

320 The Terrace, Wellington  
Gordon Wilson Building  
Building Condition & Options Assessment



Prepared by:

Wareham Cameron + Co Ltd

6 July 2015

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**THINK + ACT + DELIVER**

**WELLINGTON** Level 3, 31 Waring Taylor Street, PO Box 3531, Wellington 6140, New Zealand. Phone +64 4 471 0665

**AUCKLAND** Level 16, 41 Shortland Street, PO Box 105-673, Auckland 1143, New Zealand. Phone +64 9 379 5753

**SYDNEY** Suite 3, Level 5, 66 Hunter Street, Sydney NSW 2000, GPO Box 254, Sydney NSW 2001, Australia. Phone +61 2 8031 7781

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## 1.0 Executive Summary

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Victoria University of Wellington (“Victoria”) has engaged a broad team of experts to assess the merits of refurbishing the Gordon Wilson Building at 320 The Terrace, Wellington. These experts have advised on the building’s heritage, condition, design, hazardous material, and cost to refurbish.

Victoria has provided base data and technical expertise in the area of its student accommodation housing business, which coupled with our national experience in this sector, and the expert information noted above, has informed the feasibility analyses contained in this report.

Consideration has also been given to using the building for private residential letting and social housing; albeit these are not uses consistent with Victoria’s desire to use the site for University purposes.

In addition, independent advice has been sought from one of Wellington’s leading developers, known for his experience with heritage buildings, and buildings with significant structural issues.

The output of this broad review highlights the following issues:

- + The building is earthquake prone.
- + The façade is failing and requires replacement. A curtain wall façade is the most feasible option however this would materially affect the heritage significance of the building, and is unlikely to fully remove the safety risks of elements of the façade falling from the building.
- + The quality of the building’s piles is unknown, testing is difficult and costly, and the integrity of the piles will be difficult to determine without testing all piles.
- + The building’s services require replacement.
- + Existing use rights under the Resource Management Act for intensive residential accommodation have been lost.
- + The building does not meet modern design requirements for student accommodation, private residential or social housing, nor can it be converted for University academic or office use.
- + Changing, or intensifying the use of the building for university purposes, social housing or residential letting is not practically or economically feasible.

- + Refurbishment costs are significantly higher than replacement cost. The cost estimate to refurbish the building ranges between \$32.50m and \$40.50m (\$4,550/m<sup>2</sup> to \$5,680/m<sup>2</sup>), with an additional \$2.0m to \$3.0m if converted to private residential use.
- + Victoria’s residential style demand is for an additional first year (student) catered dorm-style hall; the Gordon Wilson Building cannot meet that requirement.
- + The private market is unlikely to take on the significant risks associated with refurbishing the building.
- + Maurice Clark (McKee Fehl Constructors and private developer) has inspected the building and reviewed the Beca reports and states that his “*expert opinion on the development potential of this building in regard to upgrading the existing structure, is that there is little to no appeal.*”
- + The overall heritage significance of the building has been determined as moderate.

Mr Clark also concurs with the findings and recommendations of this report.

The following table presents a summary of our findings.

**Table 1: Summary Findings**

	Option 1 Student Acc	Option 2 Student Acc (additional beds)	Option 3 Office / academic	Option 4 Private residential (unit title / sell)	Option 5 Social housing
Univeristy demand	Nil (for non first year)	Nil (for non first year)	Moderate	Nil	Nil
Integration with Kelburn Campus	Poor	Poor	Poor	No	No
Practically achievable	Yes	No	No	Unsuitable*	Yes
Economically feasible	No	No	No	No	No
Project NPV	-35,030,803	Negative, not modelled	Negative, not modelled	-17,623,000	Negative, not modelled
Deliver efficient accommodation	No	No	No	Unlikely	No

\* Per urban design review

We are unaware of any other practicable use for the building that could be developed on an economically viable basis.

For the reasons outlined above, and discussed in greater detail in the body of this report, we **do not recommend Victoria upgrades the Gordon Wilson Building for any purpose.**

If not upgraded or protected from the weather, the building will continue to deteriorate and pose a safety risk. Protection may also need to be considered for the adjacent

320A The Terrace (McLean Building) should Housing New Zealand Corporation (HNZC) proceed to develop this site.

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## 3.0 Project Brief

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Victoria purchased 320 The Terrace from HNZC in September 2014. Victoria's purchase of the property was for the purpose of integrating the site into its Kelburn Campus as its demand for space grows. The site also provides an important link from the Kelburn Campus to the city centre.

The purpose of this report is to explore the feasibility of options to retain the Gordon Wilson Building using the following criteria:

1. support Victoria's objective for the site to integrate into its Kelburn Campus
2. are practically achievable
3. are economically feasible
4. deliver efficient and appropriate teaching, office or student residential accommodation space.

This report extends beyond the above four criteria to include an assessment of the buildings' suitability for:

- + private residential housing
- + social housing.

Victoria has engaged the following technical expertise to provide advice that forms the basis of this redevelopment feasibility analysis:

- + Heritage – archifact–architecture & conservation limited
- + Building structure and façade – Beca Group Limited (Beca)
- + Building services – Beca Group Limited (Beca)
- + Hazardous materials – All Asbestos and Insulation Ltd
- + Building design – Athfield Architects Limited
- + Cost – Rider Levett Bucknall Limited (RLB)
- + Building fit for future residential housing (social or private) – Urban Perspectives Ltd
- + Experienced developer – Maurice Clark
- + Goods and services tax – PricewaterhouseCoopers Limited (PwC)

- + Options assessment – Wareham Cameron & Company Limited (WC+C).

Victoria has provided technical input into the analysis of student accommodation options for the building, and has also advised (with PwC) on the treatment of GST for each scenario considered.

## 4.0 Background

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### PROPERTY

The property is variously referred to as 314 The Terrace and 320 The Terrace. Council officers have asked that for the purpose of the District Plan Change application it is referred to as 320 The Terrace.

Victoria purchased 320 The Terrace from HNZC in September 2014. The property is legally described as Lot 1, Deposited Plan 363050 and comprises 7,139m<sup>2</sup>.

The property's western boundary is Victoria's Kelburn Campus; the property therefore provides Victoria with direct access to The Terrace, and from there into Te Aro.

The following figure demonstrates the property's location and boundaries. It also demonstrates that the building dissects the site in a (generally) north south direction.

**Figure 1: 320 The Terrace**



HNZC owned the property and used it for the purpose of state housing until 2012 when the building was closed due to safety risks.

## BUILDING DESCRIPTION

The Gordon Wilson Building was constructed in 1959 and consists of an 87 unit, 163-bedroom social housing facility set back from The Terrace. The building comprises 11 floors, in a mixture of bedsits and two bedroom flats designed in the maisonette style.

Each of the two-bedroom flats is 64.10m<sup>2</sup> (690 square feet), and the total building gross floor area is 7,129m<sup>2</sup>.

There are 31 on site car parks clustered around the building.

The building has a number of serious defects identified in technical reports discussed elsewhere in this report.

Wellington City Council identifies the Gordon Wilson Flats as a Heritage Building, however the building is not listed with Heritage New Zealand.

The building is oriented in a north-south direction, and as demonstrated in Figure 1, extends from the site's southern boundary to near its northern boundary.

There is sufficient width at the building's northern end to allow single vehicle access to the rear (west) of the building.

The balance of this section provides a summary of the technical reports commissioned to inform this feasibility study.

## DISTRICT PLAN

The property is zoned Inner Residential under the Wellington City District Plan.

The Gordon Wilson Flats building is not compliant with the District Plan due mainly to its height, shortage of car parking, and substandard amenity of the units. Peter Coop of Urban Perspectives Ltd has provided the following advice with respect to existing use rights for the building:

*“There are two aspects of existing use rights. One is for the building principally because it significantly exceeds the permitted height of 10m. The building exists so this existing use right remains.*

*The other existing use right is for the USE of the building principally because of failure to meet use standards such as open space, car parking etc. Because the USE of the building has been discontinued for over 2 years, this use right has been lost. Accordingly, any proposed re-use of the building will require an application for resource consent. In my opinion this is a significant risk aspect with potentially significant costs and uncertainty.*

*An additional risk aspect is that the exterior of Gordon Wilson Flats is listed by the District Plan for protection. This is a potentially significant risk and cost aspect given the size of the building, its poor structural condition and the likely scope of exterior building modifications that are likely to be required for strengthening and maintaining the building for long term sustainable use.”*

**HERITAGE**

The Gordon Wilson Flats is listed in the District Plan as a heritage building.

Archifact- architecture & conservation limited was engaged to undertake an assessment of the heritage values of the Gordon Wilson Flats. Archifact determined an overall heritage significance of **moderate** significance.

The assessment of heritage values has regard to the terms adopted and taken from a selection of criteria included in Section 66 of the Heritage New Zealand Pouhere Taonga Act 2014.

A six level scale of value has been adopted in tabulating the cultural heritage value of the spaces or elements within the building. This is based on the New Zealand Historic Places Trust 1994 *Guidelines for Preparing a Conservation Plan*. The following table demonstrates Archifact’s conclusion using this six level methodology.

**Table 2: Assessment of Heritage Significance**

<b>Assessment Criteria</b>	<b>Degree of Significance</b>
Aesthetic significance	C
Archaeological significance	N/A
Architectural significance	C
Functional significance	O
Historical significance	B
Scientific significance	D
Social significance	B
Technological significance	D
Townscape significance	C

<b>Degree of Significance</b>	<b>Reference</b>
Exceptional significance	A
Considerable significance	B
Moderate significance	C
Minor significance	D
No significance	O
Intrusive	X

Source: Gordon Wilson Flats Heritage Assessment, May 2015.

The Archifact-architecture and conservation limited report is at **Appendix 1**.

With respect to installing a new curtain-wall façade on the building Archifact (Adam Wild) advises as follows:

*“You have asked that we consider a proposal to rectify issues with the existing exterior planes of the building by installing a new curtain wall system.*

*Although we have not seen any detailed documentation describing this work we consider such an approach would be problematic from a conservation architecture and heritage perspective.”*

## **EARTHQUAKE RESILIENCE**

Beca has completed a “Building Structure Condition & Detailed Seismic Assessment” of the building to determine the building’s resilience measured as a percentage of the New Building Standard (“NBS”).

NBS refers to compliance with the Building Act 2004 and the New Zealand Building Code (which sets out performance standards).

Buildings are commonly identified as follows:

- + Earthquake Prone = < 33% NBS, or
- + Earthquake Risk = 34% - 66% NBS.

Wellington City Council define an earthquake-prone building as a building being less than one-third (< 33%) of NBS, and has a requirement that all non-residential and multi-unit residential buildings achieve a minimum of 33% of NBS. Where they do not meet this minimum level they are to be upgraded within a set timeframe to at least 33% of NBS.

Wellington City Council has a list of earthquake-prone buildings - “List of Earthquake Prone Buildings as at 11/07/2014”. The initial trigger to identify potentially earthquake-prone buildings is an Initial Evaluation Process (IEP) assessment. These IEP assessments are carried out for Council with Council then advising owners of those buildings with an IEP assessment of less than 33% of NBS. When Victoria was undertaking its pre-purchase due diligence, Council advised that the building had an IEP assessment of 40.9%. Accordingly, the building is not currently on Wellington City Council’s Earthquake-prone Buildings register.

Beca’s Detailed Seismic Assessment has determined the building achieves less than 34% NBS and is therefore considered **Earthquake Prone**.

Beca has noted inconsistencies in the description of the piling technique used. Beca advise:

*“The piling system used in the construction of the substructure appears to have consisted of bored holes with reinforcement and placing a dry-mix of concrete aggregate. A fluid grout mixture (water, sand and cement) was then injected into the piles and they were left to set over several months. Extensive pile testing and integrity testing is recommended as there is concern about the consistency and integrity of the pile concrete and strength using this technique.”*

Mr Maurice Clark, a construction expert, (see **Section 6.0** below) has experience with a similar piling methodology and notes *“the only way to ascertain the actual construction method used and the current condition of the piles is to carry out very invasive investigations and testing. This in itself would be difficult to complete due to access of the piles and would come at a significant cost. Also, due to the nature of the method used, you may not be able to fully determine the integrity of all the piles by testing just a select few as each pile holds its own risks around structural integrity based on whether or not the grout managed to satisfactorily fill the aggregate voids and then hydrate during the construction process.”*

Victoria has a policy of achieving between 80% and 100% NBS in any new student accommodation redevelopment, and 80% NBS for the balance of its portfolio. Its three most recent halls; Joan Stevens, Boulcott, and Katherine Jermaine, have all achieved NBS ratings of 100% or better.

Each of the three halls listed above has required strengthening work to achieve 100% NBS. This is illustrative of Victoria’s focus on staff and student safety, and goal of providing the highest quality of student accommodation.

We note also that HNZN undertook a Detailed Seismic Assessment. The structural engineer engaged by HNZN determined various percentages for different components of the building. It is the lowest value that is of relevance when considering Wellington City Council’s Earthquake-prone Buildings Policy. That value was 25% - 30% for the façade, thus also **Earthquake Prone**. We do not believe Council was notified of HNZN’s assessment.

## **Facade**

Beca has noted a range of issues with the façade including:

*“Generally the facades are in very poor condition. Significant spalling of concrete and corrosion of the reinforcement can be seen in the majority of slab edge and wall/column junctions (refer image STRUC 08).*

*The concrete spalling is extensive in some places exposing corroded reinforcement to the base of the façade columns and offering very little residual strength against imposed wind and seismic forces. Further, the infill timber panels are connected to the concrete slab edges and columns and will be affected by the performance and fixing integrity of the concrete frame.”*

The report notes the reference to prior (media) reports of dislodged façade concrete falling to the ground. This has been evident during Victoria’s ownership of the building, and it is now protected by a five metre safety “no go” zone.

The building façade has deteriorated to such an extent that a new façade is required. A curtain-wall façade (or similar) is believed to be the best option to contain the existing spalling and limit future safety risks from falling concrete.

Beca was commissioned to advise on concepts for strengthening the building. Beca recommended:

*“The façade to the west and east elevations will need either complete rehabilitation or replacement. To minimise potential continual corrosion/deterioration, replacement is considered more appropriate.”*

RLB has provided the estimated cost to replace the façade with a curtain wall.

Urban Perspectives advise that *“any modifications to the exterior of the existing building are deemed a discretionary activity and would require resource consent<sup>1</sup>. In this respect a new curtain wall or substantial modification to the exterior of the building will be inconsistent with the heritage provisions and would render the heritage significance of the building obsolete.”*

As noted previously, Archifact-architecture & conservation limited has advised that, with respect to installing a curtain wall, *“such an approach would be problematic from a conservation architecture and heritage perspective”<sup>2</sup>.*

Beca also recommended, subject to further investigative site work:

- + installation of additional piles; and
- + adding additional strength in the form of concrete sprayed shear walls to the longitudinal walls.

The Beca Structure Condition and Detailed Seismic Assessment Report and concept strengthening requirements file note is included at **Appendix 2**.

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<sup>1</sup> District Plan Rule 21A.2.1

<sup>2</sup> Adam Wild, 11 May 2105

## **BUILDING SERVICES**

Beca has undertaken a Building Services Condition Assessment of the building.

Beca note that modern day building services have a design life of 50 years, and if the building is to be upgraded Victoria would expect to utilise the building for at least the next 50 years. Beca recommends that all existing building services be replaced as part of any building upgrade project.

Following is a summary of key upgrade requirements if the building is to be refurbished. Most of these requirements are to meet building code requirements:

- + All civil works (stormwater, sewer, pavements and kerbs);
- + New fire protection sprinkler system;
- + New smoke detection and manual call point system;
- + New fire hydrant system;
- + Removal and replacement / relocation of electrical switchboards from safe path egress stairs;
- + Fire stopping to all vertical and horizontal fire separations;
- + New kitchen and toilet extract systems;
- + Complete replacement of the plumbing and drainage systems.

The Beca building services condition assessment report is provided at **Appendix 2**.

## **HAZARDOUS MATERIALS**

All Asbestos and Insulation Ltd undertook an asbestos survey of the building in December 2014.

In total 33 samples were tested by Capital Environmental Services. 15 of the tests were positive for asbestos. The presence of asbestos increases the cost and duration of refurbishment.

Victoria would require the removal of all asbestos if the building was to be refurbished.

The All Asbestos report is provided at **Appendix 3**.

## 5.0 Refurbishment Options

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Following extensive discussion with Victoria, we determined the following five refurbishment uses for the building; the first three are suitable for Victoria. Options 4 and 5 may be suitable for the private investment market:

1. Student accommodation – current building (flat / bedroom) configuration
2. Student accommodation – with additional bedrooms added within the current building envelope
3. Victoria office or academic use
4. Private residential rental
5. Social housing

We are unaware of any other practicable use for the building that could be economically developed.

As detailed earlier in this report, the building has lost its existing use rights for use for intensive residential use. In considering the above options, we have not considered this significant impediment or other District Plan constraints such as the resource consent requirement for modifications to the exterior, rather assuming that these could be addressed if required. In reality, given the heritage listing, these issues could take some time to resolve, and they introduce significant risk into the project.

If Victoria was to sell the property (Options 4 and 5), we consider the loss of existing use rights would be a serious impediment to potential purchasers, and resolution of this issue and exterior façade works are likely to be conditions of sale – if not consent for demolition.

This section commences with an overview of building upgrade requirements, upgrade costs, the underlying land cost, the impact of GST, and a description of the key variables in the financial analysis that has been undertaken. It then proceeds to consider the five options identified above.

### **BUILDING UPGRADE REQUIREMENTS**

General building upgrade requirements have been discussed in Section 4. Options 1, 2, 4 and 5 above are all similar in terms of upgrade requirements, and accordingly the scope provided in the Beca reports form the basis of upgrade requirements adopted for the feasibility analyses in this report.

With respect to Option 3 (office or academic), Athfield Architects advise that it is practically impossible to convert the building to modern office or academic use due primarily to the frequency of the transverse shear walls in the building.

**UPGRADE COST**

Cost advice has been provided by Rider Levett Bucknall (RLB). RLB has undertaken a comprehensive review of the Beca reports and provided detailed cost advice on this basis. A summary of RLB’s cost advice follows:

**Table 3: Rider Levett Bucknell Upgrade Cost Advice – May 2015**

	Option 1 Student Accommodation	Option 2 Student Accommodation - additional beds	Option 3 Office / academic use	Option 4 Private residential	Option 5 Social housing
<b>Upgrade Estimate</b>	\$32.50m - \$40.50m	N/A	N/A	\$34.50m - \$43.50m	\$32.00m - \$40.00m

Source: Rider Levett Bucknell

RLB’s report is provided at **Appendix 4**.

The Beca reports, and RLB cost advice, assume an upgraded structure, new curtain wall façade, new services, and general refurbishment throughout.

RLB has made an additional allowance of \$2.0m to \$3.0m if the building was to be upgraded for private residential use on the basis that there would be a higher quality expectation.

For the purpose of this report we have adopted the midpoint of RLB’s cost range.

In 2012 (prior to the sale to Victoria), HNZC had estimated the upgrade costs at up to \$21.30m, however noted that strengthening to 100% NBS was likely prohibitive and that the *“reality is costs are pie in the sky, but likely can only go higher”*.<sup>3</sup>

HNZC’s cost advice was provided by Beca and WT Partnership.

**LAND COST**

Retention of the building limits the development potential of the balance of the site. Figure 1 demonstrates that the building spans the site from south to north, with a narrow vehicle access possible at the north. We do not consider the steep escarpment to the west easily developable with the Gordon Wilson building remaining.

We recognise, however, that there may be the possibility for further (if limited) development on the site with astute master planning. Accordingly, we have attributed

<sup>3</sup> Andrew Crosby, Portfolio Development Manager, HNZC, 24 July 2012.

75% of the purchase price into the analysis of the five options. No holding costs have been allowed, however we note that private investors may factor this into any analysis.

Mr Clark’s report (**Appendix 8**) concludes that “*The location of the building on the site means that there is little to no development opportunity for the rear of the site, making any chance to mitigate the risks around costs difficult.*”

**GST**

Victoria purchased the property in September 2014 for \$6,087,000. Victoria claimed a GST refund of \$794,000, thus the net purchase cost was \$5,293,000.

Victoria has sought GST advice from Pricewaterhouse Coopers with respect to the upgrade options discussed in this report. This advice is summarised in the following table and is used in the financial analysis of the options.

**Table 4: GST Treatment of Land and Construction Cost**

	<b>OPTION ONE</b> Student Acc	<b>OPTION TWO</b> Student Acc (additional beds)	<b>OPTION THREE</b> Office / academic	<b>OPTION FOUR</b> Private residential	<b>OPTION FIVE</b> Social housing
Activity subject to GST	No (exempt supply)	No (exempt supply)	Yes (taxable supply)	No (exempt supply)	No (exempt supply)
Repay GST claimed on purchase to IRD	Yes – repay GST on the land value utilised for this activity (ie 75%)	Yes – repay GST on the land value utilised for this activity (ie 75%)	No	Yes – repay GST on the land value utilised for this activity (ie 75%)	Yes – repay GST on the land value utilised for this activity (ie 75%)
GST claimable on construction/development costs	No	No	Yes	No	No
Land cost apportioned to this activity	<b>\$4.565m</b>	<b>\$4.565m</b>	<b>\$3.970m</b>	<b>\$4.565m</b>	<b>\$4.565m</b>
	(75% x \$5.293m x 1.15)	(75% x \$5.293m x 1.15)	(75% x \$5.293m)	(75% x \$5.293m x 1.15)	(75% x \$5.293m x 1.15)

Source: PwC / Victoria

The treatment of GST with respect to student accommodation has been subject to considerable debate, and we are aware that different organisations have differing advice, and may operate differently.

The student accommodation options (1 and 2) assume students enter into standard residential tenancy agreements and that the facility is managed similarly to Victoria’s University Hall.

## FINANCIAL ANALYSIS

For each scenario that is assumed to be practically achievable WC+C has undertaken a detailed financial analysis. The basis of the analysis is a 20 year discounted cash-flow.

### 20 year discounted cash-flow

#### + Year 1 Revenue

The analysis assumes year 1 is 2017.

The initial rental revenue has been forecast based on data sourced from Victoria, for the student accommodation option, and from the Ministry of Business, Innovation & Employment (Building and Housing) for the private residential rental option.

In both cases 2015 rentals have been inflated by the forecast change in the Consumers Price Index for two years until estimated practical completion in 2017.

#### + Growth Rate

The analysis assumes growth in revenue and operating expenses in line with the forecast change in the Consumers Price Index.

The Consumers Price Index growth forecast basis is as follows:

**Table 5: Consumers Price Index Growth Forecast Basis**

	2015	2016	2017	2018	2019	2020 +
ASB Bank	1.0%	2.7%	1.9%	1.9%	1.9%	
ANZ Bank	0.6%	1.8%	2.0%	1.9%	1.9%	
Westpac	0.1%	1.3%	2.3%	2.7%	2.1%	
AVERAGE	0.6%	1.9%	2.1%	2.2%	2.0%	RBNZ Forecast

The RBNZ annual forecast ranges between 1.90% and 2.35%.

#### + Capital Expenditure

RLB has provided an estimate of upgrade costs. RLB's cost estimates are as at May 2015. We have inflated the cost estimates by 4.0% p.a. based on RLB's annual escalation allowance of 4.0% - 5.0%.

+ Discount Rate

Victoria has advised a discount rate of 7.0% per annum be applied to the analysis.<sup>4</sup>

Private investors are likely to apply a higher discount rate to Option 4 - private residential. This would lower the Net Present Value (NPV), producing a result worse than that we have calculated.

+ Terminal Value

The NPV calculation requires the assessment of a terminal value. The terminal value capitalisation rate adopted is 9.50% p.a.; this reflects a building that is 20 years older, and with an unknown lease profile.

In each case we have capitalised the forecast year 20 net income to derive the terminal value.

+ Net Present Value (NPV)

The NPV is the present day value of all projected project cash-flows. As the discount rate reflects the investors required rate of return, an NPV of greater than \$0 indicates a positive project, and one which should be considered.

In the case of the Gordon Wilson Building refurbishment, the five options can be compared on the basis of NPV, with the project with the highest positive NPV being preferred.

+ Cash-flow

Whilst annual cash-flow is not a measure of the financial performance of an investment, it does demonstrate the annual income or annual deficit of an investment. When assessing new student accommodation facilities, Victoria considers the annual cash-flow and its impact on Victoria's wider business.

Halls with medium to long term negative cash-flows are typically not commenced. Short term losses however, are often considered.

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<sup>4</sup> Wayne Morgan, Chief Financial Officer, 28 April 2015

**OPTION 1 – STUDENT ACCOMMODATION**

The following summary assesses this option against the four criteria presented in the Project Brief section, and also advises University demand and estimated refurbishment cost.

<b>Option Summary</b>	
Integration with Kelburn Campus:	Poor, building intersects site, single use
Practically Achievable:	Yes (however not modern)
Economically feasible:	No, project NPV <b>-\$35,030,000</b>
Delivers efficient accommodation:	No, 44m <sup>2</sup> per bed
University Demand:	Low (demand is for first year catered hall)
Refurbishment Cost Estimate:	\$43,650,000 (plus land cost)
Recommendation:	<b>Do not proceed with this option.</b>

Given the building’s history as residential accommodation, albeit as social housing, it is feasible that it could be used for student accommodation. This option assumes the building is refurbished generally in its current configuration. The refurbished building would not reflect modern student accommodation and could not be converted to first-year student accommodation without a substantial (new building) addition that would house a commercial kitchen and dining hall, and the additional common facilities typical of a first-year hall.

Vic Property Strategic Asset Management Plan, November 2014

The Vic Property Strategic Asset Management Plan was developed for Victoria’s student accommodation portfolio in response to Victoria’s Strategic Plan which was adopted in September 2014. The Strategic Asset Management Plan includes the following:

*“On-campus, conversion*

*Being on-campus, a conversion could provide many of the benefits identified above [refer Strategic Asset Management Plan]. A conversion may not, however, be able to provide ‘best in class’ design due to building elements that*

*cannot be remedied (for example low ceilings, lack of natural light or poorly located columns).*

*Other factors requiring consideration would include location relative to campus master planning. We are not aware of any potential on-campus buildings available for conversion, thus this option is not immediately evident at Victoria.*

*An on-campus conversion may not be the best use of the site as there may be a greater need for additional academic learning space.”*

Victoria does not consider the use of the Gordon Wilson building as student accommodation as being the best use of the site.

Victoria has medium term demand for a further first year catered dorm-style hall. Victoria advises, however, that it has no plans to own or lease a non-first year hall, rather preferring to rely on the private market to satisfy this demand. Notwithstanding Victoria’s position, we have assessed the financial performance of a conversion of the building for non-first year student accommodation use as it is inadequate for a first year hall due to the apartment style design, the lack of ability to include a suitably sized commercial kitchen, and the small size (circa 350 beds is preferred for a commercial kitchen and the provision of pastoral care / management).

## **Design**

This assessment assumes the building is fully upgraded, addressing the piling, structure, façade and services concerns discussed elsewhere in this report. We have assumed that the balconies are closed off as these are considered a safety risk for students.

The building was constructed with the following unit layout.

- + 75 maisonette style two-bedroom flats;
- + 12 bedsit flats;
- + Total 162 beds.

Beca (structural) has advised that it would be difficult to remove inter-tenancy walls as these are structural. We have assumed all units remain in the current configuration, however that three of the bedsits would be reconfigured for use as management offices and a reception. A total of 159 beds has been assumed for this analysis.

Requirements of a modern student accommodation hall

Key elements of success for modern halls include:

- + Economic size – circa 300 beds is preferred (although noted that Joan Stevens and Boulcott halls are 242 and 180 beds respectively);
- + Common rooms / study spaces per floor;
- + Large central study space / ‘business’ centre;
- + Communal kitchen;
- + Games rooms;
- + Theatres;
- + Gymnasiums;
- + One primary point of entry / exit (security and pastoral care);
- + Sufficient office / reception;
- + Efficient services;
- + Centrally located lift core (if greater than four levels);
- + Wireless throughout.

The following table presents a comparison of the Gordon Wilson Building to three of Victoria’s most recent halls. The table provides a comparison of the likely spaces and services that could be provided at the Gordon Wilson Building. The hall would not be operated as a first year hall as it does not meet the requirements of a modern first year hall, which include a central dining hall, and additional management offices for the provision of pastoral care.

**Table 6: Comparison of Potential Gordon Wilson Hall versus Other Victoria Halls**

	<b>Gordon Wilson Building</b>	<b>Katharine Jermyn Hall</b>	<b>Boulcott Hall</b>	<b>Joan Stevens Hall</b>
Gymnasium	x	✓	✓	x
Common room per floor	x	✓	✓	✓
Main common room	x	✓	✓	✓
Games room(s)	x	✓	✓	✓
Theatre	x	✓	✓	✓
Wireless	✓	✓	✓	✓
Outdoor space	✓	✓	x	(minimal)

NOTE: Providing large common spaces in the Gordon Wilson Building is problematic due to the transverse structural wall.

Converting units into non-revenue earning common spaces, such as those identified in the table above, would adversely impact further on the financial performance of the facility.

The Gordon Wilson building could be operated as a non-first year (senior student) hall. There are, however, a range of design features that would prevent the building offering a 'best in class' international, or even national quality, student accommodation facility. These include:

- + External walkways;
- + Small kitchens, poor natural light;
- + Low ceiling height once fire sprinklers are installed;
- + Limited ability to include any common spaces without either additions to the building or converting units;

Common spaces are important in modern student accommodation halls as students spend less face-to-face time with lecturers, and more time working alone or in small groups. The concept of 'living-learning environments' is now a well-recognised trend overseas, and will become more important in New Zealand in the future. Victoria is aware of this trend and has included significant common areas in the three halls noted in Table 6.

- + Lift core at one end of the building.

The small hall size (in terms of bed numbers) will also impact negatively on the vibrancy and financial viability of the hall.

The University of Auckland has recently completed Stage 1 of its Carlaw Park Student Village, and is currently completing Stage 2. This development is considered international quality. The weekly rental at Carlaw Park (Auckland) is \$19 per week more expensive than that we have adopted for the Gordon Wilson Building.

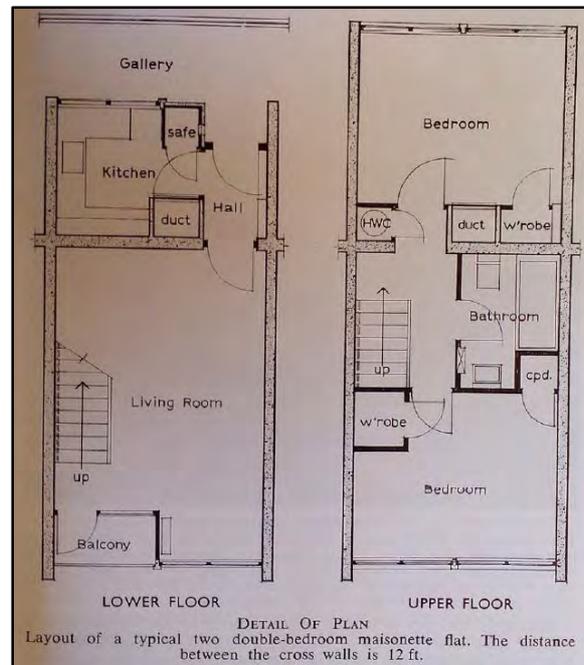
Massey University has also recently completed a large new apartment style development at Albany, Auckland. The weekly rental is \$5 per week less than that we have adopted for the Gordon Wilson Building.

We are aware that the University of Canterbury is currently seeking proposals for new apartment style development at its Christchurch campus.

As part of the choice that students make when selecting a university, these facilities will effectively compete with the Gordon Wilson Building, and being new and purpose designed are likely to provide a better overall quality of accommodation.

The following figure demonstrates the current layout of a two bedroom unit.

**Figure 2: Typical Two-bedroom Unit**

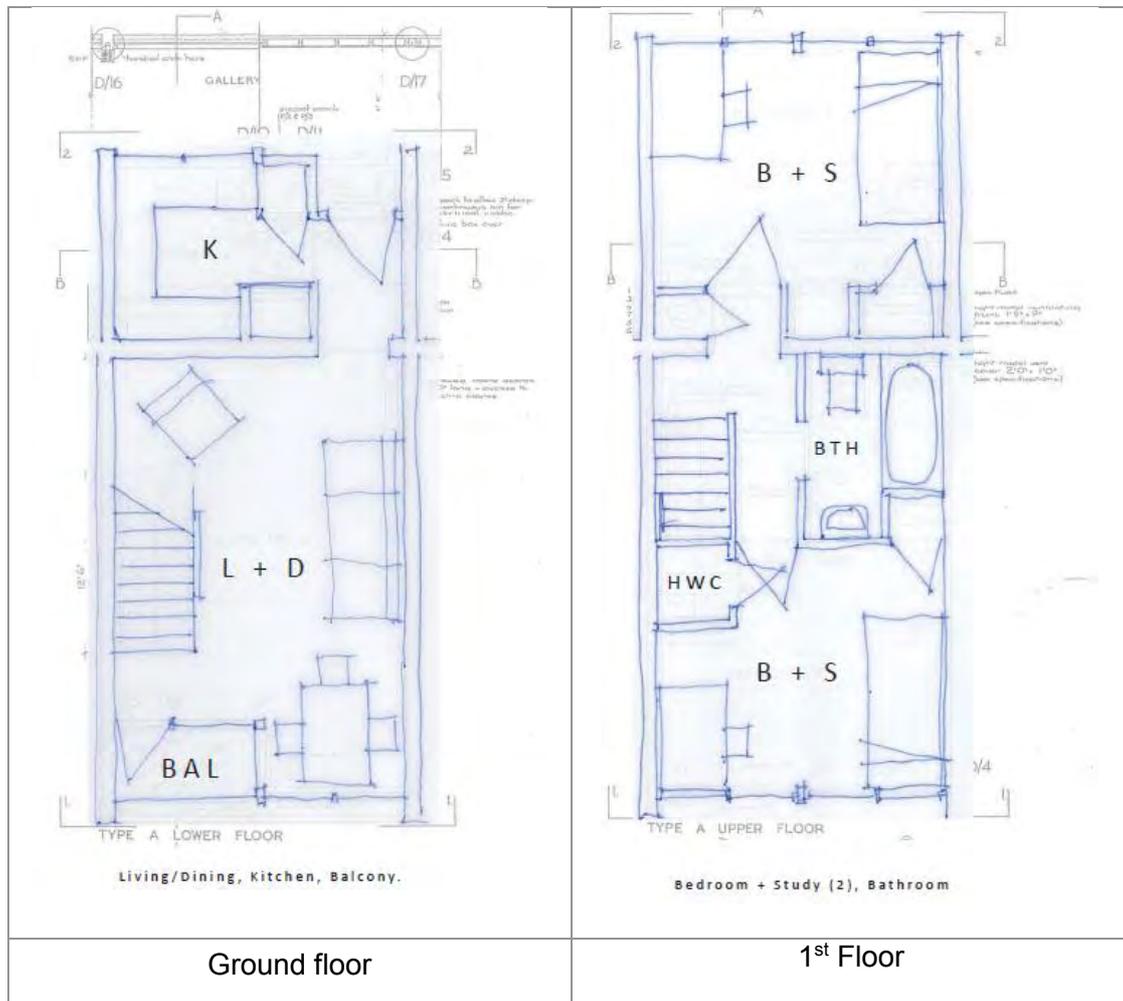


Source: The Journal of the New Zealand Institute of Architects, Volume 28, No 1, February 1961.

Figure 2 demonstrates the width of the flats as 12 feet, or approximately 3.65 metres. The inter-tenancy walls are structural and Beca advises that removal of these is not feasible.

Athfield Architects has provided an indicative layout of a two-bedroom unit, confirming a suitable arrangement for student accommodation. A king single bed and a 1,600mm desk is required in each bedroom, along with sufficient storage.

Figure 3: Indicative Two-bedroom Unit



Source: Athfield Architects

Athfield Architects report is included at **Appendix 5**.

We have assumed the rooftop central laundry would be re-commissioned, however note this would need to be enclosed as open rooftop access (as present) is considered a safety risk for students.

A central laundry is acceptable, in fact preferred, from a management perspective for student accommodation.

We have assumed that all Building Code accessibility requirements can be met, however note that it is typical for university accommodation to exceed Building Code requirements though thoughtful design.

Accessible units should also be dispersed throughout a hall to avoid any stigma associated with an accessibility issue or separation of disabled students. This may prove difficult at the building.

In conclusion, we do not consider the Gordon Wilson Building is capable of providing modern student accommodation; neither will it be competitive with accommodation options provided by competitor universities in New Zealand or abroad.

### **Financial Analysis**

The financial analysis comprises four key elements:

- + Revenue - Prepared in association with Nick Merrett, Associate Director of Student Accommodation at Victoria.

Whilst the bedrooms can accommodate double beds (two people), they cannot accommodate a double bed and sufficient study space. Accordingly, we have assumed one person (one rental) per bedroom. If Victoria were to rent a two-bedroom unit to a couple, it is likely that one bedroom would be used for sleeping and one for study (thus still only two rentals for two bedrooms).

Our recent experience preparing financial feasibility studies for new student accommodation for the University of Auckland and the University of Canterbury has also informed the analysis.

- + Operating expenses

As above, these have been developed in association with Nick Merrett, Associate Director of Student Accommodation at Victoria. Steph Forrest, Associate Director of Facilities Management, has also assisted with development of the building components of the operating expense forecast.

As previously noted, we have assumed a significantly upgraded building. We have amended the operating expenses accordingly, and made downward adjustments for the first year of operation due to the defects liability period (obligations for the construction contractor to maintain many aspects of the building) that would be in place.

+ Capital expenditure

As previously discussed, RLB has provided construction cost advice. RLB has used the Beca building reports as the foundation of its cost advice, and also its experience working on the recent major refurbishments of (Wellington City Council) City Housing's portfolio.

+ Growth forecasts

Our forecast methodology has been previously explained; suffice to say we have relied on published Consumer Price Index forecasts for growth in both revenue and expenses. Victoria has confirmed that it does not anticipate increases in revenue above forecasts for the Consumers Price Index.

Our approach to calculating the terminal value follows generally accepted valuation practice; that being the capitalisation of the forecast net income. The capitalisation rate used reflects the fact that the building upgrade will be 20 years old.

The terminal value comprises approximately 12% of the project NPV.

The following table presents a summary of the refurbishment costs. As the operation is a GST exempt supply, GST has been added to the costs.

**Table 7: Student Accommodation Refurbishment Cost**

Beds	159
Land cost	4,565,213
Refurbishment Cost	42,703,180
FF&E	950,820
<b>TOTAL DEVELOPMENT COST</b>	<b>48,219,213</b> Incl. GST
Total Development Cost	
Per Bed	303,265

Source: Rider Levett Bucknell (PwC for GST advice)

We are aware that some parties may take another approach with respect to GST and assume the operation of a hall is not an exempt supply in terms of the GST Act. If this approach was successful (with the IRD) the total development cost per bed would be \$263,709.

The following table presents, as a comparison, five (open market) sales of student accommodation halls, the four most recent of which have been in the range of \$80,000

to \$85,000 per bed. All properties listed below are considered to provide better utility for student accommodation than could be achieved at the Gordon Wilson Building.

**Table 8: Comparative Student Accommodation Hall Sales**

Hall	Beds	Sale Date	Sale Price (\$ Total)	Sale Price (\$/bed)
<b>WELLINGTON</b>				
Joan Stevens Hall 132 The Terrace	242	Jun-11	15,882,352	65,630
Boulcott Hall 47 Boulcott St	180	Mar-13	14,300,000	79,444
CONFIDENTIAL *	600+	Oct-14	-	circa 80,000
Katharine Jermyn Hall 100 Boulcott St	390	May-15	33,300,000	85,385
<b>AUCKLAND</b>				
CONFIDENTIAL	300+	Apr-15		circa 80,000

\* = includes retail tenancies and development land, thus analysis over stated

Source: Property Guru, WC+C

The Gordon Wilson Building gross floor area is 7,129m<sup>2</sup>. This equates to 45m<sup>2</sup> per bed (159 beds) which is inefficient when compared to modern halls that average circa 30m<sup>2</sup> per bed. This inefficiency leads to a higher refurbishment cost on a 'per square metre' basis.

The following table presents a summary of the financial analysis.

**Table 9: Option 1 Financial Analysis**

	NPV	
	Total	Per Bed
Initial Capital Expenditure	-\$48,219,213	-\$303,265.49
Revenue	\$21,121,127	\$132,837
Expenses	-\$12,481,646	-\$78,501
Net Operating Income	\$8,639,481	\$54,336
Terminal Value	\$4,548,928	\$28,610
<b>Project</b>	<b>-\$35,030,803</b>	<b>-\$220,320</b>

Table 9 demonstrates a significant NPV loss that Victoria would suffer if it was to refurbish the building for student accommodation use. Accordingly **we do not recommend pursuing this option.**

**OPTION 2 – STUDENT ACCOMMODATION, PLUS ADDITIONAL BEDS**

The following summary assesses this option against the four criteria presented in the Project Brief section, and also advises University demand and estimated refurbishment cost.

**Option Summary**

Integration with Kelburn Campus:	Poor, building intersects site, single use
Practically Achievable:	No
Economically feasible:	No, project NPV not calculated
Delivers efficient accommodation:	No
University Demand:	Low (demand is for first year catered hall)
Refurbishment Cost Estimate:	NA, can not intensify bed numbers within current building envelope.
Recommendation:	<b>Do not proceed with this option.</b>

**Design**

As noted earlier, an economic student accommodation hall comprises 300+ beds. The building provides 159 bedrooms in its current layout.

We have considered whether the 75 two-bedroom flats could be reconfigured to provide three bedrooms. This would achieve 234 bedrooms which is still not ideal, however would go some way toward improving the financial performance of the hall.

Further to earlier comments, modern student accommodation requires a bedroom size of circa 10m<sup>2</sup> – 12m<sup>2</sup>, and the following features:

- + Natural light
- + Opening window
- + King single bed (note, non-first year students often prefer double or larger)
- + Desk of 1,600mm x 600mm; and
- + Preference for 2,600mm minimum ceiling height.

Within an apartment, separating toilets from bathrooms is preferred.

Athfield Architects has considered options to increase the bedroom numbers. The following figure demonstrates the addition of one bedroom into the current lounge space.

Figure 4: Additional Bedroom in Lounge



Source: Athfield Architects

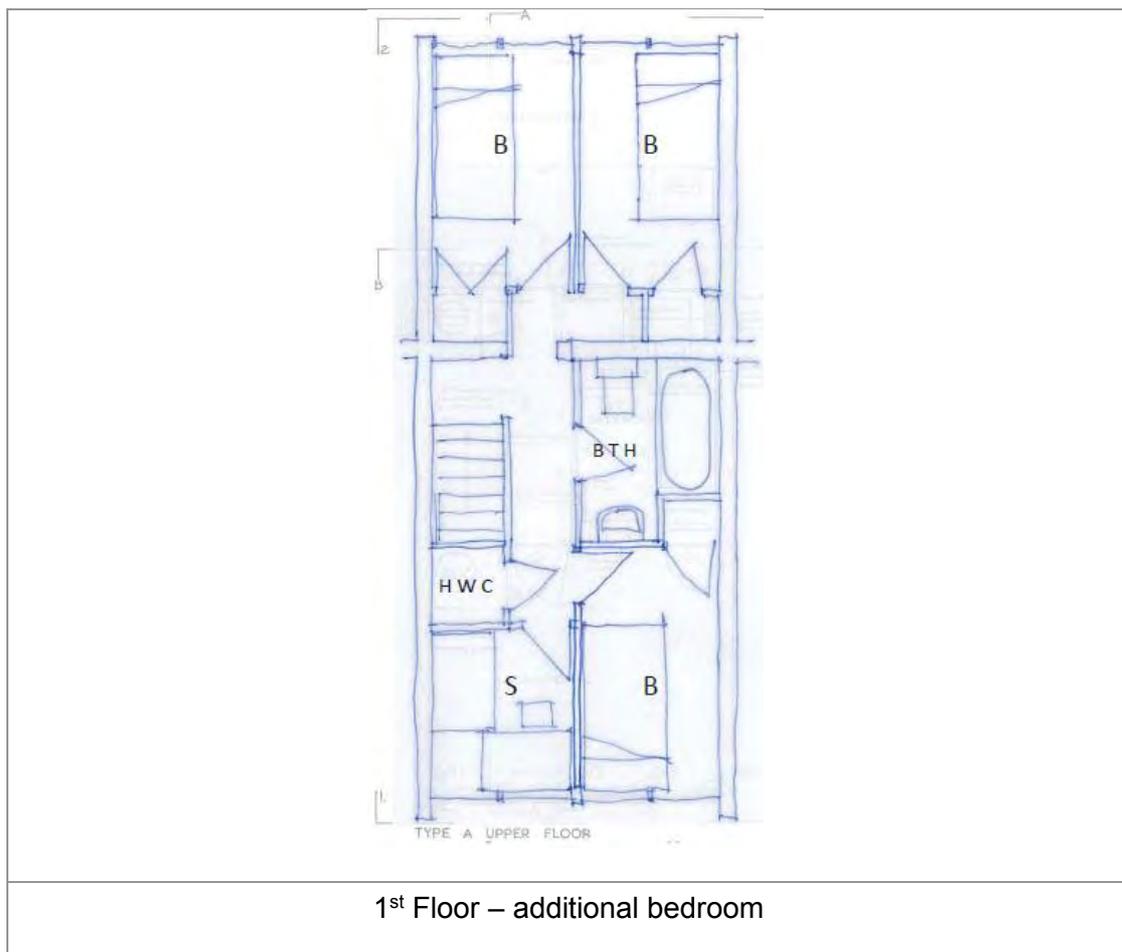
The layout demonstrated above is impracticable because it results in no (or very limited) lounge or dining space. Other issues design include:

- + The bedroom is circa 1.825m wide. Te Puni Village dorm style bedrooms are 2.75m wide, and University Hall (University of Auckland) dorm style bedrooms are 2.975m wide. 1.825m is insufficient (a king single bed is 1,070mm wide)

- + The kitchen is small for three students who may cook independently; although it is noted that no detailed planning has been undertaken.

The following figure demonstrates a reconfiguration that provides three bedrooms at the upper level.

**Figure 5: Additional Bedroom in Lounge**



Source: Athfield Architects

The layout demonstrated above is impracticable for the following reasons:

- + The bedrooms are circa 1.825m wide – see comments above.
- + Bedrooms without study desks is untenable.
- + One shared study room is insufficient. Students require their own space and desk.
- + Locating the study room adjacent to a bedroom may cause issues around acoustics.

- + A combined bathroom and toilet is not preferred.
- + The kitchen is small for three students who may cook independently; although it is noted that no detailed planning has been undertaken.

Athfield Architects conclude “*We have tested 2 different ways of adding an additional bedroom to the two bed unit. Neither of these options would provide modern, well designed accommodation, hence would unlikely be competitive nationally, let alone internationally.*” (see **Appendix 5**).

We concur with Athfield Architects and do not believe three bedrooms can be reasonably fitted into the existing two-bedroom units.

Likewise, whilst no detailed planning has been undertaken, we do not believe the ground floor bedsits can be expanded to more than one bed.

### **Financial Analysis**

We have determined that three bedrooms cannot be fitted within the two-bedroom units, and do not consider the bedsits can be increased beyond one bed. Accordingly we have not undertaken a detailed financial analysis of this option.

If additional beds were to be added there would be an increase in the construction cost; there may be building code compliance issues (fire paths and corridor widths for example), and the 98% academic term occupancy rate adopted in Option 1 – Student Accommodation is unlikely to be achieved due to the poor quality rooms that would be provided.

**We do not recommend pursuing this option.**

### OPTION 3 – OFFICE / ACADEMIC USE

The following summary assesses this option against the four criteria presented in the Project Brief section, and also advises University demand and estimated refurbishment cost.

#### Option Summary

Integration with Kelburn Campus:	Poor, building intersects site
Practically Achievable:	No
Economically feasible:	No, project NPV not calculated
Delivers efficient accommodation:	No
University Demand:	Yes (design dependent, building not suitable)
Refurbishment Cost Estimate:	NA, change of use not practical.
Recommendation:	<b>Do not proceed with this option.</b>

#### Design

The building comprises 7,129m<sup>2</sup> of gross floor area over 11 levels. The current design is maisonette style residential accommodation with access corridors at every second level. Figure 1 demonstrates the building to be long and narrow.

This option considers the ability to use the building as office or academic space for Victoria. Academic uses may include lecture theatres, tutorial rooms, laboratories or music teaching spaces.

General requirements:

- + High stud (use dependent);
- + A mix of different sized rooms;
- + Large spaces
- + Connectivity.

Athfield Architects has considered the building’s ability to be adapted for office or teaching use and concludes “*Based on the existing building structure, and restrictions*

*of the multiple small cells within, this building is not able to be adapted for modern teaching or modern office spaces without substantial demolition of the existing building.”*

We note, particularly:

- + Once fire sprinklers are installed (as required by NZS 4541) the sprinkler head or ceiling height will be restrictive for many uses
- + The 14 transverse walls are a key structural element (200mm thick and doubly reinforced) and cannot be removed without significant re-engineering of the structure.

**Figure 6: Building Showing Direction of Longitudinal and Transverse Walls**



Given the building’s separation from other buildings on the Kelburn Campus it would be preferable to accommodate one department, school or service (Property Services or IT Support for example).

**Financial Analysis**

No financial analysis has been undertaken on the basis that it is not practical to convert the building to office or academic use for Victoria.

In addition to the impracticality of adapting the building for an office or academic use, the upgrade cost would be significantly greater than constructing new offices or generic academic space. RLB has provided the following broad parameters for development of new office and (generic) academic accommodation:

+ Office

\$4,000/m<sup>2</sup> to \$4,500/m<sup>2</sup>. This equates to \$28.20m to \$31.70m for a building of 7,041m<sup>2</sup>

+ Academic

+ \$4,500/m<sup>2</sup> to \$5,500/m<sup>2</sup>. This equates to \$31.70m to \$38.70m for a building of 7,041m<sup>2</sup>

**We do not recommend pursuing this option.**

**OPTION 4 – PRIVATE RESIDENTIAL**

The following summary assesses this option against the four criteria presented in the Project Brief section, and also advises University demand and estimated refurbishment cost.

<b>Option Summary</b>	<b><u>Assumes unit titled and sold individually</u></b>
Integration with Kelburn Campus:	No
Practically Achievable:	Unsuitable (per Urban Perspectives advice)
Economically feasible:	No, capital cost estimate \$41,034,000 Project NPV <b>-\$17,623,000</b>
Delivers efficient accommodation:	Unlikely. Excess unusable land
University Demand:	Nil
Refurbishment Cost Estimate:	\$38,570,000 (plus land cost)
Recommendation:	<b>Do not proceed with this option.</b>

NOTE: Difference between refurbishment cost and capital cost relates to unit titling, holding costs and finance costs (static valuation model).

Private residential accommodation is not an option Victoria would undertake. We understand that Victoria does not intend to sell the site; albeit neither will it convert the building for private residential use. This analysis, therefore, is hypothetical.

**Design**

Urban Perspectives Ltd has undertaken an assessment of the building against the following documents:

- + Housing New Zealand design guides (site design guide, medium and high density design guide, urban design guide, and architecture design guide);
- + Wellington City Housing Design Guide; and
- + Wellington District Plan Residential Design Guide.

For the purpose of an assessment of the building’s suitability for private residential use it is the third of these; Wellington District Plan Residential Design Guide that is relevant. Social Housing is considered as Option 5 (below).

Urban Perspectives Ltd draw the following conclusions, with respect to the building's suitability for private residential accommodation:

*"The existing building is unsuitable for private residential living - this is because:*

- + it is unfeasible to satisfy some of the fundamental spatial and internal amenity requirements for good quality apartment living as envisaged by the District Plan Residential Design Guide; and/or to provide the desired mixture of unit types; and*
- + any attempt to achieve those requirements could be structurally challenging and/or would involve changes to the building facades and therefore adversely affect the heritage value."*

Urban Perspectives Ltd also note:

- + lack of diversity in unit / apartment types (i.e. bedsit and two-bedroom only);
- + lack of individual laundries;
- + small balconies;
- + limited storage.

The Urban Perspectives Ltd assessment is at **Appendix 6**.

#### Other

Existing Use Rights:

As discussed earlier in this report, the building does not have existing use right and cannot currently be used for intensive private residential accommodation. This would be a significant risk for any owner or developer and it is unlikely the property would sell without this issue being resolved with Wellington City Council.

Unit Title Subdivision:

The property could be unit titled, with units / apartments sold off individually. The substantial land area would have to be managed / maintained by the body corporate; although it is possible that part of this could be sold for further development. We have applied 75% of Victoria's purchase price to the financial analysis.

## Financial Analysis

We have considered the building for private residential accommodation under two scenarios to determine the best financial option. These are:

1. Unit titled development and units individually sold;
2. Held in one title for long term rental income.

These options are discussed below, however the unit titled (and individually sold) option is the best financial option; albeit still significantly negative.

### 1. Unit Titled – Individually Sold

This assessment assumes the building is refurbished and then unit titled and sold individually. RLB has provided the development cost advice – see **Appendix 4**.

We have made an additional allowance for landscaping as the property is currently in poor condition.

### Unit Sale Prices

We have analysed all sales of one and two bedroom apartments in Wellington City for the 12 month period to 1 April 2015. There were 112 sales. We removed: two sales that included land (possibly recorded in error); three that were recorded to the same purchaser on the same date and each for the same price (> \$1.0m and circa 150m<sup>2</sup> each), and all sales of properties that were identified as constructed post 2000 on the basis that these modern apartments are not comparable.

The resultant sales are demonstrated in the following table.

**Table 10: Apartment Sales – 12 Months to 1 April 2015**

<b>1 Bedroom Units</b>	
Number of sales	30
Median Sale Price	\$293,500
Median floor area (sqm)	70
Median Sale Price \$/m <sup>2</sup>	\$4,193
<b>2 Bedroom Units</b>	
Number of sales	18
Median Sale Price	\$395,000
Median floor area (sqm)	91
Median Sale Price \$/m <sup>2</sup>	\$4,341

Source: Property Guru

Sales typically take some time (4 – 8 weeks) to be recorded in public databases such as Property Guru; accordingly there are likely to be sales within the period that have not been captured.

The above sales are inclusive of GST (if any).

We did not identify any sales of bedsit units.

We have adopted the median sales prices per square metre for our analysis of sale prices at the building. For bedsits we have adopted the 1 bedroom unit sale price per square metre, but have added 50% to this, recognising that whilst smaller, at circa 32m<sup>2</sup> per bedsit, the bedsits do have the utility of a kitchen and bathroom – a simple mathematical adjustment may unduly discount the price of these units.

For the two bedroom units we have adopted the median sales prices per square metre from the two bedroom units above.

We have allowed \$30,000 per space for the 25 carparks currently available at the property.

Figure 7 demonstrates a possible financial outcome if the building was refurbished, unit titled and the units individually sold. We have adopted the bottom of the RLB refurbishment range on the basis that the private market may be more efficient than Victoria in delivering the units.

There are many variables, not the least of which is the saleability of the units. Sales of bedsits is untested in recent time in Wellington that we are aware of.

Figure 7: Unit Title and Sell

		Number	Sales Price	Gross Realisation	
<b>Sale Price</b>					
Bedsit units		11	201,000	2,211,000	
Two bedroom units		75	278,000	20,850,000	
Carparks (uncovered, external)		25	30,000	750,000	
<b>GROSS REALISATION - PRE GST</b>					<b>23,811,000</b>
<b>GST</b>				15%	-3,105,783
<b>GROSS REALISATION</b>					<b>20,705,217</b>
<b>Selling Costs</b>					
Sales Commissions		1.50%		310,578	
Legal (selling)		86	750	64,500	
Marketing				25,000	
<b>Total Selling Cost</b>					<b>400,000</b>
<b>NET REALISATION</b>					<b>23,411,000</b>
<b>Costs</b>					
<u>Land Costs</u>					
Land Purchase				3,969,750	
<u>Construction Cost</u>					
Unit Construction (ex RLB student accommodation)				32,500,000	
Construction premium for private residential (ex RLB)				2,000,000	
Landscaping				100,000	
					<b>38,570,000</b>
<u>Unit Titling</u>					
Survey		86	1,500	129,000	
Legal		1	50,000	50,000	
					<b>179,000</b>
<u>Holding Costs</u>					
Rates	<i>yrs</i>	1.50		70,500	
Insurance	<i>yrs</i>	1.50		112,500	
					<b>183,000</b>
<u>Finance Cost</u>					
Interest Rate		6.00%			
Est. Finance Period (yrs)		1.50			
Average Borrowing		60.0%			
					<b>2,102,328</b>
<b>PRE TAX PROFIT</b>					<b>-17,623,000</b>

The analysis has not allowed for a management office / reception, but has assumed all current units are refurbished and sold.

Figure 7 demonstrates that it is very unlikely that the building could be economically refurbished for unit titling and on-sale.

2. Held for Long Term Rental Income

This analysis assumes the building is held as one investment for long term rental. We have prepared a 20 year discounted cash-flow model to estimate a NPV from this investment.

Rental Income:

The following table demonstrates apartment and flat rental data compiled by the Ministry of Business, Innovation & Employment for the period from 1 July 2014 to 31 December 2014. The analysis is based on tenancy bonds received by MBIE.

**Table 11: Apartment and Flat Rental Data – 1 July 2014 to 31 December 2014**

Bedrooms	Dwelling	Bonds Received	Average Rent	Lower Quartile	Median Rent	Upper Quartile
<b>Area: Wellington - Kelburn/Aro Valley</b>						
2	Apartment	14	\$462	\$400	\$445	\$470
1	Apartment	11	\$326	\$262	\$330	\$385
4	Flat	5	\$690	\$623	\$700	\$731
3	Flat	12	\$500	\$472	\$520	\$575
2	Flat	27	\$377	\$330	\$370	\$431
1	Flat	69	\$282	\$250	\$275	\$300
<b>Area: Wellington - Lambton</b>						
3	Apartment	12	\$766	\$610	\$725	\$850
2	Apartment	91	\$527	\$431	\$495	\$600
1	Apartment	80	\$357	\$315	\$362	\$400
2	Flat	10	\$445	\$410	\$430	\$450
1	Flat	19	\$343	\$283	\$330	\$373

Source: Ministry of Business, Innovation & Employment

NOTE: Definition of apartment or Flat is provided by property owned, not the Department of B&H.

Based on the data provided at Table 11, we have adopted rentals of \$250 per week for the bedsits, and \$400 per week for the two-bedroom flats. Our analysis of sales (see Table 10 above) has shown the units at the building to have comparatively small floor areas.

We have allowed a rental of \$50.00 per space per week for the 25 parking spaces surrounding the building.

Issues which will impact on rental, when compared to other apartments and flats in Wellington include:

- + Small kitchens;
- + Small lounge balconies;
- + No individual laundry;
- + External access corridors;
- + No common facilities such as gymnasium or pool;
- + Poor access with both lifts at the northern end of the building;
- + No storage units, although a storage facility could be constructed at the property;
- + Potential security issues due to distance from street and western embankment (homeless person / people noted living in this area during the preparation of this report).

The following table presents a summary of our 20 year discounted cash-flow analysis if held for private rental.

**Table 12: Private Rental**

	NPV	
	Total	Per Bed
Initial Capital Expenditure	-\$51,209,213	-\$318,070
Revenue	\$20,526,318	\$127,493
Expenses	-\$9,637,656	-\$59,861
Net Operating Income	\$10,888,662	\$67,631
Terminal Value	\$5,185,534	\$32,208
<b>Project</b>	<b>-\$48,219,213</b>	<b>-\$299,498</b>

NOTE: Analysis on a GST inclusive basis.

This analysis demonstrates that unit titling the units and selling produces a better, if still significantly negative, outcome than retaining and letting in the private market.

**We do not recommend pursuing this option.**

**OPTION 5 – SOCIAL HOUSING**

The following summary assesses this option against the four criteria presented in the Project Brief section, and also advises University demand and estimated refurbishment cost.

<b>Option Summary</b>	<b>Assumes sold</b>
Integration into Kelburn Campus:	No
Practically Achievable:	Yes
Economically feasible:	No, project NPV not calculated
Delivers efficient accommodation:	No
University Demand:	Low
Refurbishment Cost Estimate:	\$32.0m - \$40.0m (plus land cost)
Recommendation:	<b>Do not proceed with this option.</b>

The Gordon Wilson Building was constructed for the purpose of social housing in 1959, and was owned and managed for this purpose until 2012 when HNZN had to relocate its tenants due to safety concerns with the building façade.

In 2014, HNZN sold the property to Victoria following an exhaustive review of upgrade options. Prior to the sale HNZN had considered a full rebuild at the site<sup>5</sup>, however ultimately this did not occur.

HNZN determined that the building did not warrant refurbishment, specifically noting that the building was unable to satisfy its mission of providing *“high quality, subsidised rental homes to people in the greatest need for the duration of their need”*.

HNZN’s advice on this is contained at **Appendix 7**.

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<sup>5</sup> <http://www.stuff.co.nz/dominion-post/news/wellington/8503261/More-than-1m-to-upgrade-now-empty-flats>

## Design

Urban Perspectives Ltd has undertaken an assessment of the building against the following documents:

- + Housing New Zealand design guides (site design guide, medium and high density design guide, urban design guide, and architecture design guide)
- + Wellington City Housing Design Guide
- + Wellington District Plan Residential Design Guide.

Urban Perspectives Ltd draw the following conclusions, with respect to the buildings suitability for social housing:

*“In relative terms, the building, with regards to its spatial layout, appears to have a better potential” (than for private residential) “to be re-used/rehabilitated for social housing. This, however, would:*

- (a) *involve a substantial amount of work/cost to bring the building to current building standards and be able to deliver good quality social housing outcome,*
- (b) *not be able to provide the desired mixture of unit types and/or support the increasing demand for supported housing for older people; and*
- (c) *aspects of the required upgrade work could be challenging to achieve and/or would involve changes to the heritage facades.”*

Urban Perspectives Ltd also note:

- + lack of individual laundries;
- + small balconies;
- + limited storage.

The Urban Perspectives Ltd assessment is at **Appendix 6**.

## Financial Analysis

During Victoria’s negotiations with HNZC, HNZC advised that before the facade issue was discovered the estimate to do a “*decent refurbishment*” was \$18.8m of which \$11.0m was considered “*must have*” to provide a moderate standard of upgrade (“*Beca’s loose estimate*”). Façade works were noted as adding another \$2.5m, however, with significant risk around this estimate. HNZC concluded a range of

\$13.5m to \$21.3m (\$131,000 per bed) to refurbish<sup>6</sup> based on advice from Beca and WT Partnership.

\$21.3m in 2012 is equivalent to \$24.7m (\$152,500 per bed) in 2015 if inflated at 5% per annum – RLB’s current estimate of construction cost growth.

HNZC noted that (with respect to the above estimates) the “*Reality is costs are pie in the sky, but likely can only go higher*”.

HNZC’s estimates exclude a range of material costs including; legal, financing, design and professional fees, consents, FF&E, security, external works and HVAC. HNZC’s reports also note that the methodology and cost to strengthen the building would require significant investigative work; suffice to say the costs should be considered indicative only.

Victoria has not relied on HNZC’s historic and high-level cost advice, but sought its own from RLB, based on a comprehensive building inspection / review by Beca.

With respect to social housing building refurbishment, Wellington City Council - City Housing division commenced a comprehensive upgrade of a significant portion of its accommodation portfolio around 2010. The following table demonstrates Council’s actual cost per bed for six large refurbishment projects.

**Table 13: Wellington City Council, City Housing Upgrade Costs**

Bed No	Construction Cost		Total Project	
	Total Cost (exc GST)	Cost per bed (exc GST)	Total Cost (exc GST)	Cost per bed (exc GST)
399	20,345,431	50,991	23,594,696	59,135
378	26,512,280	70,138	29,471,913	77,968
208	10,378,662	49,897	11,506,087	55,318
128	8,531,435	66,652	10,260,870	80,163
497	37,131,000	74,710	41,539,130	83,580
270	6,113,167	22,641	6,278,696	23,254
<b>Average</b>	<b>18,168,663</b>	<b>55,838</b>	<b>20,441,899</b>	<b>63,236</b>
<b>Median</b>	<b>15,362,047</b>	<b>58,821</b>	<b>17,550,392</b>	<b>68,551</b>

Source: City Housing

NOTE: Table 13 excludes new built accommodation

Table 13 demonstrates a median total project cost per bed of \$68,551 and a maximum project cost of \$83,580 per bed. This is significantly less than the forecast cost to refurbish the Gordon Wilson Building.

<sup>6</sup> Andrew Crosby, Portfolio Development Manager, HNZC, 24 July 2012.

RLB has estimated an upgrade cost of between \$32.00m and \$39.95m, equating to \$197,000 to \$246,000 per bed. Whilst this is higher than the 2012 HNZC estimate it reflects a more comprehensive review of the building.

We are aware of the government’s Social Housing Reform Programme, however do not believe the Gordon Wilson Building can be economically refurbished, or provide the quality or type of accommodation HNZC is now seeking. We are aware that HNZC has advised that it is seeking to purchase the following accommodation in Wellington Region.

**Table 14: HNZC Purchase**

<b>Wellington Region – an estimated 150 additional places</b>	
Wellington City	an estimated 70 additional one-bedroom places
	an estimated 20 additional four-bedroom and larger places
Lower Hutt City	an estimated 20 additional one-bedroom places
	an estimated 10 additional two-bedroom places
	an estimated 10 additional four-bedroom and larger places
Porirua City	an estimated 20 additional one-bedroom places

Source: <http://www.msd.govt.nz/about-msd-and-our-work/work-programmes/social-housing/purchasing-intentions/social-housing-purchasing-intentions/additional-places-locations.html>

Table 14 identifies no HNZC demand for two-bedroom units in Wellington City.

We do not consider the Gordon Wilson Building would fit within the Wellington City Housing portfolio for the reasons outlined in the Urban Perspectives Ltd report, and also note:

- + The refurbishment cost is excessive when compared to new build costs or the City Housing refurbishment costs above.
- + Circa 65% of City Housing tenants are single adults, thus preferring bedsits or one bedroom units (A Policy for Wellington City Council’s - Social Housing service - May 2010).

We have not undertaken further analysis of this option as we do not believe there is a market for the building for use as social housing. We also note that the rentals charged by HNZC, City Housing, and other social housing providers vary, and in some cases are subject to the Government’s income-related rent subsidy (if registered with the Community Housing Regulatory Authority (CHRA)).

**Accordingly we do not recommend pursuing this option.**

## 6.0 Private Developer - review of re-developing

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We have sought input from Mr Maurice Clark as to the potential to re-develop the Gordon Wilson Building. Mr Clark is an experienced Wellington based developer, having refurbished, upgraded, or strengthened (amongst others) the following buildings:

- + Joan Stevens Hall, 132 The Terrace
- + Boulcott Hall, 47 Boulcott Street
- + Katharine Jermyn Hall, 175 The Terrace / 100 Boulcott Street
- + 'ex' Defence Head Quarters, 15 Stout Street
- + Old Public Trust Building, Lambton Quay

Mr Clark is also a qualified engineer, and owner of McKee Fehl Constructors.

Mr Clark's report is provided at **Appendix 8**. Maurice concludes "*Overall, my expert opinion on the development potential of this building in regard to upgrading the existing structure, is that there is little to no appeal. The return on investment would likely be negative given the multiple risks associated with restoring the building.*"

Maurice has also reviewed this report and concurs with the recommendation.

## Appendix 1 – Heritage Assessment - Archifact

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## Appendix 2 – Building Structure, Façade and Services Report – Beca

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## Appendix 3 – Building Asbestos Report – All Asbestos

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## Appendix 4 – Upgrade Works Cost Estimate – Rider Levett Bucknall

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## Appendix 5 – Architectural Review – Athfield Architects

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## Appendix 6 – Urban Design Review – Urban Perspectives Ltd

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## Appendix 7 – Housing New Zealand Corporation Letter

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## Appendix 8 – Maurice Clark Letter

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