TITLE:	Kaipara Service Centre – Design and Proposed KDC Lease Terms
Date:	18 March 2019
From:	Phil Heatley, NRC Strategic Projects Manager
	Commercial in confidence

Executive summary/Whakarāpopototanga

This report presents the Kaipara District Council (KDC) with a leasing proposal for office space within the Kaipara Service Centre in Dargaville. The rent calculations were necessarily fixed by using a KDC provided estimate of 65 staff (relating to 975 sqm of space). Northland Regional Council appreciates that these requirements may ultimately change.

All consultants have now been engaged including HB Architects and the project manager, civil engineer and QS, fire, acoustic, traffic, H&S, town planning and lift design specialists.

NRC now requires a binding 'Agreement to Lease' to be entered into by anchor tenant(s) before it commits to final design and construction. The broad principles of the lease proposal are open to discussion between Chief Executives of both Councils.

Recommended actions

1. That the report 'Kaipara Service Centre –Design and Proposed KDC Lease Terms' dated 18 March 2019 by Phil Heatley, NRC Strategic Projects Manager be accepted.

2. That the Chief Executive of Kaipara District Council enter into a binding 'Agreement to Lease' with the Chief Executive of Northland Regional Council to lease office space within the planned Kaipara Service Centre in Dargaville.

Background/Tuhinga

NRC has purchased the 1,235sqm 32 Hokianga Road, Dargaville property (Lot 1 DP 59453 & Lot 1 DP 17583). The planning of a significant redevelopment on bare land is underway and will involve the construction of a two-storey building (1,529sqm floor area) which will primarily provide office space for the **TWO** tenants NRC and, if agreed, KDC:

- NRC: A ground level Kaipara Customer Service Centre with office space for up to 19 NRC staff including meeting rooms and hot desks. Associated storage, workshop and chemical storage areas. Wash-down area for vehicles and equipment. Total floor area required is estimated at 554sqm.
- KDC: Ground floor and first floor rentable office space providing for up to 65 KDC staff. Total floor area required is estimated at 975sqm.
- The NRC and KDC designated areas are to be independent, both with high profile signage, and distinguishable from each other.
- It is envisaged that there will be shared space including meeting rooms, staffroom, Mayor/Councilor hot desking and reception.
- The total land purchase and construction budget is estimated at $8.37m (excluding GST). This is at the top of the range of options.

- It is anticipated that this project will commence on site late January 2020 and commissioned November 2020.

Building Design
NRC has engaged Grant Harris of HB Architecture Ltd to design the building.

Geotechnical advice suggests a two-storey building with a timber frame and designed to standard office 'Level 2 Importance' (Building Code seismic) would be the most practical. 10-Year and 100-Year flood maps suggest the floor will need to be elevated on the site.

NRC requires a practical building that reflects the core responsibilities of the Council, particularly its focus on the natural environment, and will reflect the journey of settlers to the Kaipara and local Hapu. There will be wireless provision and a backup generator.

Furthermore, the inclusion of cost neutral utilities such as an element of solar generation, LED lighting and provision of electric car charging facilities is expected. Environmental friendly design features that would be beneficial, but of significant extra cost, will be itemised for consideration.

Parking
Given both NRC and KDC office space requirements, apart from stored utility vehicles and 3 to 4 electric car charging spaces, car parking will not able to be provided on-site.

Indicative Schematic

Shared Space
Shared space is not limited to but will include stairs, lift wells, reception (if requested), meeting rooms, staffroom, hot desking and toilets.

While the total gross lettable area is 1529 sqm of which NRC will inhabit gross 554 sqm and KDC gross 975 sqm, shared space will come out of these figures in a yet to be determined amount depending on final design. The shared space is not over and above the 1529 sqm.

It is envisaged that KDC would pay full rent for exclusive space and a 67% share of the rent for shared space given the KDC proportion of the total building and comparative staff no's.

Land, Construction Cost and Rental
The more conservative estimate of construction costs is as in the table below. The costs do not include fit-out.

As per the table, were NRC were to recover 6% on expenditure the Base Rental for KDC would be $320,350 + GST pa or $328 per sqm.

Telfer Young were engaged to approach the rental calculation from a valuer's perspective. Their 'indicative' recommendation for the initial rental for 975 sqm is $368,400 + GST pa or $378 per sqm. Report attached.

NRC suggests that the initial 'Exclusive' gross space Base Rent is capped for KDC at $325 per sqm.

Table redacted due to commercial sensitivities

Proposed Lease Agreement with KDC
Following discussion with KDC officers and the KDC Chief Executive regarding Council's needs, NRC proposes the following (NRC remains open to negotiation):

- 15-year tenancy agreement with 3 yearly rent reviews;
- Two further rights of lease renewal at 3 years each being a total term of 21 years;
- Right of first refusal for KDC if the property is to be sold;

- Total gross lettable area is 1529 sqm of which NRC will inhabit gross 554 sqm (for 19 staff and equipment) and KDC gross 975 sqm (for 65 staff). Subject to final measurement.
- KDC will pay Base Rent (for exclusive and shared space) + Rent for Fit Out (amortised or rentalised) + 67% of outgoings (rates, insurance, power, etc).
- Initial 'Exclusive' gross space Base Rent is capped for KDC at $325 per sqm.
- Initial 'Shared' gross space Base Rental is split 67% to 33%, KDC's contribution being $217 per sqm.
- If the Project can be brought in at a lower cost, then the opening Base Rent is 6% of actual cost for exclusively used gross space to a maximin of $325 per sqm and $217 per sqm.
- Ratchet clause so that rent cannot fall below initial Base Rent.
- Garden areas are shared space but no rental is charged and the car charging/parking and yard areas are exclusive for NRC.
- No parking is supplied for KDC.
- Base Rent does not include fit out.

Attachments/Ngā tapirihanga

Attachment: Telfer Young Rental Valuation for the Kaipara Service Centre

Authorised by the Chief Executive

Name:	Malcolm Nicolson
Title:	Chief Executive, Northland Regional Council
Date:	19 March 2019

TelferYoung
Valuers Property Advisors

Rental Valuation

32 Hokianga Road
Dargaville
Kaipara District

Client: Northland Regional Council

TelferYoung (Northland) Limited

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1.0 Executive Summary

Asset Valued: 32 Hokianga Road, Dargaville, Kaipara District

It is proposed to redevelop the site of these existing offices with a new two storey office building of circa 1529m² GFA. The accommodation will be planned on two floors with lift access. The building will be finished to a fitted shell with final fit out to be completed by the respective occupiers.

The development will be executed by Northland Regional Council who will occupy some 554m² net on the ground floor with a further 975m² to be occupied by the Kaipara District Council. The lease will be on ADLS net terms for 15 years at a rent to reflect a return on cost.

This advice supersedes all previous reports and incorporates budgeted costs provided 18/3/2019.

Purpose of Valuation: Preliminary Rental Valuation

Instructing Party: Phil Heatley

Client: Northland Regional Council

Date of Inspection: 11 March 2019

Basis of Valuation: Market Rent

Rentable Floor Area: 1,529m²

Tenancy Summary: 15 year ADLS net lease has been assumed

Significant Assumptions and Special Assumptions:

+ Our assessment is on the basis of the improvements being built to a tradesman like standard, having all the necessary building consents and requirements. It is also on the basis of specifications that we have been provided with and described in this report. Any significant deviation in respect to style, layout, design or construction standards would invalidate the valuation conclusions reached in this report.

Report Issue Date: 18 March 2019

Valuer: Nigel Kenny - Dip Surv (CEM) FNZIV FPINZ ANZIOB FRICS
Chartered Surveyor and Registered Valuer

The Executive Summary must be read in conjunction with the formal valuation report and with TelferYoung (Northland) Limited's Statement of Limiting Conditions and Valuation Policy.

2.0 Scope of Work

2.1 The Valuer

The valuation has been undertaken by Nigel Kenny who provides this objective and unbiased valuation. The valuer has no material connection with the instructing party or interest in the property and has the appropriate qualifications and experience to undertake the valuation.

2.2 Our Client

Northland Regional Council.

Other than the client or addressee, the report may not be relied upon by any third party. We accept no liability to third parties. Written consent is required for any third party wishing to rely on this report. We reserve the right to withhold that consent, or to review the contents of the report if consent for third party use is sought.

2.3 Purpose of the Valuation

An advisory report to establish a base rental for the proposed development.

2.4 Asset Valued

32 Hokianga Road, Dargaville, Kaipara District.

2.5 Valuation Currency

All dollars quoted in this report are NZD.

2.6 Basis of Valuation

We are to provide our opinion of Market Rent which is defined in International Valuation Standards 2017 as:

The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

2.7 Relevant Dates

Assessment Date: 11 March 2019

2.8 Extent of Investigations

No inspection has been completed as the building has yet to be constructed

2.9 Nature and Source of Information Relied Upon

Information used to prepare the valuation has been obtained from our property files and public records. Additional information relied on includes:

Name of Document	Source of Document
Development outline	Northland Regional Council

2.10 Assumptions and Special Assumptions

Standard valuation assumptions made in completing the report are stated in 'Extent of Investigations' and 'Statement of Limiting Conditions and Valuation Policy'.

Significant Assumptions and Special Assumptions made within the valuation are as follows:

+ Our assessment is on the basis of the improvements being built to a tradesman like standard, having all the necessary building consents and requirements. It is on the basis of a Code of Compliance Certificate being issued. It is also on the basis of specifications that we have been provided with and described in this report. Any significant deviation in respect to style, layout, design or construction standards would invalidate the valuation conclusions reached in this report.

2.11 Reporting Format

Our report is provided in an Executive Summary format which briefly details the main characteristics of the property, the leases and summarises our conclusions. This report complies with International Valuation Standards (IVS) with the exception of IVS 103- Valuation Reporting. All information is held on file and should a full report be required, this can be produced upon further instruction.

This report must be read in conjunction with TelferYoung (Northland) Limited's Statement of Limiting Conditions and Valuation Policy.

3.0 Proposed Development

3.1 Introduction

It is proposed to demolish the existing dated single storey building on the site to provide a new two storey office. Plans and specifications have not been provided however a development brief indicates a two storey building with offices and parking for Northland Regional Council on the ground floor with the bulk of the Kaipara District Council tenancy to be on the first floor level. Construction details are limited to the building being a timber frame structure with each tenants to be responsible for their own fitout. A lift has been specified and air conditioning has been assumed. Additional features will include solar power, electric car charging bay and a back-up generator.

4.0 Tenancy Details

The lease has not been sighted however we understand the Kaipara District Council will enter into an ADLS net lease for a term of 15 years subject to three year reviews in line with movement in CPI.

5.0 Valuation Rationale

5.1 Valuation Methodology

To establish the Market Rental for the property we have made comparison with recent rental settlements for comparable accommodation in the wider location.

The best evidence is that of new leasing agreements of comparable premises in the same or similar locations with the date of the transaction being as close as possible to the subject rent review date. Regard can also be had to lease renewals and rent reviews where these are consistent with the new lease evidence, however carry less weight.

Unfortunately this premise fails where the demand is for a standard of accommodation which is simply not available. Although the rent for better quality accommodation could be viewed as a premium to the local market, offices in Dargaville are few and far between with office tenants somewhat less. Given the economics of local businesses many tenants occupy obsolete space which would not meet minimum requirements for a council or large corporate.

Where there has previously been an effective demand for superior space in the township there has been a requirement to either buy land or existing building and either develop or refurbish to order. The cost of these works can then derive a cost related rent. Although not strictly a market rent where there is sufficient transparency and frequency it would be fair to consider the rents so produced as being the market rent for that quality of space.

Previously space requirements for both Rabobank and Westpac followed this process with the acquisition of a dwelling for Rabobank with the existing house demolished and a stylish modern standalone building being constructed. The agreed rent based upon costs incurred was initially set at $269.35/m$^{2.}$ The building subsequently sold at a return of 6.6%. The Westpac development was in respect of an existing building in a prime location, which had an acceptable (at the time) seismic assessment however full refurbishment was required. The cost related rent was circa $330.00/m^2. The building sold shortly afterwards at a yield of 6.7%. This could arguably indicate market rents between $270/m^2-$330/m^2 or a return of costs between 6.6%-6.7% return on costs. These returns did however include a risk/management return to the developer as part of the transaction costs.

However it is necessary as part of this process to consider if the costs incurred are in fact reasonable

In the subject case the locational requirements for the tenants are quite tight given the need for close proximity of staff to the town hall. The subject property site was acquired at market value, however it was purchased as an office so with demolition costs totalling $549,736 it appears a relatively expensive site acquisition. Given the locational constraints but for this purchase it would have been necessary to acquire at least two residential properties which would have incurred even greater cost, not just in land value but also due to sloping ground conditions, more expensive construction costs. On this basis the land cost appears reasonable.

We have been provided with further project costs indicating a building cost of circa $5,440,269. To this sum needs to be added professional fees and site development. The building is also intended to be provided with a lift, solar panels and a sprinkler system.

We have considered the breakdown of costs provided based against our experience of new developments in the region and also published price guides. The estimated build cost for the office accommodation appear relatively high however less so once the significant cost of the site specific foundations are deducted. A figure of $110,745 has been allowed for landscaping which is considered prudent. The lift cost at $110,745 implies a budget level facility however for a two storey building this is likely to be achievable. Professional fees are fixed at $758,267 which equates to some 11.8% of the estimated build cost which appears in line with expectations given the need for an Architect, Structural engineer, lift engineer, fire reports and sundry consultants.

Overall however, the costs are considered to be a prudent provision with building costs considered to have escalated significantly in recent years due to the shortage of expertise and ever increasing performance standards.

In considering an appropriate return we have two sales which indicate what was an acceptable margin to a developer on a cost related rent which included a risk and reward factor. In this instance we have budgeted cost but no allowance for the management of the development. Overall yields have fallen since these two sales were concluded. If a base return of 6% was to be adopted a developer requiring a 15% margin on a turnkey scheme would need a return on cost of 6.9%.

6.0 Rental Valuation

We assess the likely market rent of the proposed 975m^2 tenancy as at 11 March 2019 as follows:

Total development cost	$ 8,372,878
Return at 6.9%	$ 577,728
Rental m^2	$ 377.85/m^2
Rent for 975m^2 tenancy	$ 368,400

Clearly at this early stage this assessment should be considered as being indicative rather than definitive however it is considered to form a reasonable basis to allow the project to move forward.

7.0 Statement of Limiting Conditions and Valuation Policy

Purpose

This valuation report has been completed for the specific purpose stated. No responsibility is accepted in the event that this report is used for any other purpose.

Responsibility to Third Party

Our responsibility in connection with this valuation is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of TelferYoung (Northland) Limited and the author of the report. TelferYoung (Northland) Limited reserves the right to alter, amend, explain or limit any further information given to any other party.

Reproduction of Report

Neither the whole nor any part of this valuation and report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's signature.

Date of Valuation

Unless otherwise stated, the effective date of the valuation is the date of the inspection of the property. This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value.

Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 90 days from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Legislation

We have not obtained a Land Information Memorandum (LIM) or Property Information Memorandum (PIM) for this property which, unless otherwise stated, is assumed to conform to all requirements of the Resource Management Act 1991, the New Zealand Building Code contained in the First Schedule to the Building Regulations 1992, the Building Act 2004 and any Historic Places Trust registration. Our valuation reports are prepared on the basis that properties comply with all relevant legislation and regulations and that there is no adverse or beneficial information recorded on the Territorial Local Authority (TLA) property file, unless otherwise stated. Legislation that may be of importance in this regard includes the Health & Safety at Work 2015, the Fire Safety and Evacuation of Buildings Regulation 1992, and the Disabled Persons Community Welfare Act 1975.

Registrations

Unless otherwise stated, our valuation is subject to there being no detrimental or beneficial registrations affecting the value of the property other than those appearing on the title. Such registrations may include Waahi Tapu and Historic Places Trust registrations.

Reliability of Data

The data and statistical information contained herein was gathered for valuation purposes from reliable, commonly utilised industry sources. Whilst we have endeavoured to ensure that the data and information is correct, in many cases, we cannot specifically verify the information at source and therefore cannot guarantee its accuracy.

Assumptions

This report contains assumptions believed to be fair and reasonable at the date of valuation. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, TelferYoung (Northland) Limited reserves the right to reconsider the report, and if necessary, reassess values.

GST

The available sources of rental data upon which our valuation is based are generally not specific as to the GST content. Unless it has been necessary and possible to specifically verify the GST status of a particular rental agreement, it has been assumed that the available commercial rental data has been transacted on a plus GST (if any) basis, which is in accordance with standard industry practice for most commercial property. Should this interpretation not be correct for any particular rental used as evidence, we reserve the right to reconsider our valuation.

Rental evidence relating to a residential property or a residential component of a commercial property is not subject to GST. Unless it has been necessary and possible to specifically verify the GST status of a particular residential rental agreement, it has been assumed that the available residential rental data has been transacted with no GST, which is in accordance with standard industry practice for residential property. Should this interpretation not be correct for any particular rental used as evidence, we reserve the right to reconsider our valuation.

Land Survey

We have made no survey of the subject property and assume no responsibility in connection with these matters. Unless otherwise stated, the valuation has been assessed conditional upon all improvements being within the title boundaries.

Unless otherwise stated, we have not undertaken investigations or been supplied with geotechnical reports with respect to the nature of the underlying land. Unless otherwise stated, the valuation has been assessed conditional upon the land being firm and suitable ground for the existing and/or potential development, without the need for additional and expensive foundation and retaining work or drainage systems.

Earthquake-Prone Buildings

We are aware that a number of buildings are, or may be potentially, affected by local territorial authority policies for 'earthquake-prone' buildings (Earthquake-Prone Building Policies) required to be in place under the Building Act 2004. The Earthquake-Prone Building Policies may require building owners to undertake engineering investigations and subsequent structural upgrading, demolition or other steps to meet the requirements of the Earthquake-Prone Building Policies. Unless otherwise stated, our valuation makes no allowance for any costs of investigation, upgrading, demolition or other steps which may be incurred by the building owner to meet the requirements of Earthquake Prone Building Policies. We are not qualified to determine the 'earthquake-prone' status of the buildings. Our valuation is therefore subject to a review, investigation and assessment of seismic performance of the building, by a suitably qualified building engineer, to determine the 'earthquake-prone' status of the building and where required, an estimate of any costs for structural upgrading, demolition or other steps required for the building to meet the requirements of Earthquake-Prone Building Policies. If the building is found to be 'earthquake-prone', this finding is likely to impact on the value of the property, and our valuation may materially alter as a result.

Systems

Our valuation has been assessed conditional upon all hot and cold water systems, electric systems, ventilating systems and other devices, fittings, installations or conveniences, including lifts and escalators where appropriate, as are in the building, being in proper working order and functioning for the purposes for which they were designed.

Water Leaks & Penetration Effects

We are aware that a number of buildings have developed problems associated with water leaks, water penetration, weather-proofing, moisture and water exit control systems, mould, fungi, mildew, rot, decay, gradual deterioration, microorganisms, bacteria, protozoa or like forms. Problems can result from defects in design, construction methods and materials used, or any combination of defects.

Our valuation has been assessed conditional upon all buildings and structures being constructed strictly in accordance with recommended practices and free from defect unless otherwise stated. We are not qualified to undertake, nor have we undertaken, a structural survey of the buildings or structures. We accept no liability for any defects that may arise as a result of poor building design, construction methods or building materials. If you have any concerns, you should engage a suitably qualified person to report on this matter. Defects revealed by a suitably qualified expert may affect the value of the property.

Leases

The interpretation of leases or other contractual agreements referred to in this report is solely the opinion of the author and should not be construed as a legal interpretation. Furthermore, summaries of contractual agreements which may appear in the report or appendices, are presented for the sole purpose of giving the reader an overview of the salient facts thereof.

Tenancies

Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market perception of them. Unless otherwise advised, our valuation has been assessed subject to the tenant being independent of the owner and capable of meeting all financial obligations under the lease, and that there are no arrears of rent or undisclosed breaches of covenant. Further, our valuation is conditional upon all rents referred to in this report representing the rental arrangement stipulated in the contractual agreements pertaining to the tenant's occupancy, to the extent that such rents have not been prepaid, abated or inflated to reflect extraordinary circumstances, unless such conditions have been identified and noted in this report.

Professional Indemnity Cover

We have in force at the time of supplying the above valuation, current professional negligence insurance appropriate to the nature and level of our business activities.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully

TelferYoung (Northland) Limited

Nigel Kenny - Dip Surv (CEM) FNZIV FPINZ ANZIOB FRICS
Chartered Surveyor and Registered Valuer

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