



**PALMY**™

# Property Development

Decision Framework |  
Risk and Role

August  
2022



# Agenda

- Context and Scope – Property Development Review
- Process - What have we done?
- Conclusions
- Outputs
  - Property Development Decision Making Framework
  - Evaluation Model
- Key inputs required from Council?
  - Appetite for risk
  - Guidance on preferred role



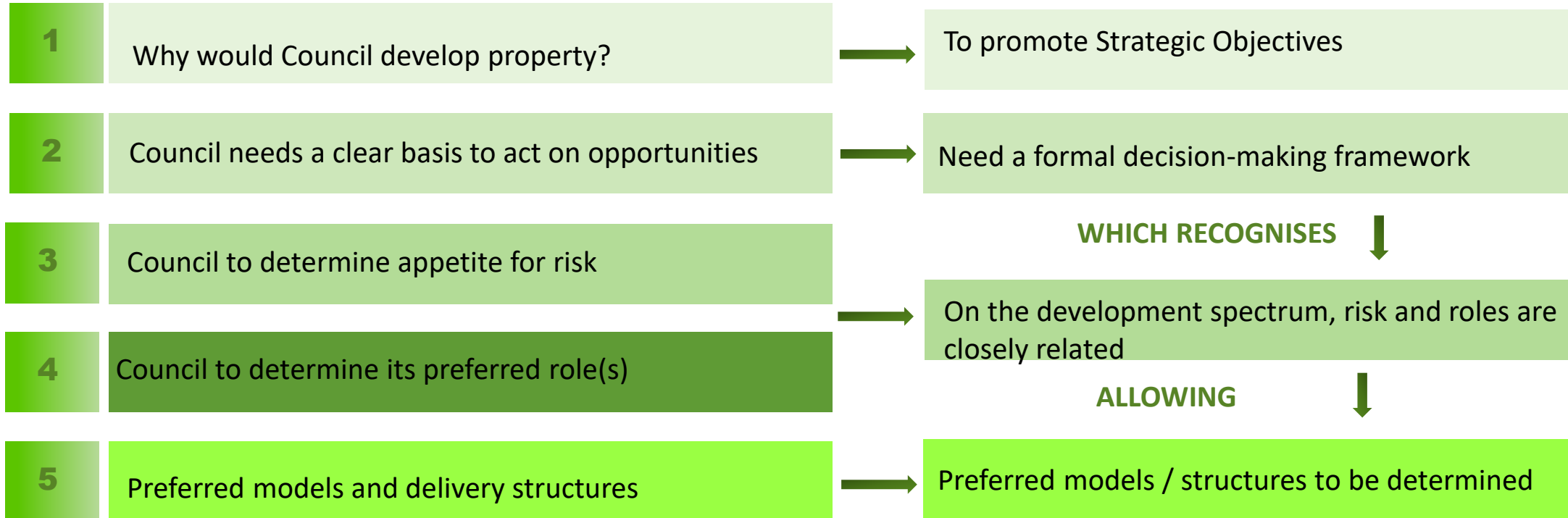
# Context and Scope

## CONTEXT

Council has opportunities to develop or influence real estate development	→	Council owned properties Privately owned properties (e.g. ex Post Office)
Council can choose different delivery structures	→	Self-development Joint ventures Divestment to partners (subject to rules) Others / Hybrids
Each involves different risk, return and control	→	Sell: Low risk, low return, low control Self-develop: High risk, high return, high control
Huge growth forecast in Palmerston North	→	City needs more and better houses, better civic buildings, better infrastructure

## Context and Scope

### SCOPE







# Process

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## What have we done?

- Interviews and workshops with ELT and key Council Officers and Teams
- Reviewed Council documents, policies, strategies and plans
- Comparisons against peer Councils
- Review of Treasury and Office for Auditor General guidance

# Some Key Conclusions

Validation of Property Development



Many strategic Council goals can be advanced by development

Development is not a core Council activity - outcomes must align with strategic goals



Financial return not sole or primary determining factor

Benefits, costs and risks of transaction alternatives should be fully considered

*No decision making process – no confidence*

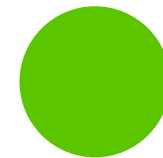


Need a process that enables holistic assessment of opportunities and challenges

Various delivery models on the spectrum are open to Council



No single delivery model will suit all situations – what are Council's preferences?



# DISCUSSION

## FRAMEWORK, RISKS AND ROLE

Decision  
Making  
Framework



Risk  
Appetite,  
Preferred  
Role

Overview of  
framework



Review  
models

Differing  
models



Discuss pros  
and cons

Q&A



Your views  
will guide us



# OUTPUTS - FRAMEWORK – OVERVIEW



## **Prioritisation of properties**

Initial decision to prioritise property/s for potential development.



## **Concept**

Decision about whether to proceed to business case. Focus is use, likely delivery model and estimated cost to progress.



## **Investment decision (business case)**

Decision to proceed with a development or a transaction.



## **Project delivery**

Delivery of the project.



## **Benefits monitoring**

Ongoing monitoring of benefits / outcomes from the decision/s.



**Indicative Evaluation Model – Weighted Assessment**



# AFTER BUSINESS CASE

## WHEN YOU ARE ASKED TO DECIDE

Clear Background	→	Decision sought, summary of <b>context</b> and the business case
Identified Outcomes	→	Describe how project outcomes align with <b>strategic goals</b>
Holistic Analysis	→	Shows cross-section of <b>viewpoints</b> , identifies all practicable options
Preferred Option	→	Options compared consistently (as to benefits, risks, costs etc), <b>preferred option</b> identified
Management Plan	→	Shows how the project will be <b>governed, managed and reported on</b>

# DELIVERY MODELS

## WIDE RANGE OF OPTIONS



Retain and do nothing



Retain and develop / invest



Partnership or joint venture



Divest with constraints on future use



Divest with no constraints on future use

**ASSESSED PROJECT BY PROJECT**

# Potential property transaction structures

Decision Making Framework supports preferred transaction structure

## 1 Retain and do nothing

*“Keep the land”*

- Avoid or defer major expenditure.
- Option to pursue other options in the future.
- Maximum control over the property.
- Limited political risk.
- Does not promote broader outcomes.

## 2 Retain and develop / invest

*“Build homes on the land”*

- Long-term ownership – flexibility to divest later.
- Maximum control over the property.
- Need to fund the project.
- Full exposure to risk (upside and downside) including political risk.
- Can address broader outcomes.
- Care required when separating investment in the development project from investment that council normally undertakes for third party developments.

## 3 Divest with no strings (straight sale)

*“Sell the land”*

- Maximise net sale proceeds – allowing greatest contribution to other financial needs - but new owner has unencumbered ability to implement preferred strategy.
- Avoids controlling properties where this is not needed.
- Lower level of resource required to implement the divestment (compared with divestment with strings).
- Low risk.

## 4 Divest with strings (constraints on future use).

*“Sell the land, purchaser must build 50 homes on land”*

- Greater control to achieve broader outcomes from a divestment.
- Constraints may differ from ‘highest and best use’ for the property, reducing net sale proceeds.
- Resource required to work out the strings to be applied.
- Exposes Council to controlled risk (upside and downside) and/or a need to contribute to the project.

## 5 Joint Venture/ Strategic Alignment

*“Creating outcomes with shared risk”*

- Deliver joint outcomes
- Potential to expose Council to high risk if not managed correctly

# NEXT STEPS



- Council ELT will refine and adopt a Property Development Decision Making Process (including consistently applied Business Case process).
- Council ELT will prepare and adopt (with Council approval) an Acquisitions and Disposal Policy.
- Required organizational changes (if any) will be assessed as a next stage of work, having regard to Council's feedback regarding preferred models of operation, appetite for risk and likely asset classes for development.



# THANK YOU!

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