

1. PROPOSED PROPERTY PURCHASE 86-90 BRISTOL STREET, CHRISTCHURCH

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The purpose of this report is to seek Council resolution to proceed with a purchase of some residential units located at 86-90 Bristol Street.

CONTEXT

The property at 86-90 Bristol Street comprises 20 units developed on a strata title basis ie each unit has a separate title with a pro-rata share in the common area.

Two of the units in the development have been sold to owner/occupiers. These are identical to the balance of the units in the development with the exception that the internal single garages have been converted to a second bedroom. The balance of the complex comprises 18 one-bedroom units with an internal access single garage these are currently in the possession of a finance company (Dorchester Finance) following default by the developer.

In March the Council, through the Housing Subcommittee and the Community and Leisure Committee, considered the purchase of this property for addition to the Council's housing portfolio. The resolutions passed were as follows:

- 1. That the Council approve the purchase of 86 Bristol Street at a price no greater than (refer public excluded section of this agenda) (inclusive of GST) per unit. As part of the conditions of purchase the vendor may be required to supply stoves, kitchen fittings and curtains to complete all units in all respects, with any such conditions to be negotiated at the discretion of Council officers.*
- 2. That the purchase, if approved, be subject to the appropriate legal checks being made and to an agreement for sale and purchase being entered into on terms and conditions satisfactory to the Legal Services Manager.*
- 3. That upon conclusion of the Asset Management Plan, the Property Planners review the need or otherwise to restore the withdrawal of the purchase price from the housing fund. Any proposal to do so will form a separate report with recommendations as to the most viable funding option.*
- 4. That the Council purchase the two privately owned two bed units at 86 Bristol Street at independent market valuation or original purchase price, whichever is the lower, contingent on the purchase of the balance properties in accordance with recommendations in the March 2002 report to Council.*

We were subsequently unable to reach agreement with the finance company on price and therefore negotiations with all parties to purchase the properties were terminated. This occurred early September.

EXECUTIVE SUMMARY

A new opportunity to purchase at least 18 of the 20 units at 86-90 Bristol Street ("*current purchase price*" refer public excluded section of this agenda) exists until Friday 25 October 2002. Dorchester Finance are concurrently aggressively marketing the property and will sell the units individually after this date. If they were successful even to a limited degree the Council would be precluded from considering this property in the future ie increasing the private owners above the current level (2 out of the 20 units) would make it impractical to manage.

The units are in a good location and well constructed with the purchase price less than replacement cost.

The return on investment is higher than the average return on the fund based on a probable rental of \$110 pw.

There was previously an undertaking, initiated at the private owners request, to purchase their units. When the agreement with Dorchester Finance could not be concluded and negotiations terminated, the two private owners were indicating that they would be prepared to sell but were standing firm on a price that enabled them recover costs and was therefore not based on value. They are yet to respond to this new opportunity on whether they are still prepared to sell and if so, at what price.

DESCRIPTION OF PROPOSAL

In view of the recent upswing in the Christchurch residential property market, other economic influences and difficulties in changing the resource consent conditions that imposes a requirement for the units to be occupied by persons older than 60, Dorchester Finance have made a decision to aggressively market the units for sale prior to Christmas at a price of \$128,500 per unit and this campaign has been initiated. They have, however, provided the Council with a final opportunity to purchase the 18 units (for "*current purchase price*" refer public excluded section of this agenda). Due to the fact that time is of the essence, a conditional sale and purchase agreement has been signed at this price subject to Council resolution by 5pm on Friday 25 October 2002. To enable this to occur due diligence investigations covering the following matters have been initiated and will be available prior to the Council meeting so that any areas of concern can be raised before the final decision:

Soils investigations

Legal investigations ie title, body corporate rules.

LIM.

Chattels inventory.

Cost to replace missing chattels.

Building inspections.

General Conditions of the Sale and Purchase Agreement

Vendor: Dorchester Finance

Purchase: Units 1-15 and 17-19 (18 units) at 86-90 Bristol Street

Deposit: (*refer public excluded section of this agenda*)

Price: ("*current purchase price*" refer public excluded section of this agenda)

Possession date: (*refer public excluded section of this agenda*)

Chattels: Yet to be agreed. Dorchester Finance shall contribute (*refer public excluded section of this agenda*) including GST towards Council's cost of installing further chattels.

Special Conditions: Council determining at its sole and absolute discretion by 5.00 pm on Friday 25 October that the proposed purchase is fully acceptable.

ISSUES

Price of the 18 Units

As noted above the initial Council resolution to purchase set an upper limit on the purchase price of (*refer public excluded section of this agenda*) including GST. This was established on the basis that it produced the "break even return value" ie the rate of return from this particular purchase was not greater or less than the return on the existing fund, in other words the overall return on the fund would not be diminished or increased through the addition of this asset. The fund return was assessed at 1.66%.

Since the feasibility study for the March report the Housing Subcommittee and the Community and Leisure Committee have been apprised of further developments in the asset management planning. Some of the elements under consideration are increased rentals and inflationary provisions in the financial modelling. Should these suggested changes come to fruition, which will be strongly recommended and have been positively received to date, a review of the initial analysis with the changes outlined in the public excluded section of this agenda would substantiate a purchase price of (*refer public excluded section of this agenda*) per unit including GST.

An independent registered valuation was obtained earlier this year for the March report which indicated a value of \$(*refer public excluded section of this agenda*), a review of this is being sought which will be tabled at the meeting, though it is not anticipated to change significantly.

It must also be borne in mind that purchase at the suggested price is still below replacement cost, by way of example an independent quantity surveyor's assessment for asset planning purposes indicates a construction cost of \$100,000 for single bedroom units, this does not include a provision for garaging and land value. In addition the Council's latest development at Hornby Courts cost \$130,000 per unit including land value but excluding any garaging.

Two Privately Owned Units

The two private owners initially approached the Council when they became aware of the Council's interest in the balance of the property. They expressed concerns over issues associated with owning and living among a Council complex and asked if the Council would consider purchasing their units at the same time.

Their properties were initially purchased by them for (*refer public excluded section of this agenda*) with an independent registered valuer assessing them at (*refer public excluded section of this agenda*) for the purpose of implementing the March resolution. It quickly became evident during the negotiations that irrespective of their initial informal agreement to the process for establishing a price, as reflected in the Council resolution above, that they would not be prepared to sell below cost which they have assessed at (*refer public excluded section of this agenda*) plus Council meeting the cost of all legal fees.

The private owners have been reapproached and advised of the current development, at the time of writing this report we were awaiting their response on whether they would have a renewed interest to sell and at what price.

There is nothing stopping the Council from buying the 18 units without the privately owned units. This could, however, create some ill will in view of the expectation and previous undertaking arising from the initial Council resolution. Furthermore there is a possibility that they may be unco-operative parties to the body corporate, though it is envisaged that this would not provide many practical difficulties, as they will be minority shareholders.

The response from the private owners will be tabled at the meeting.

Chattels

A number of the chattels particularly stoves, range hoods and window coverings were removed shortly after practical completion when the developer went into default. Dorchester Finance has provided a commitment within the sale and purchase agreement to contribute (*refer public excluded section of this agenda*) towards replacement chattels. The financial analysis also has a provision of \$36,000 for this purpose. An inventory of chattels is currently being prepared along with a list of deficiencies and estimated costs to replace. Should these exceed current provisions, the impact will be advised at the meeting.

CONCLUSION

Purchase of at least the 18 units at Bristol Street represents a good opportunity to add to the Housing Portfolio. The units are well located and of excellent quality and design. They can be purchased for less than replacement cost and there is tenant demand to justify the purchase.

The purchase would not compromise the asset management plan, and in actual fact may provide the opportunity for early renewal or replacement. In addition the financial analysis indicates that the purchase adds value to the fund i.e. produces an internal rate of return of 1.9% compared to an overall fund return of 1.66%.

At the time of writing this report there are a number of issues to be investigated:

- The results of the following due diligence investigations will be tabled at the Council meeting if there are any adverse issues:
 - Soils investigations
 - Legal investigations ie title, body corporate rules
 - LIM
 - Chattels inventory
 - Cost to replace missing chattels
 - Building inspections
- Update on the independent valuation will be tabled at the Council meeting.
- Response from the private owners on their desire to sell or not, and if so at what price. This along with an associated financial analysis will be tabled for consideration and recommendation at the Council meeting.

- Recommendation:**
1. That the Council approve the purchase of vacant one bedroom units 1-15 and 17-19, 86-90 Bristol Street as outlined in the report.
 2. That the Council make an offer to purchase the two privately owned units 16 and 20, 86-90 Bristol Street at a maximum price as per the public excluded section of the agenda.
 3. That upon conclusion of the Asset Management Plan, the Property Manager review the need or otherwise to restore the withdrawal of the purchase price from the Housing Fund. Any proposal to do so will form a separate report with recommendations as to the most viable funding option.