



## BRIEFING NOTE: Lease costs compared to Partnership School Property Funding - Update

<b>Date:</b>	10/5/2017	<b>Priority:</b>	Low
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1058638
<b>To:</b>	David Seymour MP, Parliamentary Under-Secretary to the Minister of Education		
<b>Copy to:</b>	Hon Nikki Kaye, Minister of Education		
<b>Approved by:</b>	Karl Le Quesne, Acting Deputy Secretary, Early Learning and Student Achievement	<b>DDI:</b>	[REDACTED]

s 9(2)(a) OIA

### Purpose

1. Your Office requested an update to the lease cost analysis that we provided in 2015 (METIS 931753 refers). Updated lease costs for commercial rents in 2016 is provided, including also analysis for industrial-zoned property.

### Background

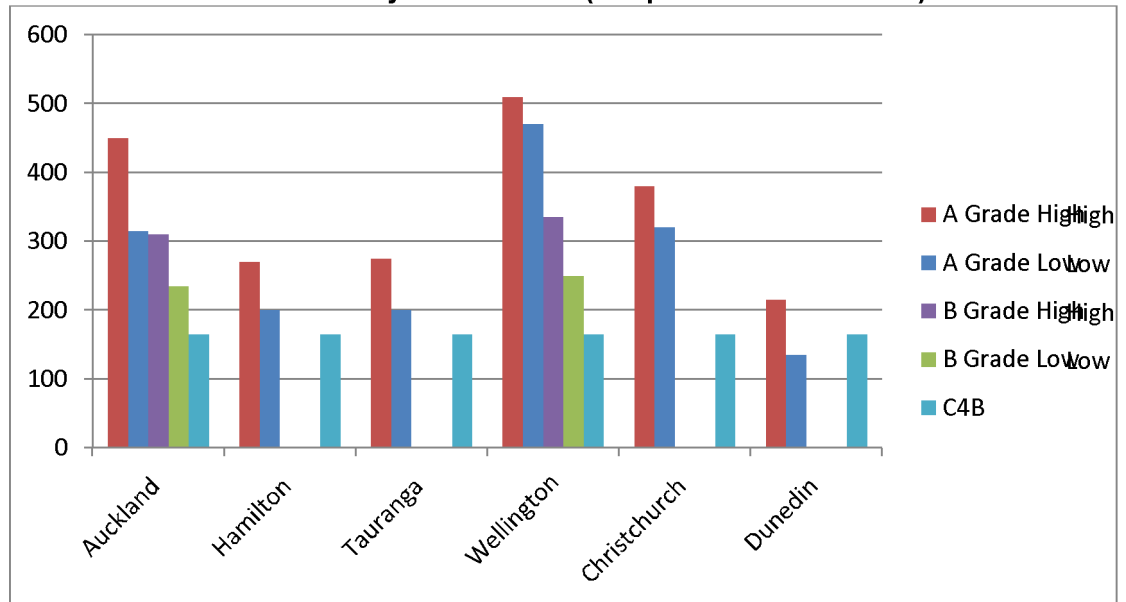
2. In June 2015, we undertook analysis of Partnership School Kura Hourua (PSKH) property funding compared to market lease costs in 2014 (METIS 931753 refers) as part of a PSKH funding review that was completed in August 2015 [CAB Min (15) 26/4A refers]. The Cash for Buildings (C4B) approach to calculating property funding continues to apply.

### Comment

3. This note provides a 2016 update of the commercial lease costs in Auckland, Hamilton, Tauranga, Wellington, Christchurch and Dunedin.<sup>1</sup> In this report Colliers advises that most major locations across New Zealand have occupancy rates that are trending upwards, with the highest rental growth in areas with the highest level of employment growth. Table 1 below refers.
4. We have compared the commercial lease costs to the current rate of PSKH property funding (using C4B, updated to reflect the review in 2016), Appendix A refers.

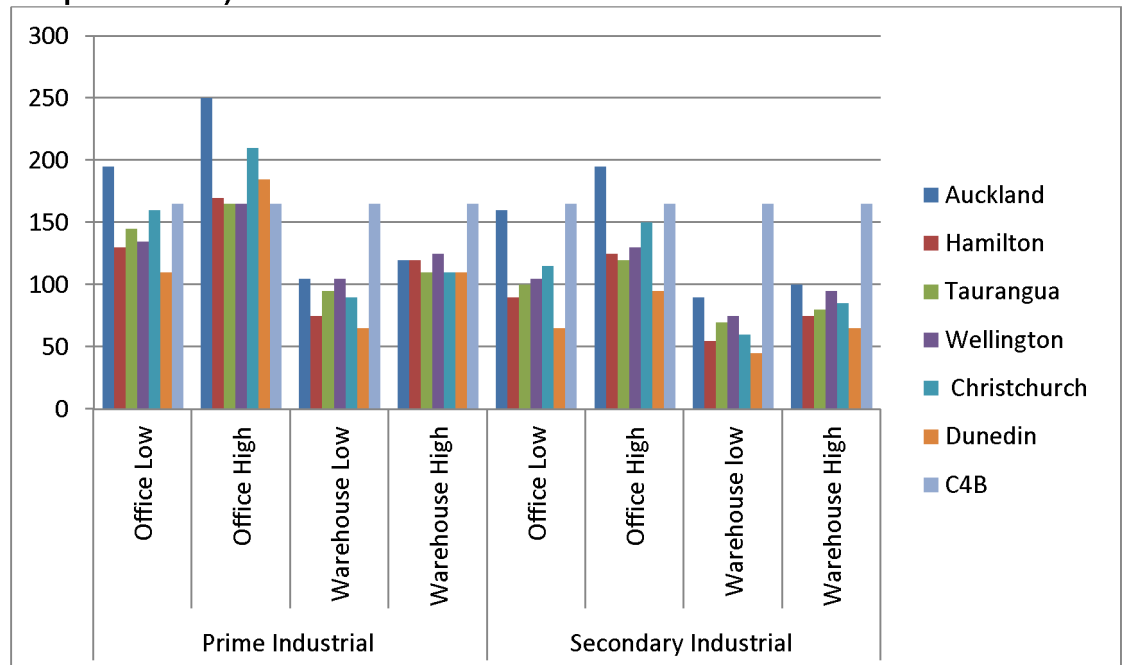
<sup>1</sup> National CBD Office Report 2016, Colliers.  
<http://www.colliers.co.nz/find%20research/office/national%20cbd%20office%20report%202016/>

**Chart 1: CBD Office rents by main centre (midpoint net face rents)**



5. We also provide 2016 lease costs of industrial leases (at the national level only).<sup>2</sup> This additional information may be relevant if sponsors use industrial-zoned properties.
6. We have compared the industrial rents to the current rate of PSKH property funding (using C4B, updated to reflect the review in 2016), Appendix B refers.

**Chart 2: Industrial Office and Warehouse rents by main centre (midpoint net prime rents)**



<sup>2</sup> Industrial Research Report 2016, Colliers.

<http://www.colliers.co.nz/find%20research/industrial/industrial%20research%20report%202016/>

7. In Appendices A and B, we have compared the 2016 rents to the Cash for Buildings amounts for primary, composite and secondary PSKH (the C4B amounts are exclusive of the PSKH property funding insurance component).
8. Comparing 2016 to 2014, it shows that commercial leases have increased and exceed C4B everywhere except Dunedin and Hamilton (for secondary schools only). The industrial rental options are more affordable than the commercial leases. For example, even in Auckland where commercial leases have increased the most, the C4B amount would be sufficient to cover some rentals.
9. The information relied on in this update was publicly available. A further option would be to approach Colliers or Darroch (Ministry property specialist) to commission analysis that is even more comparable, for example, considering the actual property profiles of the current PSKH sponsors.

School type	Full Primary (Y1-8)				Restricted Composite (Y7-10)				Secondary (Y9-15)			
Total roll	50	100	200	300	50	100	200	300	50	100	200	300
Total gross area (m2)	452	780	1,389	2,052	1,001	1,573	2,824	3,800	1,259	2,036	3,543	4,301
<b>State school funding</b>												
Cash for buildings conversion rate	\$150	\$150	\$150	\$150	\$165	\$165	\$165	\$165	\$184	\$184	\$184	\$184
Cash for buildings amount	\$67,800	\$117,000	\$208,350	\$307,800	\$165,165	\$259,545	\$465,960	\$627,000	\$231,656	\$374,624	\$651,912	\$791,384
<b>Lease costs</b>												
<b>Auckland</b>												
B grade office lease costs \$/m2 high	310	310	310	310	310	310	310	310	310	310	310	310
Total annual lease cost - B grade	140,120	241,800	430,590	636,120	310,310	487,630	875,440	1,178,000	390,290	631,160	1,098,330	1,333,310
Difference (positive means C4B is more generous)	-72,320	-124,800	-222,240	-328,320	-145,145	-228,085	-409,480	-551,000	-158,634	-256,536	-446,418	-541,926
B grade office lease costs \$/m2 low	235	235	235	235	235	235	235	235	235	235	235	235
Total annual lease cost - B grade	106,220	183,300	326,415	482,220	235,235	369,655	663,640	893,000	295,865	478,460	832,605	1,010,735
Difference (positive means C4B is more generous)	-38,420	-66,300	-118,065	-174,420	-70,070	-110,110	-197,680	-266,000	-64,209	-103,836	-180,693	-219,351
A grade office lease costs \$/m2 high	450	450	450	450	450	450	450	450	450	450	450	450
Total annual lease cost - A grade	203,400	351,000	625,050	923,400	450,450	707,850	1,270,800	1,710,000	566,550	916,200	1,594,350	1,935,450
Difference (positive means C4B is more generous)	-135,600	-234,000	-416,700	-615,600	-285,285	-448,305	-804,840	-1,083,000	-334,894	-541,576	-942,438	-1,144,066
A grade office lease costs \$/m2 low	315	315	315	315	315	315	315	315	315	315	315	315
Total annual lease cost - A grade	142,380	245,700	437,535	646,380	315,315	495,495	889,560	1,197,000	396,585	641,340	1,116,045	1,354,815
Difference (positive means C4B is more generous)	-74,580	-128,700	-229,185	-338,580	-150,150	-235,950	-423,600	-570,000	-164,929	-266,716	-464,133	-563,431
<b>Hamilton</b>												
A grade office lease costs /m2 high	270	270	270	270	270	270	270	270	270	270	270	270
Total annual lease cost	122,040	210,600	375,030	554,040	270,270	424,710	762,480	1,026,000	339,930	549,720	956,610	1,161,270
Difference	-54,240	-93,600	-166,680	-246,240	-105,105	-165,165	-296,520	-399,000	-108,274	-175,096	-304,698	-369,886
A grade office lease costs /m2 low	175	175	175	175	175	175	175	175	175	175	175	175
Total annual lease cost	79,100	136,500	243,075	359,100	175,175	275,275	494,200	665,000	220,325	356,300	620,025	752,675
Difference	-11,300	-19,500	-34,725	-51,300	-10,010	-15,730	-28,240	-38,000	11,331	18,324	31,887	38,709
<b>Taurangua</b>												
A grade office lease costs /m2	275	275	275	275	275	275	275	275	275	275	275	275
Total annual lease cost - A grade	124,300	214,500	381,975	564,300	275,275	432,575	776,600	1,045,000	346,225	559,900	974,325	1,182,775
Difference	-56,500	-97,500	-173,625	-256,500	-110,110	-173,030	-310,640	-418,000	-114,569	-185,276	-322,413	-391,391
A grade office lease costs /m2 Low	200	200	200	200	200	200	200	200	200	200	200	200
Total annual lease cost - A grade	90,400	156,000	277,800	410,400	200,200	314,600	564,800	760,000	251,800	407,200	708,600	860,200
Difference	-22,600	-39,000	-69,450	-102,600	-35,035	-55,055	-98,840	-133,000	-20,144	-32,576	-56,688	-68,816
<b>Wellington</b>												
B grade office lease costs /m2 High	335	335	335	335	335	335	335	335	335	335	335	335
Total annual lease cost - C grade	151,420	261,300	465,315	687,420	335,335	526,955	946,040	1,273,000	421,765	682,060	1,186,905	1,440,835
Difference	-83,620	-144,300	-256,965	-379,620	-170,170	-267,410	-480,080	-646,000	-190,109	-307,436	-534,993	-649,451
B grade office lease costs /m2 Low	250	250	250	250	250	250	250	250	250	250	250	250
Total annual lease cost - C grade	113,000	195,000	347,250	513,000	250,250	393,250	706,000	950,000	314,750	509,000	885,750	1,075,250
Difference	-45,200	-78,000	-138,900	-205,200	-85,085	-133,705	-240,040	-323,000	-83,094	-134,376	-233,838	-283,866
A grade office lease costs /m2 High	510	510	510	510	510	510	510	510	510	510	510	510
Total annual lease cost - A grade	230,520	397,800	708,390	1,046,520	510,510	802,230	1,440,240	1,938,000	642,090	840,868	1,463,259	1,776,313
Difference	-162,720	-280,800	-500,040	-738,720	-345,345	-542,685	-974,280	-1,311,000	-316,009	-511,036	-889,293	-1,079,551
A grade office lease costs /m2 Low	470	470	470	470	470	470	470	470	470	470	470	470
Total annual lease cost - A grade	212,440	366,600	652,830	964,440	470,470	739,310	1,327,280	1,786,000	591,730	956,920	1,665,210	2,021,470
Difference	-144,640	-249,600	-444,480	-656,640	-305,305	-479,765	-861,320	-1,159,000	-360,074	-582,296	-1,013,298	-1,230,086
<b>Christchurch</b>												
Premium office lease costs /m2 High	380	380	380	380	380	380	380	380	380	380	380	380
Total annual lease cost - C grade	171,760	296,400	527,820	779,760	380,380	597,740	1,073,120	1,444,000	478,420	773,680	1,346,340	1,634,380
Difference	-103,960	-179,400	-319,470	-549,936	-215,215	-338,195	-607,160	-817,000	-246,764	-399,056	-694,428	-842,996
Premium office lease costs /m2 Low	320	320	320	320	320	320	320	320	320	320	320	320
Total annual lease cost - C grade	144,640	249,600	444,480	656,640	320,320	503,360	903,680	1,216,000	402,880	651,520	1,133,760	1,376,320
Difference	-76,840	-132,600	-236,130	-348,840	-155,155	-243,815	-437,720	-589,000	-171,224	-276,896	-481,848	-584,936
<b>Dunedin</b>												
A grade office lease costs /m2 High	215	215	215	215	215	215	215	215	215	215	215	215
Total annual lease cost - C grade	97,180	167,700	298,635	441,180	215,215	338,195	607,160	817,000	270,685	437,740	761,745	924,715
Difference	-29,380	-50,700	-90,285	-133,380	-50,050	-78,650	-141,200	-190,000	-39,029	-63,116	-109,833	-133,331
A grade office lease costs /m2 Low	135	135	135	135	135	135	135	135	135	135	135	135
Total annual lease cost - A grade	61,020	105,300	187,515	277,020	135,135	212,355	381,240	513,000	169,965	274,860	478,305	580,635
Difference	6,780	11,700	20,835	30,780	30,030	47,190	84,720	114,000	61,691	99,764	173,607	210,749

School type	Full Primary (Y1-8)				Restricted Composite (Y7-10)				Secondary (Y9-15)			
Total roll	50	100	200	300	50	100	200	300	50	100	200	300
Total gross area (m2)	452	780	1,389	2,052	1,001	1,573	2,824	3,800	1,259	2,036	3,543	4,301
<b>State school funding</b>												
Cash for buildings conversion rate	\$150	\$150	\$150	\$150	\$165	\$165	\$165	\$165	\$184	\$184	\$184	\$184
Cash for buildings amount	\$67,800	\$117,000	\$208,350	\$307,800	\$165,165	\$259,545	\$465,960	\$627,000	\$231,656	\$374,624	\$651,912	\$791,384
<b>Lease costs</b>												
<b>Auckland</b>												
Industrial office lease costs \$/m2 high	250	250	250	250	250	250	250	250	250	250	250	250
Total annual lease cost - B grade	113,000	195,000	347,250	513,000	250,250	393,250	706,000	950,000	314,750	509,000	885,750	1,075,250
Difference (positive means C4B is more generous)	-45,200	-78,000	-138,900	-205,200	-85,085	-133,705	-240,040	-323,000	-83,094	-134,376	-233,838	-283,866
Industrial office lease costs \$/m2 low	195	195	195	195	195	195	195	195	195	195	195	195
Total annual lease cost - B grade	88,140	152,100	270,855	400,140	195,195	306,735	550,680	741,000	245,505	397,020	690,885	838,695
Difference (positive means C4B is more generous)	-20,340	-35,100	-62,505	-92,340	-30,030	-47,190	-84,720	-114,000	-13,849	-22,396	-38,973	-47,311
Warehouse lease costs \$/m2 high	120	120	120	120	120	120	120	120	120	120	120	120
Total annual lease cost - A grade	54,240	93,600	166,680	246,240	120,120	188,760	338,880	456,000	151,080	244,320	425,160	516,120
Difference (positive means C4B is more generous)	13,560	23,400	41,670	61,560	45,045	70,785	127,080	171,000	80,576	130,304	226,752	275,264
Warehouse lease costs \$/m2 low	105	105	105	105	105	105	105	105	105	105	105	105
Total annual lease cost - A grade	47,460	81,900	145,845	215,460	105,105	165,165	296,520	399,000	132,195	213,780	372,015	451,605
Difference (positive means C4B is more generous)	20,340	35,100	62,505	92,340	60,060	94,380	169,440	228,000	99,461	160,844	279,897	339,779
<b>Hamilton</b>												
Industrial office lease costs /m2 high	170	170	170	170	170	170	170	170	170	170	170	170
Total annual lease cost	76,840	132,600	236,130	348,840	170,170	267,410	480,080	646,000	214,030	346,120	602,310	731,170
Difference	-9,040	-15,600	-27,780	-41,040	-5,005	-7,865	-14,120	-19,000	17,626	28,504	49,602	60,214
Industrial office lease costs /m2 low	130	130	130	130	130	130	130	130	130	130	130	130
Total annual lease cost	58,760	101,400	180,570	266,760	130,130	204,490	367,120	494,000	163,670	264,680	460,590	559,130
Difference	9,040	15,600	27,780	41,040	35,035	55,055	98,840	133,000	67,986	109,944	191,322	232,254
Warehouse lease costs /m2 high	120	120	120	120	120	120	120	120	120	120	120	120
Total annual lease cost	54,240	93,600	166,680	246,240	120,120	188,760	338,880	456,000	151,080	244,320	425,160	516,120
Difference	13,560	23,400	41,670	61,560	45,045	70,785	127,080	171,000	80,576	130,304	226,752	275,264
Warehouse lease costs /m2 low	75	75	75	75	75	75	75	75	75	75	75	75
Total annual lease cost	33,900	58,500	104,175	153,900	75,075	117,975	211,800	285,000	94,425	152,700	265,725	322,575
Difference	33,900	58,500	104,175	153,900	90,090	141,570	254,160	342,000	137,231	221,924	386,187	468,809
<b>Taurangua</b>												
Industrial office lease costs /m2 high	165	165	165	165	165	165	165	165	165	165	165	165
Total annual lease cost - A grade	74,580	128,700	229,185	338,580	165,165	259,545	465,960	627,000	207,735	335,940	584,595	709,665
Difference	-6,780	-11,700	-20,835	-30,780	0	0	0	0	23,921	38,684	67,317	81,719
Industrial office lease costs /m2 Low	145	145	145	145	145	145	145	145	145	145	145	145
Total annual lease cost - A grade	65,540	113,100	201,405	297,540	145,145	228,085	409,480	551,000	182,555	295,220	513,735	623,645
Difference	2,260	3,900	6,945	10,260	20,020	31,460	56,480	76,000	49,101	79,404	138,177	167,739
Warehouse office lease costs /m2 high	110	110	110	110	110	110	110	110	110	110	110	110
Total annual lease cost - A grade	49,720	85,800	152,790	225,720	110,110	173,030	310,640	418,000	138,490	223,960	389,730	473,110
Difference	18,080	31,200	55,560	82,080	55,055	86,515	155,320	209,000	93,166	150,664	262,182	318,274
Warehouse office lease costs /m2 Low	95	95	95	95	95	95	95	95	95	95	95	95
Total annual lease cost - A grade	42,940	74,100	131,955	194,940	95,095	149,435	268,280	361,000	119,605	193,420	336,585	408,595
Difference	24,860	42,900	76,395	112,860	70,070	110,110	197,680	266,000	112,051	181,204	315,327	382,789
<b>Wellington</b>												
Industrial office lease costs /m2 High	165	165	165	165	165	165	165	165	165	165	165	165
Total annual lease cost - C grade	74,580	128,700	229,185	338,580	165,165	259,545	465,960	627,000	207,735	335,940	584,595	709,665
Difference	-6,780	-11,700	-20,835	-30,780	0	0	0	0	23,921	38,684	67,317	81,719
Industrial office lease costs /m2 Low	135	135	135	135	135	135	135	135	135	135	135	135
Total annual lease cost - C grade	61,020	105,300	187,515	277,020	135,135	212,355	381,240	513,000	169,965	274,860	478,305	580,635
Difference	6,780	11,700	20,835	30,780	30,030	47,190	84,720	114,000	61,691	99,764	173,607	210,749
Warehouse lease costs /m2 High	125	125	125	125	125	125	125	125	125	125	125	125
Total annual lease cost - A grade	56,500	97,500	173,625	256,500	125,125	196,625	353,000	475,000	157,375	254,500	442,875	537,625
Difference	11,300	19,500	34,725	51,300	40,040	62,920	112,960	152,000	74,281	120,124	209,037	253,759
Warehouse lease costs /m2 Low	105	105	105	105	105	105	105	105	105	105	105	105
Total annual lease cost - A grade	47,460	81,900	145,845	215,460	105,105	165,165	296,520	399,000	132,195	213,780	372,015	451,605
Difference	20,340	35,100	62,505	92,340	60,060	94,380	169,440	228,000	99,461	160,844	279,897	339,779
<b>Christchurch</b>												
Industrial office lease costs /m2 High	210	210	210	210	210	210	210	210	210	210	210	210
Total annual lease cost - C grade	94,920	163,800	291,690	430,920	210,210	330,330	593,040	798,000	264,390	427,560	744,030	903,210
Difference	-27,120	-46,800	-83,340	-124,960	-45,045	-70,785	-127,080	-171,000	-32,734	-52,936	-92,118	-111,826
Industrial office lease costs /m2 Low	160	160	160	160	160	160	160	160	160	160	160	160
Total annual lease cost - C grade	72,320	124,800	222,240	328,320	160,160	251,680	451,840	608,000	201,440	325,760	566,880	688,160
Difference	-4,520	-7,800	-13,890	-20,520	5,005	7,865	14,120	19,000	30,216	48,864	85,032	103,224
Warehouse lease costs /m2 High	110	110	110	110	110	110	110	110	110	110	110	110
Total annual lease cost - C grade	49,720	85,800	152,790	225,720	110,110	173,030	310,640	418,000	138,490	223,960	389,730	473,110
Difference	18,080	31,200	55,560	82,080	55,055	86,515	155,320	209,000	93,166	150,664	262,182	318,274
Warehouse lease costs /m2 Low	90	90	90	90	90	90	90	90	90	90	90	90
Total annual lease cost - C grade	40,680	70,200	125,010	184,680	90,090	141,570	254,160	342,000	113,310	183,240	318,870	387,090
Difference	27,120	46,800	83,340	123,120	75,075	117,975	211,800	285,000	118,346	191,384	333,042	404,294
<b>Dunedin</b>												
Industrial office lease costs /m2 High	185	185	185	185	185	185	185	185	185	185	185	185
Total annual lease cost - C grade	83,620	144,300	256,965	379,620	185,185	291,005	522,440	703,000	232,915	376,660	655,455	795,685
Difference	-15,820	-27,300	-48,615	-71,820	-20,020	-31,460	-56,480	-76,000	-1,259	-2,036	-3,543	-4,301
Industrial office lease costs /m2 Low	110	110	110	110	110	110	110	110	110	110	110	110
Total annual lease cost - A grade	49,720	85,800	152,790	225,720	110,110	173,030	310,640	418,000	138,490	223,960	389,730	473,110
Difference	18,080	31,200	55,560	82,080	55,055	86,515	155,320	209,000	93,166	150,664	262,182	318,274
Warehouse lease costs /m2 High	110	110	110	110	110	110	110	110	110	110	110	110
Total annual lease cost - C grade	49,720	85,800	152,790	225,720	110,110	173,030	310,640	418,000	138,490	223,960	389,730	473,110
Difference	18,080	31,200	55,560	82,080	55,055	86,515	155,320	209,000	93,166	150,664	262,182	318,274
Industrial office lease costs /m2 Low	65	65	65	65	65	65	65	65	65	65	65	65
Total annual lease cost - A grade	29,380	50,700	90,285	133,380	65,065	102,245	183,560	247,000	81,835	132,340	230,295	279,565
Difference	38,420	66,300	118,065	174,420	100,100	157,300	282,400	380,000	149,821	242,284	421,617	511,819