

## 16. HORSE BAZAAR BUILDING – BEDFORD ROW

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The purpose of this report is to present options for future use of the Horse Bazaar building and seek resolution on the Council's possible future involvement to ensure the building's retention.

### BACKGROUND

The Horse Bazaar ("Canterbury Horse Auction Warehouse") is situated at 141 Lichfield Street/46 Bedford Row and bounded by Bedford Row, Madras Street and Lichfield Street on three sides. The building was built in 1903 and is listed as a Group 4 building in the City Plan. It is not registered by the New Zealand Historic Places Trust. A large open shell brick building with a timber trussed roof spanning between internal timber columns, comprising a grand floor area of 812m<sup>2</sup> and mezzanine area of 225m<sup>2</sup>. The building is the only surviving horse auction warehouse of its period and is a distinctive architectural landmark in the central city.

There is a modern alteration to the Bedford Row facade and entry, which has been subject to recent fire damage and not reinstated.

In line with the Council's policies and objectives for the retention of inner city heritage, a lease was obtained to secure the property and save it from imminent demolition. The lease entered into was for a one-year period from 1 September 1999 at an annual net rent of \$45,000, with an option to purchase for \$400,000. The rationale for this decision was to buy a reprieve from demolition in the hope that a use could be developed that would warrant and support retention and protection of the building.

Requests for Proposals (RFP) for lease or sale have been sought. The responses are detailed below. We have also incorporated in the evaluation James Lunday's fresh produce market proposal and the Council's use for car parking operations.

### PROPOSAL DETAILS

**Option 1 - Refer Public Excluded portion of this agenda for details.**

**Option 2 – Refer Public Excluded portion of this agenda for details.**

**Option 3 - Council run public car parking or storage for Santa Parade floats.**

Consideration has been given to utilise the property for public car parking under management of the Parking Unit.

This would provide for approximately 20 covered car parks. This proposal also incorporates refurbishment of the fire-damaged mezzanine floor area for office space use.

The Parking Operations Manager wished to reinforce that parking was one of the least desirable options for this site.

Another suggested use is for storage of the Santa Parade floats. On the rentals we have been advised they can afford and upgrade of the building, the financial outcome is likely to be very similar to that of the public car parking option.

#### **Option 4 - Fresh Produce Market/James Lunday**

This proposal has not been considered as a solution primarily because no operators have come forward as a result of the RFP process. Therefore, its further consideration is not warranted.

In addition, James Lunday advises that the trial at the Arts Centre indicated a fresh produce market was very much dependent on foot traffic, exposure and compatible adjoining uses. He was of the view the Horse Bazaar would require a good deal of advertising and promotion if it is to work as a destination experience.

### **ISSUES**

#### **Central City Revitalisation**

The east end of the central city where the subject property is located has, in the past, been identified as a priority for regeneration by the Christchurch City Council. The Horse Bazaar building has been seen as important for this area, both in terms of maintaining the city fabric and creating some revitalisation.

The proposed uses outlined in this report are unlikely to meet a number of the urban renewal objectives and would not contribute significantly to increasing pedestrian flows in this area.

### **HERITAGE**

The 1903 warehouse is the last Christchurch example of this type of Victorian utility building. The heritage building has a robust architectural quality of substantial brick facades, with decorative polychromatic detail, arched and glazed entries and high Dutch styled gables. The building facades enclose the whole eastern end of the Bedford Row, Madras Street and Lichfield Street block. This block includes the major Lichfield Street heritage precinct of which this building is a significant landmark.

The City Plan listing is Group 4 and this reflects the limited information available for assessment at the time of notification of the City Plan. It would probably rank a little higher if assessed today.

Nevertheless, the current listing is Group 4 and therefore, while its retention is desirable, at the end of the day, there will be other priorities for heritage funding. However, when combined with Central City objectives, some funding from heritage can be supported.

## **COSTS OF UPGRADE**

The total costs of upgrade are \$694,250.00 excluding GST but including fees, margins and contingencies. This is a preliminary estimate assessed by a registered quantity surveyor for feasibility purposes.

The Option 1 analysis incorporates this full cost whereas Options 2 and 3 utilises lesser costs.

## **BUDGET**

The Council currently has no specific budget provision for this project.

The total capital cost is \$1.1 million. In commercial terms, considering the best financial option (Option 1), approximately \$465,000-\$670,000 could be recovered either in the short term through sale or the long term through rental. The cost of \$430,000-\$635,000 is therefore a subsidy towards the intangible benefits, which in summary are heritage retention and central city revitalisation objectives.

It is therefore appropriate that should the project find favour with the Council it is funded from both an appropriate EPPU/heritage budget and Central City Board/project budget. Given the Grade 4 listing, other priorities for heritage retention and the recent experience with the Coachman, we feel heritage funding up to a third of the cost of the project, is appropriate, e.g:

### **Initial Capital Sharing:**

Heritage capital, say one third	\$330,000
Central City, say two thirds	<u>\$770,000</u>

### **Share of Net Cost:**

Loss shared, heritage, one third	\$217,000
Loss shared, Central City, two thirds	<u>\$433,000</u>

## **FINANCIAL ANALYSIS OF OFFERS**

We have undertaken a simple analysis through deducting estimated “on sale” values from the total project capital and assuming the market rent can be achieved. The assessed net cost of this project ranges from \$542,000-\$608,000. This represents a best case scenario.

We have also undertaken a discounted cashflow analysis over a ten year period. Based on the offers received this provided an estimate of expected cost from this project in the vicinity of \$600,000-\$700,000.

## **ADVANTAGES AND DISADVANTAGES**

### **Option 1 – Offer**

#### **Advantages**

- Complete upgrade and utilisation of the building.
- Good commercial tenant.
- Highest rent return option.
- Sound operator.
- Good use for property.
- Best financial outcome.
- Best option to achieve/facilitate resale.

#### **Disadvantages**

- Short term lease.
- Highest upgrade cost option.
- Not a net gain to central city business i.e. a reshuffle.

### **Option 2 – Offer**

#### **Advantages**

- Social benefits.
- Valuable city wide community service.
- Sustainability benefits.
- Good use for property.

#### **Disadvantages**

- Limited ability to pay rent.
- Likely to present resale difficulties.
- Poor financial option, only requires partial utilisation of the space.

### **Option 3 – Council Car Parking/Santa Parade Storage**

#### **Advantage**

- Lowest capital cost option.

#### **Disadvantages**

- Storage is not an active use.
- Lacks operational economies of scale.
- No proven demand.
- Not required or desired for operational purposes.
- Contains leasing risk for the mezzanine office space.
- Resale would almost be impossible.
- Highly risky.

## **RELATIVE VALUE ANALYSIS**

A weighted value attributes analysis has been applied in an effort to quantify and summarise the strengths and weaknesses of the various options and make a comparative (“apples with apples”) assessment of each.

Three key attributes were utilised and percentage weightings applied to each, thereby producing an optimum score of 100%. These were lease/financial aspects (30%), heritage/revitalisation (50%) and ability of the prospects (20%).

This resulted in a score of 76% for Option 1 and 55% for Option 2.

## **SUMMARY**

In summary looking at the above three analyses techniques and to state the obvious, this is not a financially viable investment opportunity. It would not be undertaken by the private sector unless it is subsidised. The likely outcome is therefore demolition of the building. In actual fact the current owner has firm plans to do so and utilise the cleared property for leased car parking to tenants in his adjoining property and billboard advertising.

In pure commercial terms neither the level of rent or commitment in respect of lease term justified the capital costs of purchase and upgrade.

However, these options do retain a Grade 4 heritage building in an area where Central City revitalisation is important.

Should the Council be desirous of committing to this project, the best financial option is clearly the Option 1 tenant offer and the immediate on sale with a conservation covenant. Holding the property is not justified and although the financial results look more attractive they contain a larger number of assumptions and a great deal more risk in respect of realisation. In Option 1 we have a good tenant and use for the property. On the other hand, the lease is only for four years.

The essence of the decision at hand is a matter of judgment on whether the intangible benefits of heritage retention and revitalisation warrant the net cost of about \$650,000. This cost is similar to the Coachman situation but given the Grade 2 listing of that building and its more prominent location, we feel that the Horses Bazaar project must rank well below that situation. Possibly a net cost of, say \$300,000 split between heritage and Central City could be supported.

Should the Council resolve to undertake this project it could reduce the cost and risk by establishing some maximum and minimum amounts on key transaction values, for example an initial purchase price at not more than \$350,000, a lease term not less than six years at a rental of not less than \$55,000 per annum. Resolution on this basis would almost need to be a take it or leave it proposition, given the time constraints and therefore subject to acceptance of the vendor and prospective lessee.

An alternative option that may provide a short to medium term solution has just come to our attention. This involves Council purchase of the property and utilisation for storage of the Santa Parade floats without upgrading the building. Currently the Council provides the Christmas Parade Trust with a grant of \$26,500 pa to lease premises from the private sector. On initial consideration this option would appear to require a significantly lesser amount of capital for upgrade and have a number of other benefits including possible alternative funding sources. There are, however, a number of issues to be investigated and detail on this option will be tabled at, or circulated prior to the meeting.

The views of the Mayor's Forum on the Central City are being sought.

**Recommendation:** For discussion.

**Chairman's**

**Recommendation:** That consideration be given to low-cost options if prospective tenancies cannot justify full strengthening and full refurbishment at the present time.