

Commercial Property Committee Supplementary Agenda

Date: 23 June, 2021

Time: 1:00 pm

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Cr Greg Innes (Chairperson)
Cr Gavin Benney
Cr Ken Couper
Cr Shelley Deeming
Cr Phil Halse

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

4. Information Reports

4.1. Working Draft Commercial Property Guidelines 2021

4.1.1. *Working Draft Commercial Property Guidelines 2021* **3**

Commercial Property Committee – Terms of Reference

Membership

Chairperson	Deputy Mayor Greg Innes
Members	Councillors Gavin Benney, Ken Couper, Shelley Deeming, Phil Halse
Independent Advisors	Graeme Kerr, Stuart Bagley
Meetings	As required
Quorum	3

Purpose

- To manage disposal of individual properties within Council's commercial property portfolio, and;
- To manage purchase of individual properties for Council's commercial property portfolio

Key responsibilities

- The purchase and disposal of commercial properties specifically identified in Council's Long Term Plan (LTP)
- The purchase and disposal of commercial properties as authorised by Council, where these are not specifically identified in the LTP

To undertake these responsibilities:

- in accordance with the delegations and parameters set by Council for each individual property transaction.
- in accordance with Council's Policies including, but not limited to, the Property Policy, Procurement Policy, and the Significance and Engagement Policy.
- in accordance with Council's strategies and plans, including but not limited to, the City Centre Plan, to achieve the desired outcomes.
- Ensuring the interests of Maori under the Treaty of Waitangi are considered in accordance with Parts 2 and 6 of the Local Government Act 2002.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
 - (a) establishment of working parties or steering groups.

4.1.1 Working Draft Commercial Property Guidelines – draft Guidelines

Meeting: Commercial Property Committee
Date of meeting: 23 June 2021
Reporting officer: Mike Hibbert

1 Purpose

To provide the working draft document of the Commercial Property Guidelines 2021 for review.

2 Attachment

1. Working Draft Commercial Property Guidelines 2021.

DRAFT Commercial Property Guidelines 2021



Context

Whangārei District Council holds a significant property portfolio of approximately 1,974 properties, encompassing over 5,500 ha of land with a total capital value (land and buildings) of just over \$1.043 billion (March 2021).

The total value of the commercial property portfolio is \$74 million (June 2021). There are investment and future use properties as part of this portfolio.

These properties are held by Council to enable service delivery to the community as defined in the Local Government and Amendment Acts (LGA).

In section 10 of the LGA, there is an obligation for all local authorities “to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future”.

Contents

Guidelines

Definitions	Page 4
Purpose	Page 5
Commercial Property Guideline objectives	Page 6
Strategic and Non-Strategic Assets	Page 7
Disposal of property	Page 8
Acquisition of property	Page 9
Future purpose and management of property	Page 10

Decision making and process

Property acquisition and disposal assessment process	Page 11
Step 1 - Property policy objectives	Page 12
Step 2 – Essential Criteria for Land Acquisition or Disposal Summary	Page 13
Step 3 – Decision Tree – Governance	Page 14

Appendices

Appendix 1 – Essential Criteria for Land Disposal Scorecard	Page 15
Appendix 2 – Essential Criteria for Land Acquisition Scorecard	Page 17
Appendix 3 – Future Property Management Plan	Page 20
Appendix 4 – Commercial Property Register	Page 22

Definitions

Acquisition - to obtain or receive land or property through a method such as purchase or gift.

Council - Whangarei District Council.

Disposal - to sell or otherwise relinquish ownership of land, property or part interest thereof.

Future purpose - sites acquired for future development or to aid future urban development or infrastructure needs.

Non-strategic – non - strategic property owned by Council that is no longer necessary and may be sold.

Property - Commercial Property Portfolio.

Strategic – strategic property owned by Council that needs to be retained to maintain the capacity to achieve or promote any outcome that Council determines to be important to the current or future wellbeing of the community (see Section 5 of the Local Government Act).

The Committee – Commercial Property Committee.

The Guidelines - Commercial Property Guidelines 2021.



Purpose

The purpose of the Guidelines is to articulate, “Why are we doing this?” and “How will we do this?”. The Property Policy 0078 (‘Policy’) covers the broader Council property portfolio and the Guidelines will sit below the Strategy.

The intention of the Guidelines is to assist the Council in future decision making regarding its commercial property assets. In December 2020, elected members supported the creation of the Guidelines. Commercial property is the focus as other Council Departments have existing strategies relating to their property. Because of this, the phrase ‘property’ will refer to only the Commercial Property Portfolio.

The Guidelines will also be used by the Commercial Property Committee to clarify governance, decision making and next steps for the Committee, Council staff, Councilors and Council CEO regarding property. In clarifying these roles, the Guidelines will provide clear written processes and ensure effective management of the Commercial Property Portfolio as defined by the Policy.

Photo credit: ARCO Group



Commercial Property Guidelines objectives

The objectives of the Guidelines is to:

- Create written Guidelines for acquiring or disposing of commercial property.
- While there is a Policy in place, there is a requirement for a formal process to:
 1. Understand when to dispose or acquire property.
 2. Define future purpose and management of this type of property.

There are two key decision-making documents outlined in the Guidelines:

- a. Property acquisition and disposal evaluation process.
- b. Future property management plan.

Results of these decision-making documents will provide Council staff and the Committee with clarity on the status of a property, to better:

- Measure the value of an asset to the organisation and community by way of ensuring Council only owns, maintains and/or manages assets that have strategic relevance, relate to core business or add value in another form i.e. investments.
- Assess an existing property or potential acquisition to better understand alignment with Council strategies.
- Ensure that future purpose properties align with Council's long-term strategies.
- Dispose of assets should they be surplus to requirements.

This approach will ensure Council achieves the best possible return on its investment, regardless of whether this outcome is monetary or another benefit.

Strategic and Non-Strategic Assets

To assist in the evaluation process, Council properties have been classified into the following two categories – Strategic and Non-Strategic.

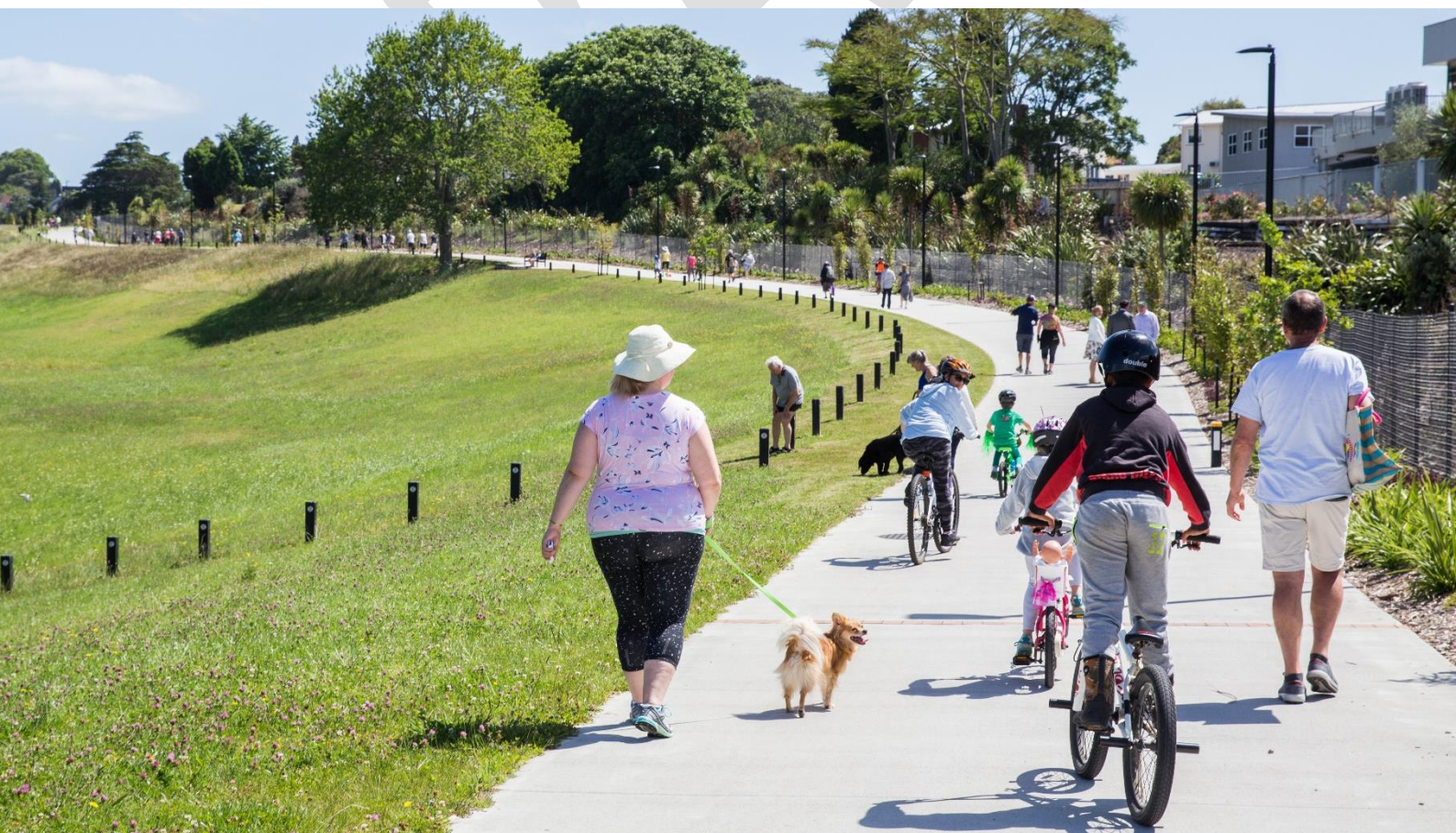
The properties that have been designated as “*strategic properties*” (see Section 5 LGA) need to be kept and maintained in a state that is: “fit for purpose”. Renewals must also be funded as they are necessary to achieve the outcomes in the LGA which includes levels of service in the Long Term Plan (LTP).

Section 76AA(3) of the LGA requires Council to list the assets which Council considers to be strategic assets. These are listed in the Significance and Engagement Policy. Our strategic assets are those that are vital for delivering services to Whangārei.

Non-strategic properties are those that do not necessarily classify as having a strategic purpose. If these properties are assessed against and are unsuccessful for organisational and community benefit, they could still be retained and used for a future purpose. A non-strategic property will not necessarily be disposed of as a range of other factors come into play.

A property may move from a strategic to non-strategic classification if the property is no longer required (for instance where infrastructure needs change or developments are completed).

Commercial freehold and ground lease property are classified as non-strategic assets and are generally investments. Likewise, the classification may change over time.



Disposal of property

In order to have an efficient property portfolio, Council will identify property that is no longer fit for purpose. Council will then sell or dispose these properties in order to achieve Council 's desired outcomes. It is important that when these occasions arise, it is done in a timely, transparent and consistent manner.

Disposal of property will be considered to ensure the property is sold and developed in ways that serve community outcomes. Council will dispose of property when it is surplus to requirements and goes through the Property Disposal Assessment Process.

As part of this assessment, we will consider the following:

1. Strategic relevance
2. Original acquisition/risk i.e. how the land was originally acquired, and any obligations?
3. Allocation of funds
4. Return on investment
5. Future infrastructure or other special purpose

If the Property Disposal Assessment, Significance and Engagement Policy and consultation (undertaken as required), results in a decision to proceed with the sale of the property, a review of market conditions will be undertaken.

This is to ensure that land is sold at the optimum time to most benefit Council and the community, subject to relevant legal requirements. In the case of minor or 'hard to sell' properties, the cost of disposal relative to the ongoing cost of ownership may be a factor.

In accordance with Schedule 7 of the Local Government Act 2002, Council shall retain full authority to make any final decision as to the disposal of any property.

Acquisition of property

The acquisition of property is an important part of the property portfolio to enable the delivery of Council services. In deciding to purchase land and/or property, Council is deciding to use public money to provide a service or investment now or in the future.

Council will consider becoming involved to act as an enabler for private sector development and/or investment. This may happen if the level of perceived risk would otherwise deter private sector development, or to determine the form, scale and timing of development.

Council will assess property acquisitions by identifying future property requirements to meet service and investment needs. As the property market changes the timing of the acquisition of property needs to be right to ensure the right level of investment is made at the right time for the purpose for which the land is required.

Council should not compete with private developers. However, Council will look to implement opportunities to capture value from the development of its land, including entering into joint ventures or ground leases.

Council can acquire land for a wide variety of purposes and may negotiate for the land in the same way as a private purchaser. Therefore, acquisition will be considered when;

- a property comes onto the market,
- a property owner approaches Council or
- Council identifies property required for future purpose and directly approaches the owner.

Council will acquire property when it has identified a need and goes through the Property Acquisition Assessment Process.

As part of this assessment, we will consider the following:

1. Strategic relevance
2. Suitability
3. Utilisation
4. Provision
5. Cost efficiency
6. Return on investment
7. Future capital cost
8. Holding costs

If this assessment results in a decision to proceed with the acquisition of the property, further information will be sought with the Committee and a recommendation will be made to Council.

In accordance with Schedule 7 of the Local Government Act 2002, Council shall retain full authority to make any final decision as to the acquisition of any property.

Future purpose and management of property

Future purpose sites are acquired for a range of reasons, including;

- Future development,
- Aid future urban development,
- Infrastructure needs,
- To support Council outcomes.

Several properties are currently held because of their future purpose status.

Some have been identified in strategic plans such as the Long-Term Plan, Whangārei City Core Precinct Plan, Whangārei City Centre Plan, Blue Green Network Guidelines 2016, Transport Guidelines, etc. Some have been legacy properties held by Council.

All future purpose properties must have a **Future property management plan** in place (see Appendix 3).



Property acquisition and disposal assessment process

In order to provide some transparency in verifying the status of a property, it is necessary to follow the below process:

Step 1 – Property Policy objectives

Understand if the property aligns with the *Property Policy 0078* objectives, specific commercial property site. If YES, move to step 2. If NO, report to District Development Manager and log in the Commercial Property Register.

Step 2 - Essential Criteria for Land Acquisition or Disposal Scorecard

Assess the property against the *Essential Criteria for Land Acquisition or Disposal Scorecard*.

Properties would FAIL the Essential Criteria for Land Acquisition or Disposal Scorecard if they show:

1. A cumulative score of less than 49%.
2. Any 2 or more criteria ranking as 1 or less.
3. Any 4 or more criteria ranking as 2 or less.

If FAILED, report to District Development Manager and log in the Commercial Property Register. The Committee will review the Commercial Property Register at every meeting.

Step 3 - Decision Tree - Governance

If PASSED (score of 50% or more) use the *Decision Tree – Governance* to determine if the property should be investigated further.

If Committee decides to NOT pursue further, log in the Commercial Property Register. This register is part of the District Development monthly Council Operational Report as a confidential document.

Step 1. Property Policy objectives

Property Policy 0078 provides Council with an opportunity to be involved in future sustainable developments in the District. This may include the acquisition and retention of a range of properties that may provide a long-term source of income for Council.

Fundamental to this approach is that Council seeks to achieve a range of objectives in a way that is commercially robust, while accepting that this might compromise financial returns, and considers the following:

- Income stream
- Council's asset base
- Positive economic growth
- Key development objectives
- Public access to recreational amenities
- Community objectives
- Ecosystems
- Cultural heritage
- Development of property amenities/destinations

Commercial property portfolio

All Council owned properties held as investments, that can provide a commercial return to Council and may include a mix of non-strategic and future purpose sites for future development. These include:

- Ground Lease Portfolio – mainly properties inherited from the Northland Harbour Board after Local Government amalgamation in 1989.
- Commercial Freehold Property – various commercial / light industrial sites in central Whangārei.
- Town Basin – a boutique shopping and casual dining precinct developed by Council with recreational amenity value.
- Central City Carpark – a multi-level parking building in the City Core.
- Parihaka Transmission Mast – the dominant transmission facility in the District.
- Future Purpose – sites acquired for future development or to aid future urban development or infrastructure needs.

Commercial properties generally will not be sold; however, they may be considered for disposal, provided due process is followed.

Step 2. Essential Criteria for Land Acquisition or Disposal summary

Within the Essential Criteria, there is some weight given to Councils strategic priorities of a property. When measuring this criterion, it is important to note which strategies, policies or plans are in place to help to make that decision.

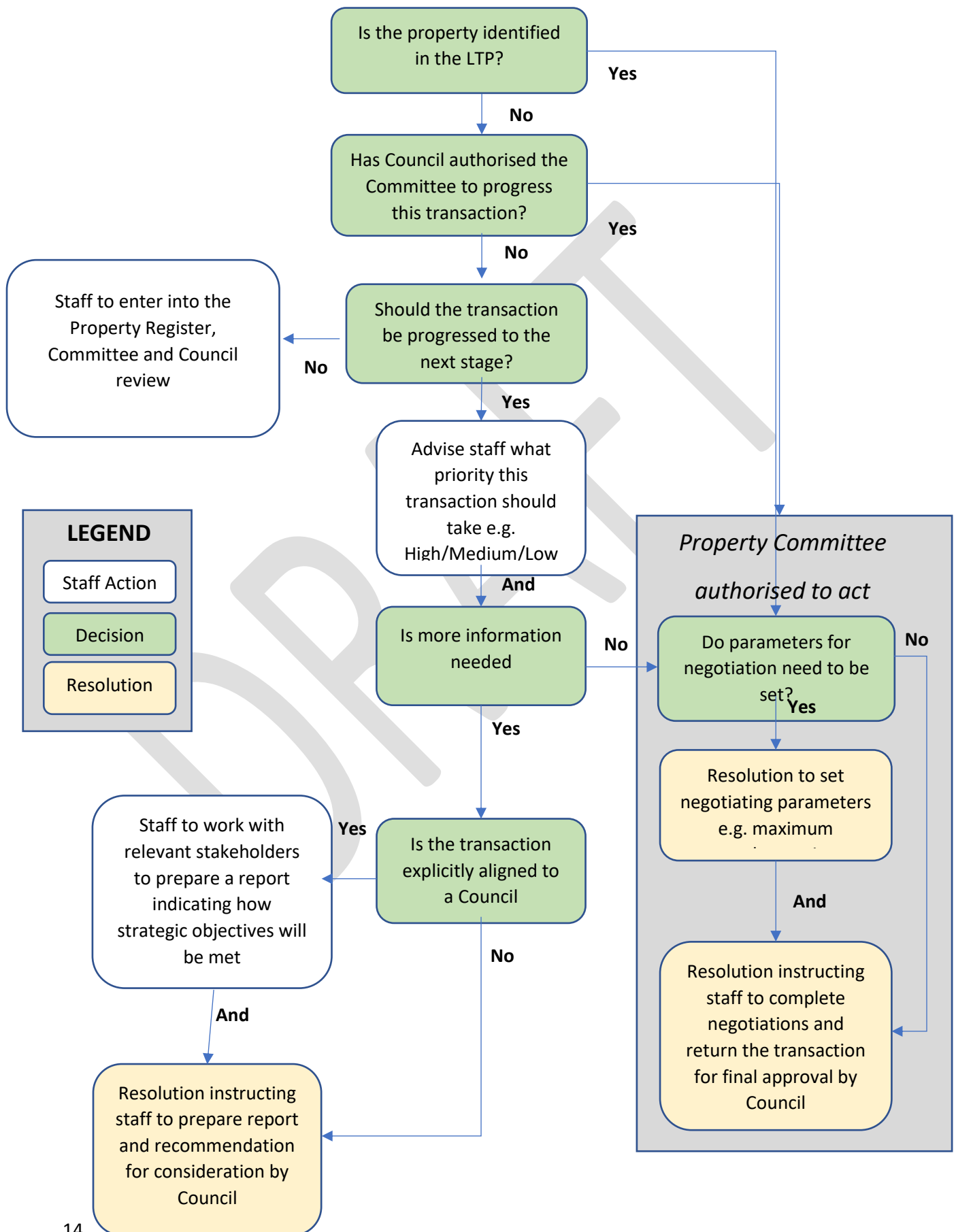
The Whangārei City Centre Plan and City Core Precinct Plans outline several strategic sites. Council may or may not want to acquire these sites, however, if a change of use occurred on them either privately or publicly, the sites could be a catalyst or barrier for further development or change.

The Essential Criteria for Land Acquisition or Disposal process facilitates a property evaluation against a series of essential criteria. These criteria can be used on strategic and non-strategic assets to assist in determining if a property should be disposed or acquired. Due to the different nature of disposals and acquisitions, we have separated these into different questions and criteria in Appendix 1 and 2.

Photo credit: Diane Stoppard



Step 3. Decision Tree - Governance



Appendix 1

Essential Criteria for Land *Disposal* Scorecard

Criterion	Measures	Score
Strategic relevance: Is the function that the property will fulfil identified as a strategic priority for Council, or is the subject of a Council resolution? What plans, policies or strategies does this property give effect to?	10 - The property is required to meet Council's strategic priorities. 5 - The property provides the most cost-effective option of several required to achieve Council's strategic priorities. 1 - The property is one of several options that could meet Council's strategic priorities.	
Original acquisition – risk How was this property originally acquired? Are there any legislative, cultural, reputational or legal risks? What other risks are there around disposing of this property?	5 - The risk of selling is negligible. 4 - The risk of selling is low. 3 - The risk of selling is moderate. 2 - The risk of selling is high. 1 - The risk of selling is extreme.	
Allocation of funds Are the funds from the disposal required for other work? For example: An alternative commercial investment site has been identified, or PRR Funds needed for future purchases.	5 – Cash is required to purchase an alternative site with greater investment returns and/or to increase PRR balance for future investment acquisitions or is required for internal borrowing for infrastructure/special projects. 3 – Cash is required to increase PRR funds for future investment acquisitions or is required for future internal borrowing for infrastructure/special projects. 1 – Cash is not required to purchase an alternative site with greater investment returns and/or to increase PRR balance for future investment acquisitions or is required for internal borrowing for infrastructure/special projects.	

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Return on investment: Does the function achieve a good return on investment in terms of economic return or strategic outcomes?	1 - The financial return from the property is equal to or exceeds a fair market return. Or it delivers expected returns in line with Council policies. 2- The financial return from the property is between 90% and 100% of a fair market return or expected returns in line with Council policies. 3 - The financial return from the property is between 75% and 90% of a fair market return or expected returns in line with Council policies. 4 - The financial return from the property is between 50% and 75% of a fair market return or expected returns in line with Council policies. 5 - The financial return from the property is less than 50% of a fair market return or expected returns in line with Council policies.	
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Future infrastructure or other special purpose Is the property aligned with future Council infrastructure projects? <ul style="list-style-type: none"> • Blue Green network • Roading Infrastructure upgrades • Recreational parks expansion or additional sites 	5 – The property does not form part of an existing or future project. 4 – The property is not adjacent to an existing or planned future project. 3 – The property may be considered part of a future infrastructure project. 2 – The property is adjacent to an existing or planned future project. 1 – The property forms part of an existing or planned future project.	
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Total:

Percentage:

Appendix 2 - Essential Criteria for Land Acquisition Scorecard

Criterion	Measures/Score	Score
Strategic relevance: Is the function that the property will fulfil identified as a strategic priority for Council, or is the subject of a Council resolution? What plans, policies or strategies does this property give effect to?	10 - The property is required to meet Council's strategic priorities. 5 - The property provides the most cost-effective option of several required to achieve Council's strategic priorities. 1 - The property is one of several options that could meet Council's strategic priorities.	

Suitability: Does the property have sufficient size to accommodate the intended use? Or facilitate growth as required?	5 - The site and improvements are large enough and have sufficient additional land to accommodate intended use. 4 - The site and improvements are large enough for the current purpose. 3 - The site and/or the improvements are too small, but this can be readily accommodated by improvements costing less than 20% of CV or acquiring adjacent land. 2 - The site and/or the improvements are too large i.e. >20%.	
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Utilisation: Is the property well-utilised for its intended purpose? Utilisation in this regard means the property is either (a) well utilised in terms of physical space, or (b) the property attracts high-use levels.	5 - At least 95% of floor area and 85% of the land area are effectively utilised for the purpose. Or the property exhibits a very high use ratio for its intended purpose. 4 - At least 85% of floor area and land area are effectively utilised for the purpose. Or the property has a high use ratio for its intended purpose.	
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	<p>3 - At least 70% of floor area and land area are effectively utilised for the purpose. Or the property has a reasonable use ratio for its intended purpose.</p> <p>2 - At least 50% of floor area and land area are effectively utilised for the purpose. Or the property has a low-use ratio for its intended purpose.</p> <p>1 - Less than 50% of the floor area or land area are effectively utilised for the purpose. Or the property is infrequently used in terms of its intended purpose.</p> <p><i>Note: the percentage utilisation estimated can include an allowance for future growth.</i></p>	
Provision: Is the property/service already provided elsewhere locally by Council or another provider?	<p>5 - The service fulfils local need and there is no other provision locally.</p> <p>3 - The service/property will need to be provided temporarily but may be provided by another property longer term.</p> <p>1 - The service/property is already provided locally or can be provided locally.</p>	
Cost efficiency: Can the function be provided in a more cost-effective manner, and is it practical to do so?	<p>5 - No, the function cannot be practically provided in a more cost-effective manner.</p> <p>3 - It may be possible to practically provide the function in a more cost-effective manner.</p> <p>1 - Yes, the function can be practically provided in a more cost-effective manner.</p>	
Return on investment: Does the function achieve a good return on investment in terms of economic return or strategic outcomes?	<p>5 - The financial return from the property is equal to or exceeds a fair market return. Or it delivers expected returns in line with Council policies.</p> <p>4 - The financial return from the property is between 90% and 100% of a fair market return or expected returns in line with Council policies.</p> <p>3 - The financial return from the property is between 75% and 90% of a fair market return or expected returns in line with Council policies.</p> <p>2 - The financial return from the property is between 50% and 75% of a fair market return or expected returns in line with Council policies.</p> <p>1 - The financial return from the property is less than 50% of a fair market return or expected returns in line with Council policies.</p>	

Future capital costs: Are there capital costs required to maintain the property in a state fit for purpose?	5 - IEA greater than 67% of NBS; or capital costs are <6% of CV over the next ten years. 4 - IEA greater than 34% of NBS; or capital costs are between 6-10% of CV over the next ten years. 3 - Seismic strengthening to 67% of NBS, is less than 20% of CV; or capital costs are 16-20% of CV over the next ten years. 2 - Seismic strengthening to 34% of NBS, is less than 30% or CV; or capital costs are >20% of CV over the next ten years.	
Holding costs	5 – Revenue streams in place exceed holding over costs before capital investment 4 – Revenue streams in place meet holding over costs before capital investment 3- Revenue stream not in place but has potential to meet holding over costs 2 – Revenue streams not in place and not enough potential to meet holding over costs. 1 – No revenue potential to meet holding costs without capital investment	

Total:

Percentage:

IEA – Initial Earthquake Assessment, NBS – New Building Standard, CV – Capital Value

Appendix 3

Future Property Management Plan for:

Address of site here- Whangārei

Date	
Future property name	
Department	
Created by	
Review date	<i>Updated date in here if applicable</i>
Project Manager	
Project Sponsor	
Background	<i>Outline the property background – what has happened in the past, what the current situation is, what the objectives of the property are</i>
Scope of property	<i>Desired outcomes</i>
Estimated value	
Budget	
Capital investment	<i>Future or current funds required</i>
Specification	
Associated documents	<i>i.e. Hazardous Activities and Industries List (HAIL) report, site map, photo</i>
Purchase Method	<i>What method will be used i.e. tender, auction, set date of sale</i>
Evaluation Criteria	<i>Show criteria and total score based off the Essential Criteria for Land Acquisition or Disposal Scorecard. Add any other comments or recommendations</i>
Risks	<i>Outline the potential risks and how they will be managed</i>
Risk Category	Negligible / Low / Moderate / High / Extreme (strike out those not applicable) <i>Explain why</i>

Health and Safety	<i>Detail what level of health and risk is involved and outline an appropriate plan if applicable</i>	
Proposed timeline	Council resolution	
	Purchase agreement	
	Signed	
	Unconditional	
Project team members		

Specialist assistance	<i>List staff name, their expertise and when in the process they will be used</i>
Conflicts of Interest	<i>Included below - please attach completed Conflict of Interest form for each project member and outline how potential conflicts will be handled</i>
Evaluation method	<i>How, by whom and when.</i> <i>Weighted attributes as analysed and agreed by project team</i>
Compliance with Property Policy 0078	Property Policy 0078 Confirmed – Declined – <i>delete one</i>

Authorisation to proceed

Department Manager	
Name	
Title	
Signature	
Date	
Group Manager	
Name	
Title	
Signature	
Date	

Appendix 4

Commercial Property Register (Sample)

[illegible]

RESOLUTION TO EXCLUDE THE PUBLIC**Move/Second**

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered		Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing this resolution
1.1	Confidential Minutes Commercial Property Committee Meeting 23 February 2021		
1.2	Commercial Property Committee Update	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public, are as follows:

Item	Grounds	Section
1.1	For the reasons as stated in the open minutes	
1.2	To prevent the disclosure or use of official information for improper gain or advantage To enable Council to carry on without prejudice or disadvantage commercial activities	Section 7(2)(j) Section 7(2)(h)

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

"That _____ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item _____.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____.

Note: Every resolution to exclude the public shall be put at a time when the meeting is open to the public.