

14 January 2003

Geoff Dick
Manager, Flood Protection
The Wellington Regional Council
Level 9
The Regional Council Centre
Wellington

Dear Geoff,

Re: Flood Protection Depot - Hutt Valley

BACKGROUND

Council resolved on 19 March 2002, with reference to Report PE 02.154 dealing with the Utility Services purchase of 44 Oxford Terrace and its relocation from the Mabey Road Depot, that Flood Protection should actively pursue relocation from Mabey Road to an alternative site. The Council granted Flood Protection up to two years to investigate and achieve relocation and officers were to report back to Council on the future of Mabey Road.

ACTIONS TAKEN

1. The accommodation requirements for a Flood Protection depot have been defined including type and area of buildings and type and area of yards together with defining additional items such as loading ramp, wash down yard and sump and security fencing.
2. It was established that all Flood Protection depot functions would best be operated from one location.
3. Relocation of the flood protection depot function to the Council Upper Hutt depot was investigated. The Upper Hutt depot did provide sufficient accommodation, but did require the construction of a new office administration and amenities block within the warehouse structure, provision of new roller doors, sealing of yards and development of a loading ramp, all at a cost of some \$345,000.
4. The investigation highlighted:
 - 4.1 the Flood Protection emergency response required a facility to be located in the Lower Hutt City area. The facility needed to provide for dry sand store, a sand bag store, housing of the sand bag machine, sand bagging under cover, radio communications and kitchen facility. Assuming that existing WRC land can be used and a nil land cost will be incurred, the structure was estimated to represent a cost of some \$150,000.
 - 4.2 As the Upper Hutt depot is at the extreme north end of the Hutt Valley, location at the Upper Hutt depot would incur additional annual costs for the day to day operation. Flood

Protection undertook an analysis of the annual costs and benefits arising from a move of the Flood Protection depot function from Lower Hutt to Upper Hutt. It is important to appreciate that 60 to 65% of the Hutt River work is undertaken in the river between the mouth and Silverstream. Another 10 to 15% of the Flood Protection work is undertaken in Porirua, Wainuiomata and the Waiwhetu in Lower Hutt. Therefore for some 75% of the time additional time for vehicles and staff would be utilised in non-productive time between Upper Hutt and Kennedy Good Bridge. This is assessed to amount to some \$70,000 per annum. As a counter balance, work in the Upper Hutt reach of the river would be more conveniently located and this is assessed to save some \$17,500 per annum. Overall a net annual operational cost of \$52,500 would be imposed by moving the Flood Protection depot to Upper Hutt.

4.3 In summary, the physical costs added up to \$495,000 and the annual costs added up to \$52,500.

4.4 The potential relocation to the Upper Hutt depot highlighted a very important issue. Real concern was expressed over the Council's ability to respond effectively to flooding emergencies. While the financial plan catered for the construction of a lower valley facility which would be devoted to sandbagging and being an emergency response site, the belief was that this would comprise a second best option. Potentially some dysfunction during emergency response to flooding events and provision of a less than acceptable service was anticipated with this scenario.

4.5 Appropriate response to emergencies requires first class communication and an ability to immediately assess how and where to best deploy all resources available. Multiple crews are on hand and there is considerable activity at the depot and over the radio network. Appropriate response can be assured from a Lower Valley location but could not be assured from the Upper Valley, even with provision of a remote emergency response centre.

4.6 It is the conclusion of Flood Protection that the focus should be placed on the Lower Valley when looking for a replacement depot site.

5. Investigation of suitable locations within the Lower Valley concluded that only two industrial locations were suitable for the depot to function well, particularly in an emergency. These were at the foot of the Belmont hills, off State Highway, and at Wingate.
6. The property located at 15 - 17 Eastern Hutt Road, Wingate, Lower Hutt (ex-Telecom works depot) became available for sale during August and October 2002. The site was thoroughly investigated as it met many of the Flood Protection depot requirements. In the end analysis, engineering reports obtained highlighted some structural and cladding deficiencies with the main structure which would have given rise to major down stream costs. The site area was also well in excess of the flood protection needs and subdivision and sale of surplus land would have been necessary. It was decided not to pursue this option.

ANALYSIS

1. It was decided, after the energy directed to the Wingate purchase investigation, to revert to an initial feasibility study to see which options would be best pursued. This would provide a focus for the task.
2. The initial study was to be undertaken at minimal cost to see if any one option stood out from the others and would therefore be worth pursuing in isolation.
3. Scenarios to be studied were:

- 3.1 Locate and purchase a vacant industrial site in Wingate, Lower Hutt. Note: Lower Belmont was discounted as the land area for those parcels is physically limited and large sites are simply not available.
- 3.2 Locate and purchase an improved industrial property in Wingate which is able to be adapted to function as a depot and which contains sufficient land on which to erect any buildings not catered for. This exercise is to be in two parts, one assuming purchase of a property containing modern buildings and one assuming purchase of a property containing older but adequate buildings.
- 3.3 Subdivision of Mabey Road site to retain the existing buildings as a depot on a minimum but adequate site and to sell on the open market the balance site created.
4. To provide a comparative base, each scenario was reduced down to the net benefit which should be achieved from the sale of the Mabey Road site after the deduction of the cost of the replacement facility.
5. A close study of each scenario will reveal that the options of building a new depot on a vacant site and purchasing an existing industrial complex are based on the minimum accommodation requirements defined by Flood Protection. This is as opposed to the scenario of retaining the existing depot where the site proposed to be retained and the areas of the buildings, all exceed those minimum areas and therefore cater for future growth or other Council use.

FINDINGS

1. The option to purchase a vacant site and build a new depot is the least subjective as it deals with solid market data where building costs will fall within defined parameters. I have therefore used a modest contingency sum of 15% of the building component. The principal variation to be expected is the likely need to acquire a site which is larger than required. There is no ability to predict or control the size of the sites available for sale on the open market. The Cost of developing the new depot is estimated to be \$1,360,000 which, when deducted from the estimated realisation from selling Mabey road at \$1,850,000 indicates a derived net benefit of \$490,000.
2. The option to purchase an existing industrial complex and adapt it to meet the depot requirements has been split into two scenarios. The first assumes that it will be possible to purchase a newer complex of 20 to 30 years in age. The second assumes the purchase of an older complex of 40 years and older.

To assess the base price, I have assessed the market rents likely to be generated by the complex, deducted operating expenses and capitalised the resulting net income. I have then added for the cost of items which are very unlikely to be available in the market. Because it is very unlikely that any industrial complex will offer the accommodation required for the depot, I have also allowed a contingency factor of 33% to reflect the real risk of achieving a matching profile. The other risk which is not captured or reflected in the exercise is the risk that no suitable industrial complex will be available for sale in the defined suitable location.

For the newer complex the cost to acquire and adapt is assessed to be \$857,500 which, when deducted from the estimated realisation from selling Mabey road at \$1,850,000 indicates a derived net benefit of \$992,500.

For the older complex the cost to acquire and adapt is assessed to be \$635,500 which, when deducted from the estimated realisation from selling Mabey road at \$1,850,000 indicates a derived net benefit of \$1,214,500.

3. For the option of the depot to remain at Mabey Road, I confirm that the area proposed to be retained is the minimum necessary to enable the continuing viable occupancy and optimum function to be achieved.

The old store previously occupied by the Water Services group will be demolished, the old laboratory structures and the double garage will be sold by tender for removal from the site.

I have canvassed the proposal with Hutt City Council Resource Management division and it is confirmed that the subdivision will comply with the ordinances as of right and the designation is able to be retained over the depot and released from the balance of the land.

The area which will be available for disposal will now be reduced to some 2.2500 hectares (previously 3.2500 hectares) and appears to be of sufficient size, dimensions and shape to be an attractive subdivisional proposition in the open market.

To the assessed realisation of \$1,350,000 I have first added for the expected returns from sale of the relocatable structures, \$18,000 and deducted costs for fencing off the depot, demolition of the old store, removing all deferred maintenance from the retained structures and the costs of subdivision all totalling \$63,000 to indicate a derived net benefit of \$1,305,000.

SUMMARY OF NET BENEFITS

Option	Net benefit
Sell Mabey Road, buy vacant site and develop new depot.	\$490,000
Sell Mabey Road, buy newer existing industrial complex and adapt for depot use.	\$922,500
Sell Mabey Road, buy older existing industrial complex and adapt for depot use.	\$1,214,500
Subdivide Mabey Road, Retain depot site, sell vacant 2.2500 hectares	\$1,305,000

CONCLUSION

I believe that this simple feasibility study does demonstrate that optimum benefits will be derived from the Council pursuing the option of retaining the Flood Protection depot at Mabey Road and subdividing off the balance area for disposal. The benefits available to the Council are:

1. It is the least risk scenario.
2. The site and location is the most preferred by the Flood Protection management.
3. The site and buildings are purpose built as a depot and specifically as a depot for Flood Protection.
4. The buildings are larger than the optimal minimum accommodation defined and on which all calculations were undertaken for the alternative scenarios.
5. Larger buildings provide flexibility for growth and use of the facility by other divisions of the Council.
6. It is the scenario which provides the best net financial benefit to the Council.

7. There is little or no interruption to the function of the depot.
8. The unknowns are minimised to the point where contingencies are minimal and can almost be dispensed with altogether.
9. There is no disruption to the staff and their daily travel arrangements.
10. Reaction to emergency events is not compromised and will in fact be improved as accommodation vacated by Water Services will provide the much needed facility to store bags and sand and to cater for a covered bagging facility.
11. The depot will retain the full protection of the depot designation.

RECOMMENDATIONS

1. I recommend that the focus of the feasibility study for the future Hutt Valley Flood Protection depot be narrowed to the option of remaining on site and undertaking a subdivision to create one site to be retained as depot and one site to be disposed of on the open market.
2. To assist the next phase of the study I recommend that a surveyor is employed to confirm that subdivision is viable and able to be achieved and to report and advise on the proposed size, shape and dimensions of the land proposed to be disposed of to ensure that optimum net realisable value is achieved. I recommend the employment of Truebridge Callender Beach Limited for this work.
3. To assist the next phase of the study I recommend that a valuer is employed to undertake an assessment of worth of the whole depot site (3.2500 hectares), an assessment of worth of the balance area proposed to be disposed of (2.2500 hectares) and to review the method, detail and accuracy of the feasibility study compiled to date to ensure that the preliminary assessments are realistic and to ensure that Council's actions will derive the optimum net benefit. I recommend the employment of Telfer Young Limited for this work.
4. With all independent survey and valuation information to hand, the proposal be reviewed and reassessed with a view to submitting a formal report and recommendation to Council for the retention of the current depot on a reduced site and for the disposal of the balance site on the open market.

Yours sincerely
O'Brien Property Consultancy Limited.

Peter O'Brien

Attachments:

1. Feasibility study conclusions.
2. Feasibility study vacant site and new depot development at Wingate.
3. Feasibility study (a) purchase and adaptation of a newer existing industrial complex,
(b) purchase and adaptation of an older existing industrial complex.
4. Feasibility study depot remains on reduced site and balance subdivided off for sale.

Flood Protection Depot - Lower Hutt

Option 1

Sell Mabey Road (3.25 hectares) and realise	1,850,000
Buy land Wingate and develop new depot	1,360,000
Net benefit resulting	\$ 490,000

Option 2a

Sell Mabey Road (3.25 hectares) and realise	1,850,000
Buy existing good quality industrial property and adapt	857,500
Net benefit resulting	\$ 992,500

Option 2b

Sell Mabey Road (3.25 hectares) and realise	1,850,000
Buy older, lower quality industrial property and adapt	635,500
Net benefit resulting	\$ 1,214,500

Option 3

Subdivide off 2.2500 hectares at Mabey Road and sell	1,350,000
Plus sell surplus laboratories (2) and garage	18,000
Less costs to subdivision, demolition, fencing, road, gates and removal of deferred maintenance	63,000
Net benefit resulting	\$ 1,305,000

Value of depot retained based on capitalisation of net market rents	\$ 630,000
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Flood Protection Depot - Lower Hutt					
New Depot at Wingate					
Land Required	8000	35		280,000	280,000
Buildings					
Office and amenities	180	1150	1.2	248,400	
Workshops	450	1150	0.7	362,250	
Vehicle store	280	1150	0.35	112,700	
Sealed yards	4000	1150	0.035	161,000	
Fencing	360		55	19,800	
Wash yard and sump	1		30000	30,000	
Loading ramp	1		5000	5,000	
Total cost to build				939,150	
Contingencies			15%	140,873	1,080,023
Indicated overall cost					\$ 1,360,023
			say		\$ 1,360,000

Flood Protection Depot - Lower Hutt (a)

(Using newer building figures)

Needs	area	rent	TOC rent	cost
Buildings				
Office and amenities	180	95	17,100	
Workshops	450	75	33,750	
Vehicle store	280	75	21,000	
Sealed yards	4000	2	8,000	
unsealed yard	3000	1	3,000	
Fencing	360			20,000
Wash yard and sump	1			30,000
Loading ramp	1			5,000
Total rent			82,850	
Additional costs				55,000
less OPEX (estimate only)			18,000	
net rent			64,850	
capitalise rent at			11%	589,545
Initial cost				644,545
Plus contingency for adaptations			33%	212,700
Likely overall cost to purchase & adapt				857,245
			say	\$ 857,500

Flood Protection Depot - Lower Hutt (b)

(Using older building figures)

Needs	area	rent	TOC rent	cost
Buildings				
Office and amenities	180	85	15,300	
Workshops	450	60	27,000	
Vehicle store	280	40	11,200	
Sealed yards	4000	2	8,000	
unsealed yard	3000	1	3,000	
Fencing	360			20,000
Wash yard and sump	1			30,000
Loading ramp	1			5,000
Total rent			64,500	
Additional costs				55,000
less OPEX (estimate only)			18,000	
net rent			46,500	
capitalise rent at			11%	422,727
Initial cost				477,727
Plus contingency for adaptations			33%	157,650
Likely overall cost to purchase & adapt				635,377
			say	\$ 635,500

Flood Protection Depot - Lower Hutt				
Realisation from selling whole site				
Best estimate only	3.2500	600,000	1,950,000	
Less cost to demolish buildings			100,000	
Approximate net worth on market (before deduction of agency & legal)			\$ 1,850,000	1,850,000
Realisation from selling residual site only	2.2500	600,000	1,350,000	
Sell laboratory			10,000	
Sell temporary laboratory (relocatable)			5,000	
Sell double garage			3,000	1,368,000
Demolish store			15,000	
Erect new fencing	255	51	13,000	
Relocate entry gates and alter road entry			10,000	
Remove existing deferred maintenance			10,000	
Survey to create new titles and legal			15,000	63,000
Approximate net worth on market (before deduction of agency & legal)				1,305,000
Differential - cost to retain				\$545,000

Value of Asset Retained				
	area	TOC rent	TOC rent	
Administration and amenities	231	90	20,790	
Workshops	576	70	40,320	
Vehicle store	217	45	9,765	
Plant building	15.64	0	0	
Sealed yards - 20 carparks	20	312	6,240	
Sealed yards	4000	2	8,000	
unsealed yards	4000	1	4,000	
Total occupancy cost rent				89,115
Less OPEX (rates, Ins, R&M, Management)				20,000
net rent indicated				69,115
capitalised at			11%	628,318
Indicated value of land and buildings retained				\$630,000