



SUPPLEMENTARY AGENDA

Ordinary Council meeting

Monday, 16 September 2024

Date: Monday, 16 September 2024

Time: 9.30am

**Location: Bay of Plenty Regional Council Chambers
Regional House
1 Elizabeth Street
Tauranga**

Please note that this meeting will be livestreamed and the recording will be publicly available on Tauranga City Council's website: www.tauranga.govt.nz.

**Marty Grenfell
Chief Executive**

Order of Business

11.11 - Background Information – 90 Devonport Road 4

11 BUSINESS

11.11 Background Information - 90 Devonport Road

File Number: A16613258
Author: Mike Naude, Director of Civic Developments
 Fiona Nalder, Principal Strategic Advisor
Authoriser: Marty Grenfell, Chief Executive

Please note that this report contains confidential attachments.

Public Excluded Attachment	Reason why Public Excluded
Item 11.11 - Background Information - 90 Devonport Road - Attachment 2 - Confidential Attachment 2 - 90 Devonport Road - full resolutions of Council	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.
Item 11.11 - Background Information - 90 Devonport Road - Attachment 4 - Confidential Attachment 4 - 90 Devonport Road - Financial information	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.
Item 11.11 - Background Information - 90 Devonport Road - Attachment 5 - Confidential Attachment 5 - 90 Devonport Rd - TwentyTwo recommendation Agreement to Lease	s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

PURPOSE OF THE REPORT

- The purpose of this report is to present, together with attached documents, a comprehensive overview of Council’s decision-making processes regarding the office accommodation for council staff, the sale of 90 Devonport Road to Willis Bond, and the subsequent development of 90 Devonport Road to provide a civic administration building for the council organisation.

RECOMMENDATIONS

That the Council:

- Receives the report "Background Information - 90 Devonport Road".
- Directs staff to review previous public excluded Council reports and attachments regarding the sale and development 90 Devonport Road, and to transfer those reports and attachments into public, unless there is a valid reason not to under the Local Government Official Information and Meetings Act 1987.
- Notes that redactions may be made, if required, and in compliance with the Local Government Official Information and Meetings Act 1987, to previous public excluded Council reports and attachments regarding the sale and development 90 Devonport

Road, to facilitate the transfer of these documents into public.

ATTACHMENTS

- (a) **Attachment 2** can be transferred into the open when the contents are no longer commercially sensitive and/or commercially sensitive information has been redacted.
 - (b) **Attachment 4** can be transferred into the open when the contents are no longer commercially sensitive and/or commercially sensitive information has been redacted.
 - (c) **Attachment 5** can be transferred into the open when the contents are no longer commercially sensitive and/or commercially sensitive information has been redacted.
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EXECUTIVE SUMMARY

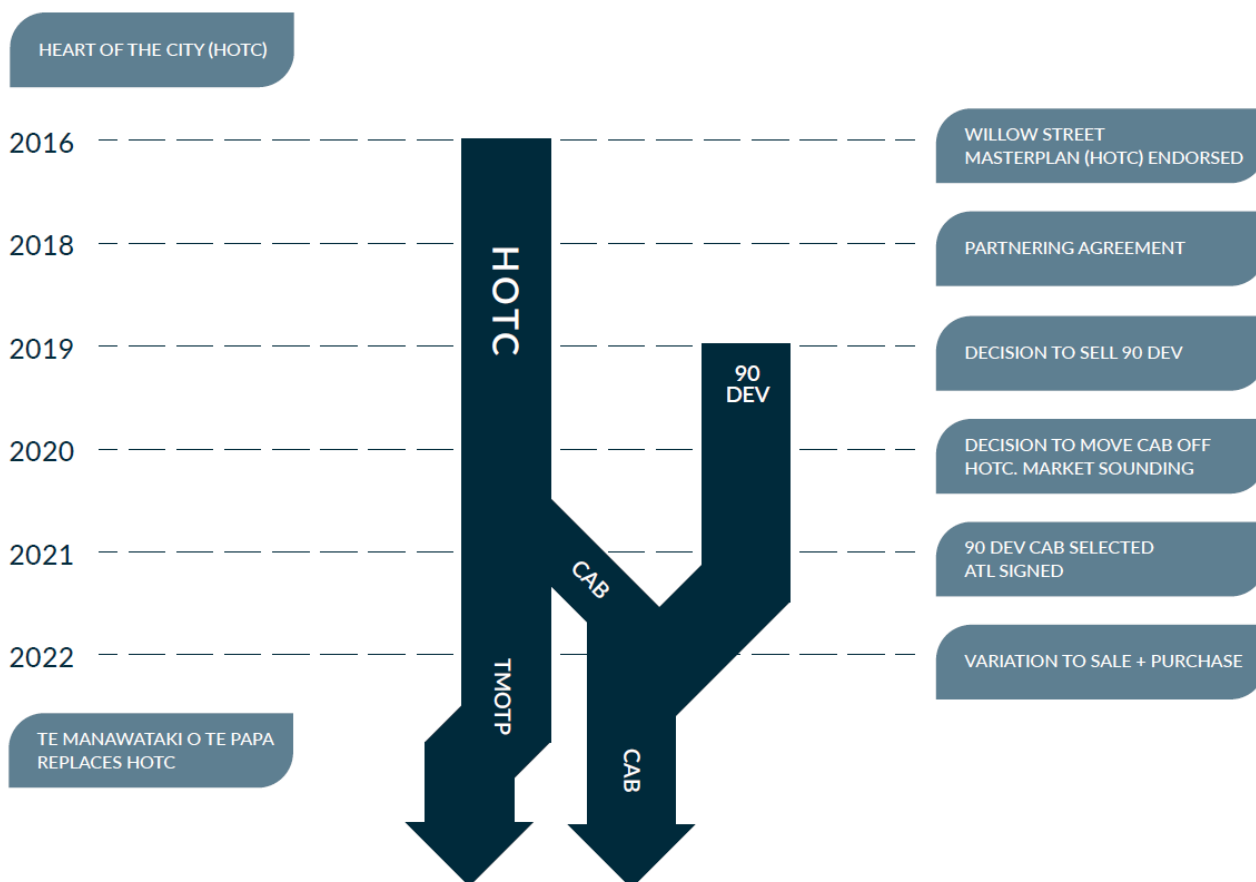
- 2. This report provides a summary of Council's decision-making processes regarding the Civic Administration Building (CAB) on 90 Devonport Road.
- 3. Council has been in temporary leased accommodation since 2014, when the Willow Street Council offices were vacated due to the presence of toxic mould. Council administrative staff are currently housed across two main premises at Cameron Road and Spring Street.
- 4. Originally, the development of Willow Street was seen as an opportunity to rebuild a CAB. In 2016, Council decided to consider providing a ground lease on Willow Street to an independent developer, and then leasing back the CAB.
- 5. It became clear that this approach had drawbacks, as it was not compliant with the Reserves Act 1977 (the land at Willow Street is classified as Reserve Land under the Act). Additionally, it reduced the ability to deliver community facilities on the Willow Street site, and these were viewed as a priority for that site.
- 6. In 2018 Council entered a 12-year partnership with Willis Bond with a commitment to work together to develop Council-owned land across the city centre. The Willow Street site was the primary focus of this agreement (but other sites were also potential development sites).
- 7. In September 2019 Council considered a proposal to deliver a CAB at 21 Durham Street but did not progress with this proposal. During this timeframe Council was also considering unsolicited proposals from external parties (neither of which were Willis Bond) to purchase and develop 90 Devonport Road. The partnership agreement with Willis Bond did not preclude Council from selling 90 Devonport Road to a third party.
- 8. One of the interested parties who had submitted a proposal to Council to purchase 90 Devonport Road, also independently developed a relationship with Willis Bond. This party withdrew their proposal following the September meeting, and nominated Willis Bond to take over the work they had completed to-date and their role in Council negotiations.
- 9. Following a closed competitive process involving the two interested parties (one of which was now Willis Bond), a decision was made to sell the 90 Devonport Road to Willis Bond, and a sale and purchase agreement was entered into in December 2019.
- 10. A comprehensive review of Council's accommodation strategy was completed by an external consultant in 2020 and presented to Council in March 2020. At this meeting Council made a series of resolutions, including approving in principle the concept of consolidating Council's administrative staff in a single, leased location, and deciding to enter good faith, non-binding discussions with Willis Bond to explore the lease of office accommodation at 90 Devonport Road, whilst still exploring other accommodation options and proposals.
- 11. On 30 June 2020, Council resolved to assess options for a new single site CAB to house Council's administrative functions. A Market Sounding' exercise was undertaken, where known developers were invited to indicate their interest in developing an office building and on what broad commercial leasehold basis.

12. The Market Sounding produced nine responses. In September 2020, Council approved a recommendation to reduce these to three preferred options and approved evaluation criteria. In October 2020 detailed proposals were received from the three remaining parties, which included Willis Bond.
13. The evaluation assessment and recommendations were presented, in public excluded, to Council (Commissioners) in March 2021. At this meeting Council approved the selection of 90 Devonport Road and Willis Bond as the preferred location and developer and delegated authority to the Chief Executive to negotiate and agree lease terms meeting or better than the development offer made by Willis Bond (CO3/21/16).
14. In June 2021, following consultation via the Long-Term Plan, Council (Commissioners) approved the 90 Devonport Road site as the preferred location for Council's CAB and on 23 December 2021 Council entered into an Agreement to Lease with Willis Bond.
15. On 12 December 2022 a public excluded report was taken to Council (Commissioners) seeking decisions to allow the Agreement to Lease to progress.
16. Before the Agreement to Lease could become unconditional, Willis Bond needed to confirm that, following completion of detailed plans and specifications and pricing, they were satisfied with the estimated construction cost of the CAB, as this cost was integral to achieving project feasibility.
17. However, the estimated construction cost of the CAB was significantly higher than the original estimated cost of development at the time the Agreement to Lease was entered into.
18. Willis Bond proposed a range of solutions to Council. Council decided on a Variation to the original Sale and Purchase Agreement together with some additional adjustments. These decisions resulted in Council contribution of 24% towards the total amount needed to ensure project feasibility.
19. Willis Bond also implemented a substantial range of initiatives to reduce project costs and ensure feasibility, including a significant reduction in their profit margins for the project (their contributions totalled 76% of the amount needed to ensure feasibility).
20. Following these decisions, the Agreement to Lease became unconditional, triggering the Sale and Purchase Agreement for 90 Devonport Road to also become unconditional.
21. Willis Bond is responsible for the building costs (base build) of 90 Devonport Road and Council is meeting the fit-out costs (estimated as \$33.4m at practical completion).
22. The completion date for both base build and fit-out is scheduled for end of March 2025, followed by installation of furniture and equipment, and the transition of staff into the new building from late May to June 2025.
23. The building and fit-out are to a high standard, designed with a focus on sustainability and environmental stewardship.
24. Council is currently occupying approximately 6,100m² of leasehold space, which allows for 46% utilisation (i.e. there is enough room in Spring Street and Cameron Road combined for 46% of Council's office-based workforce at one time). The move to the CAB will increase leased floor space to approximately 10,588m² and allow for around 60% utilisation.
25. The delivery of the CAB at 90 Devonport will provide benefits for the wider city centre. Council's significant investment into the city centre, via Te Manawataki o Te Papa, surrounding streetscapes and open spaces, and the CAB, has begun the work of revitalising the area. It has provided confidence to the market, and stimulated investment by others, such as the Craigs development at 2 Devonport Road and the Northern Quarter. Rehoming council staff within the centre of the city (rather than the outskirts) will provide welcome business for surrounding retail and hospitality.
26. Attachment 1 provides a chronology of past Council reports and decisions relating to the CAB. Confidential Attachment 2 provides past Council recommendations and resolutions in full, highlighting where these differ, and is a confidential document as most of the resolutions

are public excluded. This report recommends that public excluded reports and resolutions relating to 90 Devonport Road are reviewed, and where possible released publicly.

BACKGROUND

- 27. The development of 90 Devonport Road into a Civic Administration Building (CAB) for Tauranga City Council is prefaced by two workstreams:
 - i. Decision making regarding office accommodation for council staff.
 - ii. The sale of the land at 90 Devonport Road to Willis Bond.
- 28. These two workstreams, at times interlinked, joined together into a single workstream in June 2021 when, following consultation via the Long-Term Plan, Council approved the 90 Devonport Road site as the preferred location for Council’s CAB. This process is shown at a high-level by the following diagram.



- 29. This report sets out the summary of this work, stepping through the history of the two workstreams above, and the subsequent combined workstream which is the development of the CAB on 90 Devonport Road. (Note, although the diagram starts at 2019, earlier attempts had been made to sell 90 Devonport, from 2007 onwards).
- 30. Council decisions prior to February 2021 were made by the elected Mayor and Councillors, and Council decisions made between February 2021 to June 2024 were made by appointed Commissioners.

Workstream One: Tauranga City Council – office accommodation for council staff

- 31. Prior to November 2014, council administrative staff were consolidated in four buildings on the Willow Street site. However, the discovery of toxic mould in the buildings at that time resulted in the staged evacuation of staff from the site. Council staff vacated the buildings and were relocated in temporary leased accommodation, and that continues to be the situation today.

32. Between 2015 and 2019 considerable work was undertaken considering the future of the Willow Street site, including opportunities for a CAB. Decisions made by Council during this period are summarised below.

Table 1: CAB related decisions between 2015 and 2019¹

Date	Council Decisions
June 2015	The Council resolved to commence a strategic assessment of the issues and opportunities associated with the future of the civic campus buildings.
April 2016	The Council agreed that staff should prepare a business case for civic space options based on the Willow Street site Masterplan developed by architects <i>Warren and Mahoney</i> and landscape architects <i>LandLab</i> .
June 2016	The Council considered the business case that had been prepared and agreed to consult on a proposed change to the LTP based on the business case which included the development of a new CAB on the Willow Street site.
Sept 2016	The Council adopted an amendment to the LTP (2015 – 2025) to include a number of projects including: “Work with the private sector to deliver a new CAB for Council to lease on the 91 Willow St land. \$22.3m in capital costs plus an ongoing lease cost (\$2.5m/an)”. The reasons for this are elaborated on in paragraph 33 below.
Sept 2016	The Council adopted the <i>Warren and Mahoney / LandLab</i> developed Willow Street Masterplan as proposed as a reference design that subsequent phases and alternative proposals could be tested against on a merit basis to “meet or better”.
Feb 2018	The Council accepted in principle the Willow Street Masterplan developed by <i>Willis Bond</i> .
June 2018	The Council approved the partnering agreement with <i>Willis Bond</i> and approved the Willow Street Masterplan “for the purpose of the project, but on the basis that the Masterplan is ‘indicative’ and currently needs to be revised and in the future amended as necessary in response to requirements of the Project during the Term”.
Sept 2019	The Council considered a proposal to commission a feasibility report to develop a CAB (and bus facility) at 21 Durham Street. The proposal was left to lie on the table. The minutes do not explain why it was left to lie on the table but it is noted that the proposal was inconsistent with both the <i>Warren and Mahoney / LandLab</i> and “indicative” <i>Willis Bond</i> developed Masterplans. The Council also considered a third party development consortium proposal to sell 21 Durham Street for the purpose of a hotel development. This proposal was also left to lie on the table.

33. Initially Council was considering building a Council-owned CAB on the Willow Street site. In 2016 Council decided to explore a long-term ground lease at the Willow Street site, and secure an external party to fund and develop the CAB on this leased land. This change in direction was based on two primary considerations.

- Limited Council funding available for new developments, and the desire to prioritise allocation of the funding available to community facilities (such as a library).
- Removal of risk to Council. By not owning the CAB, Council would not be exposed to development risk and long-term upkeep of the building.

34. However later investigations showed that a leasehold/developer arrangement on the Willow Street site was problematic from a legislative perspective (Reserves Act 1977) and would have overly limited the availability of land for the proposed community facilities.

¹ Tauranga City Council Office Accommodation Strategy, Max Pedersen, March 2020

35. Following the September 2019 meeting, when the proposal to develop a CAB at 21 Durham Street was left by Council to lie on the table, Max Pedersen was commissioned to complete a comprehensive review of Council's accommodation strategy. This report reviewed progress made to reconsolidate Council's administrative services within a single location and recommended subsequent actions.
36. This report was presented to Council on 24 March 2020. At this meeting Council made a series of resolutions, including approving in principle the concept of consolidating Council's administrative staff in a single, leased location, and deciding to enter good faith, non-binding discussions with Willis Bond to explore the lease of office accommodation at 90 Devonport Road, whilst still exploring other accommodation options and proposals. These resolutions can be viewed in full in Confidential Attachment 2.
37. This report was the point that the CAB became a separate project to the wider Willow Street site redevelopment (initially known as Heart of the City, now known as Te Manawataki o Te Papa). For further background regarding the Tauranga office leasehold market, refer to Attachment 3.

Workstream Two: The purchase of 90 Devonport Road by Willis Bond

38. Council has actively sought the sale of 90 Devonport Road since 2007. Council ran Request for Proposal (RFP) processes for 90 Devonport Road in 2007 (extending into 2010) and then again in 2013-2014. Neither of these processes resulted in a successful outcome. Council was approached by a party following the 2013-14 RFP process and granted this party an exclusive right to investigate development options. This exclusive right was extended through to 2016 but did not result in a successful development.
39. In 2019 Council received two unsolicited proposals to purchase 90 Devonport Road for commercial developments: one, an office complex, the other, a hotel. Neither of these two proposals was from Willis Bond.
40. Two market valuations were completed by registered valuers for 82, 84, 90, 94, 96 and 98 Devonport Road (90 Devonport Road) in July 2019.
 - \$8,766,000
 - \$11,900,000
41. On 6 September 2019 Council approved the sale of 90 Devonport Road and delegated responsibility to the Chief Executive to negotiate and agree on sale and purchase terms with the preferred purchaser. At the same meeting, Council also approved future purchase of 86-88 Devonport Road via nominee (M19/59.9). Purchase of this additional land parcel would increase the overall road frontage, enhancing development potential.
42. The intent of these resolutions was to progress a sale of a substantial development block in the city centre which:
 - Provided fair market return to Council (sale and purchase price of 90 Devonport Road to be within the range provided by two registered valuers)
 - Facilitated development of the site in such a way as to maximise density, deliver good design outcomes and contribute to the revitalisation of the city centre.
43. Prior to making these resolutions, Council received legal advice that it was not required to refer the sale of 90 Devonport Road to Willis Bond for consideration or approval. This is relevant, as in 2018 Council had entered into a 12-year partnership agreement with Willis Bond to deliver developments in the city centre on Council-owned land. The legal advice confirmed for Council that any sale and purchase arrangements for 90 Devonport Road, and any future development of the site, could be dealt with outside of the partnership arrangement.
44. One of the interested parties who had submitted a proposal to Council, also independently developed a relationship with Willis Bond. This party withdrew their proposal following the

September meeting, and nominated Willis Bond to take over the work they had completed to-date and their role in Council negotiations.

45. Following a closed competitive process involving the two interested parties (one of which was now Willis Bond), a decision was made to sell the 90 Devonport Road site to Willis Bond, and a sale and purchase agreement was entered into in December 2019. Council was unsuccessful in its efforts to purchase 86-88 Devonport Road.
46. These negotiations, and the subsequent sale and purchase agreement, were completed without further reports to Council, as per the delegations granted to the Chief Executive at the 6 September 2019 meeting.
47. The 90 Devonport Road Sale and Purchase Agreement was initially subject to a 6-month due diligence period for the purposes of allowing Willis Bond time to complete a feasibility study for development of the site as an office building. Willis Bond had sole discretion as to whether to proceed with the purchase, following completion of the feasibility study.
48. At this point, December 2019, Council had made no commitment to Willis Bond to locate a CAB on the 90 Devonport Road site. Willis Bond was actively exploring opportunities with other parties interested in locating their offices on the site.
49. The original six-month due diligence period for the 90 Devonport Road Sale and Purchase agreement was extended for a further three months by Council resolution in May 2020. This extension followed Council’s decision in March 2020 to enter into good faith, non-binding discussions with Willis Bond to explore the lease of office accommodation at 90 Devonport Road. Confidential Attachment 2 provides Council resolutions relating to 90 Devonport Road.
50. Further extensions were then agreed to, as potential locations for Council’s civic administration building continued to be explored, and as Willis Bond progressed to an unconditional purchase of 86-88 Devonport Road independently of Council. This was a financial risk taken by Willis Bond to maximise the development potential of the site (by increasing street frontage).

Merging of Workstream One and Two: Confirming 90 Devonport Road as the location for the CAB and finalisation of the sale of the site to Willis Bond

51. On 30 June 2020, Council resolved to assess options for a new single site CAB to house Council’s administrative functions. Council had resolved in March 2020 to explore with Willis Bond the lease of office accommodation at 90 Devonport Road, however this resolution also allowed Council to explore office accommodation options with other interested developers.
52. The 30 June 2020 decision triggered a ‘Market Sounding’ exercise where known developers were invited to indicate their interest in developing an office building and on what broad commercial leasehold basis.
53. The Market Sounding produced nine responses. In September 2020, Council approved a recommendation to reduce these to three preferred options and approved the following evaluation criteria for the next phase - Location, Commercial Terms, Financial Assessment, Building Specification and Risk.
54. In October 2020 detailed proposals were received from the three remaining parties, which included Willis Bond. The proposals were assessed against the evaluation criteria and each proposal scored as per the summary table below. This evaluation process was facilitated and led by TwentyTwo consultants, independent property advisors with extensive experience in assessing and negotiating build to lease projects such as proposed for the CAB. The evaluation group also included council staff.

Table 2: Summary of the assessment of preferred CAB options

Developer	Address	Location (highest score being the better)	Terms (highest score being the more)	Financial (highest score being better)	Specification (highest score being the better)	Risk (highest score being lowest)	Total

		location)	attractive terms)	financial impact)	specification)	risk)	
Redacted	Redacted	6	5	7	5	5	28
Redacted	Redacted	7	7	7	7	4	32
Willis Bond	Devonport	8	7	4	8	8	35

55. The evaluation assessment and recommendations were presented, in public excluded, to Council (Commissioners) in March 2021, and the following resolutions made.

Resolution CO3/21/16

Moved: Commissioner Shadrach Rolleston

Seconded: Commissioner Stephen Selwood

That the Council:

- (a) *Approves the selection of 90 Devonport Road / Willis Bond as the preferred location and development partner for medium-term leasehold premises to accommodate Council's civic administration offices and meeting spaces, including capital expenditure of \$18,714,000 in the draft Long-Term Plan 2021-31; and*
- (b) *Delegates authority to the Chief Executive to negotiate and agree lease terms meeting or better than the development offer outlined in Confidential Attachment 1 (TwentyTwo report) for the new civic administration premises (with final approval and execution subject to the outcomes of the LTP consultation processes); and*
- (c) *Approves notifying the unsuccessful candidates that negotiations with a preferred option will soon commence and if those negotiations are unsuccessful Council may revisit their respective proposals; and*
- (d) *Approves a provisional total sum of not greater than \$10,000 to be apportioned to the two unsuccessful developers on a negotiated basis, as partial compensation for the time and cost involved in participating, with a final negotiated sum to be approved by the Chief Executive; and*
- (e) *Moves the resolutions into Open after the successful and unsuccessful parties have been advised.*

56. The March 2021 report remains confidential. This report recommends that, together with other reports relating to 90 Devonport Road, the March 2021 report is reviewed and released publicly (with redactions as required to preserve commercial confidentiality).

57. In June 2021, following consultation via the Long-Term Plan, Council (Commissioners) approved the 90 Devonport Road site as the preferred location for Council's civic administration building. The Chief Executive was delegated the authority to negotiate an agreement to lease and development agreement regarding the fit-out of the office space for Council's purposes, with the developer, Willis Bond (CO12/21/1).

58. On 23 December 2021 Council entered into an Agreement to Lease with Willis Bond for office premises in a building to be constructed by Willis Bond on 90 Devonport Road. This Agreement committed Council to leasing 90 Devonport Road.

59. At the same time, the original 90 Devonport Road Sale and Purchase Agreement was subject to a Variation Agreement which made the following notable changes.

- The 90 Devonport Road Sale and Purchase Agreement named Willis Bond and Company Investments Limited as the purchaser. This was novated to a new Limited Partnership – 90 Devonport Road Limited Partnership (who was also the named landlord in the Agreement to Lease).
- A new condition was entered into to make the 90 Devonport Road Sale and Purchase agreement conditional on the Agreement to Lease becoming unconditional.

- A purchase requirement for 86-88 Devonport Road was added. If the Agreement to Lease for 90 Devonport Road did not progress, the Variation Agreement required Council to purchase 86-88 Devonport Road from the 90 Devonport Road Limited Partnership (Willis Bond) at the price paid by Willis Bond for this land.
60. The Variation Agreement recognises the risk taken by Willis Bond, who were committing to build a bespoke development for Council on 90 Devonport Road and buy the adjoining site (86-88 Devonport Road). It sought an equal commitment from Council towards the project by linking the Sale and Purchase Agreement with the Agreement to Lease.
 61. On 12 December 2022 a public excluded report was taken to Council (Commissioners) seeking decisions to allow the Agreement to Lease to progress. The 90 Devonport Road Sale and Purchase agreement was conditional on the Agreement to Lease becoming unconditional. Additionally, as listed above, if the Agreement to Lease did not proceed, Council would also be required to purchase 86-88 Devonport Road from Willis Bond.
 62. Before the Agreement to Lease could become unconditional, Willis Bond needed to confirm that, following completion of detailed plans and specifications and pricing, they were satisfied with the estimated construction cost of the CAB.
 63. However, the estimated construction cost of the CAB was significantly higher than the original estimated cost of development at the time the Agreement to Lease was entered into. This was primarily due to two factors:
 - i. Significant market movements in the costs of material, labour and finance.
 - ii. Geotechnical issues due to the in-ground conditions of the site. The site has very poor ground conditions requiring a deep piling solution. The timber structure of the building (around half the weight of a traditional building) allowed Willis Bond to avoid a bored pile solution, however the adopted pile solution was still more expensive than anticipated. It necessitated 134 piles of between 15m and 23m in length, with a total pile length of over 2.5 kilometres.
 64. Willis Bond presented these findings to Council and offered a range of options. These included cancelling the Agreement to Lease (which would trigger a cancellation of the sale and purchase agreement for 90 Devonport Road and the purchase by Council of 86-88 Devonport Road), or increasing the rental cost to Council, or varying the Sale and Purchase Agreement for Devonport Road.
 65. The December 2022 report provided financial details regarding the feasibility shortfall and Willis Bond proposed meeting the shortfall through a set of measures, including Council contributions.
 66. The final resolutions of this report included the following decisions:
 - A reduction in the sale price for 90 Devonport Road
 - Deferred financial settlement.
 - Agreed lessee incentive waived.
 - Early confirmation of agreed leased floor area, based on detailed design measurements rather than as-built measurements.
 - Deferred Development Contribution payment.
 67. These Council contributions provided 24% towards the total amount needed to ensure feasibility.
 68. Willis Bond also implemented a substantial range of initiatives to reduce project costs and ensure feasibility, including a significant reduction in their profit margins for the project (their contributions totalled 76% of the amount needed to ensure feasibility).
 69. Following these decisions, the Agreement to Lease became unconditional, triggering the Sale and Purchase Agreement for 90 Devonport Road to also become unconditional.

70. The following sections of this report provide details of the CAB and Council's lease, along with an update of the project's status and next steps.

THE BUILDING

71. The CAB is an eight-storey (the ground floor plus seven floors of office accommodation) timber hybrid building. It has a gross floor area (GFA) of 11,839m² (including plantrooms and main build storage) and a net lettable floor area (NLA) of 10,588m² (these numbers will be confirmed by the quantity surveyors at the final measure of the build).
72. The building is owned by Willis Bond and the construction and fit-out is being completed by LT McGuiness. Warren and Mahoney Architects have completed the design of both the build and the fit-out.
73. Once completed, the building will:
- Meet the following sustainability certifications - 6-Star Green Rating Timber Hybrid Building, NABERS Certification (energy efficiency), WELL Standard Gold Star (wellbeing and health).
 - Provide 706 work points (including 616 individual workstations) for staff for flexible working.
 - Provide 36 meeting, breakout and booth style meeting options (various seating capacity PAX).
 - Provide End of Trip (EOT) facilities including 114 Bike Parks and 114 Lockers
 - Deliver the following specialist areas – Temporary Council Chamber, Mayoral suite, Councillor Facilities, Executive suite, Tauranga Traffic Operations Centre (TTOC), Call Centre, Incident Management Centre (IMC), Level 5 Anchor Floor including staff area, scullery and wellness suite, ground floor café and concierge.
74. Willis Bond are responsible for the cost of the base build, and this cost is commercially sensitive and confidential. Council is meeting the fit-out costs.
75. The fitout contract was signed off by the Te Manawataki o Te Papa Limited Board on 18 December 2023. The final estimated total fit-out budget, upon practical completion and including contingencies, is \$33.4m and was approved via the Long-Term Plan 2024-2034. It covers:
- Main contract hard fit-out (MCHF),
 - Sub-divisional hard fit-out (SHF),
 - Generator (required for the resilience centre),
 - Furniture fittings and equipment (FF&E),
 - Information technology and audio-visual equipment
 - Cultural artwork and wayfinding
76. The increase to \$33.4m from the original estimate in \$18.7m in March 2021 is due to changes to the scope of the project:
- An increase in floorspace from 8,000m² to 10,588m².
 - The addition of an internal staircase connecting floors one to seven of the building.
 - Substantial increases to the cost of labour and materials.
77. Further information on these increases is in the Financial Considerations section of this report. The breakdown of the fit-out budget is shown in the table below.

Table 3: Fit-out budget (note that these figures will be escalated to an overall figure of \$33.4m, to allow for inflation to practical completion)

	Development Budget Category	Budget Value Dec 2023
2.2	Construction - MCHF	6,904,860
2.3	Construction - SHF	13,102,996
2.4	Café Sum	400,000
2.5	Generator	656,246
2.6	Cultural Artwork	152,021
2.6	Wayfinding package	50,000
2.7	Professional Fees	3,220,800
2.7	Non Construction Prof fees	723,534
2.8	FF & E	2,750,000
2.8	IT/AV Budget	2,736,360
2.8	IT/AV Contingency Sum	273,636
2.9	Escalation Provisional Sum	300,000
2.10	Contingency	1,877,889
Total		\$33,148,342

COUNCIL'S OFFICE ACCOMMODATION LEASES

78. Prior to the demolition of Willow Street, Council's administrative staff were located across the following spaces, totalling approximately 7,100m² of office space.
 - Cameron Road: 4,576m²
 - Spring Street: 1,527m²
 - Willow Street: ~1,000m²
79. Whilst Willow Street was Council-owned, and therefore had no lease cost, the other premises (Cameron and Spring) are leased and these costs will no longer be incurred once Council moves to the CAB.
80. The cost of the CAB lease will be higher than the current lease costs. This is largely due to the increase in floor space being leased by Council.
81. Council is currently occupying approximately 6,100m², which allows for 46% utilisation (i.e. there is enough room in Spring Street and Cameron Road combined for 46% of Council's office-based workforce at one time).
82. The move to the CAB will increase leased floor space to approximately 10,588m² and allow for around 60% utilisation.
83. Whilst most of the increase in rental cost is due to the increased floor space, some of the increase is due to the location and quality of the CAB. The rental cost of newly developed buildings is influenced by two factors, the existing average rental costs of the market (market rent) and the cost required by the developer to recover the cost of construction (economic rent).

84. The amount Council is paying to lease the CAB is higher than the average market rent in Tauranga (which is low, due to the quality and age of the existing stock), but still less than the true economic rent. A discussion on the office leasehold market in Tauranga, and economic rent versus market rent, is provided by Attachment 3.
85. Further details are contained in Confidential Attachment 4. Confidential Attachment 5 provides a summary of the commercial terms for the Agreement to Lease with Willis Bond.

PROJECT STATUS AND NEXT STEPS

86. The construction of the base build commenced in March 2023 and is close to completion. The building is weathertight, and the façade installed (a small section of weathertight wrap is installed on a section of the south-eastern side of the building in the location of the tower crane and materials supply lift).
87. The internal fit-out commenced in February 2024. Fit-out is well advanced on all building levels. The internal framing and internal glazing is complete, as is the installation of cabling and fittings for information technology and audio-visual. Internal ceilings, light fittings and floor coverings will begin to be fitted from mid-September.
88. The completion date for both base build and fit-out is scheduled for end of March 2025, followed by installation of furniture and equipment, and the transition of staff into the new building from late May to June 2025.

ADDED VALUE FOR COUNCIL AND TAURANGA

89. Attached to this report is a benchmarking assessment completed by TwentyTwo consultants which looks at the Tauranga rental market and comparative rents elsewhere in the country (see Attachment 3).
90. Quality, large scale office accommodation is limited in supply within the Tauranga city centre, and this has had a negative impact on the commercial and economic vibrancy of the area.
91. The delivery of the CAB at 90 Devonport will provide benefits for the wider city centre. Council's significant investment into the city centre, via Te Manawataki o Te Papa, surrounding streetscapes and open spaces, and the CAB, has begun the work of revitalising the area. It has provided confidence to the market, and stimulated investment by others, such as the Craigs development at 2 Devonport Road and the Northern Quarter. Rehoming council staff within the centre of the city (rather than the outskirts) will provide welcome business for surrounding retail and hospitality.
92. Additionally, the CAB provides benefits to Council that would not have been achieved by a standard office block development.
 - The building specification achieves a higher overall standard compared to others offered (especially the timber) yet the full cost of these benefits is not reflected in the rent.
 - Integrating the tenant's fit-out design and construction processes with the base building processes, combined with an experienced development team, delivers time and cost benefits (compared to working in isolation or with a less experienced developer).
 - Delivering a building with high sustainability values is consistent with Council's overarching environmental sustainability policy statements and shows leadership.
 - The Council fit-out design has maximised the base building features (timber) rather than hiding them, which is typical in steel / concrete buildings. The result is a simplified design which reduces cost.
93. The value of locating all Council administrative staff within the one building is also significant and was outlined in the Max Pederson report March 2020 (and the previous work completed by The Property Group).

STRATEGIC ALIGNMENT

94. This contributes to the promotion or achievement of the following strategic community outcomes:

	Contributes
We are an inclusive city	<input type="checkbox"/>
We value, protect and enhance the environment	<input type="checkbox"/>
We are a well-planned city	<input checked="" type="checkbox"/>
We can move around our city easily	<input type="checkbox"/>
We are a city that supports business and education	<input checked="" type="checkbox"/>

95. The CAB contributes to the revitalisation of the city centre, supporting businesses and the University Precinct, and provides a single building to accommodate Council’s administrative staff, delivering efficiencies and improved organisational culture.

FINANCIAL CONSIDERATIONS

96. The fit-out cost for the CAB was originally estimated as \$18.7m in March 2021, and adopted as \$16.2m in final Long-Term Plan 2021-2031. Increases to this figure have occurred over time, as per the table below.

Table 4: Fit-out costs – budget adjustments over time

Approved document	Budget	Additional information
Long-Term Plan 2021-2031	\$16.2m	Based on a floorspace of 8,000m ²
Annual Plan 2022-2023	\$26m	Budget increased in October and December 2021 to reflect increase in floorspace from 8,000m ² to 10,279m ² .
Annual Plan 2023-2024	\$33.1m	Budget increased in November 2022 to reflect escalations resulting from high inflation, the addition of a new interconnecting staircase, and a further floorspace increase to 10,500m ² . These cost increases were based on revised Quantity Surveyor estimates.
Long Term Plan 2024-3034	\$33.4m	Increase caused by inflation due to a revised practical completion date (Apr 2025).

LEGAL IMPLICATIONS / RISKS

97. Council has a legally binding Agreement to Lease with Willis Bond for the CAB. Council also has contracts in place relating to the fit-out of the CAB.

TE AO MĀORI APPROACH

98. Mana Whenua have been highly involved in the design of the fit-out and have provided cultural artworks for the building. Conceptually, Te Kāpehu (the Māori compass) influenced the layout of the floorplates, and east to west connections are strongly referenced throughout. Additionally, Mana Whenua view the internal stairway as a symbol of connection up and down the building (from the above realm to the below, and from the past to present and future).

CLIMATE IMPACT

99. Upon completion the CAB will hold the following sustainability certifications: 6-Star Green Rating Timber Hybrid Building, NABERS Certification (energy efficiency), WELL Standard Gold Star (wellbeing and health).
100. Its timber hybrid construction captures carbon, sustainable design elements increase energy efficiency on an ongoing basis and the provision of end of trip facilities support staff to choose low emission travel options. Rainwater harvesting is also in place, reducing water usage.

CONSULTATION / ENGAGEMENT

101. In June 2021, following consultation via the Long-Term Plan, Council (Commissioners) approved the 90 Devonport Road site as the preferred location for Council's civic administration building (CO12/21/2).

SIGNIFICANCE

102. The Local Government Act 2002 requires an assessment of the significance of matters, issues, proposals and decisions in this report against Council's Significance and Engagement Policy. Council acknowledges that in some instances a matter, issue, proposal or decision may have a high degree of importance to individuals, groups, or agencies affected by the report.
103. In making this assessment, consideration has been given to the likely impact, and likely consequences for:
 - (a) the current and future social, economic, environmental, or cultural well-being of the district or region
 - (b) any persons who are likely to be particularly affected by, or interested in, the decision.
 - (c) the capacity of the local authority to perform its role, and the financial and other costs of doing so.
104. In accordance with the considerations above, criteria and thresholds in the policy, it is considered that the decision is of low significance.

ENGAGEMENT

105. Taking into consideration the above assessment, that the decision is of low significance, officers are of the opinion that no further engagement is required.

NEXT STEPS

106. Council staff to review previous public excluded Council reports and attachments regarding the sale and development of 90 Devonport Road, and to transfer those reports and attachments into public, unless there is a valid reason not to under the Local Government Official Information and Meetings Act 1987.

ATTACHMENTS

1. **Attachment 1 - 90 Devonport Road - summarised resolutions of Council - A16642267** 
2. **Confidential Attachment 2 - 90 Devonport Road - full resolutions of Council - A16642477 - Public Excluded**
3. **Attachment 3 - 90 Devonport Road - Comparative analysis of rents - city centres - A16637215**  
4. **Confidential Attachment 4 - 90 Devonport Road - Financial information - A16643768 - Public Excluded**
5. **Confidential Attachment 5 - 90 Devonport Rd - TwentyTwo recommendation Agreement to Lease - A16637265 - Public Excluded**

Attachment 1: Summary of previous reports to Council on 90 Devonport Road

Report date	Open / Public excluded	Purpose and summarised resolutions
6 Sept 2019	Public excluded	<p>Purpose: To consider two unsolicited offers for council-owned land at 82, 84, 90, 94, 96 and 98 Devonport Road, and to consider making an offer on private land at 86-88 Devonport Road.</p> <p>Resolutions: Approves the sale of council-owned land and delegates authority to CE to negotiate sale and purchase according to certain conditions. Approves the making of an offer on private land.</p>
24 Mar 2020	Public excluded	<p>Purpose: To brief Council on issues with civic accommodation and seek approval to progress work to meet current and future accommodation needs.</p> <p>Resolutions: Approves, in principle, the reconsolidation of council's office-based staff to a single location. Approves, in principle, the intention to secure leased office accommodation to do this. Approves entering into good-faith, non-binding discussions to lease accommodation at 90 Devonport Road. Approves exploring and assessing other accommodation options before a final decision is made.</p>
19 May 2020	Public excluded	<p>Purpose: To extend the due diligence period for both the sale of council-owned land on Devonport Road, and the purchase of private land on Devonport Road.</p> <p>Resolutions: Approves three-month extensions in both cases.</p>
30 June 2020	Public excluded	<p>Purpose: To update Council on the proposal for leased accommodation at 90 Devonport Road and to advise on assessment of other civic accommodation options.</p> <p>Resolutions: Receives the update. Approves the parallel assessment of alternative options, should the 90 Devonport Road terms be considered above market.</p>
8 Sept 2020	Public excluded	<p>Purpose: To seek Council direction on a new civic administration building including approval of the criteria for options assessment and a selection process.</p> <p>Resolutions: Approves a further three-month due diligence extension for the sale of 90 Devonport Road. Approves assessment criteria for determining Council's preferred civic administration building development opportunity. Approves three pre-selected development opportunities to be assessed.</p>

Report date	Open / Public excluded	Purpose and summarised resolutions
8 Mar 2021	Open	<p>Purpose: To advance the Civic Rebuild Programme , including negotiations with the preferred developer for the construction of leasehold civic office accommodation in the city centre.</p> <p>Resolutions: Confirms the March 2020 in principle decision to secure leased office accommodation to consolidate council’s administration staff in a single location, and approves negotiations being entered into with third parties to this effect.</p>
8 Mar 2021	Public excluded	<p>Purpose: To seek approval to advance negotiations for the construction of leasehold premises to accommodate council staff at 90 Devonport Road.</p> <p>Resolutions: Report to lie on the table until the next council meeting, with a revised assessment to be provided.</p>
15 Mar 2021	Public excluded	<p>Purpose: To provide further information on shortlisted development opportunities and to seek approval to advance negotiations with the preferred developer for the construction of leasehold premises to accommodate council staff.</p> <p>Resolutions: Approves the selection of 90 Devonport Road as the preferred location and Willis Bond as the preferred development partner for council’s medium-term office location. Approves budget of \$18.7m to be included in 2021-31 LTP. Delegates authority to CE to negotiate lease terms within set parameters (with final approval subject to LTP consultation and decision-making).</p>
24 June 2021	Open	<p>Purpose: To deliberate on consultation on the location of council’s office undertaken through the 2021-31 LTP process.</p> <p>Resolutions: Approves 90 Devonport Road as the preferred location with updated capital budget of \$16.7m. Delegates to the CE to negotiate an agreement to lease, and a development agreement regarding the fit-out, with the developer, Willis Bond.</p>
13 Dec 2021	Public excluded	<p>Purpose: To provide an update on lease negotiations for 90 Devonport Road.</p> <p>Resolutions: Report received.</p>

Report date	Open / Public excluded	Purpose and summarised resolutions
12 Dec 2022	Public excluded	<p>Purpose: To provide an update on project costs for 90 Devonport Road and to seek approval for measures designed to mitigate the base building feasibility budget shortfall, including a reduction in the sale price of the land to Willis Bond.</p> <p>Resolutions: Support value engineering changes. Agrees to a Council contribution to the building including a reduced land sale price. Delegates to the CE to negotiate and execute on Council’s behalf within set parameters.</p>
16 Oct 2023	Public excluded	<p>Purpose: To seek an exemption from council’s normal procurement policy.</p> <p>Resolutions: Approves a direct appointment for the subdivisional hard fit-out of 90 Devonport Road.</p>

TWENTYTWO

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MEMO

TO Mike Naude - Director of Civic Development

ORGANISATION Tauranga City Council

FROM David Lambie

DATE 4 September 2024

SUBJECT 90 Devonport Road - Rent Comparisons

1. TwentyTwo has been asked to provide an overview of commercial office rents in the Tauranga CBD, specifically in comparison to the agreed rent at 90 Devonport Road.
2. In the pages that follow, we have provided a summary that explains market rent versus economic rent, what informs office rent, what are the non-metric considerations (building quality, sustainability etc) and some high-level comparisons against other known buildings / locations.
3. This overview is based on our knowledge of the CBD area, information provided verbally from valuers and local developers / landlords / tenants and our background knowledge of the Agreement to Lease for 90 Devonport Road.

Kind Regards

**DAVID LAMBIE***Principal and Director*

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90 Devonport Road - Rent Comparisons

WHAT IS RENT

1. Commercial office rent is shown as the cost per m² per annum. This is the rent for an open plan space with typical building services included - air conditioning, floor coverings, ceilings, toilets, end of trip facilities etc. It does not include the tenants fitout (everything inside the open plan space). Rent is also referred to as 'net rent'.
2. Landlords also charge Operating Expenses (OPEX). This is a pro rata share of the cost incurred by the landlord to operate and maintain the building - insurances, rates, building maintenance. As each building is different, OPEX also vary, so are not shown in the net rent in a market comparison.
3. The net rent paid is usually determined by factors such as the size and quality of the space, the location, the amenity and building services provided, the lease duration and current market conditions.

MARKET RENT VERSUS ECONOMIC RENT

4. Market rent is the amount of rent a property can command in the open market based on the current supply and demand conditions.
5. Economic rent in the context of new buildings is the 'true rent' a developer / landlord seeks that recovers the cost to construct a new building (including financing and margins) over the anticipated life cycle of the building.
6. Why does this matter? In regions outside of Auckland and Wellington, the commercial office stock is invariably limited due to low rates of new development because of low demand. It results in lower rents generally as the stock ages and quality falls.
7. When a new building is presented to the market in the regions, there is typically a significant gap between market rent and economic rent which the developer needs to navigate. The market is unlikely to be willing to pay the 'true rent' as the leap from the known market is too great.

8. We believe this is a material point to consider given Tauranga has had limited new office development over a long period of time which kept market rents low.
9. Given this, we believe the rent agreed for 90 Devonport Rd is lower than the 'true rent' in order to align closer to market, although clearly higher than the rents achieved from the current supply of aged stock.

TAURANGA OFFICE MARKET 2021

10. At the time the Council instructed a search of the market for a single office accommodation solution, there were few options in the Tauranga CBD. Existing stock was poor and next to no certain new development on the horizon.
11. Over the years preceding the search, the only real new development was in Cameron Rd which created a pull away from the core CBD. We believe this trend had a flow on effect to demise of retail and new development in the CBD.
12. Finally, we note that at this time the cost of construction and finance was relatively low compared to the costs today, yet there was limited appetite for new development in the CBD.

TAURANGA OFFICE MARKET 2024

13. On the back of Councils initiatives, there has been more private sector office development in the core CBD despite higher costs.
14. Increased interest in CBD office accommodation drives this new development but when coupled with higher construction costs the result is higher rents than offered in 2021.
15. The ongoing redevelopment of Tauranga's CBD, including major projects like the Te Manawataki o Te Papa civic precinct, is expected to solidify the area as a key commercial hub, with new developments reflecting the growing attractiveness of Tauranga's CBD as a business destination.

90 Devonport Road - Rent Comparisons

NON-METRIC CONSIDERATIONS

16. When considering what informs office rent, non-cost attributes need to be allowed for. Not all buildings are equal.
17. Building quality, building specification, height, location, sustainability values, surrounding amenity - all are considerations when setting rent.
18. Equally, not all developers / landlords are the same. Some may take a long view on yield, some may take a different view on build materials and sustainability, some may not have access to robust financing etc. Again, these inform the rent offered / set.

COMPARISONS

19. The table below provides an overview of the rents being achieved or being offered for new office space in the CBD. We have also offered some comparison with office space that while much older would be considered next in line behind new.

Location	Description	Rent Range / m2
90 Devonport Road	Willis Bond. High rise. Hybrid timber construction. Good quality specification. High sustainability values. Experienced developer. Wide views and adjacent parking. On programme.	As discussed in confidential report
2 Devonport Road	Richard Cashmore. Similar characteristics to 90 Dev. High rise, strong sustainability values, good quality specification, ground floor amenity. Currently under re-valuation as costs have exceeded budget / first agreed terms. Programme delay.	TBC. Estimated rent range is expected to be in the order of \$525 - \$600+net
Northern Quarter (Harrington/Willow)	Dean Waddell. Low rise office with proposed hotel. Typical specification / construction. Low rise views with some obstruction. Big open floor plates and car parking. Our independent view is this developer may have lower yield expectations which maybe reflected in the rent offered.	Range \$425 - \$450 net
Hamilton St (ex car park)	Watts & Hughes / Carras. Conversion of the car park structure to commercial office and health facility. 200 parks in the lower levels. Typical specification / construction. High rise views with obstruction to the east / west.	Upper levels \$500 Lower levels \$475
ANZ Centre Cameron Rd	Commercial office built in 2014	Current rent range \$400 - \$425 net

90 Devonport Road - Rent Comparisons

REGIONAL COMPARISONS

19. The table below provides an overview of the rents being achieved or being offered for new office space in the CBD outside of Tauranga.
20. We have focused on examples where new office accomodation has been presented to our clients following a request for proposal and we have indicated if these projects are proceeded or not.
21. While some of these offers were rejected, they show the likely 'economic rent' developers require for a project to be feasible.
22. The information shared is confidential hence the discrete descriptions provided.

Location	Description
Whangarei	Private sector client. Seek ~3,000m2 new. Preferred offer under negotiation. \$550/m2 TBC Other proposals. Alternative location new \$525/m2 rejected. Refurb project \$425/m2 rejected.
Ruakaka	Private sector client. Seek ~3,000m2 new build Rejected new build offer of \$500/m2 No other offers received. Project stalled.
Hamilton	Private sector client. Seek ~3,000m2 refurbished or new Proceeding with refurbished older building. \$430/m2 BUT no base building fitout or services provided!
Palmerston North	Government sector client. Require 5,000m2 New build offer rejected. \$675/m2 Proceeding with refurbished older building. \$450/m2
Tasman / Richmond	Government sector client. Seek 3,000m2 refurbished or new Limited response. Range \$475 - \$600/m2. Rejected. Project stalled.
Cromwell	Government sector client. Seek 2,000m2 refurbished or new Preferred project under negotiation, new build - likely \$460 - \$500/m2

