

3 Victoria Road, Devonport

Report to Devonport Takapuna Local Board



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1.0 EXECUTIVE SUMMARY

- 1.1 This is a follow-up report to an analysis undertaken by Tattico of 2 The Strand and 3 Victoria Road in terms of their future use. The Local Board sought additional advice on the 3 Victoria Road site. This report provides that advice. It should be read in conjunction with the report dated 24 April 2018 on 2 The Strand, 3 Victoria Road.
- 1.2 In particular, the Board was seeking additional advice on community use, or commercial uses with a particular Devonport flavour; that would be suitable activities for 3 Victoria Road. The Board secondly wanted further information on the range of options the Council could consider if it wanted to take an ongoing stake in the future of the building.
- 1.3 The April 2018 report highlighted the strategic importance of 3 Victoria Road being its:
- heritage A listing; both the exterior and interior of the building.
 - critical location between the town centre and the ferry terminal.
 - contribution to the unique character of Devonport.
 - added importance because of its colocation with the immediately adjoining scheduled heritage buildings. This gives a group significance to these buildings.
- 1.4 The April 2018 report identified that:
- The building does not meet current seismic standards and will need upgrading.
 - Subsequent estimates have placed this cost at about \$500,000 but with design, consenting and contingency could require a budget of \$600,000.
 - Like all heritage buildings, its long-term future relies on finding appropriate quality adaptive reuse of the building which is economically sustainable.
 - The large vacant rear portion of the building provides added opportunity for new development to complement the existing heritage building and assist in the financial feasibilities for restoration of the heritage building.
 - There is no approved Council budget within the LTP for the necessary seismic remediation and heritage restoration work. Nor is there a specific expected income stream realised from the property. Rather, Panuku Development Auckland has recently had this property added to their portfolio. They are in the initial stages of working through the future of this building and in part are waiting for the Local Board views informed from this report before progressing to the next steps.

- 1.5 There are no community groups that I have been able to identify that offer a financially sustainable rental for the building, which would fund the necessary adaptive reuse. There is a desire from community groups for meeting space and activity which, if available in this building, would be ideally located and well received. There is also a desire from the Business Association to continue to operate their information facilities from the site once restoration is complete. However, this would require Local Board subsidy.
- 1.6 There are commercial activities which could collocate successfully with community groups on the ground floor and provide a retail and community offer to the main street of Devonport.
- 1.7 Inevitably whether the site is developed straight as a commercial activity, or developed in terms of the suggestions set out in this report, there will likely be a different activity between the ground and first floor of the existing building. The Council needs to retain a retail frontage or community use along the street. It is unlikely to find an activity that would achieve that objective and also need both floors. The reality is there will be two types of activities within the building, an office or residential offer on the first floor and a retail and/or community offer on the ground floor.
- 1.8 The conclusion of this report is that:
- (a) The building should undergo a full seismic upgrade and heritage restoration for adaptive reuse. This is the only way to ensure the long-term economic sustainability of the building.
 - (b) The existing ground floor should be developed for a mix of retail and community uses.
 - (c) The first floor should be developed for the highest returning commercial uses which would fit in with a successful adaptive reuse. This could be office space or residential.
 - (d) The current vacant rear of the property should be developed for residential or business activity to maximise return and offset the adaptive reuse of the heritage building.
- 1.9 There are several models of a successful adaptive reuse of Council heritage buildings. Given the realistic circumstances that the Council has not got the funds to undertake the seismic upgrade and restoration itself, then the Council has two options. Either:
- (a) sell the building tied to a contract to ensure the successful adaptive reuse of the building and the activities within it; or

- (b) enter into some form of partnership where the Council retains an ownership interest enabling it to ensure the successful adaptive reuse of the building and the ongoing appropriate range of activities. Council's offer would be land and existing buildings. The partner would need to bring the funding to undertake the full adaptive reuse and the opportunities from the rear vacant land. This report recommends the Council does take a proactive partnership role.

1.10 The site would also lend itself to a combination approach where the freehold of the heritage building is retained by the Council and the rear vacant land sold for an agreed form of development. This combination gives the best opportunity to realise value on the non-heritage parts of the site and use that return to achieve the key heritage and community outcomes for the heritage building.

2.0 RECOMMENDATIONS

2.1 That the Devonport Takapuna Local Board:

- (a) State its support for the seismic upgrade and adaptive reuse of the building;
- (b) Request that the Council retain a property interest in the heritage part of the site, and partner with a suitable company that can successfully deliver the adaptive reuse of the building;
- (c) Acknowledge that to achieve an economically sustainable future:
 - (i) The first floor of the building will be targeted for successful adaptive reuse that will maximise return to offset the costs of seismic upgrade and restoration. Such a use should ensure the activities are consistent with the conservation plan for the building.
 - (ii) The vacant rear of the site will be utilised for activities consistent with the zoning of the area, and which provide a high return to offset the adaptive reuse of the building.

- (iii) Develop the ground floor for a mix of community and retail activities which can successfully collocate and which reflect the unique location and character of Devonport.
- (d) Request Panuku Development Auckland work with the Devonport Takapuna Local Board to agree the proposal for a partner organisation to undertake the adaptive reuse of the building and new development.

3.0 COMMUNITY NEEDS

- 3.1 I met with representatives of the Devonport Business Association and the Peninsula Community Trust to talk through community needs for this building. I also had a discussion with Compass, a community group currently located within the Wilson Home. This complemented the previous work which identified that:
 - (a) there are no Council departments that require this building;
 - (b) as far as I can tell, there have been no requests from community groups for use of this building, beyond those set out in this report.
- 3.2 The Devonport Local Board has until recently operated from the building. They have offered a volunteer run information centre which has been well used, particularly during the cruise ship season. They also had their office and a general meeting room (being the former Council chamber). The meeting room was utilised by a variety of community groups on a casual booking basis.
- 3.3 The Business Association has vacated the premises and is now operating from a shop down a nearby arcade, and from a home office.
- 3.4 3 Victoria Road was ideal accommodation for the Business Association. Its 'main street' frontage was critical to the success of the information centre. It was ideally located in terms of exiting the wharf and entering the town centre. Only a wharf location would be better for the information centre.
- 3.5 The Business Association, by virtue of the nature of the building and the operation, had a broad use of the facilities, but in any future adaptive reuse would and could operate from a much more efficient and confined space.

- 3.6 The Business Association's preference is to return to the building if that is an option following the seismic upgrade and adaptive reuse.
- 3.7 The Business Association is funded from a BID rate (effectively a targeted rate). The reality is that the Business Association requires a heavily subsidised rental as it does not have the ability to fund a commercial rental and certainly no rental covering the seismic upgrade and heritage restoration of the building.
- 3.8 The Business Association has been very accommodating in allowing general community groups to use its facilities. This happens on a semi-regular basis and is well appreciated by the community groups. However, these are typically evening meetings occurring a couple of times a week. None of these groups have the ability to fund a realistic rental cost.
- 3.9 I also met with representatives of the Peninsula Community Trust. The Trust did operate from 3 Victoria Road in terms of their office and also had storage facilities within the building. They are now relocated to Fort Takapuna.
- 3.10 The storage on site was for expediency and security reasons, rather than any need to locate on the main street of Devonport. The office space was beneficial in that it provided good connection to the events programme and was easy for volunteers to drop in. The Trust relies heavily on volunteers and hence that connectivity is important.
- 3.11 The Trust preference would have been to remain at 3 Victoria Road. However they accept the need for the heritage restoration of the building and therefore the need to vacate. Having made the decision to move to Fort Takapuna, the Trust is determined to make a success of that new location and to leverage the opportunities that it creates both in terms of the location and in terms of working with the other users that operate from the immediate area. If it is an option, the Trust would like to keep open the possibility of returning to 3 Victoria in the future. However they are not necessarily saying that that is what they would want to do. They hope to make a success of Fort Takapuna, and if they do would probably want to remain there.
- 3.12 I had informal discussions with a community group involved in the arts who may be looking for administrative space with some shared meeting facilities. This group would welcome a CBD, city fringe or Devonport location due to its ferry access.
- 3.13 This group relies on public sponsorship for its programmes and administration. They could not sustain other than a token rental.

- 3.14 The reality is that 3 Victoria Road (even prior to people moving out) was significantly under-utilised. In one sense there was not a demand to fill it with other community uses. In another sense people were reluctant to locate here because of uncertainty as to future use and tenure.
- 3.15 In talking things through, I was left with the clear impression that all community uses could readily focus on the ground floor only, and even then there would be a reasonable amount of space that could be available for appropriate for income generating uses. It was felt important that these be somehow connected to the character of Devonport, although this could take multiple forms.
- 3.16 The opportunity for a retail/community space where there is visitor information plus the ability for facilities often used by visitors or shops targeted at visitors, should be explored.
- 3.17 A heritage building is a disproportionately expensive building to operate from for community groups if they fund maintenance and operations. From a character point of view heritage buildings help raise identity and hence profile. All of the community groups I spoke too would need significant rental subsidy.
- 3.18 In the final analysis I did not approach potential retail users because it becomes too academic an exercise recognising the timeframe by which the seismic upgrade and heritage restoration of the building will occur. It is too soon to try and talk to people about practical tenancy options. The key point is that I think there is sufficient range of uses compatible that it would be possible to put together a colocation on the ground floor which involve the visitor information centre, some appropriate retail/food and beverage activity, and some community use space. Undoubtedly it would make the economics more complicated and the operation more complex. However the benefits to the main street and the Devonport community would be significant.

4.0 ECONOMIC SUSTAINABILITY

- 4.1 This building needs a long-term economically sustainable use. This is the only way to give assurance over the quality of the building and its contribution to the heritage character of Devonport, but also its activation at street frontage of the main street.
- 4.2 Clearly the economic return from the ground floor of the original building would be much lower than a straight commercial return use. To offset that public subsidy, the first floor and vacant rear area of the site would need to be developed to maximise the commercial return, and therefore address the ongoing economic sustainability of the project.

- 4.3 There are many highly successful examples of adaptive reuse of heritage buildings for office and residential activity. The Mt Eden Borough Council chambers and the Mt Eden Borough Fire Station have recently been seismically upgraded and adaptively reused for residential accommodation. This project has won awards in architecture and in heritage. It is recognised as a highly successful heritage project.
- 4.4 Undoubtedly 3 Victoria Road upper floor can be successfully restored and adaptively reused for a range of office or residential type uses. Obviously there will be impediments on the design to ensure faithful reflection of the conservation plan for the building. An office activity where the Council chamber could be kept as a boardroom or meeting space would obviously assist in providing at least some public access and appreciation of this space into the future. Equally in the Mt Eden case the chamber itself, which was much larger than the Devonport space, was part of the key protection of that building.
- 4.5 The key point is that in my view the Council will not be able to achieve the seismic upgrade and heritage restoration of this building without a material impact on its budgets unless it enters a partnership for the adaptive reuse of this building. For the partnership to be successful, then the first floor of the building and the rear yard need to be available for significant income generating activity. This is the offset that will allow a more community mix of ground floor activity.

5.0 PARTNERSHIPS

- 5.1 The Council does not have the budgets to undertake a seismic upgrade and heritage restoration of this building. Consequently there is minimal prospect that the Council could undertake this development on its own and create financially sustainable income streams. It is inevitable therefore that the Council will need to partner with another party to undertake the development.
- 5.2 There are several models where this has been done successfully. The range of options include:
- (a) **Regulatory approach:** The Council simply sells the land but with a contractual arrangement that the development proceeds in terms of a pre-agreed design, or the Council retain a design approval process. The difficulty in this case is the Council is wanting both the design approval but also to influence a certain range of activities, particularly on the ground floor. In that circumstance, relying only on regulatory powers is less certain.

- (b) **Council freehold: Straight Development Leasehold:** This is where the Council retains land ownership but sells a long term lease interest. If the leasehold arrangements are over a very long term (say 100 years) near freehold prices can be achieved, The contracts can also be set up to compliment the regulatory approach. The Customshouse building is an example of this.
- (c) **Non-financial partnership:** This is a form of freehold / leasehold contract but where the Council retains an ongoing involvement in the site. The Council could go into some joint venture arrangement where the Council's contribution is the value of the land and the existing building, and the partner brings the full funding. The risk would predominantly rest with the partner, but obviously that means that the income and reward would largely go to them. The Council's benefit is that:
- It would ensure the faithful adaptive reuse and heritage restoration of the building.
 - It would have a safe building.
 - It would have strong influence over the activities in (say) the ground floor.
 - The return to the Council would be the heritage and community public benefit, rather than a financial return.

Britomart is an example where the Council retains the underlying ownership of buildings above the train station, granting the developer a 150 year lease. This enabled the development to sell at virtually freehold land prices. The Council retained its right for approval of the design and use of buildings. A set of design guidelines were pre-agreed. Compliance with the guidelines meant that Council approval was forthcoming. Departure from the guidelines left opportunity for significant scrutiny.

Under such an arrangement the Council can also take an active role in the body corporate or whatever form of property arrangement / contract is finally determined.

- (d) **Financial partnership:** This is similar to (c) but the Council would share in the risk and rewards. This means that the Council could get some long-term gain from the property. Realisation of the development space at the vacant rear of the building may in fact tip the scales in favour of some sort of commercial partnership. However, that would need more analysis than is the brief for this review.
- (e) **Council as lessee:** The Council could sell the building subject to the restoration of the building, and securing for itself a long-term rental of the ground floor, at an agreed formula.

The Council could then manage the leasing arrangements for this floor. This further reduces the Council risk but equally dilutes its ability to impact the final outcome for the building. It has the advantage of the Council having 100% control of the tenants on the ground floor. However it means the Council also faces 100% of the rental risk, even though that would be a pre-agreed subsidised rental in recognition of the economic feasibilities elsewhere within the property.

- (f) **Trust arrangement:** The Council could establish a charitable trust to seismically upgrade and restore the heritage building and undertake the other commercial arrangements. The Trust would operate under a set of ground rules that control the adaptive reuse of the building, and the community uses on part of the ground floor. In some ways this parallels the Lopdell House model. However, establishing a community trust of this nature is totally dependent on the commitment and enthusiasm of the trustees and their ability to secure substantial public funding. A caution is sounded that this may in fact run into competition with the Victoria Theatre community group and their drive for sponsorship. It also needs to be recognised that a project like this is a fully professional undertaking. The Trust could retain the services of people to do that but undoubtedly if things went wrong the community pressure will come back on the Council to take the building back over. Even the Lopdell House Trust, which was a highly successful model on that project, had the benefit of significant renewal money available from the Council and a wealthy local licensing trust who made generous commitment to support the project.

- 5.3 Of the options above, the conclusion of this analysis is that either the non-financial or financial partnership gives the best opportunity to deliver the outcomes the Local Board is seeking. Presumably the governing body would have similar objectives at least in the area of heritage given that it is a Council scheduled building and presumably in terms of the critical activation of the Devonport main street. I do believe however the Council could sell the freehold of the vacant rear section subject to an agreed form of development and other contractual requirements. This would enable the Council to ensure it got the right planning outcome, while maximising revenue to help fund the heritage restoration.
- 5.4 In my view the building is too strategically important to simply rely on the Council's regulatory powers. There are many examples of where this has worked very successfully, but there are also examples where this has not delivered the outcomes required.
- 5.5 The Trust option would be attractive if there was a resourced capable group aspiring to undertake this project. However, this is a major undertaking. These approaches do not work

where there is some form of contrived assembly of trustees, particularly when there is no initial funding the trust can use to leverage other support.

- 5.6 The partnership approach offers the best opportunity for the Council to have a direct stake in decision making in the heritage restoration, adaptive reuse and tenanting of the ground floor. The nature of the partnership also enables it to manage risk and liability. The Council would need to accept that there was probably no or limited financial return from the site. Rather, what the benefit to the Council is to avoid the significant liability of the seismic upgrade and heritage restoration and to achieve in a part of the building some broader community outcomes. However, this is still a form of public subsidy for those uses.

6.0 FINANCIAL CONSIDERATIONS

- 6.1 It has proved impossible to give the Board realistic figures on the financial development of the building because there is not yet the detailed analysis of the integrity of the structure, nor is there a design to be able to process it.
- 6.2 What we do know is that:
- (a) The GV of the property is \$3.5 million. This valuation would not take account of the seismic and heritage issues of the site.
 - (b) The seismic upgrade is in the order of \$500,000-\$600,000.
 - (c) If heritage restoration was at \$5,000 per square metre, then the heritage restoration component of the building would be \$2.4million. \$5,000 is a rough figure taken from similar projects. However, it must be signalled that there is huge variability depending on the nature of heritage restoration. It may be possible to do a project a little cheaper than this. By the same token many heritage restorations would spend at a considerably higher rate per square meter. Only a detailed feasibility study will determine the financial cost of the project.
- 6.3 If the decision was made to compromise the heritage restoration (or defer it), then there are cheaper options that would bring the building up to building code compliance, but no more. However without a detailed survey of the building its hard to put a price on this form of work. That strategy does not secure the long term economic sustainability of the building.
- 6.4 The key point is that the seismic upgrade and heritage restoration of the building virtually equate to the land value. Where the opportunity will come on this site is the large vacant rear land.

This does give the opportunity to get reasonable development potential on this part of the land to complement the heritage aspects, provided the access can be managed. This is the reason why this report suggests a partnership may in fact yield a better opportunity. However, that would need a full evaluation by Panuku Development Auckland as part of a managed property programme rather than the level of work commissioned for this initial review on behalf of the Board. Consequently this report recommends such an analysis but with a view to developing a partnership approach as outlined above.