

2. CENTRAL CITY CAPITAL FUND: TURNERS AND GROWERS SITE

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The purpose of this report is to recommend to the Council the purchase of the Turners and Growers site. The reasons are strategic in nature, namely to ensure redevelopment takes a form which brings more people and activity into the area and at the same time provides a significant new public open space. It is anticipated that the flow-on effects will include the private sector having greater confidence in investing in projects on this side of the city.

CONTEXT OF REPORT

The Central City Mayoral Forum (CCMF) has for some time identified the importance of the appropriate redevelopment of this site as a key to achieving significant central city revitalisation benefits. Attempts have been made over the last two years to achieve this redevelopment through private developers. These endeavours have been unsuccessful and it is now considered that the only way to get development that achieves many of the objectives identified in the Central City Strategy Concept Plan Stage 1, adopted by the Council and the CCMF in March 2001, is through direct Council intervention. The concept plan gives priority to regeneration of the east side of the central city with a focus on residential and business development with improved public space.

EXECUTIVE SUMMARY

- The purchase of this site represents a significant strategic opportunity for the Council to control the comprehensive redevelopment of one of the last central city blocks.
- The intention following purchase is to prepare, for Council approval, a comprehensive redevelopment plan for the site that would contribute to central city revitalisation through the provision of open/recreation space, residential and mixed use development. The development of the site in accordance with this plan would be achieved through partnerships.
- If the Council does not pursue this opportunity, it is likely that Turners and Growers will sell down the site into smaller parcels, that would inevitably be used for light industrial/commercial purposes and therefore this opportunity would be lost.
- Funding is available for the purchase price and the proposal would have the effect of being rates neutral over a six year period.
- The Central City Mayoral Forum enthusiastically supports the purchase of Turners and Growers for comprehensive redevelopment and use of the \$2M Central City Capital Fund. Over the last two years they have sacrificed pursuing other opportunities so that they were prepared to do a project with significant impact and benefits. This is seen as that project.

DESCRIPTION OF THE PROPOSAL

The Turners and Growers property comprises 1.7546 ha as indicated on the attached plan. The property contains a number of buildings of an industrial warehouse nature. The combined floor area of these buildings is approximately 10,000m.

Turners and Growers first listed the property for sale in June 2000. Since then they have had two failed contracts for its sale and purchase and they are now seriously considering selling down the site into smaller parcels. One of the directors has advised that they have proposals for 60% of the site at \$2.5M and he believes, given their circumstances, that this will be enough to get board approval. The real estate agent has also confirmed this level of prospective sales.

The Council has an opportunity this month to purchase the property and has secured a conditional contract for *\$(refer public excluded section for detail)*. This contains a lease back from Turners and Growers for a guaranteed period of *(refer public excluded section for detail)* months at an annual rental of *\$(refer public excluded section for detail)*. The primary condition of the contract is Council approval by the end of this month.

The process to be established for future development will include the following elements:

- Rezoning and planning issues.
- Concept planning - encouraging exploratory concept planning work has been undertaken for CCMF by staff, Sir Miles Warren and Ian Athfield.
- The Council's and CCMF's future development objectives.
- Feasibility studies.
- The identification of development partners.

ISSUES FOR CONSIDERATION

Demand for Residential Accommodation and other Commercial Uses

There is significant potential for the site in terms of future residential and commercial uses:

- Property market confidence has increased.
- Residential demand for central city living is good. The central city population has increased significantly over the past 10 years and there is evidence to support continuation of this trend. There will also be an opportunity to consider whether Council housing initiatives would be appropriate in any future development.
- The education sector has shown good growth with increasing demand from foreign students. There is the possibility of a central city secondary school and strong predictions for continued increases in Polytech student numbers. The Polytech is viewed as a potential partner. It is particularly looking for high quality residential accommodation for its senior overseas students.

Planning Issues

The site is currently zoned B3 industrial, which does not allow for residential, mixed use or open space provisions. A zoning change or resource consent will be required with a number of issues to be addressed and considered.

Exit Strategy for the Council

If sometime within the next few years it became clear that the Council could not achieve the comprehensive redevelopment sought, the option would remain to on-sell the site. In this eventuality it is anticipated that a price close to the Council's purchase price would be achieved. It would, however, mean accepting the failure to achieve the central city revitalisation objectives. Refer public excluded section for valuation details.

Advantages

- The strategic purchase is the only way likely to achieve major east side revitalisation objectives including residential and mixed use opportunities.
- The provision of a much-needed new east side park comprising about $\frac{1}{3}$ of the site.
- This meets two of the top 10 priorities identified in the Central City Strategy adopted by the CCMF and the Council which were for joint venture development projects and additional public open space in the east side of the central city.
- Purchase is rates-neutral over a six year period.
- Avoids site being sold in small parcels and developed for light industrial uses that are not compatible with central city revitalisation objectives.
- Strongly supported by the Central City Mayoral Forum.
- Potential for integration with the Polytech's future student accommodation and other student facility needs.
- Potential for higher short-term financial returns than reported; at the moment we have assumed revenue from utilising approximately only 20% of the site.
- Ability to create a large scale integrated development to meet central city needs and objectives.
- Exit strategy as described above appears to present minimal financial risk.
- Future intensive site development will increase the Council's rate take from the site.
- Potential to create financial and development partnerships.

Disadvantages

- Unknown costs associated with developing and implementing the future use process. However \$200,000 has been allocated to cover this.
- Potential for being accused of creating unfair competition in the market (although if the market could achieve this outcome there would be no need for Council involvement).
- Negative perception of achieving objectives through market intervention rather than relying on the existing City Plan zoning.
- Chance of limited additional unbudgeted costs during the holding period e.g. unknown operating issues and pursuing short term leasing income possibilities.
- Medium to long term planning is not in place. No financially viable development plans are in place for future use of the site, other than the strategic purchase and short term holding arrangement suggested in this report.

FINANCIAL IMPLICATIONS

Refer public excluded section for detail.

In summary budget provisions have been identified, from the Central City Development Fund and Parks and Waterways Budget for a majority of the project capital costs. Funding for the shortfall is available from the Christchurch Polytechnic Institute of Technology Foundation (CPITF). They would, however, classify any contribution as an alternative investment and therefore require a market-related return. The costs and benefits of borrowing from the Polytech need to be compared to the Council's own costs of borrowing and ability to source funds.

We have incorporated funding from the CPITF in the financial proposals. On this basis all capital requirements of the project are covered and a small operating budget surplus has been identified.

Financial Budget Analysis

The project costs and revenues have been utilised in a six year cash flow forecast from which the following results have been developed.

It is assumed that the \$2M central city capital investment budget provision will be carried forward from the current financial year as was done last year.

It will be necessary to amend the current draft budget to bring forward the capital provision for parks of \$350,000 in each of 2003/04 and 2004/05. Additional capital will also be needed to meet the capital budget shortfall. However, the net operating costs of the project are less than the current budget provisions as outlined in the public excluded section of this report, therefore the project reduces the Council's net operating costs overall. These changes have been tested against the Council's existing draft budget.

For comparison the financial results without the CPITF loan facility are displayed in italics and shaded.

The rates impact as a result of including this project as outlined in this report is:

Year Ended	2003	2004	2005	2006	2007	2008
Rate Impact (Existing 02/03 Draft Budget)	3.55%	4.73%	6.80%	4.72%	3.81%	5.30%
Rate Impact (Including CPITF Loan)	3.65%	4.73%	6.72%	4.70%	3.80%	5.30%
Rate Impact (Variance)	0.10%	0.00%	-0.08%	-0.02%	-0.01%	0.00%
<i>Rate Impact (Excluding CPITF Loan)</i>	<i>3.62%</i>	<i>4.73%</i>	<i>6.74%</i>	<i>4.70%</i>	<i>3.80%</i>	<i>5.30%</i>
<i>Rate Impact (Variance)</i>	<i>0.07%</i>	<i>0.00%</i>	<i>-0.07%</i>	<i>-0.02%</i>	<i>-0.01%</i>	<i>0.00%</i>

As can be seen, there is a very marginal impact on the level of rates after servicing the capital. This is due primarily to fact that most of the capital was already in the budget, and the required net operating costs of the project are less than the current budget operating provisions.

The following net present value and internal rate of return calculations assume the property can be sold in six years' time for the same value as the current purchase price:

Net Present Value Analysis (\$987,828) **(\$965,166)**

This shows that the project, as reflected in the cash flow analysis would result in a financial loss i.e. compared to investing the cashflows at the Council's current cost of capital with the following rate of return.

Internal Rate of Return	-0.34%	-0.18%
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The financial calculations are conservative. There are no provisions for expenses or revenues other than those that are known with some certainty and within the Council's direct control, it is assumed only 20% of the site is utilised as outlined in the public excluded section. We however anticipate that there are possibilities for generating other lease income. To put this in context for every additional 10% of the property leased at market rates the net present value position would be improved by approximately \$175,000 and the rate of return by 1.2%. To achieve an internal rate of return greater than zero only an additional 3% of the site would need to be leased at market rates.

CONSULTATION

There has been extensive discussion over the past few years within the Central City Mayoral Forum who are very supportive of the concept and use of the \$2M central city capital fund for the site purchase and future joint development opportunities. In addition, John Scott, CEO of the Polytech, is very keen to ensure the development integrates with and meets the Polytech's forecast needs for growing student accommodation and future student facilities.

There has also been limited although positive discussion with various developers potentially interested in prospective investment/partnership in the concept. However, none of these discussions has been pursued in detail.

There has not been any public consultation to date on this specific project. However, it has been driven by the CCMF in particular Sir Miles Warren, Steve Collins, John Scott, Craig Boyce and Mike Fletcher. There was extensive consultation on the Central City Strategy, which specifically identified the need for east side revitalisation and public feedback was supportive. This project is seen as meeting some of these objectives.

CONCLUSION

It is clear this is an exciting and visionary opportunity for the Council with associated risks and rewards. The Central City Mayoral Forum strongly supports the recommendation to purchase the site and proceed with establishing a process for comprehensive redevelopment of the site for east-central city revitalisation including a new public park and residential and mixed uses.

- Recommendation:**
1. That the Council approve the purchase of the Turners and Growers site under section 572 of the Local Government Act.
 2. That the purchase be funded as detailed in the public excluded section of the report.
 3. That a process for the future comprehensive redevelopment of the site to include the creation of a new public park, residential and mixed use opportunities, and joint venture development partnership(s) with the private sector be reported back to the Council for its approval.
 4. That details of the funding arrangements with Christchurch Polytechnic Institute of Technology Foundation be finalised and tabled for consideration at the Council meeting on 24 April 2002.

Chair's

Recommendation: That the above recommendation be adopted.