

10.15.Council-Owned Properties - Response to Council Resolution

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ATTACHMENTS	1. CONFIDENTIAL - Details of Council-owned properties Jun 2023 [10.15.1 - 31 pages]
CSP LINK	2. Our Built Infrastructure 2.1 Infrastructure and assets meet diverse community needs

PURPOSE:

At its meeting of 26 April 2023, Council considered a report in relation to the North Sydney Olympic Pool project and the need for additional funding. As part of this report, it was noted that Council may have to explore strategies to increase funding for this project. Included in the options were sale of Council property and it was noted that staff were undertaking a review.

Council resolved that a report be prepared in respect of properties owned by Council that are leased or available to lease, including the lease dates and terms, the quantum of rent paid, and the most recent market valuations.

EXECUTIVE SUMMARY:

- A list of commercial rental properties has been compiled (Attachment 1) which includes Land Title details, addresses, photos of the properties, current use, quantum of rental income, date and term of lease, and market valuations etc.
- Council rental properties provide a good income stream for Council from rents received, which in general increase with inflation over time. Hence any proposed sale of Council property must be looked at meticulously and considered very carefully. Moreover, property values will also increase over the long term due to the rise in land and building values. There may be rises and falls but the property price trend historically has always been up over time.
- It should be noted that property values dropped during the COVID-19 pandemic and in the immediate post COVID-19 period. This was reflected in the Australis Asset Group valuation, in which the average fair values of Council's investment property portfolio decreased by 4.2% in the one-year period between 31 March 2022 and 31 March 2023.
- In summary, sale of any Council properties at this time is not recommended due to the following reasons:
 - o the commercial property market has deteriorated due to the COVID-19 pandemic impact as well as sharp rises in interest rates. Should a Council investment property be sold, Council will miss out on future potential capital gains;

- rental income provides a good income stream for Council. Any sale of property will cease that income stream and reduce total revenue to Council;
 - the fair values of some Council properties are currently low due to their special nature, for example, shops around a Council car parking station, around North Sydney Oval or heritage properties; and
 - property values always increase in the long term.
- All operational properties, community facilities buildings, recreational properties and car parking stations have been excluded because these are essential facilities that are required for Council to provide the core services to residents of North Sydney and to the general public.

RECOMMENDATION:

1. THAT Council note that it is not recommended to sell any properties at this time due to the reasons detailed in this report.

Background

Council at its 26 April 2023 meeting resolved that a report be prepared and provided to Councillors in respect of properties owned by Council that are leased or available to lease including the dates and terms of the lease, the quantum of rent paid, and the most recent market valuations.

There is budget shortfall for the North Sydney Olympic Pool project. Council is looking at various options to obtain the required funding including the possible sale of Council properties.

Report

All operational properties, community facilities buildings, recreational properties, and car parking stations have been excluded because these are essential facilities that are required for Council to provide core services to residents of North Sydney and to the general public.

Property investment has historically been a good investment in the long term, hence any proposed sale of Council property must be looked at meticulously and considered very carefully.

Council rental properties provide a good income stream for Council from the rents received, which in general will increase with inflation over time.

Moreover, property prices also increase in the long term due to the rise in land values and construction cost (materials and labour). There may be rises and falls but values always trend upwards over time.

Commercial property values dropped during the COVID-19 pandemic and in the post COVID-19 period. This was reflected in the Australis Asset Group valuation, in which the average fair values of the Council's investment property portfolio decreased by 4.2% in the one-year period between 31 March 2022 and 31 March 2023.

Sydney's property prices are forecast to fall in 2023, after decreasing by 14% in 2022. The outlook for the property market in the short term is not promising.

The commercial properties vacancy rate in North Sydney is high, at 19%, which would also impact sale prices.

The median house price in the North Sydney LGA has dropped by about 11% in the past 12 months. The RBA predicts a further fall of 11% in property prices in 2023 and approximately 9% in 2024.

Property provides a good income stream for Council. Any sale of property will stop the income stream permanently and reduce total revenue to Council.

The fair values of some Council properties are currently low due to their special nature, for example, shops around a Council car parking station or around North Sydney Oval or those with heritage elements. Current market fair values are quite low, as can be seen from the Australis Asset Group’s valuation report. Rental incomes however are generally good, and in most situations the market rental level can be achieved.

Selling these properties does not make economic sense as in some instances, e.g., the yearly rental income in two years’ time for the Alexander Street shops would be more than the selling price of the property indicated in the Australis Valuation report.

Furthermore, should a Council-owned property be sold in the current market, Council will miss out on likely future capital gains.

Options

Council has the following options in relation to this matter:

1. Do nothing/take no action.
2. Determine to sell one or some of Council’s commercial properties.

These options are assessed in the table below.

Option	Finance/Resourcing	Risk/Opportunity	Consultation
1.	Council’s commercial property portfolio provides a good income stream for Council.	Property prices always rise in the long term from historical records.	Not applicable
2.	Any sale of Council property will permanently stop the rental income stream.	Should a Council investment property be sold, Council will miss out on future capital gains	Not applicable

Option 1, is recommended for the following reasons:

- The commercial property market is on a downward cycle. Should a Council investment property be sold, Council will miss out on future capital gains.
- Council’s properties currently provide a good income stream. Any sale of property will stop the income stream permanently, thereby reducing total revenue to Council.
- The fair values of some Council properties are currently low due to their special nature.
- Property values always increase in the long term.

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

Regular rental income from Council investment properties will stop permanently from the settlement date if the property is sold.

Should a Council investment property be sold in the current market, Council will miss out on future likely capital gains.

Legislation

Not applicable.