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17 December 2014

Queenstown Lakes District Council  
 PO Box 50072  
**QUEENSTOWN 9348**

Attention: Mark Bretherton

Dear Mark

## **QLDC OFFICES – 10 GORGE ROAD AND ALTERNATIVE SCENARIOS - QUEENSTOWN LAKES DISTRICT COUNCIL**

Further to your instruction to provide a total occupancy cost assessment for the QLDC offices at 10 Gorge Road, Queenstown, and a comparison total occupancy cost for premises offering similar utility within Queenstown.

### **Brief Description**

The premise at 10 Gorge Road, Queenstown comprises a three level building. We understand the premises is a combination of an original building erected in the 1980's with significant additions and conversion to the current use circa 1995. The base level accommodates the Queenstown library together with storage space and a staff cafeteria for the QLDC. The library is well appointed and provides a good standard of accommodation, however we note that natural light is limited due to the subterranean nature of Level 1. The second level has on grade access from Gorge Road and provides the main reception to the QLDC with the balance of the floor providing reasonable quality office accommodation of a rustic nature. The third level accommodates the QLDC meeting chambers with adjoining balcony. The second and third levels enjoy good natural light and views to the adjoining park and surrounding hills and mountains. The premise includes 9 staff car parks and adjoins a QLDC operated public car park. The QLDC are owner occupiers of the subject land and buildings, we have been requested to provide a market rental assessment for the premises on the basis of an assumed hypothetical 10 year lease.

### **Net Lettable Floor Area**

We have taken scale measurement of the premise from supplied architectural plans, and summarise areas measured as follows;

	<b>Area (sqm)</b>
Level 1 - Library	607
Level 1 - Covered Entry	16
Level 2 - Offices	646
Level 2 - Deck	54
Level 3 - Meeting Chambers	114
Level 3 - Deck	62
Car Parks	9

## Rental Comparison

The subject has a fringe CBD location located circa 300 metres from the centre of Queenstown. The majority of office space in central Queenstown is located on upper floor levels, where rental values are significantly less than ground floor rental levels. Office accommodation within Queenstown ranges from poor quality 'C' Grade space, through to modern good quality 'A' Grade space developed in the past 10 years. The majority of office tenancies within Queenstown are small, and there are very few occupying premises in excess of 1,000 sqm. The following table gives an indication of the current office rates payable in Queenstown.

Quality	Rental per sqm
A Grade	\$250 - \$400 psm
B Grade	\$200 - \$240 psm
C Grade	\$180 - \$200 psm

During the period 2000 to 2009 a significant supply of new office accommodation came into the market. This space was largely taken up by professional firms, and local enterprise back of house, seeking modern quality efficient work places for their businesses. This set new higher rental levels for offices. In some circumstances fit out was included as an inducement however the majority of leases were for bare shell strapped and lined space with ceiling. We are of the opinion that the current premises are of 'B' Grade Quality.

## Summary – Assessed Annual Accommodation Cost including hypothetical rental, outgoings and car parks

The following table is a summary of our analysis of a selection of accommodation cost scenarios for potential alternative accommodation solutions that could substitute for the current premises at 10 Gorge Road. Our analysis assumes the subject premises to have a structural integrity in excess of 34% of the new building standard, and not to be considered earthquake prone. For more detail please refer to the workings later in this document;

Comparison	Annual cost ( rental plus outgoings incl car parks)	Current premise (assessed rental plus outgoings incl car parks)	Annual cost difference
Existing Alternative within CBD	\$472,500	\$377,760	\$94,740
New Build - within CBD	\$540,000		\$162,240
New Build on Gorge Road	\$456,750		\$78,990
New Development Five Mile	\$504,000		\$126,240

**Outgoings** - We have estimated outgoings within our analysis. The level of Outgoings will vary throughout the market place dependent on council rates, insurance costs, services provided within a building and management costs. Not all owners on charge management costs. Buildings with large shared common areas will generally attract higher outgoing costs.

**Car parking** – In general car parking is more expensive in the CBD and becomes less expensive in areas such as Gorge Road or included within the rental in developments such as Five Mile.

**Earthquake Strengthening** – If earthquake strengthening is required the cost of such strengthening and disruption could be factored into the annual total accommodation cost based to the expected useful life of the building.

## Rental Analysis

### (1) 'As Is' – Assuming structural integrity in excess of 34%

We are of the opinion the annual rental value of subject premises 'As Is' (assuming the building to have a structural integrity in excess of 34% of the new building standard) to be as follows;

	sqm	\$/sqm	\$/ Carpark	
Level 1 - Library incl Fit out	467	\$200	\$93,400	
Storage	140	\$100	\$14,000	
Level 1 - Covered Entry	16			
Level 2 - Offices incl fit out incl deck	646	\$200	\$129,200	
Level 2 - Deck	54			
Level 3 - Meeting Chambers incl fitout and deck	114	\$200	\$22,800	
Level 2 Deck	62			
Estimated Outgoings	1367	\$80	\$109,360	
Car Parks	9	\$1,000	\$9,000	
<b>Total Rent including Outgoings</b>				<b>\$377,760</b>

We are of the opinion, if the building was vacated by the QLDC the space would be difficult to lease, and would suit a specific alternative use conversion to a backpackers or a language school or a made up of a number of smaller office tenants.

### (2) Alternative Building – Existing within the CBD

There would not appear to be an existing alternative building within Queenstown that could accommodate the library and the QLDC Gorge Road offices into one premise. One existing building could potentially provide a 900 sqm floor plate to accommodate the office component. There is at least one existing option that could accommodate the Library. We have assumed the library needs to be easily accessible to the public, and have had reference to a potentially available first floor premises with easy access located in central Queenstown.

	sqm/carpark	\$/sqm	\$/ Carpark	
Library	450	\$250	\$112,500	
Estimated Outgoings		\$80	\$36,000	
Office - Fitted out	900	\$265	\$238,500	
Estimated Outgoings		\$80	\$72,000	
Car Parks	9	\$1,500	\$13,500	
<b>Total Rent including Outgoings</b>				<b>\$472,500</b>

### (3) Alternative Building – New Build within the CBD

There are a number of vacant sites that could potentially be developed within a new office building development. The rental for a new building will be reflective of the cost to build and also the underlying land value. We are aware of developers who are holding suitable development sites who potentially may discount the land component to drive a lower rental to attract a tenant. There are no other tenants as large as the QLDC currently in the market seeking to lease space. Accordingly developers holding land should be negotiable on rental. We are of the opinion that a rental of \$300 psm for fitted out 'A' Grade office space is likely in the current market.

	sqm/carpark	\$/sqm	\$/ Carpark	
Library	450	\$300	\$135,000	
Estimated Outgoings		\$90	\$40,500	
Office - Fitted out	900	\$300	\$270,000	
Estimated Outgoings		\$90	\$81,000	
Car Parks	9	\$1500	\$13,500	
<b>Total Rent including Outgoings</b>				<b>\$540,000</b>

If the library was separated from the QLDC offices, the library could be relocated to an existing building, therefore reducing the rental cost.

### (4) Alternative Building – New Build outside CBD say Gorge Road

Potentially a new build could be built in a lower land value location such as Gorge Road.

	sqm/carpark	\$/sqm	\$/ Carpark	
Library	450	\$270	\$121,500	
Estimated Outgoings		\$65	\$29,250	
Office - Fitted out	900	\$270	\$243,000	
Estimated Outgoings		\$65	\$58,500	
Car Parks	9	\$500	\$4,500	
<b>Total Rent including Outgoings</b>				<b>\$456,750</b>

### (5) New Build – Five Mile Frankton

We are aware that the Five Mile development currently has circa 1,800 sqm of first floor office space available for lease. We understand the asking rental is circa \$280 psm for strapped and lined office accommodation. We have assumed the library would occupy a ground floor retail premise.

	sqm/carpark	\$/sqm	\$/ Carpark	
Library	450	\$350	\$157,500	
Estimated Outgoings		\$70	\$31,500	
Office - Fitted out	900	\$280	\$252,000	
Estimated Outgoings		\$70	\$63,000	
Car Parks	9	\$0	\$0	
<b>Total Rent including Outgoings</b>				<b>\$504,000</b>

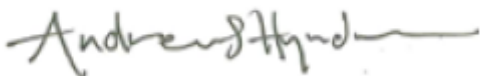
## Other Considerations

- If earthquake strengthening of the QLDC's current building is required, then this creates an issue in terms of operational disruption while work is carried out, and the cost of the earthquake strengthening. The potential disruption may be very difficult to manage, and a short term alternative accommodation solution would most likely be required.
- The future By Pass road through Queenstown is planned to run along part of Henry Street to a roundabout where it meets Gorge Road. The roundabout will connect to Memorial Street. The location of the roundabout is uncertain. Potentially the roundabout and by pass road will necessitate the demolition of the existing QLDC premise.
- The QLDC need to identify what the life span of the building is due to bypass requirements. Due to the future bypass, likely necessitating the buildings future demolition, investment into earthquake strengthening would need to be carefully considered.
- The cost of earthquake strengthening is unknown and we would recommend accurate costs be obtained from an appropriately qualified expert.
- If the QLDC relocates to alternative premises, there is a legacy cost that will be incurred in relation to 10 Gorge Road becoming vacant. If leased to a third party the building would need to be a minimum of 34% of the new building standard.
- While accommodation cost is an important factor, any future relocation decision should be balanced to include a future office environment that creates a better more efficient and effective work place.
- A new building designed and constructed efficiently will likely have lower consumable costs in relation to energy.
- A new building would have additional furniture and soft furnishing fit out costs.
- The QLDC offices within Queenstown are currently split into two locations.
- The lease at 74 Shotover Street has an initial expiry of July 2015 plus a 1 year right of renewal.
- It would make operational sense from an efficient work place scenario to be located within one building. To accommodate all Queenstown, QLDC offices under one roof a new build scenario would appear to be the only solution. Based on the accommodation currently utilised a new building would require circa 1,800 sqm of office accommodation plus the library and car parking. A professionally managed space planning process should be carried out to determine the future space requirement.

We trust this advice meets your current requirement. Should you require further information please contact the writer.

Yours Faithfully

**COLLIERS INTERNATIONAL QUEENSTOWN**

A handwritten signature in black ink that reads "Andrew Hyndman".

**ANDREW HYNDMAN** *B.Com (VPM)*

*Registered Valuer*

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