

Attachment A: The Property Group Accommodation Review



Queenstown Lakes District Council

Accommodation Review Report

August 2015

COMMERCIAL IN CONFIDENCE

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PREAMBLE

Queenstown Lakes District Council (“the Council”) currently operates from Council owned premises at 8-10 Gorge Road, Queenstown; leased office premises at Shotover Street, Queenstown; and the Council owned Queenstown Events Centre (“QEC”) at Frankton. The Council owned building at Gorge Road is currently in use as Council Chambers, Council Offices and Public Library.

The Council and The Property Group Limited (“TPG”) have agreed a proposal for the consultancy services as described in TPG letter dated 10 June 2015, being the ‘QLDC Accommodation Review’ (“the Review”) covering:

- Stage One - Review of Requirements.
- Stage Two - Assessment of Options.
- Stage Three – Action Plan and Decision Making Process.

The objective of this Review is to provide preliminary advice to the Council to enable robust discussion, good judgement and sound decisions on its future needs for short and long term office accommodation, thereby avoiding ad-hoc and costly (financial and social) decisions.

DISCLAIMER

The opinions recorded in this review are expressed as at the date of this review, and reflect our assessment of the material factors based on information provided by the Council, and prevailing business and economic conditions existing at the date of assessment. Such conditions may change in the future, with potentially material effects on the opinions we express in this review.

We reserve the right, but not the obligation, to reconsider all assessments included or referred to in this review and, if we consider it necessary, to revise our opinion in the light of any information existing at the date of assessment which becomes known to us after the date of this review.

1 EXECUTIVE SUMMARY

TPG's review and high level analysis of the Council accommodation assessment has been completed with key areas investigated and assessed as outlined below.

The result of this review highlights structural deficiencies at the current Council owned premises at Gorge Road, Queenstown. These are both in terms of inadequate capacity and also a potential Health and Safety risk to staff and members of the public in a significant earthquake event.

Meaningful progress for the successful long term solutions for the Council's requirements will need a clear decision to be made; resulting action plans to be developed and adhered to, and allocation of specific projects for completion. Short term fixes, uninformed private sector engagement and unclear outcomes will result in prolonged safety risks, poor allocation of capital resources and extended lead times for the longer term solutions required.

TPG review categories and key findings:

1. Review of Requirements:

- Currently split central Queenstown locations cause operational inefficiencies for staff and confusing contact points for the public.
- The existing Gorge Road accommodation does not meet all the Council's Building Code Requirements. It does not function as an Importance Level ("IL") 3 or IL4 building – the Holmes Report assumes the building falls within the IL2 category.
- The QLDC Earthquake Prone Building Policy 2007 notes that "buildings that contain people in crowds or contents of high value to the community as defined in AS/NZS 1170.0:2002, Importance Level 3 **including all Council owned buildings.**" The Council policy appears to define Gorge Road as an IL3 building.
- It is not large enough currently. Further, it is incapable of providing expansion at the rate of the region's anticipated growth and the short-term expected requirement of 19 additional workstations.
- There is limited ability to assist elected members with hot-desk options.
- Potential Frankton requirements are not met and have not been considered fully.
- Future requirements, inadequate existing premises and maturing leases all require immediate attention and dedicated action plans.

2. Assessment of Options:

- The review highlights that the current Council owned premises are not an appropriate option for the future and need immediate responses to improve health and safety risks for staff and the public.
- Lead times of 2-3 years will be needed to deliver appropriate medium/long term solutions.
- The Public Library requirements and a Frankton presence need to be taken into account in considering future options.
- A clear direction on Council ownership, Council joint venture participation (Public Private Partnership “PPP”) or other commercial arrangements is needed.
- It is likely that the resultant outcome will include purpose built premises as part of a package of solutions.
- Short term measures will be required to deal with short term maturing leases.

3. Decision Making & Action Plans:

- A “Point by Point” plan is required.
- Decisions will result in various action plans and project reviews.
- A clear direction and controls are recommended before private sector engagement.
- The commitment and decisions will enable project plans to be implemented under a Master Outcome Plan.

Our initial findings from this Review are that even with significant capital outlay, upgrading the Council building at Gorge Road is not a prudent option for the long term because:

- An upgrade of this building will not achieve all the Council’s building code requirements.
- There will be no improvement in the split operational aspects of the Council.
- It will not provide a solution for the remaining office requirements of the Council.
- There will still be inadequate long term storage for critical records.
- It will not deliver a code appropriate Emergency Operation Centre (“EOC”) within the CBD.

As a result it is our opinion that there is no justification to commission cost estimate reports relating to upgrading the Gorge Road premises (refer to section 4).

2 REVIEW METHODOLOGY

The TPG review has been completed using the following reference material along with TPG market experience and commercial considerations:

- The reference material received and reviewed from Council is:
 - Holmes Consulting Group Detailed Seismic Assessment October 2014.
 - Tonkin and Taylor Geotechnical Assessment September 2014.
 - Colliers International Appraisal and Alternative Scenarios Report December 2014.
 - Noel Tapp Designs QLDC Gorge Road Office Plans.
 - Lane Neave opinion 29 January 2015.
 - QLDC Council Meeting 3 June 2015 Report for Agenda Item 9.
 - Council Staffing Numbers.
 - Council Owned Land Map.
- In addition, TPG has:
 - Completed site visits of existing Council premises and land options.
 - Met with the Council's Chief Executive and General Managers.
 - Met with Colliers International in Queenstown.
 - Corresponded with Holmes Consulting Group.
 - Reviewed market information in light of TPG market and commercial experience.

TPG has collated the information and presented it in an Executive Summary, Assessment & Recommended Action Plan.

3 STAFFING REQUIREMENTS

The information provided by Council shows the following staffing positions in Queenstown:

- 163 corporate workstations.
- Current allocation is:
 - Gorge Road 57
 - Shotover Street 87
 - QEC 19
 - Anticipated staff growth: 19 (minimum)¹

The current occupied and leasing sizes (excluding Chambers) are:

- Gorge Road 556m²
- Shotover Street 908m²
- QEC office area 171m²
- Combined Area 1,635m² (net lettable office area)

At under 10m² per employee, the Council offices are functioning at closer to call centre ratios (1:7m²) than current Government target rates of 1:12-16m² (as stated by MBIE) and historical office occupation rates of 1:20m².

The following additional considerations need to be factored into the review:

- The impact of split office functions on productivity.
- Staff health, safety and welfare.
- Workplace standards directly affect the ability to attract and retain staff.
- Growth projections of staff which derive from the significant growth and development within the Council's region (Government statistic shows Queenstown as the second to highest projected growth rates in New Zealand).
- Whether short, medium and long term requirements and costs in relation to the Council's requirements provide sufficient levels of future proofing.
- The growing residential and commercial elements at Frankton. Does the Council need to have a presence within Frankton outside of the current QEC arrangement or should it remain there?

¹ This is an estimate based on forecast staff requirements provided by QLDC human resources.

Outlook:

- Current premises are at or beyond capacity.
- Current Shotover Street lease has a final expiry date of 30 June 2016 with landlord currently indicating that the Council will need to vacate at least the 2nd floor (246m²).
- No room for growth.
- No medium term solution.

4. GORGE ROAD PREMISES

The existing Council Chambers and Offices and the Queenstown Public Library are based at 8-10 Gorge Road, Queenstown. An existing Holmes Consulting Group (“Holmes”) Detailed Seismic Assessment Report was completed in October 2014.

Key findings from the report and TPG assessment of the report highlights:

- The building was originally designed in 1976 with significant alternations/additions completed in 1994, 1998 and 2003. The original design was for the Wakatipu Club and not office premises.
- All Holmes assumptions are based on an IL2 classification of the building (see Appendix 2).
- The current building is assessed at 35% of the Design Base Earthquake (“DBE”) for an IL2 building.
- If the building were to be classified and assessed as either IL3 or IL4 (and given the nature of the building’s uses that is a real possibility), then it could be considered earthquake Prone in its current state.
- The site has been identified as potentially liquefaction prone.
- The structure of the building (large floor plate at first floor level of precast concrete and concrete reinforced brick and reinforced masonry piers) constitutes a stiff brittle structure which in the event of liquefaction poses a risk of potential collapse risk (Holmes Report, paragraph 4.4.4) .
- Such a collapse has the potential for life threatening consequences.
- The current assessment considers the risk at 6.5x that of a new building.
- Additional risks include:
 - The building is in a Flood zone.
 - There is a double heightened fireplace through the reception area.

The cost of upgrading buildings including major retro-fits, in particular those requiring significant seismic work, can be at least equivalent to (in both cost and time) that of constructing a new building.

The cost of upgrading could only be accurately determined once agreement is reached on the building’s desired IL classification.

For an IL2 building, upgrading costs could range from a start point of \$2,500/m² (c.\$2.5m) and only increase from there in an attempt to reach higher IL ratings (which would almost certainly be unachievable without ground remediation).

- Strengthening and upgrading costs could exceed the building’s current net value and be subject to unanticipated fluctuations. These costs could range in the multi-

millions from \$2.5m to plus \$5m subject to but not limited to, final scope, fit out, construction contract, economic conditions and ground remediation.

- The time for these works cannot be accurately predicted until the methodology of the strengthening is known. The building would have to be empty to be strengthened and upgraded. A period of 12-24 months for the physical works is easily foreseeable. Design and consenting would add (say) 12 months to that.
- At best, the rating that could be achieved post strengthening would be an IL2 building at 50% of current code. Significant ground remediation would be required to achieve more than that, and at that point the project would be a rebuild rather than an upgrade.
- If strengthened, the resultant outcome would be modified B grade office space of moderate IL2 rating strength that is inadequate for the provision of an IL3 building for Council public use in Queenstown or for the Council's IL4 EOC requirements.
- Unless Council has an appetite to own such a building, spending further time and resource on analysis of strengthening options for the existing building is unlikely to be of any value.

There are two further potential undesirable outcomes from attempting to upgrade the Gorge Road premises. Firstly, the project could potentially end up being more expensive than a purpose built green-fields project; secondly it does not overcome the other problems arising from the Council having existing multi-site locations.

TPG has sought high level professional engineering cost estimates in order to form its opinion on the merits of strengthening the Gorge Road building. To provide more accurate costings would require detailed assessments which would themselves cost in the order of \$25,000 and take further time. Unless the Council has an appetite to own an IL2 building which is at best 50% DBE, spending money and time on obtaining detailed earthquake strengthening methodology and costs assessments is of no benefit.

From a commercial perspective spending money on the cost repair estimate when all indicators (based on our experience) are that the likely outcome will almost certainly not be to upgrade the building at Gorge Road would be an inefficient use of funds.

TPG's assessment of the building as it is currently used is:

- It has the lowest acceptable level of earthquake strength, falling just short of being classified as Earthquake Prone.
- It is inadequate for the Council's long term operational needs if all CBD operations are to be located in one premise.
- It does not meet the requirements of an IL3 building for use as storage for contents of high value to the community.
- It does not meet the requirements of an IL4 building for use as the Council EOC.

- Continuing to occupy the buildings could potentially be perceived as sending a conflicting message to the community on the importance of taking responsibility for strengthening of buildings, the use of public buildings, and sets the benchmark for what accommodation it deems is acceptable for a good employer (as Council is required to be under the Local Government Act 2002).

Key additional considerations alongside the decision to exit/strengthen Gorge Road are:

- The likely lead times for finding an alternative permanent location are 2-3 years. What immediate measures can be taken to enhance staff and public safety in the interim period?
- What to do in response to the maturing leases at Shotover Street and likely short term requirement of three locations for the Council's operational needs in the intervening 2-3 year period.

Additional analysis of the Queenstown commercial market by Colliers International for the Council in June 2015 highlighted limited available space suitable for the Council in the short and medium term, with realistic rental rates of \$265-\$270/m² for secondary space and \$300/m² for modern premium space.

5. OPTIONS

The following options exist for the Council for the provision of offices, chambers and Public Library in Queenstown:

1. Strengthen the existing Gorge Road building and occupy it along with additional leased premises in Queenstown.
2. Develop a purpose built Council owned facility/facilities on existing Council land in Queenstown and/or Frankton.
3. Lease either existing or purpose built premises in Queenstown from the private sector.
4. Seek a Joint Venture/PPP arrangement on either private land or Council owned land.

The assumptions for a purpose built premises or private sector lease covering the Council office and chambers requirements (note that library requirements are separately assessed) are:

- Queenstown workstation requirements (excluding library) 144.
- Allowance for growth (minimum) 25.
- Target occupancy area of 13/m² per staff member (Government target 12-16m²).
- Area required at 2,197m² – say 2,200m².
- Council chambers area say 200m².
- Potential development costs excluding land and interest \$3,000/m² (\$7.2m plus fitout).

Option 1

Option 1 is essentially the Gorge Road premises strengthening assessed in the previous section with an outcome that results in:

- Significant capital cost in the order of multi-millions that only achieves a partial strengthening solution.
- No improvement in the split operational aspects of the Council.
- No solution for the remaining office requirements of the Council.
- Inadequate long term storage for critical documents and no EOC provision.
- Potential conflict with the proposed Man street bypass.

Option 2

Option 2 is the development of a purpose built premises in Queenstown (or Frankton) by and/or for the Council on existing Council land. The land immediately identified for this assessment is:

- Existing Gorge Road location.
- Gorge road carpark.
- Camp Street carpark (next to Rec Ground).
- Stanley Street carpark.
- Queenstown Events Centre at Frankton.

Option 3

Option 3 is the commercial leasing of premises in Queenstown or Frankton. Initial enquiry suggests that there are extremely limited options (if any) in Queenstown for this size and quality to accommodate the Council requirements of say 2,400m².

The likely outcome for leasing of commercial space would be purpose built premises provided by existing landlord/developers in Queenstown.

Indicative occupancy costs from an existing Queenstown landowner have been provided based on:

- Leased area 2-2,500m².
- Completed shell with carpet and ceiling tiles.
- Rental \$350/m² net.
- Opex \$80-\$100/m².
- Carparks \$25-\$30 per week.
- Long term lease required – suggested 20 years.
- Council fitout own care – estimated fitout range \$900-\$1,200/m².

The indicative occupancy costs for a purpose built A grade building are consistent with industry costs in the South Island and reflect the location, high land values, typical above ground costs and Queenstown market. Whilst there may be some variance in a formal campaign, costs are considered accurate to within +/- 10%.

Option 4

Option 4 is the consideration of a Joint Venture or PPP model on either Council owned land or private sector land. Whilst a preliminary option for this structure does not exist, the following aspects need to be considered prior to exploring this option:

- Development of office buildings is high cost, low margin in the current economic environment – for a PPP model to work, a margin needs to be evident.
- What is the Council providing to the PPP and what risk is it entertaining. This could be land introduction or just a commercial attractive lease/tenant for the developer.
- Likely PPP participants are Ngai Tahu and other existing key land owners in Queenstown.

- Exploring this option would need a firm commitment from the Council on the opportunity rather than an request for Expression of Interest (“EOI”) testing the market that results in delays, non-responsive campaign and shelving of the project resulting in lost confidence, cost and time to the PPP participants.

Market feedback is that the private sector is reluctant to engage in the Council EOI’s until a committed and approved plan is in place to deliver the EOI outcome.

6. PUBLIC LIBRARY CONSIDERATIONS

In addition to the Council Office and Chambers requirements, there is also the provision of the Public Library that is currently housed at Gorge Road. The key findings of this review are that the Gorge Road property is no longer adequate and inappropriate for the Council Offices and Chambers – this is also applicable for the Public Library given significant public use and safety. In a significant event, the location of the Public Library and impact of any building failure (highly likely in a significant liquefaction event) would be critical on this basement level due to the concrete floors above.

The key requirements of a Public Library for the community it services are not necessarily directly linked with the Council offices.

Key attributes for a Library are:

- Public access, at hours which may extend beyond normal Council office hours.
- Short term parking.
- Strong bus route link.
- Load factors for the contents.
- Accessibility.

The current Public Library provides 485m² of library space.

The options for the future Public Library are:

Option 1

Relocate the Public Library with 485m² (being the Council advised ratio requirement of 55/2:1,000 population) being provided for on a new site combined with the Council Offices and Chambers.

Option 2

Find a specific ground floor premises in central Queenstown to specifically cater for the library being:

- Ground floor (ideal location for ease of public access and profile).
- Public access, good bus routes and casual short term parking.
- Catering for the load factors required of a library.
- Accessibility.
- Ensuring library requirements of accessibility, load, bus route do not compromise the Council office requirements.

It is considered likely and cost effective for this to be a standalone hub (rather than combined with the Council corporate requirements) with its existing 8 FTE staff.

Option 3

An additional consideration is the provision of a library service in each of the growing Frankton region and Queenstown central. This could be considered with Frankton providing the main hub and central Queenstown a metro library facility. Draft numbers from the Council indicate:

- Frankton Hub 400-800m².
- Queenstown Metro up to 400m².

7. SUMMARY OF OUTCOMES

The review of the Council premises has highlighted the following outcomes:

1. The current Gorge Road premises are inadequate to meet the Council's current needs in terms of a long term single location for staff; provision of IL3 and IL4 building requirements for public spaces, and given the need for significant capital costs for earthquake strengthening.
2. The almost earthquake prone status of the premises is marginal at 35% of DBE.
3. Strengthening of the existing building is expected to come at a significant cost without providing a resultant 100% of current building code – in addition, a strengthened premises at Gorge Road would remain inadequate for the Council's actual and potential size requirements.
4. A further complication of the Gorge Road premises is the potential impact of the proposed Man Road bypass; a key infrastructure project for the region.
5. The options for the Council going forward are likely to be limited to a design build new premises – the ownership, joint venture or commercial leasing of those premises are all considered viable options based on high level assumptions. The capital cost versus operational cost needs to be debated and direction agreed prior to meaningful engagement with the private sector.
6. The Public Library also needs to relocate for the same safety and medium/long term viability issues. The options for the Public Library are co-location with the Council (subject to space availability); specific new premises meeting the requirements of the library service, and finally consideration of a dual central Queenstown and Frankton location (Hub and Metro model). A clear strategic direction for provision of library services needs to be agreed. This needs to inform the Office and Chambers decisions so that the Public Library requirements do not compromise the ability to locate the Council Offices and Chambers, or make the Council Offices and Chambers unnecessarily expensive to construct.
7. If it is accepted that the Gorge Road building is inadequate and inappropriate for its civic use, a separate project needs to be commissioned to maximise the Council's recovery from that asset. This project needs to consider:
 - Man Road bypass impact and ability to negotiate a sale to NZTA for that purpose.
 - Assessment of the likely alternative uses (not by the Public sector) for the existing premises and the best solution for delivery of that outcome.
 - Potential use of the residual land only.

8. A discussion of high level decisions required, and next steps to be taken, follows at the conclusion of this Review. This sets out a sensible, sequential approach to the various issues the Council faces and prioritizing and project assessment of the action plans can follow. This will ensure good governance and assessment of the options and breakdown into the various projects to minimize the impact on the Council's resources.
9. The resultant actions have considered the short-term impact of maturing leases and alternative premises lead times.
10. Finally, this Review highlights the need to ensure a committed plan is agreed prior to engagement with the private sector to ensure effective private sector engagement and provision of detailed responses.

8 KEY DECISIONS REQUIRED

To enable the Council to deliver a sustainable, commercial, practical, prudent and responsible long term solution to its accommodation requirements, the following decisions are required.

Gorge Road Premises:

- Is it currently acceptable as a Council owned and operated premises – yes/no?
- Is the split location of Council offices acceptable – yes/no?
- Is it worth upgrading the Gorge Road premises for earthquake strengthening purposes?
- What interim arrangements need to be put in place while alternative short and long term accommodation is sourced?
- If earthquake strengthening and upgrading were to occur, what immediate interim arrangements would need to be put in place?
- If Council still wishes to consider earthquake strengthening of the Gorge Road premises, would it wish to do that based on achieving an IL2 rating?
- Does Council wish to obtain detailed costs estimates, methodologies, feasibility studies to earthquake strengthen the building and remediate the land for continued long term occupation based on achieving an IL2 rating?
- If Council wished to remain at the Gorge Road premises what would it need to do to ensure that it does not undermine the success of the Man Road Bypass.

Public Library:

- Does it need to be co-located with the Council Offices and Chambers?
- If the Council chooses to remain at a strengthened Gorge Road premises, will that be sufficiently strong for the Public Library?
- If the Gorge Road premises were strengthened for Council office purposes, then moving the Public Library could provide additional capacity for growth.
- A strategic Library re-location project is required, covering:
 - a) With the Council or standalone.
 - b) Options available.
 - c) Include the Frankton library project and develop hub/metro.

Second Council Premises (Shotover Street):

- Lease matures June 2016.
- Partial re-location at least will be required, resulting in 3 Council locations for one operation.

- Pro-actively ensure that long term there are never more than 2 locations for the central operations.

Frankton:

- A new library project is in the Long Term Plan.
- Incorporate the Frankton library into the accommodation review and plan for Council.
- Location at QEC or Frankton business area.
- Consider a Council office/service centre with the Library project.
- Ensure the Frankton 10 year plan is considered as part of the Council accommodation project.

Summary:

- A flow chart on the decisions and impacts is appended.

9 NEXT STEPS

Four integrated projects are required for the Council accommodation review to be implemented.

1. Gorge Road Project based on decision to vacate or strengthen:
 - Vacate – then project to maximise the realisation and/or use of the asset outside of Council use.
 - Immediate temporary measures to deal with existing Health and Safety issues identified.
 - If strengthen – then create a project to detail cost, use and interim accommodation during strengthening.
2. Second Premise for the Council:
 - Maturing leases.
 - Desire to reduce to 1 or 2 locations (in the medium term).
 - Incorporate the review with Gorge Road decision.
 - Short term requirements and long term goals.
3. Frankton:
 - Consider Library project.
 - Does Frankton also need a service centre for the Council?
 - Potential hub/metro library structure.
4. Library:
 - Link with the Council offices – yes/no.
 - Consider impact of hub/metro with Frankton.
 - Location options.



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