



Australian Government

Services Australia

**SUPPLEMENTARY SUBMISSION TO THE PARLIAMENTARY
STANDING COMMITTEE ON PUBLIC WORKS**

**PROPOSED FIT-OUT OF NEW LEASED PREMISES AT
120 BATHURST STREET, HOBART, TASMANIA**

**Response to Submission from Balsa Rejus Pty Ltd as trustee for the Balsa
Rejus Property Trust trading as Bellala**

TABLE OF CONTENTS

1.	EXECUTIVE SUMMARY	1
2.	THE NEED FOR WORKS	1
3.	BENEFITS OF THE WORKS	2
4.	MARKET COMMENTARY	3
5.	RESPONSE CORRECTIONS	5

1. Executive Summary

- 1.1 The Agency offers the following supplementary information to assist the committee.
- 1.2 The Agency's need to identify and secure adequate future accommodation in Hobart was triggered by the impending expiration of its three non-face-to-face (back of house) leases in 2024. Consolidation of these existing leases into a single building was assessed as the preferred strategy to meet the Agency's long term needs for office accommodation in Hobart.
- 1.3 This approach is consistent with the Commonwealth's Whole of Government Leasing Strategy which includes the option for consolidation of Agency leases, providing:
 - benefits through streamlining the portfolio and allowing for improved staff collaboration
 - greater value for money by leveraging the Agency's purchasing power for larger space; and
 - quality, fit-for purpose accommodation that meets sustainability initiatives.
- 1.4 The Agency undertook a comprehensive procurement process. The outcome - to pursue consolidation and relocation to the proposed new building at 120 Bathurst Street, Hobart - was assessed as providing the best Value for Money option.
- 1.5 The preferred Developer, Riverlee Australia Pty Ltd has completed a preliminary development application for the demolition and archaeological investigations, which has been approved by the City of Hobart. This allows for an early works package to be prepared and for the commencement of onsite demolition and archaeological investigations, prior to the approval of the base building development application therefore reducing risk and accelerating the program.
- 1.6 Hobart retains the highest overall occupancy in office buildings as a percentage of the pre-COVID rate at 92%. Impacts to future office space requirements in the Hobart CBD due to the pandemic are anticipated to be minimal. While flexible work from home arrangements have become more common in recent times, the impact within the Hobart CBD office market appears negligible.
- 1.7 In line with the Commonwealth's Protective Security Policy Framework (PSPF) a security threat risk assessment is undertaken to inform the Agency about the site specific security environment.

2. The Need for Works

- 2.1 The Agency presently occupies three (3) non face-to-face (back of house) buildings in Hobart, totalling 16,903m² of office accommodation and 1,398 work points. All three Agency leases are due to expire in 2024 prompting the need to consider future office accommodation arrangements.
- 2.2 Maintaining the status quo by renewing the current leases was not financially viable, not in line with improving occupational density targets, and would not assist with achieving the Agency's plan to consolidate Hobart staff for operational efficiencies. The market evidence at the time indicated that there were viable alternate building solutions offering significantly improved value for money, financial terms and incentives.

- 2.3 In line with the Commonwealth's Whole of Government Leasing Strategy the Agency decided to consolidate into a single building in 2024 aligning with the current lease expiry dates. Consolidation of the Agency's three (3) existing leases will:
- reduce the Agency's foot print by 1,078m², a 6.4% reduction
 - provide a greater opportunity for staff collaboration; and
 - provide financial savings for Government.
- 2.4 The existing leases will not be extended beyond their expiry. The Agency staff will progressively be relocated to the proposed new building at 120 Bathurst Street, Hobart.

3. Benefits of the Works

- 3.1 The Agency will be the sole office tenant at 120 Bathurst Street and it will occupy 15,825m², including 15,700m² of Net Lettable Area (NLA) and 125m² of storage space.
- 3.2 The proposed new building will offer the Agency the option to co-locate into a single location 1,307 non face-to-face (back of house) staff currently spread across three buildings enabling improved collaboration, leadership efficiencies, staff support and training.
- 3.3 The new purpose built building will create a physical environment that will drive innovation and collaboration which in turn creates a greater organisational and team culture. The co-location of staff will eliminate travel between locations to attend meetings, workshops and training, thereby reducing downtime and increasing productivity. The building will create a pleasant working environment with improved amenities that are anticipated to assist in retaining and attracting a diverse range of highly qualified professionals to the Agency.
- 3.4 The proposed new building will be designed to satisfy modern office accommodation requirements and will meet the current Australian standards including:
- National Construction Code, and 5 star (National Australian Built Environment Rating System (NABERS) and 5 Star Green Star ratings
 - building services including air-conditioning, lighting, electrical distribution, fire protection and hydraulic services will be integrated with construction of the base building, resulting in cost savings to the Agency
 - photovoltaic power generation for the exclusive use of the Agency
 - double glazed, thermally efficient glazing allowing a high level of natural light while reducing the solar heat load
 - accessibility for people with disabilities
 - provision of personal lockers to cater for 20% more staff to allow for future flexibility; and
 - end of trip facilities including parking space for 94 bicycles, 120 lockers and 10 showers.
- 3.5 The proposed new building will be conveniently located within the Hobart Central Business District (CBD) offering staff easy access to transport options.
- 3.6 The proposed new building's physical security arrangements will be designed to comply with the requirements of the Government's Protective Security Policy Framework (PSPF). In line with the PSPF, a security threat risk assessment is undertaken to inform the Agency on the site specific security environment. The security risks will continue to

be assessed. The aim is to identify and implement appropriate mitigations and treatments using construction and physical security design features.

4. Market Commentary

- 4.1 The Agency's commentary is informed by the advice provided by its Property Service Provider, Jones Lang LaSalle Pty Ltd (JLL).
- 4.2 The Property Council of Australia (PCA) advises in the July 2021 Office Market Reports that the size of the Hobart CBD office market comprises 352,754m² of office accommodation with a current vacancy rate of 5.1%, which is below the 10-year average for Hobart of 6.9%.
- 4.3 The proposed Net Lettable Area (NLA) at 120 Bathurst Street of 15,700m², equates to approximately 4.5% of the Hobart CBD office market. If this is compared to the development pipeline of other CBD office markets (based on projects under construction) – Adelaide CBD (6.4% of stock), Perth CBD (6.1% of stock) and Brisbane CBD (4.5% of stock) – 4.5% new development activity is relatively low. This low level of development activity is not forecast to have an adverse impact on the Hobart rental market. More broadly, new developments such as that proposed consistently stimulate local economies creating job growth across multiple sectors including the construction industry.
- 4.4 As reported in an article published by the PCA dated 7 December 2021, Hobart retains the highest overall occupancy in office buildings as a percentage of the pre-COVID rate at 92%. Impacts to future office space requirements in the Hobart CBD due to the pandemic are anticipated to be minimal. While flexible work from home arrangements have become more common in recent time, the impact of this appears negligible within the Hobart CBD office market.
- 4.5 Further to advice in the PCA July 2021 Office Market Report, the Hobart CBD benefits from the most favourable Office Market Vacancy rate in the Nation, with an extremely low Direct Vacancy of just 5%. Minimal sub-lease vacancy also exists, with the combined Total Vacancy Factor being 5.1%. As a direct comparison, Melbourne sits at 10.4%, Sydney 9.2% and Brisbane 13.5%. Given the low vacancy environment in the Hobart CBD, there is anticipated to be negligible impact on the Hobart office market by the proposed new building at 120 Bathurst Street.
- 4.6 PCA reports that future planned capital projects (new office accommodation) will not impact vacancy rates.
- 4.7 On 12 December 2019 the Agency commenced a two stage open Approach to Market (ATM) to identify the Offeror/s who would provide the best value for money for the Agency's projected office accommodation requirement in Hobart. The approach to market consisted of a multi-stage property leasing procurement through:
 - Stage 1 - an open ATM for an Expression of Interest (EOI), followed by
 - Stage 2 - a Request for Proposal (RFP) made to interested parties whose EOI submissions best meet the requirements of the EOI.
- 4.8 The above approach is consistent with the Commonwealth's Whole of Government Leasing Strategy which includes the option for consolidation of Agency leases, providing:

- benefits through streamlining the portfolio and allowing for improved staff collaboration
 - greater value for money by leveraging the Agency's purchasing power for larger space; and
 - quality and fit-for purpose accommodation that meets sustainable building initiatives.
- 4.9 The resulting evaluation of this comprehensive procurement process assessed the new building at 120 Bathurst Street, Hobart as the best value for money outcome for the Commonwealth together with being able to deliver the project in line with the Agency's delivery dates.
- 4.10 The preferred Developer is committed to delivering the building with integrated fit-out by June 2024. Any delay to the planning application and associated acceleration to meet the delivery deadline will remain the responsibility of the Developer.
- 4.11 Consistent with the Commonwealth Property Management Framework, the Agency prepared a Cost Benefit Analysis (CBA). The CBA was reviewed and supported by the Department of Finance.
- 4.12 In November 2021, the Special Minister of State, the Hon Ben Morton MP noted that the lease proposal at 120 Bathurst Street, Hobart meets the intention and requirements of Resource Management Guide No 500: Commonwealth Property Management Framework and endorsed the proposed lease commitment.
- 4.13 Bellala's response to the EOI was assessed for compliance with the Conditions for Participation, Minimum Content and Format Requirements and Essential Requirements. While a compliant submission, upon assessment Bellala's offer did not proceed to the next stage.
- 4.14 Further information can be provided as part of the in-camera hearing.

5. Response Corrections

- 5.1 The Agency leases 11,879m² at 188 Collins Street inclusive of office and storage spaces. This was the occupied NLA when the market was approached and the assessment of the EOI conducted. The agency plans to reduce its footprint on July 2022 by exiting from 1,060m².
- 5.2 The fit-out age of the premises at 188 Collins Street, Hobart as at 2024 are:
- Tower Block:
 - Level 2 - 7 years,
 - Level 3 - 8 years,
 - Level 4 - 16 years,
 - Levels 9,10 & 11 - 12 years
 - Block 2:
 - Level 2 - 14 years
 - Block 3:
 - Levels 1 to 4 - 14 years
- 5.3 At Attachment 1, Page 14. Bellala states – “In response to a request from Services Australia, Bellala commissioned the design of a rooftop extension to Block 3 to provide the complex with an additional 4,000m² of NLA”.
- 5.4 Services Australia notes that the proposal by Bellala (to extend the size of Block 3) was provided in their response submission to the public EOI process the agency undertook in late 2019. Bellala were not asked separately from the EOI process to provide this solution, and it was subject to an assessment with other responses received in that process.