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Report to Landcare Committee

From Daya Atapattu, Project Leader, Flood Protection Group

## **Hutt River Floodplain Management Plan Property Purchase : 56 Connolly Street**

### **1. Purpose**

To ask the Landcare Committee to recommend to the Policy and Finance that the Council purchase the Rentokil Property at 56 Connolly Street, Lower Hutt, subject to an acceptable purchase arrangement.

### **2. Exclusion of the Public and Confidentiality**

Grounds for the exclusion of the public under Section 48(1) of the Local Government Official Information and Meetings Act of 1987 are:

*That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists (i.e. to preserve commercial confidentiality and to enable the Council to carry on negotiations without prejudice or disadvantage).*

Interests protected:

Wellington Regional Council and Rentokil Limited who are parties to any sale.

### **3. Background**

The Landcare Committee, at its meeting on 23 November 1999, considered Report 99.651 on the Rentokil property purchase. The Flood Protection Group's 1999/2000 Operating Plan has a provision of \$735,000, for the purchase of the property.

The Committee agreed that purchase of the Rentokil property at 56 Connolly Street, Lower Hutt, is a strategic requirement for the Hutt River Floodplain Management Plan (HRFMP) Design Standard implementation. The Committee also noted the officers' view that the property should be purchased now, subject to the property being able to be purchased at an "acceptable" price, with a minimum three year lease-back arrangement.

The Committee resolved to consider the property purchase in February 2000, once the Council's commitment to the HRFMP implementation became clearer following its ten year Business Plan deliberations.

#### 4. **HRFMP Implementation**

The proposed Flood Protection 10 Year Operating Plan (2000–2010) includes a \$2 million per annum capital expenditure commitment to implement Western Region floodplain management plans. The Policy and Finance Committee, at its meeting on 9 March, adopted this plan for consultation through the LTFS process.

The upgrade of the Boulcott/Hutt stopbank is a high priority item for HRFMP Design Standard implementation (see **Attachment 1**). The proposed 2000/10 Operating Plan makes provision for the new Boulcott/Hutt stopbank design/consents and construction to commence in years 2006/07 and 2009/10 respectively. This draft capital expenditure programme confirms the officers' view, expressed in Report 99.651, that the option of purchasing the property now should be carefully considered.

#### 5. **An "Acceptable" Price**

Alexander Valuations Limited of Lower Hutt originally estimated (August 1999) the market value of 56 Connolly Street to lie between \$550,000 and \$600,000. They reviewed the valuation in February 2000 and reported that the market value is closer to \$550,000 than \$600,000. This review takes into account the correct zoning for the land. Their estimate of "net income potential" per year from a lease-back arrangement is \$85,000. This more than covers debt servicing costs during the lease back period.

O'Brien Property Consultants (OPC) had exploratory discussions and found that the owners are interested in selling at market values. Rentokil also said they will seriously consider a lease-back arrangement. Approval is now sought to purchase the property subject to an "acceptable" price being negotiated.

An "acceptable" purchase contract would include:

- A purchase price not exceeding \$605,000, which is 10 percent above market valuation, currently assessed near \$550,000.
- Rentokil disbursement costs of up to \$5,000.
- A three year fixed term lease-back of the property at a market rental. The net market rental is currently assessed at \$85,000 per annum.

The three year lease-back is intended to minimise holding costs of the property and yet not unreasonably restrict Rentokil's options to secure another property or lease.

## 6. Costs and Benefits of Early Purchase

The costs and benefits of an early purchase of the Rentokil land are considered to be as follows:

### Costs

- Time value costs of the early commitment of purchase funds.
- Land holding costs.

### Benefits

- Avoiding the costs associated with designation and possible compulsory acquisition processes.
- Obtaining a strategic advantage for the design and construction of the proposed new stopbank.
- Additional bargaining options for land swaps with the Boulcott Golf Club.

An analysis of the costs of early purchase has been completed. The cost to the Council of early purchase is the time value costs of early loan repayment, site clearing and holding costs, but less three years rental income. The outcomes of this analysis in net present value terms is as follows:

- |  |           |
|--|-----------|
| • For purchase now (June 2000) option  | \$368,000 |
| • For purchase late (June 2006) option | \$350,200 |

Note the above estimates are based on the assumptions:

- The purchase price is assumed to remain the same for both options, \$600,000, though it is likely to be higher in June 2006.
- Discount Rate 8.5%.
- Net (gross rental less costs) rental income \$85,000 p.a. for three years for purchase now option and nil for purchase later (June 2006) option.
- Holding costs \$1,000 p.a. (3 years) for purchase now option and nil for purchase later (June 2006) option.
- Net site clearing costs \$20,000 for both options.

The calculated costs can change with variations in assumed parameters.

What the above analysis shows is that the three years rental income is approximately equal to the time value costs of early purchase. Therefore, the benefits of the early purchase, as listed above, can be achieved at no monetary costs to Council. This makes the early purchase option attractive. This is particularly so, noting the risks of not purchasing the property now and the likelihood of having to approach new owners in the future. Past experience with the neighbouring Safeway Storage further reinforces this view.

## 7. **Funding**

A budget provision of \$735,000, for purchase of the Rentokil property, is included in the Flood Protection Group's 1999/2000 Business Plan. This provision was made as part of the Flood Damage Improvements following the October 1998 floods. Subject to successful negotiations, it is proposed that the purchase be executed in the current financial year.

## 8. **Communication**

Opportunities will exist once the Policy and Finance Committee approves the purchase to promote the Council's commitments to the "Hutt River Design Standard" implementation.

## 9. **Recommendations**

*That the Landcare Committee:*

- (1) *Note that the proposed Flood Protection 2000/2010 Operating Plan provides for the Boulcott/Hutt stopbank upgrade design and construction to commence in years 2006/07 and 2009/10 respectively.*
- (2) *Note that the "purchase now" option with three year lease-back arrangements has advantages over the "Purchase in June 2006" option.*
- (3) *Recommend to the Policy and Finance Committee that the General Manager be delegated to authorise the purchase of 56 Connolly Street from Rentokil Limited for a price not exceeding \$610,000, inclusive of reasonable disbursement costs incurred, and conditional upon Rentokil Limited leasing back the property, at a market rent, for a minimum period of three years from date of settlement.*

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**Attachment 1:** Hutt River Floodplain Management Plan : Implementation Programme (Draft)