OPTIONS	NET RETURN ON INVESTMENT
Option 1	\$7,500 / annum = 1.56 %
Option 2*	410,800@6.5 % = \$25,264 / annum
Option 3	\$16,640 / annum = 3.4 %

* Annual return based on the investment of the sale proceeds in a 12 month fixed term deposit at 6.5% interest per annum.

CONCLUSION

In view of the information contained within the report and the imminent decommissioning of the wells and pumping station the Council is now in a position to determine the future use for this property.

Taking into consideration the fact that the property is located within a residential zoning and that all the proposed uses by community groups do require resource consent, such use may be compromised by the results of the resource consent process.

The anticipated rental return from a community/social type use of the property would cover the immediate ongoing maintenance of the property however, due to the age of the dwelling it is anticipated that ongoing maintenance costs are likely to increase over the coming years. This factor would potentially reduce the Council's net profit over the years.

Due to the fact that the property was acquired for public works purposes and should option (2) as outlined above be adopted, the Council will most likely have the obligation under Section 40 of the Public Works Act to offer the subject site back to the previous owners or their successors. It should be noted that under options (1) and (3) there are no Public Works Act obligations.

Staff

Recommendation: That the Board recommend to the Council:

1. That the property be sold by public tender or auction subject to:
 - (a) Public Works Act offer back requirements being met; and
 - (b) prior decommissioning of water works infrastructure.
2. That the property at 170 Fitzgerald Avenue be made available in the short term for residential tenancy in the open market.

Chairperson's

Recommendation: For discussion.