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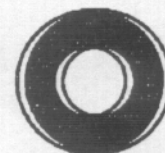
PUBLIC WORKS COMMITTEE

17 JAN 2003

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MACQUARIE

15 January 2003

The Secretary
 Public Works Committee
 Parliament House
 CANBERRA ACT 2600

Via Facsimile: 02 - 6277 4426

Dear Sirs

Proposed Fitout of New Leased Premises for the Bureau Of Meteorology - 700 Collins Street, Docklands

We refer to the submission made to the Public Works Committee ("the Committee") by the Commonwealth Bureau of Meteorology ("BoM") in relation to the above fitout works.

Macquarie Office Management Limited ("Macquarie") is the responsible entity for the publicly listed Macquarie Office Trust, which owns the BoM's current building at 150 Lonsdale Street, Melbourne. In this capacity we undertake all the ownership functions for the property on behalf of investors in the Trust.

The BoM have occupied 150 Lonsdale Street for a period of 29 years. For the last 15 of this period they have been a tenant of Macquarie. Recently, the BoM, through its advisers, advised Macquarie of its intention to relocate from 150 Lonsdale Street at the end of its lease in April 2004. Subsequently the BoM have entered into a formal agreement to lease with the developer of the Docklands site at 700 Collins Street, Melbourne. Pursuant to the Commonwealth Public Works Committee Act, they have now submitted their fitout expenditure plans to the Committee for approval.

Macquarie as the incumbent landlord recognises and respects the reasons for the BoM's decision to relocate from 150 Lonsdale Street, which the BoM have covered at some length in their submission to the Committee ("the BoM Submission"). Generally these relate to matters of perceived technical obsolescence in 150 Lonsdale Street compared with new generation buildings.

However, at the same time, we have concerns with:

- the process that the BoM undertook in selecting their ongoing accommodation and 150 Lonsdale Street's exclusion from it; and

- factual inaccuracies and poorly informed estimates in the BoM Submission concerning their existing accommodation, thereby potentially not providing an accurate comparison with the chosen alternative.

We believe these matters need to be drawn to the Committee's attention so they can be taken into account in its deliberations. The specific issues on which Macquarie makes a submission to the Committee are set out below. If required by the Committee, we would be pleased to elaborate on any of these matters either at a public hearing or by providing further information in writing to the Committee.

The issues of concern are as follows:

1. **Building Standards:** the BoM Submission refers repeatedly to building standards within 150 Lonsdale Street not being sufficient to cater for the ongoing operation of the BoM. In regard to this issue, it should be noted that since the 1996 renewal referred to in paragraph 14 of the BoM, Macquarie has spent over \$18 million in building upgrades. Much of this has been spent on improving building services critical to the BoM such as lifts, the main switchboard, back up power and building security.

Further upgrades are planned which would raise the remaining services such as airconditioning and communications to at least an A-grade standard and suitable to meet almost all Commonwealth and State Government standards. Accordingly the statement in paragraph 17 that 150 Lonsdale Street represents "B to C grade accommodation" is not correct. The fact that groups such as Telstra, Australia Post and the Victorian State Government are all tenants of the building demonstrates that in terms of office accommodation, the building is generally of a good standard.

2. **Central Computing Facility ("CCF"):** we are aware from the project brief that the continued co-location of the CCF within the BoM's building was of critical importance. With this in mind, Macquarie commissioned an expert's report from AHW Engineers on potential reconfiguration of the existing computer centre with a view to meeting the BoM's brief.

In paragraphs 15 and Appendix A, the BoM Submission indicates that a reconfiguration could only be achieved with significant disruption and cost (\$2 - \$2.5 million). While not being privy to the BoM's report, AHW's report offers 2 practical solutions which both meet the BoM's brief for the CCF and could be achieved at a significantly lower cost (in the order of \$270,000). There would be nil cost to the BoM as this work would have been paid for by Macquarie as part of any lease renewal.

Because of the BoM's decision at the outset of the expression of interest process to not pursue a new lease in 150 Lonsdale Street, our offer to present our solution on the CCF was not taken up. Further, while Macquarie offered to present our report to the BoM, the offer to do so was refused. Therefore, in light of the AHW advice, the statements in the BoM Submission regarding the cost of reconfiguring the CCF appear incorrect.

3. **Overall cost:** Appendix A of the BoM Submission compares the likely cost of the various accommodation alternatives open to BoM. As the BoM decided at the outset not to pursue a lease extension in 150 Lonsdale Street, it did not seek Macquarie's most competitive financial offer and therefore, is not in a position to accurately predict what the total lease cost might be on this alternative. This applies both in respect of rental cost together with any capital contributions made by Macquarie to the BoM.

Based, however, on the rental agreed at 700 Collins Street disclosed in the BoM submission, the rent which would be offered at 150 Lonsdale Street would be approximately \$850,000 less per annum (or \$8,500,000 over the lease term) than that being paid at Docklands.

4. **Expression of interest process:** as referred to above, it was the decision of the BoM's steering committee at the outset of the process to not pursue a lease extension in 150 Lonsdale Street. As indicated above, Macquarie understands this to be predominantly for reasons of perceived building obsolescence.

Macquarie holds expert advice that almost all of the important technical criteria important to the BoM could be achieved with further refurbishment of 150 Lonsdale Street. Because of the BoM's decision not to consider remaining in 150 Lonsdale Street, Macquarie did not have an opportunity to present a refurbishment proposal to the BoM.

The BoM Submission cites potential disruption from refurbishment as a key motivation for a relocation. While refurbishment would inevitably involve a level of disruption, it is Macquarie's belief that this would not be significantly greater than that involved in a relocation. This is especially in light of the tight timeframe in place for the relocation which will not, on independent advice, permit time for the BoM to operate the two facilities in parallel for a changeover period. In fact, given the current progress in construction of 700 Collins Street, it is likely that the BoM will either need to relocate twice (as a result of 700 Collins Street not being complete on time) or seek a medium-term lease extension at 150 Lonsdale Street. Both of these scenarios would involve disruption and/or cost beyond that contemplated in an ordered relocation.

Further, Macquarie would have been able to offer BoM three floors of staging space within the building (as opposed to a location near the building) if the BoM had sought this as part of any renewal arrangement. This would have minimised disruption to the BoM relative to a movement out of the building. Again, because BoM did not elect to include Macquarie in the Expression of Interest process, any assessment by BoM as to what may have been offered in this regard is at best, speculation.

Again, Macquarie understands and respects the reasons for the BoM deciding to relocate. It is, however, important for the Committee to understand that neither Macquarie nor its advisers participated in the expression of interest process. Accordingly, many of the factual statements

and estimates contained in the BoM Submission are open to question, both in our view and on an objective basis.

5. **Fitout Cost:** In Appendix A, Option B of the BoM Submission, a statement is made that the extra fitout cost of remaining in 150 Lonsdale Street would be \$500,000 per floor, or \$8,500,000 more than the \$22.8 million for which approval is sought. It is unclear from the submission whether this represents works in the nature of tenant works, or works such as carpeting, ceiling replacement, upgrades to lighting grids, which are generally considered to be building life-cycle works and therefore, the responsibility of the landlord.

If the BoM are referring to landlord's works, then the Committee should be aware that Macquarie would have been prepared to carry out these works at its cost in any upgrade of the BoM space and the "extra" cost of \$500,000 per floor would not accrue to the BoM.

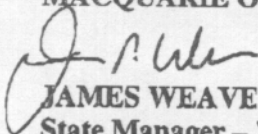
If the BoM are referring to tenancy works, such as partitioning or telephony and data cabling, then in Macquarie's view, the estimate should be the subject of further review. In effect the BoM's consultants are stating that the cost of fitting out new premises is 40% more expensive in its existing premises rather than relocating to a new building.

When considering the opportunity there is to re-use much of the existing BoM infrastructure in 150 Lonsdale Street, together with the cost saving of not having to "make good" 150 Lonsdale Street and the ability to relocate staff within the building during fitout, this estimate appears high and arbitrary. As the BoM did not elect to pursue a lease extension at 150 Lonsdale Street, the figures cited in the BoM Submission regarding these works and the responsibility to pay for them can at best be considered broad estimates.

We trust this submission is of assistance to the Committee in determining the types of issues it should be considering when deliberating on the BoM Submission. We would be happy to elaborate on these issues if required, in which case please feel free to contact the writer on 03-9635 8384.

Yours Sincerely

MACQUARIE OFFICE MANAGEMENT LIMITED



JAMES WEAVER

State Manager – Victoria and South Australia