

PO Box 7299  
Cairns Qld 4870  
Tel: 07 4046 5333  
Fax: 07 4031 1845

Email: [REDACTED]

7 August 2008

The Research Director  
Public Works Committee  
Parliament House  
George Street  
BRISBANE QLD 4000

Dear Sir/Madam,

**RE: William McCormack Place Stage 2 Project, Cairns**

Our organisation, the Northern Development Industry Association, has been fielding frequent queries from both the general community and development industry in respect to the proposed development of a State Government office building to be known as Stage 2 of William McCormack Place, to be developed in Hartley Street and providing office space with a total net lettable area of 9,600 square metres at a proposed development cost of \$79.5 million. It is a generally held view that there has been poor consultation regarding the proposed development and the quantum of it, both in size and dollars, given the current circumstances in Cairns. As a consequence, in response to your Inquiry Information Paper, we briefly detail below the represented concerns of both the community and the development industry reflective of current market circumstances.

- **Cost:** The reported cost of \$79.5 million to provide a building of 9,600 square metres of net lettable area equates to a development cost of \$8,281.25 per square metre of NLA. We are aware that buildings that have been produced in the last few years, including one currently under construction and being built to the same standards (that is, to the State of Queensland's specified building brief and green star ratings), were constructed at less than one third the cost, or a development cost of less than \$2,700 per square metre of NLA. Even in the circumstances where a particularly pessimistic view was taken, and development costs were 50% over building averages, it still represents a direct loss of at least \$40 million in unnecessary expenditure.

As a litmus test, the recent sale of the high-rise Citi Central complex, a new building completed in April 2008 on the corner of Sheridan and Spence Streets, and the previous sale of the GHD Building in Spence Street both equated to sales of approximately \$4,600 per square metre as fully developed land and building investments, fully fitted out with tenancies in place, which is little more than half the value of the proposed development cost of the state's project without any other costs. Clearly, this must indicate a gross inequity in the investment value and integrity of the building financially, with the investment criteria extremely poor for the Queensland Government and public on a return on investment basis.

Market rents achieved for the properties nominated are in a ballpark of \$350 per square metre per annum gross plus GST. The relative yields applying to these buildings is approximately 7% to 7.5% true net returns after all costs and allowances. Therefore, if the prevailing market rentals can only sustain approximately \$350 per square metre net per annum, it follows that the State's building will be unlikely to attract rents higher than the market average. It also follows that if the same theoretical yields were to apply, the State would need to be achieving rents in excess of \$700 per square metre to match market returns. This is obviously inequitable, as the rents are 100% higher than those currently being achieved, highlighting the poor economic rationale behind the project.

- **Supply of Commercial Office Space:** The current Cairns commercial office market has approximately 120,000 square metres available in the marketplace. Of this space, only 40,000 square metres (approximately one third) is classified as "A" grade accommodation. Private enterprise has been developing buildings as need and demand have arisen, and has filled approximately 10,000 square metres of space, which has been developed over the past 36 months. It should be remembered that Cairns had quite a dormant period for the decade preceding this uptake. At the present time, there is also an additional 5,000 square metres currently under construction and available to occupy, without taking into consideration the State's project. The introduction of an additional 9,600 square metres into the market through the proposed Stage 2 development would increase supply of "A" grade accommodation by nearly 25% in a market that has clearly shown signs of slowing. Historically, the market has enjoyed very low vacancy rates, with effective rents slowly starting to increase. This building, together with stock already under construction, could create a concerning over-supply in the market, and have a detrimental effect on the integrity, value and yield of existing assets, as well as significantly influencing downward rentals and stagnant growth as a result of the over-supply for some years to come.

This problem is also compounded significantly by the State Government's proposal to vacate a building located at 36 Shields Street comprising an additional 2,600 square metres, and possibly part, if not all, of the State's building in McLeod and Sheridan Streets, representing an additional 3,784 square metres, which severely increases the real effect of the State's project. Embarrassingly, it is understood that the State only intend to occupy less than 50% of the proposed project, meaning that the State will be competing against the private sector for a substantial proportion of office space within the Cairns environment. For reasons stated above, even at current levels, this would not economically stack up on a return for investment basis, even from an extremely conservative point of view

- **Energy Efficiency and Green Ratings:** It has long been recognised that the State, along with the Commonwealth, will only enter into agreements with buildings that have excellent environmental and green credentials. The development community has taken this literally, and extremely seriously, with development of the newer buildings over the past few years complying in every sense with both the State of Queensland and Commonwealth of Australia's building briefs for energy efficient and green-rated buildings. This point is extremely significant, as it has loaded the cost of development onto private enterprise to comply in every aspect with these building briefs.

The State should be under no illusion that the quality of the building that is proposed is in any way better than those currently being developed. In point of fact, the latest building under construction on the corner of Bunda and Spence Streets has been specifically designed to meet every single requirement and aspect of the Queensland building brief and specifications, to the point that this building will have an application for a five-star ABGR, including all recycling requirements. This building also includes maximum sun-shading, thermal efficiency, and the use of emerging technologies and energy efficient air conditioning in a direct effort to reduce carbon dioxide emissions.

It should also be remembered that most buildings within Cairns of recent construction have at least a four and a half star rating under the same scheme, with many traditional buildings with older building dates currently being modified by the owners to become green-friendly, in an effort to maintain both State and Commonwealth Government tenants.

The point needs to be made that the market has met the demands of the current environment and green rating needs, but also is attending to rectification of old stock and product because the need exists. Artificial pressure created by the development of the State building could force a backward movement in these buildings, creating an artificial second-tier market, which again would have significant economic ramifications.

Further to this, it is understood that no feasibility has been undertaken in regards to the possibility of retrofitting the State's existing properties to provide efficient green-rated buildings, which should by rights cost a lot less than providing a new building.

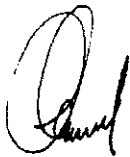
- **Need to Build:** State Government has always indicated that it would not compete with private enterprise while developers were producing suitable accommodation. In this case, it appears that private enterprise have been supplying appropriate accommodation to keep pace with demand, thereby meeting the aforementioned requirement.
- **Car Parking:** Whilst we accept that the building would probably comply with local Cairns Regional Council Town Planning requirements for one car bay for every 50 square metres of net lettable area (that is, 192 car bays on site), there has been growing concern within the city about car parking standards and the number of parties parking on vacant land around this particular development. Simplistically, as car parking is becoming a significant issue within the city of Cairns, and whilst there is no need to provide spaces above those ordinarily required, some consideration should be given to these circumstances as part of the overall development, as was the case with the proposed Performing Arts Centre.

In summary, it appears on the face of the evidence available, which has not been exhausted within this brief overview, that there is no specific rationale for the development of Stage 2 of William McCormack Place on a needs basis, an energy efficient green-rated basis, a wider economic basis, or a financial cost basis. In fact, moving forward, the project could significantly damage the fragile economy in Cairns, which suffered long-term effects from the pilot's strike and property crash of the 1980s, and only began to recover and enjoy prosperity in the new century. Given the current uncertainties in the tourism industry, a project like the proposed Stage 2 could have a devastating effect on the delicate economic balance in the Far North.

Simplistically, the advice we are receiving from the general community and the development industry is that the funds are being poorly applied if put towards the second stage of William McCormack Place, and could be far better directed into other projects within the Cairns community, most notably the Performing Arts Centre, new hospital and additional civic and civil projects.

Yours Faithfully

**NORTHERN DEVELOPMENT INDUSTRY ASSOCIATION**



Greg Wood  
Chairman