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## **Public Excluded**

## **Report PE 02.154**

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Report to Policy and Finance Committee  
from David Benham, Divisional Manager Utility Services,  
Dan Roberts, Group Manager Operations and Peter O'Brien, O'Brien Property Consultancy

## **Proposed Purchase of 44 Oxford Terrace, Waterloo**

### **1. Purpose**

- To seek approval for the purchase of 44 Oxford Terrace, Waterloo at a price of \$300,000 which has been accepted by the vendor, subject to Council approval (photographs attached).
- To note that the purchase of this property will enable operational efficiencies to be achieved in the Water Group.
- To note that the departure of the Water Group could have implications for Council's ongoing occupancy and ownership of Mabey Road Depot.

### **2. Public Excluded**

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

*To enable the Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).*

### **3. Summary of the Proposal**

After consultation with the General Manager the following actions have been taken, or are planned to be taken, subject to Council approval:

- The Council has submitted a price to purchase 44 Oxford Terrace.
- If that purchase proceeds the Water Group Distribution staff based at Mabey Road would be accommodated at 44 Oxford Terrace.

- Workshop facilities at Wainuiomata Water Treatment Plant and pipe lay down areas at Wainuiomata, Te Marua and Haywards Reservoir would accommodate the Distribution functions currently undertaken at Mabey Road.
- The Production staff currently accommodated at Waterloo Water Treatment Plant would be relocated to the new building.
- Waterloo Water Treatment Plant would house the Water Group emergency control room.
- Subject to a decision that we continue to operate our own laboratory, the Laboratory at Mabey Road would move to 44 Oxford Terrace.

#### **4. Operational Advantages**

Since the demise of the Network Section the organisation of the Operations Group has been reviewed and there are substantial benefits to be achieved by amalgamating the sections under one roof.

- At the present time the Operations Group operates as two distinct sections, with the Production Section responsible for the treatment plants managed from Waterloo, and the Distribution Section, managed from Mabey Road, responsible for the distribution system, pumping stations, and reservoirs supplying water to the four cities.

The staff within the two sections have varying talents and expertise and to coalesce the units under one roof will readily enable cross fertilisation of ideas between the two sections.

- Over the past four years there has been extensive development of software packages associated with the treatment and distribution of water to the four cities and it is now believed a separate section should be established to concentrate on the operation and development of software and control packages utilised.
- A recent information technology review has confirmed that the Operations Group operates too many software packages. The proposed amalgamation will reduce the number required and will better facilitate the development of the preferred software packages.
- The Operations Group operates under a range of quality procedures including the Incident Management system, Health and Safety Plan, Environmental Management System, Quality Procedures, and various other established documented procedures. In addition the establishment of a documented maintenance policy is an essential part of our Hansen Asset Management system and this must be further developed to cover all equipment and installation maintenance. The bringing together of the management structure will enable closer control and future development of these procedures in the quest for continual improvement. At the present time duplication of effort occurs and delays result due to staff not being based at the same location.

- One of the main attractions to the purchase of 44 Oxford Terrace is that it is adjacent to the main system control centre now focussed on Waterloo Water Treatment Plant.

## 5. Financial Analysis

There are immediate financial benefits (apart from operational benefits) to be achieved by this reorganisation.

### Water Group - Operations

- At the present time work is in hand to reduce vibration and noise levels which have been introduced into the Waterloo Water Treatment Plant by the installation of the upgraded motors and pumps. This work has been subdivided into various projects and the work necessary to stabilise the motor floor by the introduction of support columns has been completed.

The remaining work necessary to reduce noise levels could be discontinued if full time staff presence was removed from the treatment plant.

This would produce an anticipated saving of approximately \$170,000 from the capital budget of \$230,000.

- The Wellington Lifelines earthquake exercise held in October 2001 identified that we do not have facilities available at Mabey Road to enable the establishment of an adequate control room for emergency situations. A proposal was to be prepared to purchase an additional portacom at Mabey Road to provide these facilities for emergency situations.

In the event that the purchase of the building proceeds, the “emergency management control room” could be established within the existing facilities at Waterloo Water Treatment Plant.

Dealing with this matter in this way would produce a saving of approximately \$30,000.

- For the past couple of months problems have been experienced with the Realflex system which collects and records data from remote outstations.
  - Resource levels and flows
  - Pumping station status
  - Pumping station flows
  - Distribution water main pressures

It will be necessary either to upgrade the existing software or as a result of the current exercise purchase a new Citect software licence to cover operation at Mabey Road.

This development would cost in the region of \$20,000 and would not be necessary if it was possible to centralise the whole operation at Waterloo.

In the event that we were successful in moving to the new premises, then the same result could be achieved. The “control centre” would remain in the Waterloo Water Treatment Plant with servers located in the new premises.

- By vacating Mabey Road it would mean that we could dispose of the portacom used to provide office accommodation for Distribution personnel. It is anticipated that we would be able to sell the portacom for approximately \$10,000.
- The existing Distribution Section at Mabey Road pay a rental of approximately \$56,000 per annum. There are workshop facilities at Wainuiomata and pipe lay down areas at Wainuiomata, Te Marua and Haywards Reservoir. This would mean that we could vacate Mabey Road and generate a \$56,000 rental saving per annum. It is recognised that some savings could be achieved by doing this without moving to 44 Oxford Terrace. The workshop and lay down areas could be moved as above but the offices remain at Mabey Road. This would produce a saving of \$39,000 to Water Group.

A summary of these costs are shown in Attachment 1.

### **Water Group - Laboratory**

We are currently reviewing the ongoing viability of the Laboratory. This is a separate but related decision. If we did decide to continue with the Laboratory then it is proposed that it be accommodated at 44 Oxford Terrace. The associated costs are shown in Attachment 2.

### **Corporate - Mabey Road**

With the Water Group’s Distribution and Laboratory moving from Mabey Road the only remaining departments using the site would be Flood Protection and Resource Investigations. Should these departments be found new homes, the Mabey Road site could be sold. We understand it has value in the order of \$1.8 million net of building removal costs. Our estimate of financial impact is shown on Attachment 1 and 2.

There will also be some costs associated with moving Flood Protection and Resource Investigations from Mabey Road. The magnitude and timing of these costs would depend on when a new site is found and what refurbishing it would require in order to create an operational depot.

It should be noted that it may take up to 18 months to relocate Flood Protection and sell Mabey Road. Until that occurs there will be a holding cost to Corporate Property.

## **6. The Proposed Site at 44 Oxford Terrace**

The property at 44 Oxford Terrace has recently come on the market for sale or lease. It was built in 1969 as a two storey multiple tenancy property having a gross floor area of approximately 430 m<sup>2</sup>. The property is for sale by tender closing Tuesday 12 March.

There is no car parking available. However, there is vehicular access down a service lane to the rear of the property with roller door access to the ground floor.

The lack of car parking is not considered a problem as there is already car parking at the Waterloo Water Treatment Plant and additional car parking for up to 15 cars could be created on land owned by WRC between the treatment plant and Oxford Terrace.

## **6.1 Engineering Assessment**

The building at 44 Oxford Terrace is two storeyed with a principal structure of reinforced concrete frame to the perimeter, infilled with concrete block walls, and to the interior has a hollow rectangular section steel post and beam structure supporting the floor and roof. The ground floor is reinforced concrete while the first floor is T&G timber over timber joists.

The first floor is uneven, lively and noisy. It was considered prudent to have the capacity and adequacy of the first floor assessed to ensure it catered for the intended use. Sinclair Knight Merz was employed to report on the structural integrity and the appropriateness for the intended use.

Sinclair Knight Merz report that:

- The main structural elements of the building, the perimeter reinforced concrete frames have been designed to carry seismic and gravity loads.
- The internal structural steel frames have been designed to carry gravity loads only.
- The structural elements of the building were found to be in good condition.
- There were no observed signs of structural deterioration.
- The first floor is lively and joists have sagged between steel frames.
- The timber joists to the first floor sub frame use 200 x 50 mm timber which is inadequate and under code requirements for the span between the beams.
- The first floor has a live load capacity of 2.5 kpa which allows for general office fitout but does not cater for file storage.
- Filing cabinets and storage facilities are therefore restricted to the ground floor.

For the building to be suitable for the intended use of the Council, it is necessary to replace the first floor. This can be achieved with the use of new 300 x 50 mm timber joists placed at 300 mm centres, 17.5 mm ply overlay and steel fillets welded to the underside of the steel beams to provide additional stiffening. A concrete floor was considered as a cheaper option but the weight imposed on the steel structure would be excessive. The estimated cost for this item is \$25,000.

## **6.2 Proposed Use and the Implications**

The Council proposes to use the first floor as office accommodation and the ground floor potentially as laboratory with office and storeroom facility.

The property is zoned Suburban Commercial on the Hutt City District Plan. All potential Council uses are deemed to be commercial activity and therefore comprise permitted activities. This has been confirmed by the officers of the Hutt City Council.

The only other possible impediment to use would be the structure and that has been cleared and confirmed as suitable by Sinclair Knight Merz.

### 6.3 Estimated Refurbishment and Relocation Costs

The estimated refurbishment and relocation costs are in the order of \$300,000 and are detailed in Attachment 3. If the Laboratory was also to be accommodated we have estimated that set up costs would be in the order of a further \$212,000. This could result in an accounting write down if new cost exceeded new value.

## 7. Assessment of Building Value

The assessment of value was undertaken jointly by O'Brien Property Consultancy Limited and Malcolm Alexander, a Hutt Valley public valuer who has considerable expertise in this type of property asset.

The property is currently vacant. Suburban commercial real estate in the Hutt Valley has lacked demand for some time and is therefore no longer sought after as an investment. The risk of tenant failure and thereby loss of cash flow is too high a risk. A solid trend has been established where these properties are now more often than not purchased by owner occupiers. Frequently the purchaser is a retailer who has little use for the upper floor and occasionally the purchaser is an office user who elects to use the ground floor as storage facility.

Properties of this description essentially derive their value from the income flow they can generate. Based on the knowledge of the market held by Malcolm Alexander as to both rents and market rates of return, the assessment of market value is assessed as:

Ground floor	205 m <sup>2</sup>	@ 155.00	31,775.00
First floor	205 m <sup>2</sup>	@ 80.00	16,400.00
Car parks and yards	Nil		0.00
Total potential rent			<u>48,000.00</u>
Less operating expenses	Rates	4,500.00	
	Insurance	2,000.00	
	Management	1,500.00	
	Repair and maintenance	2,000.00	
		<u>10,000.00</u>	
Indicated net income			<u>\$38,000.00</u>

Indicated net maintainable income, capitalised at the indicated market rate of return 11.5%, provides an assessed value for the property of \$313,000 from which needs to be deducted allowances for capital expenditure to upgrade the retail facade, remove all internal partitions and make good, provide an entry lobby and new stairs to the first floor and replace the emergency stairs to the rear, all at an estimated cost of \$33,000. The Current Market Value of the property is therefore assessed to be within the range \$280,000 to \$315,000.

Tested against sales of similar properties of value range of \$290,000 to \$310,000 is indicated.

If the property were to be purchased as an investment, a tender at a lower level would be submitted to test the market. For an investor, there are other investment properties to turn to if this tender is not successful. The Council is not in that position. The building is ideal for the Council as it:

- is the appropriate size

- is located immediately opposite the Waterloo water treatment plant
- is centrally located within Lower Hutt
- is opposite the Waterloo transport interchange for bus and rail transport
- is available for sale
- is vacant and available for immediate Council occupation without complication
- is appropriately zoned for Council use as of right.

## 8. **Assessment of Value of Mabey Road and Potential for Sale**

No assessment of the current market value of the Mabey Road Depot site has yet been undertaken. The Mabey Road Depot occupies a site, approximately 3.25 hectares, (yet to be defined by survey), where the Council use is protected by a Depot designation. The underlying zone is General Residential. The site is bounded to the west by the Hutt River, its berm and stopbank, to the east by Avalon residential development, to the north by the recently completed Ryman retirement complex and to the south by Avalon Park and tennis club. The use of the land as a depot does not fit well with the surrounding residential development. The Ryman retirement complex was developed on the old Hutt City Council Depot. The Hutt City depot was a slightly larger site at 3.5921 hectares, and sold for \$1.8million in 1998/99. It is reasonable to assume that the Council Depot site will possess a very similar value, if not greater with the passing of time.

### **Consequence of Sale of Mabey Road Depot Site**

The Mabey Road Depot site currently houses Water Group Distribution and Laboratory, Environment Resource Investigations and Landcare Flood Protection Operations. If the Mabey Road depot were to be vacated to enable sale and release of the capital employed, alternative accommodation will need to be found for both Resource Investigations and Flood Protection. Resource Investigations currently use 45 m<sup>2</sup> of workshop and store and we do not anticipate it would be difficult to make alternative arrangements.

If the proposal proceeds and the Water Group moves to the new site, Corporate Property would have reduced revenue of \$80,000 per annum until Flood Protection and Resource Investigations were relocated and Mabey Road sold. This is likely to take up to 18 months to two years.

## 9. **Flood Protection Relocation**

Flood Protection's requirements are more complex than those of Resource Investigations. If they were to relocate from Mabey Road, then Flood Protection would require:

Office and amenities	125 m <sup>2</sup>
Workshops	240 m <sup>2</sup>
Specialist high stud vehicle store	220 m <sup>2</sup>
Car parking for	10 vehicles
Store yard	2,000 m <sup>2</sup>

Those premises need to be zoned “Industrial” as well as being located to ensure efficient daily operation of Flood Protection and retain an ability to respond appropriately during flood events. The relocation will not be a simple real estate exercise and it is one that defeated a similar proposal to vacate the Mabey Road depot in 1995/96. However, we consider that provided Flood Protection is given sufficient time to find alternative premises (up to 2 years) the relocation is feasible.

In theory it should be possible to lease premises on the open market at a similar rent to that being paid at Mabey Road. The reality is that it will be difficult to locate premises with a good fit building profile and it will probably be necessary to lease larger premises to meet the accommodation needs. Thus the annual cost of rent for Flood Protection is very likely to rise as a result. Alternatively, it may be more cost effective for Flood Protection to purchase a new depot site.

Flood Protection currently occupy 83 m<sup>2</sup> of office and amenities at Mabey Road. A recent request has been received to provide a further 40 m<sup>2</sup>. Vacation of Mabey Road by the water group will provide an immediate solution to that requirement.

## 10. Recommendations

*That Policy and Finance Committee recommend that Council:*

- (i) approve the purchase of 44 Oxford Terrace, Waterloo for \$300,000.*
- (ii) approve Flood Protection actively pursuing relocation from Mabey Road to an alternative site.*
- (iii) notes that relocation of Flood Protection may take up to two years, and that in the interim there will be a holding cost to Corporate Property.*
- (iv) request officers to report on the future of Mabey Road site.*
- (v) note that the Common Seal of the Council has been affixed to the conditional purchase agreement, and approve the Common Seal being affixed to all related documents.*

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**Attachment 1:** Financial Analysis of Purchase of 44 Oxford Terrace (excluding Laboratory)

**Attachment 2:** Financial Analysis of Purchase of 44 Oxford Terrace (including Laboratory)

**Attachment 3:** Established Refurbishment and Relocation Costs, 44 Oxford Terrace

**Attachment 4:** Ground Floor Area – Proposed Laboratory, 44 Oxford Terrace

**Attachment 5:** Location of 44 Oxford Terrace to Waterloo Water Treatment Plant

**Attachment 6:** Front Elevation of 44 Oxford Terrace (viewed from Waterloo Water Treatment Plant)