

## Property Disposal - Stockton House 73-75 William Street, East Sydney

File No: X007669

### Summary

On 7 August 2017, Council resolved to request the Chief Executive Officer investigate the benefit and cost of renovating Stockton House 73-75 William Street, East Sydney, for retention within the City's commercial property portfolio and report back ahead of consideration of any sale.

The investigation has now been completed and it is recommended that Stockton House be disposed of and the proceeds reinvested in the City's commercial property portfolio.

This course of action more closely aligns with current City of Sydney policies and strategies than retaining the building within the City's commercial property portfolio and involves a much lower level of risk. The financial return from the sale of the property will be re-invested in commercial property, further supplementing the City's non-rate-based income and contributing to the City's future financial stability.

### Recommendation

It is resolved that:

- (A) Council endorse the sale of Stockton House, 73-75 William Street, East Sydney;
- (B) Council endorse the proceeds from the sale being placed in the Commercial Properties Reserve to allow for future reinvestment in commercial property, further supplementing the City's non-rate-based income; and
- (C) authority be delegated to the Chief Executive Officer to develop due diligence material including, but not limited to, a disposal plan, implementing opportunities to leverage value, determining the optimum method of sale, negotiating with interested parties as required and entering into all necessary documentation to effect the sale at a price to be supported by at least two independent valuations.

### Attachments

**Attachment A.** Results of Discounted Cash Flow Analysis (Confidential)

## Background

1. Stockton House is a four level commercial building with basement and rear lane access built in 1925 on land compulsorily acquired by the Sydney City Council for road widening. Residual lands were subsequently sold by the Council on a 50 year ground lease with ownership reverting to the City thereafter. The City's current ownership of 101-111 William Street and 113-115 William Street formed part of the same reclamation.
2. Stockton House has been used for commercial and not-for-profit purposes over the years. Thrifty Car Rental leased the ground floor for many years and the upper floors were leased to the East Sydney High School on subsidised rates until the school's closure due to the withdrawal of state and federal funding.
3. Performance of this asset over the last three years has been below market benchmarks. The building is currently vacant and requires base building services upgrades and general internal refurbishment to ensure it meets current requirements for accommodation (e.g. equitable access).
4. In August 2017, Stockton House was recommended for disposal as part of the divestment of surplus strategic property. However, Council resolved to request the Chief Executive Officer investigate the benefit and cost of renovating the building for retention within the City's commercial property portfolio and report back to Council ahead of consideration of any sale. The following investigations have now been completed.
5. To commence investigation, existing documents relating to Stockton House were reviewed including:
  - (a) Hazardous Building Materials Survey Report by SLR Consulting, 19 March 2014;
  - (b) Building Code of Australia 2015 Report by Metro Building Consultancy, 14 July 2015;
  - (c) Preliminary Cost Estimate by Napier & Blakely, 7 August 2015;
  - (d) Building Façade Inspection Report by Cardno, 12 April 2017; and
  - (e) Structural Engineering Follow Up Report On Building Façade And Awning by Lahiff Consulting, 27 October 2017.
6. The development controls applying to the site were also reviewed and it was determined that a maximum of 63.8 square metres could be added to the existing gross floor area.
7. Sketch plans were prepared indicating possible layouts for leased and common areas. This assumed that the currently unroofed area on Level 3 would be enclosed in any renovation.
8. Advice was sought from Gunning Real Estate, who are marketing commercial space at 58 Riley Street immediately to the south of the site. They made recommendations on the type of building finishes and services that should be installed and gross annual rental ranges to be expected for each level.

9. Henry & Hymas, consulting structural engineers, were engaged to assess the adequacy of the existing structure for the proposed uses and provide details for any work required to ensure adequacy.
10. Scientific Fire Services were engaged to identify any additional fire protection that would be required for the proposed uses.
11. Napier & Blakely prepared an updated cost estimate based on the recommendations above also including:
  - new toilets to all levels;
  - polished timber floors to tenant areas where existing, otherwise new carpet;
  - new smart lift and disabled entry platform at main entry; and
  - exposed ducted contemporary air conditioning.
12. Landmark White prepared the following valuations for the property using capitalisation, discounted cash flow analysis and direct comparison methods:
  - market value with vacant possession - as if complete; and
  - market value with vacant possession - as is without DA
13. 'Market value with vacant possession - as is without DA' has been used as the forecast sale price for the property.
14. Discounted cash flow analysis was undertaken by City of Sydney on two options:
  - Option 1 – Renovation of the building for retention within the City's commercial property portfolio; and
  - Option 2 – Sale of the building with the proceeds reinvested in the City's commercial property portfolio.
15. The results of the discounted cash flow analysis can be found in confidential Attachment A. The net present value resulting from each discounted cash flow is used to compare the income from the two options. Based on this comparison, Option 2 is recommended as the net present value resulting from it is significantly higher than from Option 1.
16. The sale of Stockton House is further recommended because it is one of the many lower value, secondary grade commercial assets in the Sydney CBD and city fringe markets that comprises a high proportion of City of Sydney's holdings. These smaller assets are relatively intensive to manage with less energy efficiency and higher outgoing expenses.
17. In addition to examining Stockton House's position within the City's commercial property portfolio as requested, other uses for the building were also investigated. East Sydney is already well serviced by community facilities as a result of the City East Facilities Review in 2013. A requirement for artists' studios was considered, but Stockton House's layout - with a small ground floor area and multiple storeys - is not well suited to this use, which requires light industrial facilities for making works and large, easily accessible ground level areas.

18. It is therefore recommended that Stockton House is sold in its current state of repair and that the proceeds are reinvested in the City's commercial property portfolio to enable a property to be purchased that is more closely aligned with City of Sydney strategies and will fulfil identified service needs.

## **Key Implications**

### **Strategic Alignment - Sustainable Sydney 2030 Vision**

19. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:
  - (a) Direction 10 - Implementation through Effective Governance and Partnerships:
    - Objective 10.3 - The City of Sydney is financially sustainable over the long term.

### **Organisational Impact**

20. The sale of Stockton House and reinvestment in the commercial property portfolio will enable the purchase of property with lower lifecycle cost and less intensive management requirements.

### **Risks**

21. The current condition of the building could negatively affect the sale price. However this effect could be reduced by emphasising the potential of the building in the sales marketing campaign.
22. The existing easement under the property for rock anchors for the Cross City Tunnel could negatively affect the sales price. This impact could be reduced by ensuring potential purchasers are aware that the easement is located well below ground level.

### **Social / Cultural / Community**

23. The sale of Stockton House divests a building whose existing layout is not suited to the delivery of the City's services to the community.
24. The proposed disposal will enable a property to be purchased that is more closely aligned with City of Sydney strategies and will fulfil an identified service need.

### **Environmental**

25. The sale of Stockton House will allow the proceeds to be re-invested in a property that could incorporate sustainability features, which enable environmental benefits to be more easily achieved, than by retrofitting the existing building.

### **Economic**

26. Proceeds from the sale of Stockton House will be allocated to the Commercial Properties Reserve to allow for future reinvestment in commercial property, further supplementing the City's non-rate-based income.

### **Budget Implications**

27. Funds will be required for the divestment of Stockton House to cover:
  - (a) selling agents fees;
  - (b) marketing fees;
  - (c) legal fees; and
  - (d) internal City of Sydney salaries.
28. These costs will be funded from the Operational budget.

### **Relevant Legislation**

29. Stockton House is constructed on residual land compulsorily acquired by the Sydney City Council in 1916 for the purpose of widening William Street under the Sydney Corporation (Amendment) Act 39 1905 Part 3.
30. The Act allows Council to sell the whole or any portion of land purchased under the authority of the Act.
31. The land is classified 'operational' under the Local Government Act 1993 (the Act) and, as such, there is no legislative impediment to Council endorsing the sale.
32. Attachment A contains confidential commercial information which, if disclosed, would confer a commercial advantage on a person with whom City's is conducting (or proposes to conduct) business.
33. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise City's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

### **Critical Dates / Time Frames**

34. Engage consultants required for the sale: November 2018.
35. Marketing campaign commences: March 2019.
36. Estimated date for auction: April 2019.
37. Estimated date of settlement: June 2019.

### **Options**

38. The retention of Stockton House within City of Sydney's commercial property portfolio is not recommended as it requires substantial capital outlay, the funding for which is not currently budgeted.

39. It is also not recommended due to the high level of risk involved. Investigations to date have been non-invasive and there is a high likelihood that additional issues with the building fabric will be discovered once demolition commences.
40. Rents achieved for the completed tenancies may be less than forecast due to the cyclical nature of the commercial property market.
41. Retention of Stockton House will retain a building whose configuration does not readily support the functions that are required for the delivery of the City's core services.

### **Public Consultation**

42. No public consultation has been undertaken for this project.

### **AMIT CHANAN**

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