

Finance and Operational Performance Committee

**Monday, 11 June 2007
Commencing at 9.30 am**

Item 2: Urgent Business

**Item 2B: Urgent Business - Old New
Lynn Hotel: Proposed
Future Actions**

**SUPPLEMENT TO A MEETING OF THE FINANCE AND OPERATIONAL
PERFORMANCE COMMITTEE TO BE HELD AT WAITAKERE CENTRAL,
6 HENDERSON VALLEY ROAD, HENDERSON, WAITAKERE,
ON MONDAY, 11 JUNE 2007, COMMENCING AT 9.30 AM**

2 URGENT BUSINESS

That the matter of Old New Lynn Hotel: Proposed Future Actions be considered as Urgent Business for two major reasons:

1. Several Elected Members (primarily those close to the hotel who pass it regularly) have taken an extreme interest in the project, and wish to see physical activity as early as possible prior to the election date. A meeting has been held at that level with the Chief Executive Officer, and the outcome of his further meeting with me has been to ensure that an agenda item is taken to this Finance and Operational Performance Committee meeting, rather than to wait for a further month with little action. The next step will, subject to the outcome of this meeting, be to discuss the project with Waitakere Properties Limited and, failing that, to undertake work ourselves, neither of which I have authority to do at this stage.
2. The building is rapidly deteriorating, both because of the structural problems that led to Council's acquisition, but also because of ground settlement arising from the "Auckland earthquake" and from regular vandal attacks. The building is so weak that we dare not allow the graffiti to be regularly removed, and so we are vulnerable to visual as well as physical vandalism.



2B OLD NEW LYNN HOTEL: PROPOSED FUTURE ACTIONS

PURPOSE OF THE REPORT

The purpose of this report is to update the Finance and Operational Performance Committee on progress with the redevelopment of the Old New Lynn Hotel, New Lynn, and to seek approval to an action plan.

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Plans showing the affected land parcels are attached at page A160.

BACKGROUND

A Heritage Order was placed on the Old New Lynn Hotel by the Council to protect an important piece of the City's heritage. This effectively led to the Council's purchase in the absence of other interest, and it was acquired in late 2005. Soon after acquiring the hotel and two parcels of land, a third, adjacent residential property was also acquired to increase the potential future redevelopment opportunities.

A Conservation Plan was adopted by the Council in May 2006, and a Remediation Plan was developed to accompany the transfer of the property to a third party, as a condition of sale. In November 2006, a report to the Finance and Operational Performance Committee recommended, in the first instance, an approach to the development community seeking proposals to structurally renovate the building and at the same time acquire the surrounding development land.

In November 2006, Councillors approved the following process:

1. Developing a database of interest from both historic approaches to the Council, and from a significant advertising process;
2. Provision of a comprehensive Expressions of Interest package to potential bidders, and a call for detailed information from them regarding any proposal they may have for redevelopment of the building and surrounding land;
3. The opportunity for potential bidders to discuss the proposal with the structural engineer engaged by the Council; and
4. An evaluation of Expressions of Interest at the conclusion of the process.

After the Christmas holiday season, advertising took place, and potential bidders were given until mid-May 2007 to prepare their Expressions of Interest proposals. That process is now complete and, of the 11 parties who sought information about the proposal, no firm offers were received. Discussion has taken and continues to take place with Waitakere Properties Limited with a view to the company undertaking the project as a commercial development, subject to the outcome of a resource consent process.

The following text/table is taken from the report to the November 2006 meeting of the Finance and Operational Performance Committee. While it has been ascertained that there is limited support from the development community, the list of options open to the Council remains as per November 2006, and the purpose of this report is to recommend an alternative action plan taken from the original list of options, rather than generate an alternative list of options:

Redevelopment Options

In terms of meeting Section 77 of the Local Government Act 2002, the Council is required to consider a range of options and assess the merits and impacts of each of these options. The following list outlines the benefits and implications to the Council of each option.

1. **"Status Quo"** - the Council could resolve not to carry out work on renovating the Old New Lynn Hotel, and either sell it as a redevelopment site, or keep it for its own redevelopment.

While this option would certainly be the cheapest option in terms of costs, it does not reflect the purpose of acquisition, which was to protect this heritage building from being demolished. This option also calls into question any benefit from the Council's ownership.

2. **"Third-party renovation"** - the Council could call for expressions of interest and transfer ownership (by sale or long lease) to a third-party with a requirement to renovate the existing heritage building as a condition of transfer. The price paid would reflect the cost of work to be carried out. Finding a third-party to be the developer and end-user of the property will limit the Council's financial exposure, while achieving the purpose of acquisition.

While there are obligations (under the Building Act 2004) to transfer a property in a condition that meets Building Act requirements, it would be possible to transfer this building in its present condition, provided this fact is clearly drawn to the attention of the third-party. Typically, this could be achieved by a clause in a Sale and Purchase Agreement. However, officers have concerns about the Council's ability to transfer the accountability for the health and safety risk to both the third-party and to the public.

An informed purchaser would reflect the additional cost of carrying out all of the work required into the amount of any offer. The net benefits of this option in comparison to Option 3 are not outweighed by potential cost savings to the Council.

3. **“Partial renovation and transfer”** - the Council would carry out a significant proportion of the proposed renovation works to ensure the building meets the minimum health and safety requirements. Then the Council could call for expressions of interest and transfer ownership (by sale or long lease) to a third-party but with a requirement to undertake some renovation work as a condition of transfer.

The price paid would reflect the cost of the remaining work to be carried out, including the work done by the Council. Finding a third-party to be the developer and end-user of the property will limit the Council's financial exposure while achieving the purpose of acquisition. It is recommended that the structural underpinning be carried out by the Council prior to transfer, thus reducing the health and safety risks. An informed purchaser would reflect that this work has been done in the amount of any offer. This would minimise the net additional cost of this option when compared with Option 2 (Third-party renovation).

4. **“Renovation and the Council retains”** - the Council could renovate the building in its entirety then use for community purpose, although a basic analysis of this option shows that it is totally at odds with the purpose of acquisition. Deeper analysis also precludes this as a recommended option, as its size and shape factors, together with its location on a busy road with no surrounding retail or commercial presence, do not present this property as a useful addition to the Council's community building portfolio. Not least, the Council would be burdened with the extremely high cost of heritage protection/restoration, coupled with the minimal income that is typically achieved from a community use.
5. **“Full renovation and transfer”** - the Council could renovate the building in its entirety, then transfer to a third party (by sale or a long lease).

This option does not allow the Council to achieve the purpose of acquisition. However, the possibility of an end-user obtaining external funding or redevelopment grants is minimised (if not eliminated) by this option. The Council would also take all the development risk before handing over a costly redevelopment to an end-user who would obtain all the benefits at little or no risk. For these reasons, it is recommended to pursue a joint development opportunity (as in Option 3) with a third-party in preference to this option.

The Council acquired three existing titles (one is an adjacent residential property). In all of the above options it has been assumed that the Council treats its acquisitions as one land parcel. In all options there is flexibility in transferring all or some titles, or realigning title boundaries, depending on the nature of third-party interest in the property.

It is recommended that the Council adopts Option 2 (Third-party renovation and transfer) as its preferred option for dealing with this property.

Quadruple Bottom-line Analysis

QBL	Option 1 “Status Quo”	Option 2 “Third-Party Renovation”	Option 3 “Partial Renovation and Transfer”	Option 4 “Renovation and the Council Retains”	Option 5 “Full Renovation and Transfer”
ENVIRONMENTAL	Building will continue to decay. The community will lose a valuable part of its heritage.	Building will be renovated and enlarged for a third-party use, providing both heritage and a usable facility.	Building will be renovated and enlarged for a third-party use, providing both heritage and a usable facility.	Building will be renovated and used as a council asset, community function.	Building will be renovated for a third-party use, providing both heritage and a usable facility. Future uses will be limited to the style and structure of the council’s renovation work.
ECONOMIC	The value of the land as a redevelopment site only will be retained.	A third-party use will add economic value from the building being used. The third-party will also provide additional sources of funds for the renovation. The health and safety risk from the weak structure will need to be well managed.	A third-party use will add economic value from the building being used. The third-party will also provide additional sources of funds for the renovation. The Council will be able to better manage the health and safety risk from the weak structure during renovation.	Full costs of renovation will be borne by the Council. Given the community end use, it is unlikely that the Council’s costs will be recovered. Ongoing maintenance costs may also be significant and unrecoverable.	Full costs of renovation will be borne by the Council. Some of these costs will be recovered from the sale or lease of this building as commercial premises, in line with values of other commercial premises available in the local market.

SOCIAL	Purpose (and cost) of acquisition has no benefit to the community.	A third-party use will add activity value to the vibrancy of the community. The building will be retained as an icon, and as a usable facility.	A third-party use will add activity value to the vibrancy of the community. The building will be retained as an icon, and as a usable facility.	A community use will add some value to the community by providing an additional facility for use. The building will be retained as an icon, and as a usable facility.	A third-party use will add activity value to the vibrancy of the community. The building will be retained as an icon, and as a usable facility.
		This option has a positive impact on building safety.	This option has a positive impact on building safety.	This option has a positive impact on building safety.	This option has a positive impact on building safety.
CULTURAL	The community will lose an opportunity to retain a demonstrable part of its heritage.	The community will retain a key component of the city's heritage and the story of its history.	The community will retain a key component of the city's heritage and the story of its history.	The community will retain a key component of the city's heritage and the story of its history.	The community will retain a key component of the city's heritage and the story of its history.

STRATEGIC CONTEXT

The Urban and Rural Villages platform aims to:

“Protect and celebrate the City’s cultural diversity and heritage. Work in partnership with the many cultures of the City. Plan for the protection and celebration of all kinds of heritage in the City – e.g. Maori, industrial and environmental.”

The purpose of acquisition was to ensure that the Old New Lynn Hotel is preserved for present and future generations, as a key component in the City’s history.

ISSUES

Building Stability

During the time between the November report to Finance and Operational Performance Committee and the close of the Expressions of Interest period, ground settlement altered the structural stability of some of the concrete buttresses that had helped to shore up the southern and western outside walls for many years. Undermining of the ground under these buttresses has reversed their action, and they are now working to pull away the original walls from the rest of the structure. Since late December 2006, portable steel beams have been in place to hold the structure together while the level of private sector interest was sought and confirmed.

Recommended Option

Having ascertained a low level of private sector interest in the remediation of the Old New Lynn Hotel, it is recommended the Council approves both:

- To proceed with negotiations between the Council and Waitakere Properties Limited, to carry out the remediation as part of a commercial development; and
- In the event that Waitakere Properties Limited cannot undertake development, to carry out the structural renovation from within the Council, preserving the heritage structure and, at the same time, opening up far greater opportunities for 'non-developers' to acquire the building for their own internal fit out and use. It is considered that much of the cost of carrying out the structural remediation work would be returned to the Council by way of additional property value on sale.
- It is also recommended that the Chief Executive be approved to carry out negotiations and to sign all necessary documentation associated with the transfer of the Old New Lynn Hotel properties to a third party, be it Waitakere Properties Limited or a private sector purchaser.

RESOURCES

\$250,000 was allocated to this project for the 2006/2007 financial year to assist with the redevelopment and transfer of the property, and the balance of this amount, being \$230,000, will be carried forward into the 2007/2008 financial year.

In the event that Waitakere Properties Limited is able to carry out a commercial development on the property, funding for redevelopment would be raised from within that organisation and repaid on sale. This is the preferred and recommended primary option.

Should the Council be required to undertake structural redevelopment from within, however, funding to undertake the work is intended to be sourced from the \$230,000 balance of the original \$250,000 allocation and from the Strategic Land Acquisitions budget, with funds to be returned to the latter account from the proceeds of sale of the building and surrounding land parcels.

CONCLUSION

In late 2005, the Council acquired the Old New Lynn Hotel, Great North Rd, New Lynn. Since that time a Conservation Plan and Remediation Plan have been developed for the building. A process seeking Expressions of Interest has resulted in there being no external interest in acquiring the building in its present state and it is recommended, in the first instance, that Waitakere Properties Limited be offered the property for commercial redevelopment and, failing that, that the Council undertakes such structural work to preserve the external shell and proceeds to sell the remediated shell and land parcels as a development opportunity.

RECOMMENDATIONS

1. That the Old New Lynn Hotel: Proposed Future Actions report be received.
2. That Council officers negotiate with Waitakere Properties Limited to transfer the Old New Lynn Hotel properties (being Lots 11, 12, 13 DP22829) for redevelopment, as a first priority.

3. That, in the event that agreement for a suitable commercial development project cannot be reached with Waitakere Properties Limited, the Council undertakes such structural work to the Old New Lynn Hotel building as to preserve the structure and allow for internal redevelopment by a third party, and then proceeds to sell the building and three land parcels to the private sector on the open market for a price that represents the Council's best interest.
4. That it be recommended to Council that the Chief Executive Officer be authorised to carry out negotiations and complete all necessary settlement documentation associated with the above transactions.

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