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Masterton Accommodation

1. Purpose of report

- To outline the current accommodation problems faced by Council's Masterton office.
- To clarify the fundamentals of Council's accommodation requirements.
- To outline the accommodation options considered.
- To seek approval to proceed with an accommodation solution.

2. Significance

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002.

3. Executive Summary

The Council's existing accommodation at Chapel Street, Masterton is undersized and generally of low quality. The buildings are poorly dimensioned meaning space utilisation is inherently inefficient. The interior and exterior of the office buildings are tired and require substantial expenditure to bring them up to acceptable standards. The existing buildings fall short of the current seismic building code and do not provide an appropriate base for Council's regional civil defence role and its business continuity requirements. Ablutions, IT and file storage facilities are inadequate.

Several options were considered in an effort to find the most appropriate solution for Council's accommodation problems.

The purchase or lease of alternative premises in Masterton or within the wider Wairarapa area was considered; however, market enquiries have established that there are no built premises available for purchase or lease that would satisfy Council's requirements.

Potentially viable accommodation options considered in more detail in this report and the approximate funding cost of each are:

Option	Description	Funding Cost P.A.
1	The refurbishment of Council's existing offices and the lease of the shortfall of office space.	\$442,238
2	The refurbishment of Council's existing offices and the adjoining Council owned property at 24-26 Chapel Street.	\$393,598
3	The refurbishment and extension of Council's existing properties at Chapel Street.	\$490,802
4	The development of a new building on Council's land at Chapel Street.	\$575,860
5	The development of a new building on Council's depot site at 63 Ngaumutawa Road, or some other peripheral Masterton site.	\$538,760

Options 1 and 2 require the commitment of significant capital expenditure to ageing and poorly designed buildings. Where practicable, the existing buildings would be seismically upgraded as part of the refurbishment works. However, the upgraded buildings would still be unlikely to fully meet current seismic standards, yet alone the higher structural standards required for buildings with special post-disaster functions. While immediate office space requirements would be met, a number of Council's key accommodation requirements would not be. Therefore these "lower cost" options are not considered to be appropriate long term solutions to Council's accommodation problems.

Options 3, 4 & 5 all generally meet Council's immediate accommodation requirements; however, there would be a significant variance in the quality of the outcome resulting from each of these options.

As with Options 1 & 2, the outcome delivered by Option 3 would be largely driven by the existing structures. Opportunities to realise efficiency and sustainability gains through modern design and construction methods would be lost. Again, the upgraded buildings would be unlikely to meet required seismic standards. The execution of the project works would be highly disruptive to staff and the works would require staging over an extended time period.

Only Options 4 & 5 (a new building) would address the limitations imposed by the existing structures. A new building would deliver:

- Superior quality and amenity of the final product.
- Greater flexibility of use into the future.
- Lower ongoing operational and maintenance costs.
- A Green Star NZ certified building.
- A seismically superior structure designed to cater for Council's business continuity needs and regional emergency management role.

- Minimal disruption during the construction process.
- A single consolidated transition of staff from the old building to the new.
- Staff satisfaction and pride in the Council as an organisation.

From a property perspective the Council's Masterton accommodation requirements are best satisfied by the construction of a new two storey building and the subsequent sale of surplus land and buildings. On the assumption that Council is prepared to commit to a new building, the next step would be to further consider the most appropriate location for that building (central or peripheral site). This will take into account the financial implications, transport links, zoning and staff considerations.

4. Background

In 1990 Council purchased its existing Masterton property at 34 Chapel Street from the Masterton District Council for \$646,000. A further \$750,000 was expended refurbishing, upgrading and extending the building prior to Council's occupation in 1991. Since that time expenditure on the property has been largely limited to maintenance and cosmetic works.

In April 2004 Council approved in principle a proposal to extend and upgrade the existing accommodation at 34 Chapel Street, Masterton. This proposal included the acquisition of an adjoining property at 24-26 Chapel Street (to be developed as yard/parking) which was duly purchased in July 2004. A copy of the existing site layout is attached. (refer **Attachment 1**).

Following this decision the original concept design for the project was developed further and detailed cost estimates were obtained. These revised estimates were far in excess of the original cost estimates and for this reason, and later Council's organisational restructure in December 2005, Council requested a re-evaluation of all accommodation options in Masterton.

5. Assumptions

This report is based on the following key assumptions:

That the Council requires an ongoing presence in Wairarapa sufficient to deliver its core functions to the Wairarapa community. In addition, the functional delivery of the Council's core services to the Wairarapa community (such as flood protection, land management, RMA functions, biosecurity, emergency management and general customer service) require a physical presence in Wairarapa due to:

- Local communities of interest that could not be serviced effectively from Wellington (or elsewhere).
- The physical size of Wairarapa.
- Impracticalities with staff movement between Wellington and Wairarapa on a basis that if all staff were located outside of Wairarapa - there would be significant inefficiencies with things such as time allocation, vehicle usage, ability to respond to the community, carbon footprints, etc.

- Council requires an alternative Wellington Civil Defence Group Emergency Operating Centre that is geographically remote from the principal operating centre in Wellington.

6. BioWorks

The accommodation solutions considered in this report do not specifically cater for the BioWorks Department. It currently functions from both the Chapel Street premises and Council's workshop site at Ngaumutawa Road. Given the BioWorks activities are generally noxious, land intensive and require little or no interface with the public; it is considered that this activity would be best conducted at Council's workshop or some other industrial site. Having regard to this and the uncertainties surrounding the future scale and longevity of the BioWorks operation, it would be imprudent to incorporate and develop facilities to accommodate BioWorks in Council's long term Masterton accommodation plans.

Therefore, the proposed accommodation solutions referred to later in this report assume the BioWorks Department will either remain at its existing industrial site at Ngaumutawa Road, or alternatively, move to other rented industrial premises.

7. The Accommodation Issues

Council's Masterton accommodation problems have been documented in the past; however, for the sake of completeness we outline below the principal accommodation issues:

- The existing office accommodation is very cramped and poorly organised. The occupancy rate of the office areas is approximately 50% higher than accepted norms for similar organisations. The shortfall in office space is approximately 500 square metres.
- The office buildings are inherently inefficient due to their small floor plates and narrow dimensions. This also severely limits their flexibility to accommodate changes in staff/department numbers.
- Ablutions such as toilets, showers and locker rooms are inadequate.
- The facility for archived file storage is inadequate.
- The existing computer/LAN room is undersized.
- The premises rented by Biosecurity are of very poor quality and remote from Council's principal site.
- There is inadequate temperature control in some office areas.
- The existing buildings and fitout have reached a point where they will require substantial maintenance expenditure (deferred maintenance and capital upgrade works). For example, the floor coverings and suspended ceilings to all areas require replacement, much of the existing furniture and

hard fitout (partitions etc) require replacement, the existing window opening systems require replacement.

- The Wairarapa office has always been cited as an alternative Wellington Civil Defence Group Emergency Operating Centre (GEOC). At present it is not adequately equipped to act as the GEOC. It needs to operate from a structurally robust building with better communications equipment, appropriate power and data back up facilities and with improved organisational arrangements.
- Masterton District Council has served notice that Council's buildings at 34 Chapel Street and 24-26 Chapel Street are possibly earthquake prone and likely to require seismic strengthening. A preliminary structural evaluation has indicated that some of the sheds/outbuildings are earthquake prone. The main office buildings are not earthquake prone; however, on average they are assessed to have a structural strength less than 50% of the current seismic code.
- The existing parking and yard areas are not well laid out and traffic circulation is clumsy. The existing vehicle crossing to Chapel Street suffers from poor traffic visibility and is considered dangerous.

8. Council's "Core" Requirement

Excluding the BioWorks Department, Council's "core" requirement is principally for good quality office accommodation (approx 1,450 to 1,550 square metres including file archives) along with some dirty storage (approx 200 square metres), a wash down facility and secure parking for 36 vehicles.

The following options were considered as potential solutions to satisfy Council's core accommodation requirements.

9. Lease Options

There are only two potential lease options currently available in Masterton, being the Departmental Building and the WINZ Building at Lincoln Road.

9.1 Departmental Building

The Departmental Building is located directly opposite Council's own Chapel Street property. While there is sufficient office space available within the building, the space is inefficient due to the intrusion of a large central service core and structural shear walls. The floors require extensive refurbishment and air-conditioning would need to be installed. There is insufficient on-site parking and, what parking is available, would be insecure. The property lacks the "dirty" storage areas required. The services are not well maintained and the building generally does not present well. This building has had a chequered history, with a succession of building owners and high tenant turnover.

While the Departmental Building is not able to cater for Council's total accommodation requirements, it could be an option for meeting the shortfall in Council's office space needs.

9.2 WINZ Building

The second leasing option is the WINZ building located on Lincoln Road. The building is currently owned by the Wairarapa Building Society (WBS) and has vacant or potentially vacant (i.e. subject to short term tenancies) areas on the ground, first and second floors. Adequate parking could be developed on the site and an adjoining industrial building/shed could be modified to meet Council's dirty storage requirements.

The WINZ building itself appears to have been constructed in the 1980s and is of average quality. It is not air-conditioned and the space would require refurbishment and re-carpeting prior to occupation. The building has an awkward floor plan which is broken up by service cores, a central light well and columns (on the lower two floors). The layout of amenities and common areas is poorly planned and access to these facilities from the office areas is clumsy.

The WBS's initial proposal was to offer Council office space on parts of the ground, first and second floors totalling approximately 1,100 square metres. This is significantly short of Council's office requirement. A brief space planning exercise confirmed that Council would not fit into the areas offered.

A second proposal was put forward that would see WINZ shift from the second floor to a smaller first floor tenancy. This would enable Council to occupy the entire 2nd floor along with part of the ground floor, increasing the total office space to some 1,200 square metres. A space planning exercise of this option was also undertaken which showed that Council could conceivably fit into the revised areas. However, this proposal has a number of shortcomings namely:

- The available ground floor area is somewhat smaller than what would ideally be required. One less meeting room is provided and the other meeting rooms, office and reception areas are compressed. The records room would ideally be provided on this level but for lack of room it would need to be located on the upper floor.
- The level 2 office areas are currently fitted out in a very inefficient manner. In order to accommodate Council's requirements most of this partitioning will need to be stripped out at some considerable cost. If this were undertaken, the floor area could accommodate Council's office requirements. However, there will be no capacity to cater for any expansion in staff numbers.
- The amenities are poorly located relative to office areas.

In our view the WINZ building proposal essentially amounts to a "force-fit" solution which is far from ideal. There is no guarantee WINZ will agree to shift from their second floor premises and, even if they do, the office space affords limited capacity to cater for future changes.

Therefore, the WINZ building is not considered to be a suitable accommodation solution for GWRC.

10. Purchase of an Existing Property in Central Masterton

This option would involve the purchase of an existing vacant property that could meet Council's accommodation requirements or meet Council's requirements after some upgrade works. On occupancy of such a property, Council's existing site at Chapel Street would be sold.

A search of properties available or potentially available for sale was undertaken in consultation with a local Real Estate agent and developer. There was only one option identified, however, the owner's circumstances changed and the property is now unavailable.

Therefore, we were unable to identify any existing property in central Masterton that could meet Council's requirements.

It is interesting to note that, if Council were looking to establish itself afresh in Masterton, its existing Chapel Street property holdings would most likely be targeted as the "best fit" property purchase option.

11. Lease/Purchase/Develop Property Outside of Masterton

Consideration was also given to the location of the Wairarapa office in a location other than central Masterton.

The lease or purchase of a suitable existing property in either Carterton or Greytown was considered; but enquiries indicate that no such property exists in these towns.

The purchase of a centrally located site in Carterton or Greytown for the development of a new building was also considered. Even if an appropriate site were available, land values in these towns are no less than in central Masterton. Hence the total cost to develop a new building in these towns would be no more cost efficient than on Council's existing Masterton site. While Carterton and Greytown are geographically more central to the Wairarapa region, the bulk of the region's population, workforce and supporting professional services are based in Masterton.

The development of a new building on land already owned by Council on the periphery of Masterton, or some other peripheral Masterton site, was also considered as an option.

This option is addressed in more detail later in this report.

12. Ownership versus Leasing of Premises

It is worthwhile examining the relative merits of Council ownership versus the leasing of premises.

The leasing of premises is appropriate where:

- The lessee's requirement is typical of other lessees in the market. If this is the case there are likely to be several options available for lease at any one point in time.

- Investment in the lessee's fitout of the premises is non-specialised.
- Little control over the property asset is required (i.e. to modify, extend or upgrade).
- There is uncertainty as to the longevity or scale of the entity requiring the accommodation.
- The availability of capital and/or the ability to borrow the capital required to purchase a property is limited.
- The entity has no interest or experience in the management of property assets.

Council's accommodation requirements do not fit well within the above criteria. Instead its accommodation needs are characterised by:

- An accommodation requirement that is atypical in that it blends a predominant office requirement with the need for dirty storage, wash bays, significant secure parking and yard areas.
- The size of Council's requirement is also atypical, being the second largest commercial tenant in Masterton.
- Council's investment in fitout is somewhat specialised and generally not easily transportable or sourced elsewhere (e.g. emergency power systems, poison stores, emergency management IT and communications systems).
- It is important that Council have the freedom to maintain, alter, upgrade, extend and subdivide its operational property in order to effectively undertake its statutory duties (without the need to seek landlord approvals, which may or may not be granted).
- Council is a long term occupier with important and necessary functions. It should be striving towards a position of permanence with sufficient flexibility to respond to change over time.

Based on the above it is our view that Council should be looking for an accommodation solution based on the principle of property ownership.

While the capital cost to purchase and/or upgrade a property is high, we would not expect the loan funding costs to be significantly different than the rental return required by an investor/developer providing an equivalent property for lease by Council. The lease rental is also likely to escalate over time while loan funding costs should remain relatively static. The real difference will be reflected on the balance sheet. At the expiry of a lease term, the lessee's property asset will be zero. Under the ownership scenario the underlying asset value will remain.

We also note that a significant portion of the capital cost to address Council's accommodation issues will be in respect of the fitout of the premises. This includes partitioning, furniture, information technology systems and the like. These costs will be present regardless of whether Council leases or owns its premises.

13. Accommodation Solutions

Having considered a range of alternative options, the following potentially workable accommodation solutions have been identified.

13.1 Lower Cost (Partial) Solutions

These solutions address the immediate requirement for more office space and provide upgraded office environments. However, they do not address the deficiencies and inefficiencies inherent within the existing buildings and site layout and are considered medium term solutions only.

Option 1. The refurbishment of Council's existing office buildings and the leasing of office space in the Departmental Building to cover the office space shortfall. The Council property at 24-26 Chapel Street is surplus to immediate requirements but retained for potential longer term property needs.

Option 2. The refurbishment of Council's existing office buildings including the upgrade and occupation of the Council's property at 24-26 Chapel Street.

A third lower cost option was considered being the refurbishment of Council's existing office buildings and the purchase of prefabricated office buildings for placement on the 24-26 Chapel Street Site. Our enquiries found that there is insufficient site area to accommodate the required number of prefab buildings and that they would not comply with the local District Plan rules for the area. Therefore this Option was not considered any further.

13.2 Higher Cost (Comprehensive) Solutions

These solutions meet Council's Accommodation requirements in a more comprehensive manner. They can be regarded as longer term solutions, however, only Options 4 & 5 (a new building) address the limitations imposed by the existing structures.

Option 3. The refurbishment and reconfiguration of Council's existing office buildings and the construction of additional office space on-site. Surplus Storage sheds are demolished to create open yard space. The Council property at 24-26 Chapel Street is surplus to requirements and offered for sale.

Option 4. The construction of a new two storey building at the northern end of Council's property (24-26 Chapel Street). Council's currently occupied office buildings together with some 1,535 square metres of land are offered for sale.

Option 5. The construction of a new two storey building at Council's property at 63 Ngaumutawa Road or some other peripheral site. Council's existing properties at Chapel Street are sold and BioWorks is relocated to leased premises.

14. Accommodation Options

An outline of the five options considered follows.

14.1 Option 1 – Refurbish Existing Offices and Rent Shortfall

General Description/Scope:	
<ul style="list-style-type: none"> • The refurbishment of existing office buildings including the seismic upgrade of the main office building, a new lift for disabled access and installation of air conditioning throughout. • The lease of one full floor of office space in the Departmental Building on the opposite side of Chapel Street (550sm usable). • The complete fitout of the existing and rented office premises including new furniture. • New toilet, shower and locker facilities are built but existing cafeteria prefab remains. • Reconstruct existing records store to provide a secure dry and fire protected archive facility. • Biosecurity move from old rented premises to the refurbished offices. • Approximately 35 staff relocated to the new rented premises. • 24-26 Chapel Street retained for potential longer term property needs. 	
Project Cost Estimates:	\$ 3,595,000
Less: Property Disposal Proceeds:	\$ Nil
Total Net Project Cost Estimate:	\$ 3,595,000
Project Funding Cost	\$ 342,238
External Property Rentals	\$ 95,000
Total Annual Funding Cost	\$ 442,238
Advantages	Disadvantages
<ul style="list-style-type: none"> • Lower cost option. • Council retains control of all its currently owned land providing flexibility for future redevelopment of the site. • The upgrade, fitout and occupancy of the Departmental Building could be achieved relatively quickly. • The landlord would be responsible for building maintenance costs of the rented building. 	<ul style="list-style-type: none"> • Council will be committing significant expenditure to ageing and poorly designed buildings which are inherently inefficient and inflexible in their use. • Council's accommodation will be spread over two sites (separated by a busy road) requiring duplication of support services. • The cost of the seismic upgrade work and the seismic quality of the upgraded buildings is uncertain. • Will provide only a partially compliant facility for Civil Defence and business continuity response. • Very limited scope to design in "green"/sustainable features. • The construction works will be disruptive requiring staging and multiple staff relocations. • Higher risk of cost escalations/variations when modifying existing structures. • Cafeteria facilities will not be improved. • Council will have no control of the standard of maintenance of the rented property. • Council's investment in the fitout of the rented property will be written off on expiry of their lease. • Ongoing office rental costs which will be subject to periodic reviews. • Vehicular access and site circulation concerns at Chapel Street will not be addressed.

14.2 Option 2 – Refurbish Existing Offices & 24-26 Chapel Street

<p>General Description/Scope:</p> <ul style="list-style-type: none"> • The refurbishment of existing office buildings (including 24-26 Chapel Street) including the seismic upgrade of the main office building, a new lift for disabled access and installation of air conditioning throughout. • The complete fitout of all office areas including new furniture. • Existing shower, toilets and cafeteria prefab to remain. • Reconstruct existing records store to provide a secure dry and fire protected archive facility. • Biosecurity move from rented premises to the refurbished offices. • Approximately 25 staff relocated to 24-26 Chapel Street. 															
<table> <tr> <td>Project Cost Estimates:</td> <td style="text-align: right;">\$ 4,075,000</td> </tr> <tr> <td>Less: Property Disposal Proceeds:</td> <td style="text-align: right;">\$ Nil</td> </tr> <tr> <td>Total Net Project Cost Estimate:</td> <td style="text-align: right;">\$ 4,075,000</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Project Funding Cost</td> <td style="text-align: right;">\$ 393,598</td> </tr> <tr> <td>External Property Rentals</td> <td style="text-align: right;">\$ Nil</td> </tr> <tr> <td>Total Annual Funding Cost</td> <td style="text-align: right;">\$ 393,598</td> </tr> </table>		Project Cost Estimates:	\$ 4,075,000	Less: Property Disposal Proceeds:	\$ Nil	Total Net Project Cost Estimate:	\$ 4,075,000			Project Funding Cost	\$ 393,598	External Property Rentals	\$ Nil	Total Annual Funding Cost	\$ 393,598
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Project Funding Cost	\$ 393,598														
External Property Rentals	\$ Nil														
Total Annual Funding Cost	\$ 393,598														
<i>Advantages</i>	<i>Disadvantages</i>														
<ul style="list-style-type: none"> • Lower cost option. • Council retains control of all its currently owned land providing flexibility for future redevelopment of the site. • Vehicular access and site circulation concerns at Chapel Street will be partially addressed. 	<ul style="list-style-type: none"> • Council will be committing significant expenditure to ageing and poorly designed buildings which are inherently inefficient and inflexible in their use. • Council's accommodation will be spread over two unconnected buildings requiring duplication of support services. • The cost of the seismic upgrade work and the seismic quality of the upgraded buildings is uncertain. • Will provide only a partially compliant facility for Civil Defence and business continuity response. • Very limited scope to design in "green"/sustainable features. • The construction works will be disruptive requiring staging and multiple staff relocations. • Higher risk of cost escalations/variations when modifying existing structures • Cafeteria facilities will not be improved. • New shower/locker facilities cannot be accommodated within available areas. • 24-26 Chapel Street has very low floor levels and has been prone to flooding in the past. • High ongoing property maintenance costs 														

14.3 Option 3 – Refurbish and Extend Existing Buildings

<p>General Description/Scope:</p> <ul style="list-style-type: none"> • The alteration and refurbishment of existing office buildings including the seismic upgrade of the main office building, a new lift for disabled access and installation of air conditioning throughout. • Construction of a new office extension of circa 700 square metres. • The complete fitout of the office premises including furniture. • Demolition of redundant storage structures along the Victoria Street frontage to create more open space. • Reconfiguration of the yard areas/parking and access to the site. • Biosecurity move from rented premises to the refurbished/extended office. • On completion 24-26 Chapel Street is sold. 															
<table> <tr> <td>Project Cost Estimates:</td> <td style="text-align: right;">\$ 5,472,000</td> </tr> <tr> <td>Less: Property Disposal Proceeds:</td> <td style="text-align: right;">\$ 390,000</td> </tr> <tr> <td>Total Net Project Cost Estimate:</td> <td style="text-align: right;">\$ 5,082,000</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Project Funding Cost</td> <td style="text-align: right;">\$ 490,802</td> </tr> <tr> <td>External Property Rentals</td> <td style="text-align: right;">\$ Nil</td> </tr> <tr> <td>Total Annual Funding Cost</td> <td style="text-align: right;">\$ 490,802</td> </tr> </table>		Project Cost Estimates:	\$ 5,472,000	Less: Property Disposal Proceeds:	\$ 390,000	Total Net Project Cost Estimate:	\$ 5,082,000			Project Funding Cost	\$ 490,802	External Property Rentals	\$ Nil	Total Annual Funding Cost	\$ 490,802
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Project Funding Cost	\$ 490,802														
External Property Rentals	\$ Nil														
Total Annual Funding Cost	\$ 490,802														
<i>Advantages</i>	<i>Disadvantages</i>														
<ul style="list-style-type: none"> • Lower project cost than a new building. • Vehicular access and site circulation concerns at Chapel Street will be partially addressed. • Addresses most of Council's immediate accommodation requirements. 	<ul style="list-style-type: none"> • Council will be committing significant expenditure to ageing and poorly designed buildings which are inherently inefficient and inflexible in their use. • Council's accommodation will be spread over three related but essentially separate buildings requiring physical links etc. • The cost of the seismic upgrade work and the seismic quality of the upgraded buildings is uncertain. • Will provide only a partially compliant facility for Civil Defence and business continuity response. • Limited scope to design in "green"/sustainable features. Green star rating is not available. • The construction works will be disruptive requiring staging and multiple staff relocations. • Higher risk of cost escalations/variations when modifying existing structures. • Ongoing maintenance and operating costs will be greater than with a single regular shaped structure. • Vehicular access to the site will be via single point off Victoria Street. • Risk of sale of 24-26 Chapel Street 														

14.4 Option 4 – New Building – Chapel Street

<p>General Description/Scope:</p> <ul style="list-style-type: none"> • The demolition of the buildings at 24-26 Chapel Street and adjacent storage buildings. • The construction of a new 2 storey office building on the northern end of the site of circa 1,500 square metres complete with lift for disabled access and air conditioning. • The complete fitout of the office premises including furniture. • The construction of a new Hydrology/Rivers Store. • Demolition of various storage structures along the Victoria Street frontage. • Reconfiguration of the yard areas/parking and access to the site. • Council relocate from old premises to new. • On completion Council's existing office buildings together with some 1,535 square metres of land are subdivided off and sold. 															
<table> <tr> <td>Project Cost Estimates:</td> <td style="text-align: right;">\$ 6,812,000</td> </tr> <tr> <td>Less: Property Disposal Proceeds:</td> <td style="text-align: right;">\$ 850,000</td> </tr> <tr> <td>Total Net Project Cost Estimate:</td> <td style="text-align: right;">\$ 5,962,000</td> </tr> <tr> <td colspan="2"> </td> </tr> <tr> <td>Project Funding Cost</td> <td style="text-align: right;">\$ 575,860</td> </tr> <tr> <td>External Property Rentals</td> <td style="text-align: right;">\$ Nil</td> </tr> <tr> <td>Total Annual Funding Cost</td> <td style="text-align: right;">\$ 575,860</td> </tr> </table>		Project Cost Estimates:	\$ 6,812,000	Less: Property Disposal Proceeds:	\$ 850,000	Total Net Project Cost Estimate:	\$ 5,962,000			Project Funding Cost	\$ 575,860	External Property Rentals	\$ Nil	Total Annual Funding Cost	\$ 575,860
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Total Annual Funding Cost	\$ 575,860														
<i>Advantages</i>	<i>Disadvantages</i>														
<ul style="list-style-type: none"> • Purpose built new structure utilizing modern materials and best building practices. • Large open regular shaped floor plates will allow efficient and flexible use of space. • Less risk of cost escalations. • Smaller building footprint freeing up more yard space. • Lower ongoing maintenance and operating costs. • Highest property value on completion. • The building will exceed the latest seismic design code. • Will provide a fully compliant "designed" facility for Civil Defence and business continuity response. • Future alterations to fitout and services will be more straight-forward. • Disruption during construction will be minimal. One move from old to new. • Vehicular access and site circulation is improved with dual access. • Direct access to MDC public carpark to rear of site. • Building will incorporate "green"/sustainable features and will be Green Star rated. • Shorter construction period. 	<ul style="list-style-type: none"> • Equal Highest project cost (Same as Option 5). • Risk of sale of Council's existing buildings on the redefined site. 														

14.5 Option 5 – New Building – Ngaumutawa Road or other peripheral Site

<p>General Description/Scope:</p> <ul style="list-style-type: none"> • BioWorks move from Ngaumutawa Road to rented industrial premises. • Redundant industrial structures at Ngaumutawa Rd are demolished. • The construction of a new 2 storey office building on the Ngaumutawa Rd site of circa 1,500 square metres complete with lift for disabled access and air conditioning. • The complete fitout of the office premises including furniture. • The construction of a new Hydrology/Rivers Store. • The development of required yard/parking areas. • Council relocate from old premises to new. • On completion Council's existing properties at 34 Chapel and 24-26 Chapel Street land are sold. 															
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Total Annual Funding Cost	\$ 538,760														
Advantages	Disadvantages														
<ul style="list-style-type: none"> • Generates highest proceeds from property disposal. • Purpose built new structure utilizing modern materials and best building practices. • Large open regular shaped floor plates will allow efficient and flexible use of space. • Less risk of cost escalations. • Smaller building footprint freeing up more yard space. • Lower ongoing maintenance and operating costs. • The building will exceed the latest seismic design code. • Will provide a fully compliant "designed" facility for Civil Defence and business continuity response. • Future alterations to fitout and services will be more straight-forward. • Disruption during construction will be minimal. One move from old to new. • Vehicular access and site circulation could be improved. • Building will incorporate "green"/sustainable features and will be Green Star rated. • Shorter construction period. 	<ul style="list-style-type: none"> • Equal highest project cost (same as Option 4). • Risk of sale of Council's existing Chapel Street Properties. • The land is inappropriately zoned for commercial use. • Building on industrial land will create an asset of diminished market demand should Council wish to sell, lease or sublease the property. • The value of the completed property on industrial land will be significantly less than that of commercial land (i.e. Option 4) • Depending on the location of the property: <ul style="list-style-type: none"> – The location may be inconvenient to staff, customers and the public. – The profile of Council may be diminished. – The use of vehicles may be increased. – Staff interaction with customers and service providers may be less efficient. – Staff satisfaction and retention levels may diminish. – Site security may be more of an issue due to remote location. – BioWorks Department may need to be relocated. 														

15. Comparison of Options

Please note that the assessment and comparison of the accommodation options has been undertaken at a high level. The objective of this process is to compare the options on financial and non-financial basis to assist with the selection of a preferred accommodation solution. Hence the costs estimates stated herein should be regarded for comparative purposes only.

15.1 Cost Comparison Summary

The table below summarises the relative net cost of each of the options:

Item	Option 1 Refurb Extg rent balance	Option 2 Refurb Extg & 24-26 Chapel	Option 3 Refurb/Extend Extg	Option 4 New Bldg Chapel Street	Option 5 New Bldg Ngaumutawa Rd or peripheral site
Project Costs	\$3,595,000	\$4,075,000	\$5,472,000	\$6,812,000	\$6,812,000
Sale Proceeds	\$nil	\$nil	\$390,000	\$850,000	\$1,700,000
Net Project Cost	\$3,595,000	\$4,075,000	\$5,082,000	\$5,962,000	\$5,112,000
Project Funding Cost P.A.	\$347,238	\$393,598	\$490,802	\$575,860	\$493,760
External Property Rental P.A.	\$95,000	\$nil	\$nil	\$nil	\$45,000
Total Annual Debt Servicing Cost	\$442,238	\$393,598	\$490,802	\$575,860	\$538,760
Average Cost Per Ratepayer P.A.	\$2.42	\$2.16	\$2.70	\$3.16	\$2.96
Notes:					
<ul style="list-style-type: none"> Project cost estimates include all construction costs, fitout costs, furniture costs, relocation and temporary accommodation costs, fees and contingency and have been inflation adjusted to the currently anticipated construction commencement date of July 2009. Property disposal proceeds include allowances for costs of sale. The project costs for Option 1 & 5 includes the rental paid on the externally rented premises. Cost per ratepayer per annum is an estimated average rates cost. Costs to individual properties will vary according to their type, location and capital value. 					

15.2 Lower Cost (Partial) Options

The “lower” cost Options (1 & 2) still require expenditure of some \$3.6 million to \$4.1 million whilst only partially satisfying accommodation requirements.

Option 1 has the lower up front cost; however, after taking into account the rental paid on the leased space in the Departmental Building, the total funding cost of Option 1 is some 12% higher than Option 2.

Under Option 1, Council's property at 24-26 Chapel Street would be surplus to requirements in the short to medium term. However, we believe it would be strategically imprudent to sell 24-26 Chapel Street as this would limit Council's property development options in the long term.

Both Options 1 & 2 require the commitment of significant capital expenditure to ageing and poorly designed buildings. Opportunities to realise efficiency and sustainability gains through modern design and construction methods will be lost as will the opportunity for Council to make a significant positive contribution to the urban design of Masterton Township. While immediate office space requirements will be met, a number of Council's key accommodation requirements will not be.

Therefore the lower cost options are not considered to be appropriate solutions to Council's accommodation problems.

15.3 Higher Cost (Comprehensive) Options

While Options 3, 4 & 5 will all meet Council's immediate accommodation requirements, it is important to acknowledge that the process to achieve the outcome and the quality of the finished product will not be the same.

Therefore, the decision as to which option to select should take into consideration, not only the initial project cost, but also the extent to which the solution satisfies the accommodation issues, the logistics of delivering the project, the quality of the completed premises and its long term cost and amenity in use.

These considerations are largely covered by the "advantages/disadvantages" comments contained in the preceding tables 14.1 to 14.5. However, it is worth expanding on some of the key issues.

Building Form

There are limitations imposed by the dimensions and orientation of the existing structures which cannot be overcome. The floor plates of the existing office buildings are narrow gutted and this places limitations on the internal layout of the premises which will be inherently inefficient. The floor area required for internal circulation will be disproportionately high and the reticulation and subsequent alteration of services will be difficult and costly. The external surface area of the combined buildings will be high and complex in detail, resulting in higher ongoing maintenance costs.

A new building would be of a regular shape with large floor plates promoting flexibility of use and convenient reticulation of building services. The exterior surface area of the building will be greatly reduced, of a consistent finish and more easily maintained.

Execution of Works/ Disruption

The upgrade and/or extension of the existing buildings will be a highly disruptive and protracted process requiring most staff to be relocated at least twice. The construction work will have to be undertaken in several stages in direct proximity to staff. Yard and parking will be restricted throughout the construction process. Depending on which option is selected and the programming of works, there may also be a need to lease further temporary accommodation. Allowances have been made to account for the contractor's cost of staging of the works and the cost to move staff to and from the temporary premises. However, no allowances have been made for physical disruption to Council, loss of productivity, staff dissatisfaction and the like.

Construction of a new building at 24-26 Chapel Street or Ngaumutawa Road will allow Council to remain in occupation of their current premises, relatively undisturbed. On completion all staff will move to the new building in a single move.

“Green” Building Features

Environmentally Sustainable Development (i.e. the construction of green buildings) has become a key driver in the property market over the last three to four years. While the move to green buildings was initially driven by government agencies, major commercial property developers and investors are now recognising that the buildings they build or buy, must be “green”. This is a world wide trend.

Any significant property development by this Council should strive to deliver a green building of the highest practicable standard.

To varying degrees, all options have some allowance to incorporate green features to the completed buildings such as double glazing, energy efficient temperature control systems, solar shading, energy efficient lighting and the like. However, the viability and effectiveness of retrofitting such features to the existing structures will be limited and relatively costly. A new building would allow comprehensive attention to green design features in a cost efficient manner.

It is anticipated that a new building will be registered, designed and built under the Green Star NZ building rating and certification system.

The cost estimates for the construction of a new building have been based on achieving a minimum rating of four (4) green stars. This equates to “best practice” under the NZ Green Star rating scale. While a higher Green Star rating is potentially achievable through the inclusion of additional green features, this would need to be considered in context of the scale of the building and the cost effectiveness of the proposed additional green features.

We note that some green features may result in a lower overall quality of office environment. An example is an air conditioning system that saves energy by allowing large variations in internal temperature before actively controlling the

environment. The inclusion of such features would need to be carefully considered during the design process to ensure appropriate accommodation outcomes are achieved.

At present the Green Star rating system only applies to new buildings. Therefore, the options involving the refurbishment and extension of the existing buildings cannot be rated or certified at this time.

Emergency Management/Business Continuity

Council requires an alternative Wellington Civil Defence Group Emergency Operating Centre (GEOC). The current centre is on the 4th floor of the Wellington office and will be appropriate to operate in most anticipated events. The ability of the Wellington GEOC to continue to function following a significant earthquake is in question. The EOCs in the region are soon to be audited and it is unlikely that Council's Head Office set up will meet all the standards required. The Wairarapa office has always been cited as an alternative GEOC but at present it is not completely equipped to act as the GEOC. It needs to operate from a structurally robust building with better communications equipment, appropriate power and data back up facilities and with improved organisational arrangements.

The benefits of having a resilient and fully equipped alternate GEOC would be that it would likely to be able to operate when the Wellington GEOC was unable to do so and importantly, it would be accessible to GW employees who are trained to operate the GEOC. The space would not need to be dedicated as a GEOC but could be a multi-purpose facility. Additionally, a resilient alternative building for GW would better allow for business continuity for the whole organisation in the event that a major emergency event made the Wellington office inoperable.

Therefore, not only is a seismically robust building required, but one that can be readily adapted and utilised for these emergency functions. This would include the incorporation of appropriate power back up, IT and communication systems and the design/layout of office spaces in such a way that they could be quickly and easily converted to meet emergency management operations requirements.

The refurbishment and extension of the existing buildings will impose limitations on achieving these requirements. A new building would allow for these specialist features to be fully designed and integrated from the outset. These features have been costed into the new building.

Seismic Works

As indicated earlier in this report, Council's existing Masterton offices and the buildings at 24-26 Chapel Street have been notified as possible earthquake prone buildings. An earthquake prone building is one which has an assessed structural strength which is less than 33% of the current seismic code. If a building is deemed to be earthquake prone, the minimum standard to which it must be upgraded is 50% of the current code.

While a preliminary study by Structural Engineers, Spencer Holmes indicates the office buildings at Chapel Street are not earthquake prone, their average assessed strength is less than 50% of the current code. This level of seismic protection is not appropriate given Council's operational role and prudently Council would upgrade these structures when a major building refurbishment is undertaken.

The structural upgrade of existing buildings carries additional risk. Our preliminary advice is that the likely cost to seismically upgrade the main office building at Chapel Street is \$250,000; however, this is a rough estimate only. While the seismic performance of the building will be significantly improved, the upgraded building is still unlikely to fully meet current seismic standards due to physical limitations imposed by the existing structure, layout and building fabric.

At this stage the level and cost of upgrade works that might be required to Council's building at 24-26 Chapel Street is unknown.

We also note that buildings with special post disaster functions are required to be built to higher structural standards to resist natural disasters. It is more than likely that this requirement can only be partially achieved with the upgrade and extension of the existing buildings (i.e. in respect of the new building extension only).

The proposed new building will be designed to fully meet the required "higher" structural standards and this has been included in the cost estimates.

16. Valuation Considerations

Regardless of which option is selected, it needs to be acknowledged that the current market value of the completed property will be significantly less than the cost to develop it.

Property values are driven by demand for use of the premises and the level of rental that a property is reasonably able to generate and sustain in its local market. Recent new buildings and major building refurbishments in Wellington indicate that office rentals of circa \$500 per square metre per annum are required to justify a profitable commercial development project. Building costs in Wairarapa are anticipated to be no less than those in Central Wellington; hence similar rentals would be required for a profitable commercial development in Masterton.

Unfortunately the market reality is that office rentals in Masterton are closer to \$200 per square metre per annum (i.e. 60% less than Wellington). Therefore the level of capital expenditure proposed under all of the accommodation options will not break even in a pure commercial sense.

In this case, Council's accommodation requirement is driven by an operational need that the local market cannot otherwise satisfy. Therefore if Council wishes to address its accommodation problems it has no choice but to accept

that the level of capital investment it employs will not directly translate to a relative increase in the market value of the completed property.

A high level valuation has been undertaken by a local valuation firm. This indicates that the current market value of a building constructed on a peripheral site would be significantly less than the value of the same new building constructed on Council's Chapel Street site (circa \$1.0 million). The lesser value of a peripherally located property is a direct reflection of the lower market demand and rentals applicable to that location. It also reflects the higher risk profile of investing in a predominately commercial building located in an industrial zone.

We note that the cost estimates for the new building include tenancy fitout, furniture, and tenant relocation costs which amount to approximately \$1.8 million. These costs that would normally met by the tenant, not the developer and are therefore not recognised in the current market valuations of the completed properties. Hence the appropriate building cost figure for comparison with completed value is circa \$5.0 million (i.e. total cost less tenant cost).

Even after deducting tenant costs, the "cost over value deficit" is still very significant; however, over the medium to long term, we would also expect to see stronger value growth in respect of the Chapel Street property.

17. Summary

From a property perspective the Council's Masterton accommodation requirements are best satisfied by the construction of a new two storey building and the subsequent sale of surplus land and buildings.

The new build option carries the highest up front cost, however, it offers the following significant benefits:

- Superior quality and amenity of the final product.
- Greater flexibility of use into the future.
- Lower ongoing cost in use.
- Greater latitude to design in and implement green building initiatives and to gain recognition of such through the Green Star NZ rating system.
- A seismically superior structure designed to cater for Council's business continuity needs and regional emergency management role.
- Minimal disruption during the construction process.
- A single consolidated transition of staff from the old building to the new.

It is our view the qualitative benefits offered by a new building far outweigh the additional development costs. In the medium to long term, the initial development cost savings offered by the cheaper options will be negated by increased maintenance costs, inefficiencies in use and diminished staff satisfaction and productivity.

18. Funding / Timing / Occupancy Rentals

The project would be funded by debt.

Project expenditure for the first financial year would primarily comprise professional fees. The balance of fees and construction costs will be principally incurred in the 2009/2010 financial year with contractor retentions paid over the year following. The proceeds from the sale of Council's existing building have been allowed for in the 2009/2010 financial year.

The cost to the ratepayer is based on the highest cost option. For any other options selected, the cost to the ratepayer will be less.

Highest Cost Option	2008/2009	2009/2010	Balance of Loan Period
Aggregated Net Capital Expenditure	\$457,000	\$5,637,000	\$5,962,000
Loan Servicing Cost per annum	\$44,146	\$544,534	\$575,860
Average Annual Cost Per Ratepayer	\$0.24	\$2.99	\$3.16

A significant portion of the loan servicing cost is to be recovered from Departments occupying the property via an occupancy rental. Occupying Departments will be required to budget and provide for the occupancy rental from their operational budgets.

19. Recommendations

That the Council:

1. **Receives** the report
2. **Notes** its contents.
3. **Agrees** that improvements to Council's current Masterton accommodation are necessary.
4. **Agrees** that the Council should either:
 - a) Refurbish and extend the existing Chapel St site (option 3); or
 - b) Construct a new building (options 4 or 5); and **requests** the Chief Executive Officer to further consider the possible locations for a new building in Masterton (central or peripheral site) taking into account the financial implications, transport links, zoning, and staff considerations, and to report back to Council with a recommendation on 29 September 2008.

Report prepared by: Report approved by: Report approved by: Report approved by:

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Attachment 1: Existing site layout of Chapel St