

Kaikoura District Council
Statement of Proposal
Demolition of Old Council Office Building

1. Introduction

At its meeting of 24 February 2021 Kaikoura District Council resolved to consult with the community regarding the proposed demolition of the old Council Office Building at 34 Esplanade, which has been unused since 2015.

Demolition of the structure is proposed because there does not appear to be justification for retaining a building that is old and requires very substantial expenditure (believed to be in the order of \$800,000) to address significant structural deficiencies and to undertake other necessary repairs and renewals to make it useable.

It is believed that should additional space in future be needed for community organisations that this could be provided in a much more cost efficient way than by attempting to restore the old Council building.

2. Purpose of this Statement of Proposal

Whilst Council has expressed the view above, it believes that an opportunity for views to be heard from the broader community needs to be provided before any final decision is made, and proposes to do so through following the Special Consultative Procedure contained in the Local Government Act.

As part of the Special Consultative Procedure the Council must produce a Statement of Proposal, which contains a summary of information that is a fair representation of the major matters in the proposal, and make it available to the community. This document is the Statement of Proposal. The information contained in this Statement of Proposal has been approved by Council for notification and consultation.

Submissions must be made in writing, addressed to kdc@kaikoura.govt.nz or

The Chief Executive, Kaikoura District Council

PO Box 6, KAIKOURA 7300

and must be received by Council by 10 May 2021. Submitters should indicate on their submission if they wish to speak to it at a future hearing convened for that purpose.

3. Summary of Information

THE PREMISES

Figure 1 shows the location of the premises and Figure 2 is an indicative floor plan.

The building is a predominantly concrete structure comprising 256m² of ground floor and 66m² of first floor office space, specifically constructed for use as Council offices. The ground floor is understood to have been originally built in 1946 with subsequent extensions (including addition of a first floor) progressively added until the 1970s.



Figure 1: General Location – Old Council Offices at 34 Esplanade

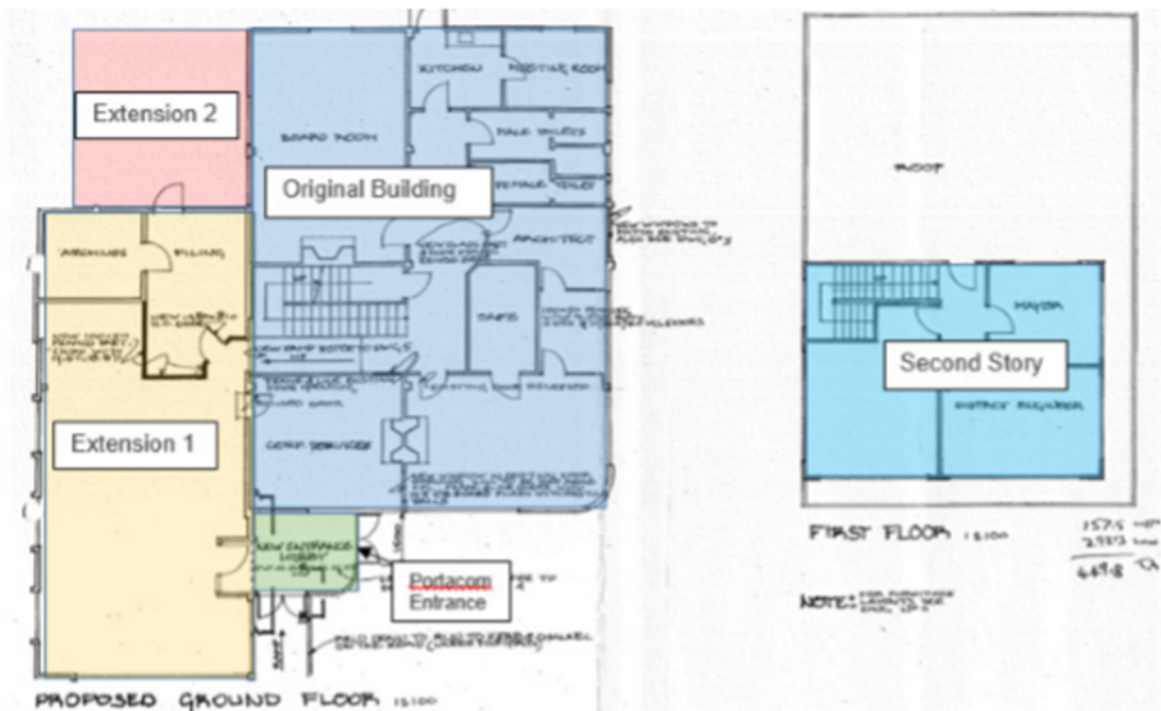


Figure 2: Indicative Floor Plan – Old Council Offices

POTENTIAL FUTURE OPTIONS

Sale

When construction of the new Kaikoura Civic Building was proposed the initial intention was to make the former Council Office building at 34 Esplanade available for sale or rental. A valuation in the range \$350,000 to \$450,000 had been obtained in 2015 for the building, but it was later found that this valuation had been based upon the assumption of the building being sold on a separate freehold certificate of title, which was later identified as not being easily achievable because the building covers two titles, one of which (marked 'B' on Figure 1) is freehold, but with the larger part of the building (about two-thirds) being on Local Purpose Reserve (County Buildings) – marked 'B' on that Figure.

Whilst it might be possible to go through a process to uplift the existing reserve classification on that part of the Local Purpose Reserve which is occupied by the building this would require public consultation and approval by the Minister of Conservation. A particular challenge in this respect is that the prior to its classification as Local Purpose Reserve it had been part of the former Kaikoura Domain, which had been declared under the Public Reserves, Domains and National Parks Act 1928. Such a declaration is considered equivalent to a classification as Recreation Reserve under Reserves Act 1977.

A consequence of this prior declaration is that if the Local Purpose Reserve classification was uplifted the land under section 25 of the Land Act 1948 would likely be required to revert to its former purpose, which is now considered to be Recreation Reserve.

Even without the underlying Recreation Reserve status it seems very unlikely that the Local Purpose Reserve part of the building's site would be granted a freehold title, given the cultural importance of the adjacent Takahanga Domain, which in turn presents a significant challenge in respect of the sale of the building on a leasehold basis since leases of Reserve land can only have a maximum term of 33 years, making recovery of investment more challenging.

Leasing

Because of the difficulties attendant to a sale, the alternative of leasing the building became the option more favoured by Council, and in 2015 it was indicated that a market rental for the building might be in the order of \$30,000 per annum which was considered an acceptable level of return. In September 2015 Council resolved to instruct staff to seek tenants for the building following the relocation of the Council offices to the new Civic Building.

The 2016 earthquake did however prevent such a rental occurring, with the building suffering structural damage, and an increased awareness that the building did not achieve the seismic rating required for a building of that type. As a result the building remained unoccupied.

In March 2018 Opus consultants provided a report on the range of work required to make the building safe for public use. The work identified was in respect of accessibility, fire protection, electrical compliance, structural compliance and replacement of the roof membrane on the original part of the building, together with other general improvement works. An initial estimate for the cost of these works was \$370,000.

Cosmetic improvements such as redecorating, lighting improvements, floor covering replacement and other internal fitout would be in addition to this.

The future of the building was raised in consultation for Council's 2018/19 Annual Plan, with eighteen submissions being received from the community requesting that the building be opened up for community uses. Council then committed \$40,000 loan funding to investigate such use, with the primary focus being undertaking of a detailed assessment by a Structural Engineer and Quantity Surveyor to refine cost estimates.

In November 2019 a report was presented to Council that considered the future options for the building in some detail, mainly focussing on potential alternative lease arrangements.

In this report it was also suggested that in addition to the capital cost to bring the building up to a useable standard, significant ongoing expense – potentially in excess of \$40,000 per annum - would be required to operate and maintain what is now a relatively old building, and staff recommended caution regarding taking on such additional costs unless accompanied by substantial and sustainable additional funding sources.

On this basis Council resolved to seek a detailed engineering assessment of the building and subject to the results of that assessment potentially offer the building for lease to a community trust or similar entity on an 'as is, where is' basis.

Such a detailed assessment was received in December 2020, which estimated the cost of essential works (excluding cosmetic improvements) as being \$694,000. This was almost twice as much as had been initially indicated.

This high figure suggests that a lease of the 'as is, where is' type previously suggested is not realistic.

Any entity taking up a lease of the building would probably need to invest something approaching \$800,000 in essential and cosmetic works and assume other substantial operating costs to lease a building for which a maximum lease term of 33 years is specified by law.

Even if there was not the current requirement for substantial improvement works, the building would still not appear to represent a strong commercial rental proposition. A current market rental valuation from a Registered Valuer has not been obtained, but the following comments made in a previous rental assessment for this building undertaken by Quotable Value are likely to remain valid:

- The market for commercial building space in Kaikoura is very limited and there are large variations between buildings, positions and tenants.
- The rental rate for the first floor as an office would be expected to be significantly less than for the ground floor.
- It is probable that there would not be sufficient demand for office space in the community for the building to be effectively utilised for this purpose on a commercial basis.
- For a more adequate rental return the building would need to be reconfigured for other purposes such as a restaurant or as apartments. The cost of such reconfiguration would need to be factored into the overall assessment of return from the building.

The final point about using the building for such new purposes is however unrealistic because of the constraints imposed by the Reserves Act on the use of Local Purpose Reserve. Section 61 of the Act specifies the purposes for which Local Purpose Reserve can be leased, and these exclude activities such as those suggested above.

Current data on potentially comparable office space in communities such as Picton and Amberley suggests that a rental of between \$140 and \$200 per m² (exclusive of GST) might be appropriate for the ground floor if used as office space.

Given the size and form of the building it does however seem very unlikely that the full area of the building could be consistently let at these rates, and as such an assumption of an average of 50% of the floor area being let at the upper rate of \$200/m² is perhaps a best-case assumption.

On this basis a rental income of just over \$30,000 per annum might potentially be achievable, which is much the same as was indicated in 2015.

Even this should be viewed with caution as there is no assurance that tenants willing to pay such rentals will be found (or can be maintained) in the current market.

Whilst some parties have expressed interest in occupancy of parts of the building, these approaches have been very tentative and not always based on commercial reality, sometimes apparently expecting a space to be provided for free or with only a 'peppercorn' rental.

With KDC ratepayers already substantially contributing to the operation and maintenance of the relatively little used Memorial Hall, and with no apparent shortage of other spaces for community use, heavily subsidising the operation and maintenance of the old Council Building does not seem appropriate.

'Mothballing'

The current practice of leaving the building unoccupied has an annual cost to Council in the order of \$10,000 through the need to pay for rates, insurance and essential repairs such as remedying water leaks.

Under such a regime the building will continue to deteriorate, and there is nothing to suggest that the building in its current form will be an appreciating asset in the future. Even if it was in a sound condition without the need for major repairs everything points to its viability as an investment declining rather than improving over time. It appears that the rental revenue that might be obtained today is little different from what was estimated to be achievable almost 20 years ago when discussions first commenced about the future of the building.

As such maintenance of the status quo cannot be supported.

Gifting

Consideration has been given to the possibility of gifting the building to a community organisation but this also appears problematic

The issue of the larger part of the building lying on reserve land will however still be present. A possibility might be to have a relevant part of the Local Purposes Reserve vested in a community organisation, since the Reserves Act 1977 permits the Minister to vest reserves in *'any trustees empowered by the Act or any other lawful authority'* which might include such a body.

It is however questionable regarding both whether this process is achievable and /or a community organisation would wish to accept such a vesting, since it would place responsibilities and obligations on it that it might not wish to assume. Having part of the building on Reserve land – regardless of whom that land is vested in – will prevent it being a bankable security as it would be if on freehold land, and for this reason party to whom a gifting was made may be constrained or reluctant to invest in its improvement.

It would also be assumed that for a community organisation to accept any such gifting of the building and/or vesting of the reserve land, it would have to be accompanied by a gifting of the piece of freehold land on which part of it lies.

Having such transactions –and in particular the gifting of an unencumbered parcel of freehold land – does however appear to pose a potential risk in respect of public perception. Whilst the gifting of land and building might be done with the intention of the building being utilised for purposes that benefit the broader community there can be no assurance that this will occur in the long term. It would be expected to be very difficult to put in place a water-tight agreement that prevented outcomes such as the demolition of the building and the sale of the freehold land with the organisation retaining the proceeds of that sale.

There is also the risk that if the building was gifted to a community organisation, improved (perhaps using grant funding if that was available) and offered for community use that an expectation would

then be created that KDC might ultimately need to financially support if the economics of ongoing operation of the building proved challenging.

Reflecting on these issues suggested that such a free transfer of building ownership to a community organisation is not a practical solution.

With mothballing, sale, rental and gifting of the building all appearing impractical, it is believed that only one approach remains viable, which is demolition.

Demolition

The demolition of the building would be expected to be a relatively straightforward exercise. It is a simple concrete structure, and whilst it does contain some asbestos (the management of which will increase costs) its demolition is unlikely to pose any significant engineering challenges.

Its location on a very culturally sensitive site will however influence the demolition methodology, as was the case with the motel and restaurant at Oaro. To minimise ground disturbance it might be that demolition is limited to surface level, removing pavement and concrete floor slabs, but leaving deeper foundations in place and placing fill over them. Given the sensitivity of the site it is possible that an archaeological authority and cultural monitoring of the works would be required even if the demolition process was limited to the on-surface structures.

A general guideline for the cost of demolishing simple masonry buildings is understood to be \$100 per m² footprint of single storey, and \$300 per m² footprint of double storey. In this case the resultant guideline cost would be \$40,000, but to that must be added the cost of removing hard surrounds, and also adopting the methodology required by the cultural importance of the site.

Allowing for all these factors, and the presence of asbestos, it still appears very unlikely that the cost of demolition would significantly exceed \$100,000.

The freehold lot that would be made vacant by demolition of the building (LOT 2 DP 5184 SEC 480 TWN OF KAIKOURA) is not large (314m²) and its development would also have to take into account the high cultural value of the area, but the lot's certificate of title has no encumbrances and would still be expected to have significant value.

The land is business zoned but might also potential be developed as a residential lot, though a resource consent would be required since residential development of it would be a restricted discretionary activity under the KDC District Plan.

At this stage a market estimate of the value of the freehold land has not been obtained, and such value will be dependent on what development occurs on the adjacent lots, both the reserve land and that currently occupied by the fire station, which is also expected to be vacated in the relatively near future. It does however seem almost certain that if the old Council building was demolished the value of freehold lot would exceed the cost of the demolition.

The demolition of the building would also create a site on Local Purpose Reserve where if it was needed some form of modest new community facility or building might be constructed in the future, at significantly lower cost than what was needed to reinstate the old office building.

With such potential to construct a fit for purpose building more cheaply it is believed that a decision to demolish would be a relatively straightforward one, on which public consultation is not needed because no real value or potential value to the community would be lost.

4. Submissions on this Proposal

Feedback is invited in respect of the proposed demolition of the building, rather than the potential uses for it unless those suggested uses are accompanied by demonstrably achievable plans on how the associated financial challenges will be overcome.

Submissions must be made in writing, addressed to kdc@kaikoura.govt.nz or

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