DEMAND ANALYSIS

MASTERTON CIVIC CENTRE

Prepared for

Masterton District Council

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Hotel, Tourism and Leisure

A member of Crowe Global

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EXECUTIVE SUMMARY

Masterton District Council is evaluating options for partial or full replacement of the Masterton Town Hall and Municipal Building which has been closed since June 2016. Council has engaged in extensive community and other consultation, but no clear consensus view about the community's needs or preferences has emerged.

Council has now identified a range of potential facilities which could collectively comprise a multi-purpose civic venue, including, potentially, some co-working office space. The facilities could be located either at the existing Chapel Street site, or an alternative site in the Masterton CBD.

Horwath HTL has previously prepared a quantitative demand and financial forecasting report for a similar multi-purpose venue specification, dated April 2019. This current report is not an update of the April 2019 report, but is consistent with it, and addresses more specific qualitative venue demand analysis in more detail than previously.

Masterton is the largest population base and close to the geographic centre of the east coast of the south-eastern North Island, stretching from South Wairarapa District in the south to Central Hawke's Bay District in the north. As such, it might be expected that Masterton should also have the most substantial civic venue facilities in the wider region.

However, such new or replacement facilities in 2020 and beyond will almost certainly not be funded on a regional basis, and therefore the funding burden will fall almost exclusively on the ratepayers of the Masterton District. Council wishes to carefully balance the costs and benefits of the various venue options, while also taking a longer-term view including in relation to wider community and economic outcomes for the District and wider region.

Venue Demand Analysis

Masterton and the wider Wairarapa is increasingly popular as a place to live within the Wellington region, based on the lifestyle choices available for Wellington commuters and retirees, attracted by the likes of the local wineries, cycle trails, and also being connected to the Wellington CBD by a commuter rail service.

As a destination for Business Events (eg: meetings and conferences), Masterton attract business from a large geographic area, stretching from Wellington in the south to Dannevirke and beyond to the north. However, some key geographic and other features impact on its competitiveness in winning larger-scale events on a regular basis.

The Copthorne Solway Park ("Solway Park") is Masterton's largest hotel and conference venue. It performs reasonably well in meeting current demand for meeting, conference and function space in Masterton. It has on-site accommodation (with 102 rooms) and car parks, a range of meeting and function rooms, a full production kitchen, and a wide range of leisure facilities including a swimming pool and golf driving range and a "park like" landscape.

The business case for developing a large flat-floor function and event space with capacity for 1,000 people seated theatre style is not compelling, given the projected number and average size of 'new' events which would likely be attracted to Masterton to be hosted in such a venue, and even if it was to 'cannibalise' such business mainly from other venues in Masterton.

The potential business case to support development of a 'black box' flexi-form theatre of an appropriate scale appears to be stronger, supported by a modest suite of meeting rooms and a flexible pre-theatre / pre-function foyer space and other ancillary support facilities, whether existing or new.

The key advantage of a black box theatre is its flexibility. This allows for a wide range of staging and seating configurations, including flat floor, end stage, thrust stage, theatre in the round, runway, and cabaret. The increased flexibility will greatly enhance the venue's desirability to potential users.

We have considered maximum estimated seating capacities (theatre style) for several theatre sizes. In the likely most popular 'end stage' configuration, with a large stage for theatre shows, etc, increasing the dimensions of the venue by 5m from 20m x 20m to 25m x 25m approximately doubles the maximum theatre seating capacity.

The black box theatre's size will also have implications for the size of additional ancillary spaces (including pre function, storage, and back-stage facilities). These will not necessarily scale linearly with changes in the size of the theatre.

A detailed Business Case would be required to determine the optimal sizing of the theatre from a financial feasibility perspective. This would take into account:

- detailed theatre design objectives, not only to ensure the venue is operationally fit for purpose, but also competitive and appropriately differentiated in the Wellington region (eg: not compromised)
- theatre development cost, including technical and equipment fit-out
- ongoing operational expenditure (including the time and cost of changing the theatre staging and seating blocks for alternative configurations)
- venue hire affordability and therefore frequency of use by community hirers
- demand from commercial hirers and touring shows and events
- allowing for 'future proofing'.

Bayleys Real Estate advise that there is a general lack of modern office space in Masterton, and latent demand for quality office space, some of which could be met with co-working office environments. They expect that brand-new, modern co-working accommodation would be "popular" if not priced too high.

However, Bayleys warns that, for a variety of reasons, there would be considerable downside risk associated with development of a new co-working office development. This would apply in particular to the existing Municipal Building given the substantial costs associated with seismic strengthening required.

Expected Impacts of Covid

Covid has dramatically reduced convention activity at a national level in 2020, and we are advised that Masterton's level of conference and meetings business has been similarly impacted. In the near to medium term (3–5 years), we expect that conference and event organisers will be significantly focussed on risk reduction which will focus on hosting events in the main centres and mitigate against interest in hosting national and regional events in most smaller regional centres.

This situation will be further amplified by the major new convention centres which will open in Wellington, Christchurch and Auckland over the same period.

Covid has also dramatically reduced foreign touring performing arts product, and we expect this lead to more domestic touring product also in the near to medium term (3–5 years).

This could well benefit regional population centres such as Masterton, assuming the facilities are available, due to small to medium-scale domestic performing arts and event producers seeking out new audiences.

1 INTRODUCTION

Masterton District Council ("MDC") has engaged Horwath HTL Limited ("Horwath") to provide independent professional advice in relation to options for development of new Civic Centre facilities either on the currently closed Chapel Street site, or at an alternative CBD location.

1.1 BACKGROUND

Masterton's Town Hall and most of the rest of the Municipal Building was closed in June 2016 following an assessment which found that the building had an earthquake rating below the minimum safe standard. The foundation stone of the Masterton Borough Council building was laid in 1915.

Initial public consultation was undertaken in late 2017. This identified that two thirds of the Masterton community were in favour of the demolition of the Town Hall, with a new Civic Centre being built to replace it.

In April 2018 Horwath HTL completed a market demand and financial analysis of one scenario, assuming a replacement facility on the Chapel Street site, but this did not address issues associated with future uses for the Municipal building.

1.2 SCOPE OF WORK

Demand analysis re Civic venue

We have produced a demand analysis of the specific facilities that Council are considering incorporating into a replacement civic venue, either on the existing Chapel Street site, or elsewhere in the Masterton CBD.

As requested, our analysis is considered in the context of the wider Wairarapa region, rather than only the Masterton District.

The particular venue spaces considered in the demand analysis are:

- flat-floor function space with capacity for 1,000 people (theatre-style seating) that can be divided into three separate spaces
- function (or pre-function) space for up to 200 people (cocktail style) which would likely have a primary use as an arts and exhibition space
- flexible meeting rooms with operable walls that can seat from 10 to 100 attendees
- commercial kitchen to support the events spaces (if there is likely to be a business case to support this, considering other commercial kitchens already available in Masterton)
- a dedicated black box theatre (20m x 20m).

Office space analysis

Bayleys Real Estate have provided an analysis of the potential demand for new office space in Masterton taking into account:

- the level of demand or need for office space in Masterton
- what types of business are requiring office space
- the type of office space tenants are requiring (eg: is there a trend towards dynamic, flexible spaces, or continued demand for more 'traditional' office and open plan space).

The analysis considers whether co-working office space would be something that would benefit Masterton, or whether there would likely be demand for this type of space.

Impact of Covid on events and performing arts sectors

We have provided a high-level commentary regarding:

- how Covid-19 has impacted the events and performing arts sector in New Zealand, what the current trends are, and to what extent there are likely to be significant long lasting changes to the way that events such as conferences, trade shows and performances occur
- how the trends are expected to impact regional centres such as Masterton
- what impacts and changes Masterton might expect to experience over next 3–5 years and beyond.

2 CIVIC CENTRE PROJECT COMPONENTS

This report assesses qualitative demand characteristics for the range of proposed venue spaces identified by Council. These are as follows:

- a flat-floor event and function space with capacity for 1,000 people (theatre-style seating) that can be divided into 3 separate spaces
- a function (or pre-function) space for up to 200 people (cocktail style) which would also function as an arts and exhibition space
- flexible meeting rooms with operable walls that can seat from 10 to 100 attendees
- a commercial kitchen to support the events spaces
- a dedicated black box theatre (20m x 20m).

To assist in providing some content to the current range of facilities being considered in this report, a comparison to the venue assumptions assessed in our report is provided in Table 2.1.

We have estimated the scale of the main event space (700–800m^2) using a ratio of 0.7–0.8m^2 per person for 1,000 people in theatre-style seating, and of the other spaces using similar industry ratios.

Table 2.1 Estimated venue size (m^2) by space type

Space Type	2019 report (Stage 1 concept) (m^2)	2020 report (current concept) (m^2)
Main event space	750	700–800
Meeting rooms	-	200–250
Foyer / exhibition space	250	200–400
Back of house facilities	500	400–500
Theatre	-	400–625
Total	**1,500**	**1,900–2,575**

(Source: Horwath HTL)

The total space requirements are somewhat impacted by the final mix of facilities to be provided. A value management process should enable the total venue size to be further optimized.

3 FLAT FLOOR EVENT SPACE

The main events that would use the flat-floor function space are conferences and banquets.

In considering the potential demand for the flat floor function space, we have taken into account the range of factors which will affect potential demand for conference and banquets, award dinners, and weddings.

We have also taken into account the competitive position of the suburban Copthorne Solway Park ("Solway Park") in meeting the existing (and potential future) demand for conference and banquet space in Masterton.

The projected conference and banquet event activity assumed in our 2019 analysis is shown in Table 3.1. We expect these projections to be largely consistent with the level of event activity for the proposed flat floor function space assessed in the current report.

Table 3.1 Projected conference and banquet activity in 2019 report

Event Type	Year 1	Year 2	Year 3	Year 4	Year 5
Conferences (multi day)	1	1	2	2	3
Banquets / awards dinners / weddings	5	7	8	9	10
Total Events	**6**	**8**	**10**	**11**	**13**

(Source: Horwath HTL)

As a new venue of the proposed scale, it would be the largest conference and banquet venue in the Wairarapa. It would therefore, by default, host all events in the region larger than what Solway Park and Carterton Events Centre (CEC) can currently host.

3.1 CONFERENCES

Masterton is the largest urban population centre in the Wairarapa, and is a 2 hour drive north of Wellington, New Zealand's capital city. Its competitive strength in the conference market is mainly related to being an 'out of town' lower cost option to the Wellington CBD within the Wellington Region.

It also serves the businesses and industries of the Wairarapa region. These rural businesses generate meetings, conferences and other events which are often held in Masterton. Event business is also generated from local 'not-for-profit' entities, and from events hosted nationally on a rotational basis looking for low-cost options.

However, compared to other main centre and regional conference destinations throughout New Zealand, Masterton is competitively disadvantaged with regard to several key considerations, most notably ease of access, and has always struggled to attract conferences of larger than 300 delegates where the majority of attendees have to travel to Masterton.

3.1.1 Ease of access to Masterton

Air access

Popular regional conference destinations will have multiple daily direct flights with significant seat capacity. This ensures that delegates are able to travel between their home (located anywhere across the country) to the location easily, cheaply, and at times that suit them.

Wellington Airport is New Zealand's most connected airport. However, travelling to Masterton from Wellington Airport requires either hiring a car and driving for 1 hour 45 minutes in usual traffic, taking public transport via bus and rail, or arranging chartered coach transfers. This compares to driving 25 minutes to Lower Hutt and 40 minutes to Upper Hutt. Both of these cities are serviced with competing event venues of their own.

Palmerston North Airport is well serviced in terms of seat capacity and frequency from Auckland and Christchurch, and smaller commuter services from Hamilton and Nelson. Driving between Palmerston North and Masterton takes approximately 1 hour 30 minutes.

Even if commuter air services to Hood Aerodrome in Masterton were restarted, the capacity, frequency and range of destinations serviced from Masterton is likely to be constrained in the medium term at least, and therefore not significantly improve the competitiveness of Masterton as a conference destination nationally.

Road access

From Wellington, Masterton is accessed via State Highway 2 which passes over the Remutaka Hill. This road is challenging for its sharp corners, limited passing bays and heavy traffic (including freight and logging trucks).

Driving to Masterton can be challenging for event attendees who do not live in the Wellington Region and are unaccustomed to the road. Some drivers (including locals) dislike driving this route at night, meaning that some events, especially in winter, need to finish by mid-afternoon to allow attendees to complete the journey back to Wellington airport before dark.

Rail access

Masterton is approximately 1 hour 40 minutes train from Wellington Station. There are regular services between Wellington and Masterton on weekdays, and two daily services at weekend, as detailed in Table 3.2.

However, as a commuter line, the schedule focuses on early morning commuting from Masterton to Wellington, with only one service arriving at Masterton before midday on weekdays, at around 10am. This effectively rules out the train as a mode of transport to conference events in Masterton.

Table 3.2 Train Services between Masterton and Wellington

Weekday Timetable						
To Masterton Station						
Departure (Wellington Station)	8:21am	12:45pm	4:25pm	5:30pm	6:18pm	10:25pm (Friday only)
Arrival (Masterton Station)	10:01am	2:25pm	6:13pm	7:15pm	8:03pm	12:05am (Friday only)
To Wellington Station						
Departure (Masterton Station)	5:46am	6:20am	6:47am	10:30am	3:38pm	8:14pm (Friday only)
Arrival (Wellington Station)	7:30am	8:10am	8:31am	12:10pm	5:18pm	9:54pm (Friday only)

Weekend Timetable		
To Masterton Station		
Departure (Wellington Station)	9:55am	6:55pm
Arrival (Masterton Station)	11:35am	8:35pm
To Wellington Station		
Departure (Masterton Station)	7:45am	4:45pm
Arrival (Wellington Station)	9:25am	6:25pm

(Source: Metlink)

Masterton is locationally and geographically disadvantaged relative to most other regional conference locations in New Zealand. The significant challenges relating to access largely restrict events in Masterton to those of a small to medium size. Events won are usually regional rather than national.

Masterton will however continue to be relatively accessible to residents living in Wellington, Wairarapa, and up north to Hastings. In addition, these locals will have more experience with, and be more comfortable, travelling over the Remutaka Hill. This will enable Masterton to continue to be an attractive conference destination for events hosted by organisations located in the area.

3.1.2 Accommodation

Competitive conference venues have one or more hotels within close walking distance for the convenience of attendees. This includes maximising the opportunities for networking and socialising in the evenings after the conference day.

The lack of CBD hotel accommodation in Masterton counts against it as desirable and competitive conference destination. By contrast, Solway Park has a competitive advantage because it has sufficient rooms on-site to accommodate a substantial proportion of delegates at a meeting of 100–200 people.

3.1.3 Other conference venue features and services

On-site car-parking provides a competitive advantage for a conference venue, especially if it is free. This can be a challenge for CBD venues throughout New Zealand, where parking can be in limited supply and relatively expensive.

Suburban conference venues, especially those that have ample free parking available, can be popular choices for day meetings and multi-day conferences.

Solway Park therefore has a strong competitive advantage in this regard compared to a CBD Masterton location.

AV equipment (and technical services) and catering service providers should ideally either be based at the venue, or readily available in the local area. This is particularly important in the context of Masterton, given the logistical challenges and practicalities associated with supplying goods and services from Wellington.

Masterton will have a smaller selection of potential catering and AV equipment and service providers relative to other larger conference destinations around the country.

3.1.4 Other reasons for visit

Conferences are often hosted in popular destinations with strong visitor appeal, including a range of visitor attractions and activities. Examples of such attractions can include wineries, outstanding landscapes with walking and cycling tracks, hot pools, skiing, and shopping.

There are several appealing visitor attractions in the Wairarapa, and in particular wineries. These will help attracting some conferences and incentive travel groups business to the area due to the attractive pre- and post-event visitor experiences.

Greytown

Located 25km southwest of Masterton, this rural town was awarded New Zealand's 'Most Beautiful Small Town' in 2017 by Keep New Zealand Beautiful. With boutique stores, antique stores, cafes, camping and swimming facilities, and cycling trails, Greytown is a popular weekend destination, particularly from Wellington.

Classic New Zealand Wine Trail

The Classic New Zealand Wine Trail joins up three wine regions, but also includes many other food and beverage attractions such as breweries, gin distilleries, farmers' markets, olive groves, chocolate stores, bakeries, and restaurants. Wairarapa is central to the Wine Trail and produces world renowned Pinot Noir. Vineyards are located at Martinborough, Gladstone, and Masterton.

Pukaha National Wildlife Centre

This centre features the world's only known white kiwi, as well as endangered native species such as tuatara and long-fin eels.

Martinborough

Martinborough is a small wine village, featuring vineyards, cellar doors, and cycle trails.

Cape Palliser

The southernmost point of the North Island features seals, Ngawi fishing village, the Pinnacles geological formation, surfing, and whitebait fishing.

3.2 Banquets (Including Award Dinners and Weddings)

Banquets may be held as part of other events (such as a dinner during multi-day conferences), or as stand-alone events.

Martinborough is nationally renowned as a wine region, and therefore is popular as a wedding destination. Even a marquee at a vineyard may be perceived as a more desirable wedding venue compared to a civic CBD venue or hotel, even if more costly.

We assume that banquet activity levels for a potential flat floor function space will be similar to what was projected for the previous venue concept in our 2019 report. Table 3.3 shows the projected number of events and average event size for banquets (as an extract) from our 2019 report.

Table 3.3 Projected number of events and average event size for banquet activity

Banquets	Year 1	Year 2	Year 3	Year 4	Year 5
Number of events	5	7	8	9	10
Average event size	250	250	250	250	250

(Source: Horwath HTL)

We have produced in Table 3.4 an indicative range of events by size to indicate how the average event size may be built up considering the expected number of events in Year 1.

This indicates that:

- event sizes are skewed towards the smaller end of the range
- the number of events of a larger scale than can currently be hosted in Masterton will be infrequent, and possibly less than one per year
- a smaller venue in Masterton will still be able to host most events, even if it is not new, and may provide a price advantage.

Table 3.4 Indicative number of events / average event size for banquet activity

	Large	Medium	Small	Total	Average
Number of events	1	2	2	5	5
Attendees	450	250	150	1,250	250

(Source: Horwath HTL)

3.3 COMPETITIVE POSITION OF COPTHORNE SOLWAY PARK

The Copthorne Solway Park ("Solway Park") is a well-established conference venue in suburban Masterton. It has a competitive advantage in that it can effectively be positioned to meet the budget requirements of almost any hirer, and is effectively a "one stop destination resort".

The facilities are perceived in the market to be somewhat dated. Some refurbishment of guest rooms and public areas has been undertaken, but a planned refurbishment of the meeting rooms in 2020 has not yet been undertaken.

Solway Park is effectively the only choice for most meetings and conferences currently held in Masterton. These events are likely either to be local to Masterton (and unlikely to be high budget), or looking for relatively low budget, Wellington Region, provincial destinations / venues.

We understand Solway Park attracts three main categories of events: rural-focused events, non-corporate events supported by Trust House funding, and touring events.

Solway Park benefits from being part of the Millennium & Copthorne ("M&C") brand franchise. Events hosted on a regular ongoing basis at M&C hotels throughout the country have the opportunity of considering Solway Park as a destination option.

Solway Park's owner and operator, Trust House, is a key funder of many different community organisations – providing more than $4 million in grants for community events and organisations annually. Solway Park can therefore leverage strong relationships with organisations which are likely to require low cost options for events they may host, such as awards dinners and annual general meetings.

Events held in Masterton (typically at Solway Park) are usually relatively small scale. Solway Park hosts an estimated three banquets per annum of approximately 300 people, and an event larger than 300 people perhaps once every two years.

Our consultation with Solway Park management indicates that its Masterton location is seen as a major factor limiting the hotel's ability to gain additional event business. Major capital expenditure to upgrade Solway Park's facilities would not be expected significantly improve its level of conference business.

4 MEETING ROOMS

Many of the meetings projected to be hosted at the proposed venue are likely to be won from Solway Park and the Carterton Events Centre ("CEC") rather than be incremental meetings that could not otherwise be hosted in the Wairarapa. This is reflected in the projected average meeting event size of 50 attendees.

Meeting rooms with small capacities would not typically be used in hosting larger multi-day conferences. Small meeting spaces are, by their nature, restricted in their potential range of uses.

Operable walls are relatively expensive to install and do not usually have the same acoustic properties provided by permanent walls. The Cost Benefit ratio for providing such operable walls in this case is likely to be challenging given that the number of times that changing the room configuration would be required would be limited.

A more financially efficient alternative could be to construct several small permanent meeting rooms. One possible configuration would be three meeting rooms with capacities for (say) 20, 50 and 100 attendees. These would meet the needs of most small meetings likely to be hosted at the venue. Meetings of larger than 100 attendees could be hosted in the black box theatre.

We expect that activity levels for the proposed meetings space discussed here will be similar to what was projected for the previous venue concept in our 2019 report. Table 4.1 shows the projected number of events and average event size for meetings (as an extract) from our 2019 report.

Table 4.1 Projected number of events and average event size for meetings

Meetings	Year 1	Year 2	Year 3	Year 4	Year 5
Number of events	100	105	110	115	120
Average event size	50	50	50	50	50

(Source: Horwath HTL)

In addition, we have produced in Table 4.2 a scenario of events by size to indicate how the average event size may be built up considering the expected number of events in Year 1. This assumes that event sizes are skewed towards the smaller end of the range, explaining why a smaller venue in Masterton may still be able to host most of the meetings.

Table 4.2 Indicative number of events and average event size for meetings

	Large	Medium	Standard	Small	Total	Average
Number of events	5	10	20	65	100	100
Attendees	150	100	50	34.6	5,000	50

(Source: Horwath HTL)

The meeting facilities could have some demand and synergistic benefits created by any co located office and shared working space.

There may be potential for a cafe / bar to be co located with the proposed venue. Cafes co-located with public facilities are usually leased out to private operators rather than being operated by Council. A popular cafe will help draw people to the facilities, raise their public profile, increase the range of amenities available at the proposed venue, and increase the vibrancy of the local area.

Examples of cafes at public facilities include:

- Tūtaki Cafe, located in Lower Hutt Events Centre
- Bellbird Eatery, located in Dowse Art Museum, Lower Hutt
- Entice Cafe & Catering, located adjacent to Masterton i-SITE Visitor Information Centre.

Other services which could be co-located include a booking office for events, an information centre (could be a broader community meeting hub, with some tourism functions), or a Council service centre.

These could be developed as part of a new entrance to the library or other existing public facilities, depending on the venue's location.

5 PRE-FUNCTION SPACE

The pre-function space would need to be sized commensurate with the capacity of main events space at the venue. For example, banquets of 400 attendees hosted in the flat floor function space would require pre-function space for 400 people. Pre-function space required for the venue will therefore be determined by the event space at the venue.

However, if the flat floor function space is not developed, the pre-function space required would be determined by the capacity of the black box theatre.

A black box theatre of 20m x 20m would have a banquet capacity of approximately 200–300 attendees, assuming seating blocks and staging can be optimally stored on a cost-effective basis. This would require approximately 175–250m^2 of pre-function space.

A black box theatre of 25m x 25m would have a banquet capacity of approximately 300–400 attendees, assuming seating blocks and staging can be optimally stored. This would require approximately 250–350m^2 of pre-function space.

This pre-function space could have multiple uses:

- arts displays
- exhibition space
- mingling space for pre and post meetings, conferences, and other events hosted in the flat floor function space, black box theatre, and meeting rooms
- cocktail parties
- morning / afternoon teas and lunches associated with meetings
- event registration.

6 COMMERCIAL KITCHEN

A ‘finishing kitchen’ (at least) would be required as part of the proposed new venue. If a finishing kitchen alone was provided, cooperation with Solway Park or another catering company for the provision of a full production kitchen would also be required.

A ‘hybrid kitchen’, with full kitchen capacity for banquets of up to (say) 200 attendees and finishing kitchen capacity for banquets of up to 400 attendees, may be a cost effective solution. This would enable the venue to serve food from its own kitchens directly to most events without incurring costs associated with transporting food from an off-site kitchen.

For the events whose demand exceeded the kitchen’s “full kitchen” capacity, Solway Park could help produce food to the point where it would be ready for the “finishing kitchen”. Transporting non-finished food would be easier than transporting finished food, and so reduce the costs and risks associated with catering.

The rationale for the hybrid kitchen rather than a full kitchen with banquet capacity for up to 400 attendees is that revenue potential will not scale in proportion with capital expenditure on the kitchen facilities. The limited number of expected banquets with over 300 attendees in Masterton is expected to result in diminishing returns.

The distance from Solway Park to the Chapel Street site is approximately 3.5km. Transporting plated food for a banquet – and keeping it at the required temperature – would need significant equipment and labour and therefore high operational costs. Therefore, the kitchen at Solway Park could not practically be used to cater for larger banquets at the proposed venue.

7 'BLACK BOX' / FLEXIFORM THEATRE

By its nature, a proposed 'black box' or flexiform theatre could be used for a variety of uses, but its primary function would be for performing arts. The flexibility inherent in such a venue would allow it also enable it to be used for other events such as meetings, exhibitions and banquets.

Our consultation in 2017 indicated a view that, if a purpose-built theatre was to be built (and this was assumed to be Stage 2 of a larger precinct), it should preferably have a larger seating capacity than what is already available in the Wairarapa. This was based on the assumption that a new venue should extend the range of facilities available in the region rather than simply duplicating facilities which would likely result in the new theatre venue largely competing head on with the Carterton Events Centre ('CEC').

7.1 MASTERTON DEMAND CHARACTERISTICS

In terms of the currently proposed theatre venue size (20m x 20m), after allowing space for a stage (at least 7m depth), a cyclorama (projection screen) (1m), and cross-over space behind the stage (say 2m), the maximum 'end stage' seating capacity of a black box theatre would likely be in the range of 150–200 people. This is considerably smaller than the CEC's maximum seating capacity of approximately 350.

Our community consultation in 2018 indicated that an issue with the CEC is that its high level of utilisation makes it sometimes difficult to book. This suggests there may be latent demand for an additional theatre venue in the Wairarapa.

A well designed and fitted out black box theatre would likely be more flexible in terms of wide range of performing arts uses than the CEC. An important design consideration is that the seating and staging configuration should be as flexible as possible and can be moved with the use of mechanisation out requiring a substantial amount of labour, and therefore cost, either to hirers or the venue.

We suggest there could be a reasonable business case for upsizing the theatre to at least 25m x 25m, particularly if the proposed adjacent flat floor function space is not developed. If this was the case, the black box theatre could be well suited for banquet events. A 20m x 20m box would have a maximum banquet capacity of 250–300 attendees (replicating the capacity of Solway Park), whereas a 25m x 25m box would have a maximum banquet capacity of 400–450 attendees (which would expand the banqueting capability in the region).

The larger venue would have more flexibility than the smaller venue, which would therefore make it more 'future-proofed', while at the same time it would more fully compensate for the lack of an additional flat floor function space (if this was not to be developed).

Based on our consultation in 2017, there appeared to be a perception held by some people that small to medium size theatre or entertainment shows which toured to a location such as Masterton would necessarily be of a lower quality than would be experienced if the same show was staged in Wellington. Even though this is not necessarily a valid perception, the perception can impact on ticket sales and therefore threaten the viability of such touring shows and events to Masterton.

Wellington will always attract some of its theatre and entertainment audiences from the wider region, with patrons combining the show or event with other reasons to visit the city. These visits might include activities such as shopping, visitor attractions and activities, or visiting friends and relatives.

7.2 STAGING AND SEATING CONFIGURATIONS

The five main staging and seating configurations that can be set up in the black box theatre are as follows:

- flat-floor
- end stage
- thrust stage
- theatre in the round
- runway.

In addition, cabaret style seating is a seating configuration which can be used with various staging configurations to provide further venue use options.

Flat floor

The flat floor setup allows for a range of seating (or standing) configurations, from simple theatre style to banquet, classroom, or exhibition. There can be a stage of various sizes located anywhere in the room.

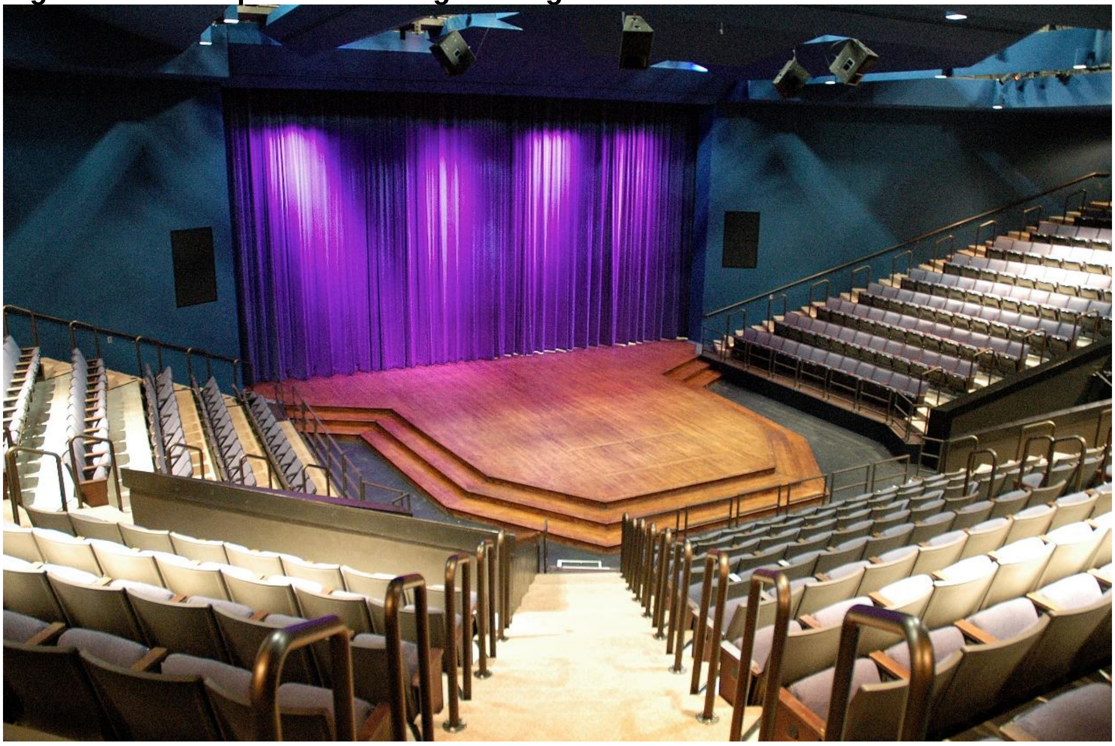
End stage

The end stage configuration features a raised stage at one end of the room, with the remaining space occupied by a single raked seating block.

Thrust stage (alternatively platform or open stage)

A thrust stage features a stage area which extends into the audience but, unlike the theatre in the round configuration, is still connected to a backstage area. It is generally used in classical theatre (eg: Shakespeare performances).

Figure 7.1 Example Thrust Stage configuration



(Source: Pasant Theatre, Michigan Wikipedia)

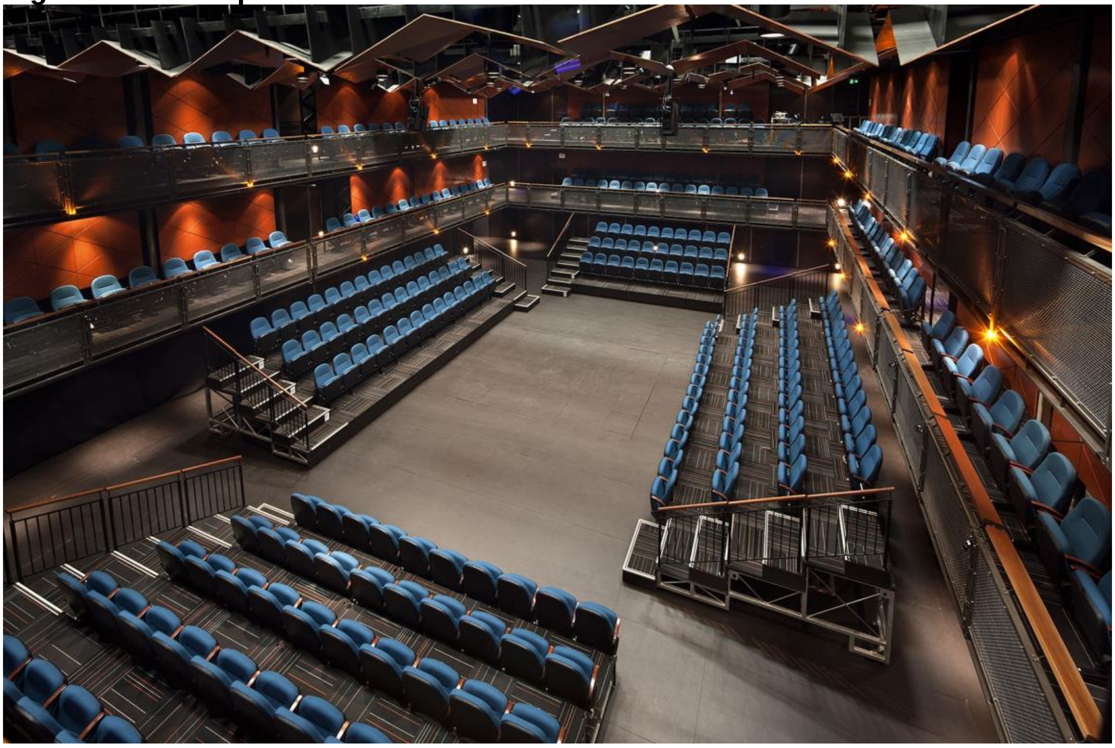
Theatre in the round

In this configuration, there are three or four seating blocks surrounding the stage, which may or may not be. One seating block is positioned in front of the stage, and there are two more blocks on either side of the stage. There may also be seating behind the stage. In this configuration, seating is generally tiered.

Variations include having seating in two or three oblong seating blocks, or flat floor seating in a semicircle arrangement.

Theatre in the round is used not just for theatre, but also for some performing arts displays (such as chamber music, or small group or solo entertainment including comedy shows).

Figure 7.2 Example Theatre in the Round



(Source: Q Theatre, Auckland, aucklandnz.com)

Runway

The runway configuration features a small stage at one end, which may or may not be raised, and a “runway” going most of the length of the venue, with seats on either side. Tiered or flat floor seating can be used.

The “runway” configuration is most commonly associated with fashion shows, such as the New Zealand Fashion Week or the World of Wearable Art.

Figure 7.3 Example Runway staging

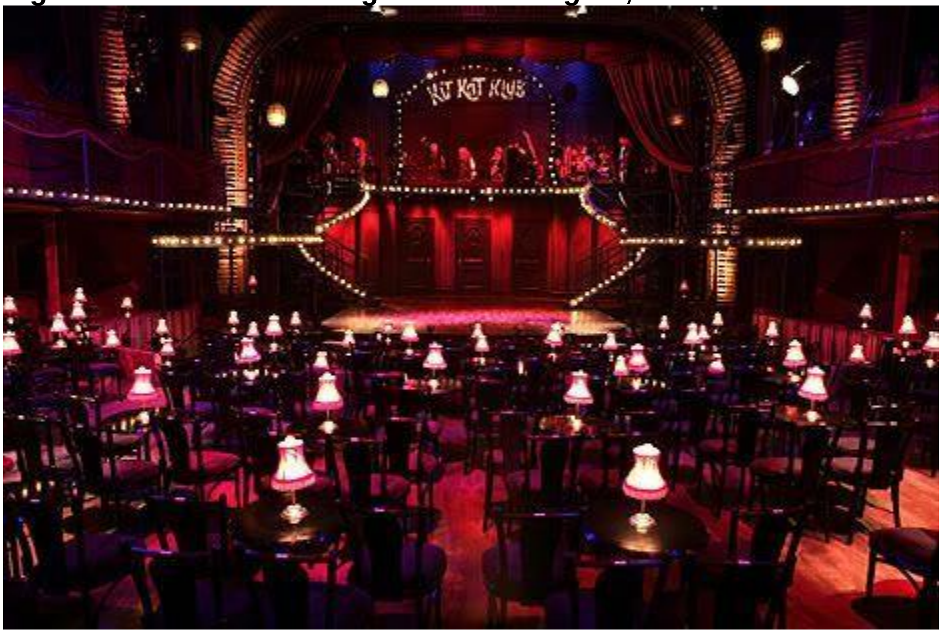
(Source: NZ Fashion Week 2019, The Register)

Cabaret style

Instead of seats around a stage, tables and chairs are arranged in semicircle or "horseshoe" configurations. Cabaret style is usually associated with the provision of drinks and canapes to patrons, or buffet / a la carte dining.

A famous example of a cabaret configuration is the Folies Bergère, in Paris.

Figure 7.4 Cabaret seating at Folies Bergère, Paris



(Source: Pinterest)

7.3 Seating Capacity by Venue Size

We have estimated likely maximum theatre-style seating capacities for a square-shaped black box theatre of four sizes. This has been achieved by estimating the number of rows of seats (after allowing for staging and related space) and multiplying this by the number of seats per row. We have also allowed for a total of 4m of circulation space (aisles) along the left and right-hand sides of the row blocks.

Table 7.1 Maximum Estimated Seating Capacity by Venue Dimensions

Venue Dimensions (m)	Rows	Seats per Row	Maximum Estimated Seating Capacity
20 x 20	10	20	150–200
25 x 25	15	26	350–390
27 x 27	17	29	450–500
30 x 30	20	32.5	600–650

Due to the area occupied by the stage and associated features, increasing the dimensions of the venue by 5m from 20m x 20m to 25m x 25m approximately doubles the maximum estimated seating capacity.

7.4 THEATRE FEATURES

Ancillary Spaces

The following ancillary spaces will be required in addition to the theatre space itself:

- pre-function space
- reception / ticketing area
- storage space
- backstage facilities, including dressing rooms / “green room”.

Pre-function space is discussed in detail in Section 5. Additionally, depending on the desired setup, some reception / ticketing operations could be carried out in the pre-function space.

Storage space will need to be sufficient to include all the staging rostra and seating blocks.

Some of the ancillary spaces will not need to scale linearly with increases in seating capacity (such as storage space and backstage facilities).

Stud Height

A minimum 10m stud height is recommended. A ceiling grid is essential for hanging AV, lighting, and other equipment in multiple configurations. This should ideally be relatively easy to access and change, which minimises event setup costs.

7.5 OTHER VENUE DESIGN CONSIDERATIONS

The theatre venue design will involve trade-offs between flexibility of use, up-front capital cost, and per-event operational set-up labour costs (with potential consequences for the level of utilisation and therefore operational revenue).

Arranging staging and seating configurations for events requires manual labour or a mechanised solution (or some combination of the two). Mainly relying on manual labour (ie: staff setting up the stage and seating blocks) results in a high set-up cost per event, especially if a change to the previous room configuration is required. This may make the venue relatively unaffordable by local hirers without receiving a subsidy from the venue.

A mechanised seating solution (automatic retraction of seating blocks and movement into adjacent storage) would involve lower per event labour costs, but will involve a higher initial capital cost.

Higher capital expenditure on automated seating technology, in-built AV equipment and infrastructure (including easily accessible ceiling grid) will reduce per-event setup costs. This will increase the venue’s accessibility to a wider range of users (including community users) and their ability to hire the venue.

7.6 Local Hirer Market

Based on our consultation with the local amateur theatre groups in 2018 (MATS and Harlequin) we suspect that a black box venue such at that proposed could meet some or all of their performance venue needs throughout the year.

At the time, however, they expressed concern about their ability to fund venue charges and recover these charges through box office takings.

7.7 Carterton Events Centre

As noted in our previous report, the Carterton Events Centre ('CEC') has filled a venue gap in the region to a reasonable extent. It has some design compromises, as many such venues in NZ do. It is the largest (non school-based) performing arts venue in Wairarapa.

Overall the CEC is reasonably well-suited for hosting small and medium size touring shows / entertainment events, as well as local amateur theatre / performing arts events and exhibitions.

The CEC has a maximum seating capacity for end-stage theatre events of approximately 350 attendees. This audience constraint prevents some larger scale events from being presented in the Wairarapa as part of a national tour.

8 IMPACT OF INCREASED COMPETITION

The new venue would, if it expands the capability and quality of the venues currently offered at Solway Park and CEC, bring some incremental events to the Wairarapa. However, given the constraints on Masterton's ability to perform well as a conference destination, the number of incremental events would likely be very limited.

The venue may therefore be tempted to attract event bookings away from the other existing venues in the region.

The new venue, Solway Park and the CEC are likely to compete directly for the available business, even if that is not the basis of the Business Case for a new venue, because of the relatively small number of events in the region, constraints on the potential to grow the number of events significantly, and the need to at least cover operating expenses.

Solway Park and CEC may further discount their venue hire rates to retain its business (and Solway Park may be able to afford to do so, especially if they can generate associated accommodation business). This could both limit the potential demand for events at the new venue and result in a "race to the bottom" as the three venues attempt to win business while generating lower margins.

It is not clear that there would be a strong rationale for a Council owned and operated venues to "cannibalise" the income of the Trust House-owned Solway Park, one of its largest ratepayers.

The new venue would compete with Solway Park for most of the Business Events hosted in Masterton. The new venue would offer a modern, functional, flexible and centrally located option, and therefore need to generate higher venue rental rates, whereas Solway Park will cater to events at a lower budget.

The competitive pressures arising from intense competition could be reduced by Council entering into commercial arrangements with either or both of Solway Park and the CEC.

Examples may include granting Solway Park exclusive catering rights at the new venue, and granting a management contract over the venue to CEC (or a new entity jointly established by Masterton District Council and Carterton District Council to operate both venues).

9 OFFICE SPACE DEMAND

The commentary in this section is a summary of the advice provided to Horwath by Bayleys in the form of a letter dated 13 October 2020. For more information, see the letter attached as Appendix 1.

9.1 MARKET OVERVIEW

Supply

The Masterton office market is small and fragmented, with supply generally old and of low quality. The exceptions are Waiata House and the development currently under construction at 34 Chapel Street.

Demand

Public sector entities are the main office space occupiers. The private sector is mainly represented by smaller professional firms such as lawyers, accountants, and technology service providers, and smaller non-profit organisations. These smaller occupiers tend to employ fewer than 10 employees and occupy between 50-100m^2 tenancies.

To date, there has not been significant demand for co-working space.

9.2 DEMAND OPPORTUNITY

There are indications that Masterton office space is leased at a slight premium relative to what would be expected for its quality. Additionally, there are two factors which may boost office space demand in Masterton in the future. Firstly, the Government is looking to create and expand regional hubs. Secondly, there is an ongoing rise in popularity of alternative office models (such as “hub and spoke” models), which may increase demand for both traditional office and co-working space.

The expectation is that new, modern co-working office space would be popular if not priced excessively high.

However, the small size of Masterton’s office space market increases uncertainty in forecasting demand for office space generally (and even more so in forecasting by type of office space, such as traditional versus flexible space).

Furthermore, there are risks and threats which may affect office space demand. There include whether the rise in flexible working and hub and spoke office arrangement models will be a short-term phenomenon, whether Masterton is the preferred destination for co-working office space within Wairarapa (as opposed to locations such as Carterton, Greytown, and Martinborough), and the scale of conversion of retail premises to office premises.

10 Impact of Covid: Business Events / Performing Arts

Business events and performing arts event activity, and the venues in which the activity occurs, have been very substantially detrimentally impacted by Covid and the resulting public health measures during Lockdown Levels 3 and 4 in particular to restrict attendees at public events.

10.1 Impact on Performing Arts

10.1.1 National level impacts

Foreign performing arts touring events will be highly constrained for the foreseeable future, particularly if the act has a larger travelling crew.

The shortage of international events combined with the inability or increased difficulty of local events touring overseas will result in more local performances, which could potentially positively impact regional centres including the Wairarapa.

This reinforces a pre-Covid trend of an increasing range of tour entertainment product resulting from declining revenues for conventional performance media (eg: CD’s, DVD’s, etc) as a result of major industry disruption from media sharing platforms.

10.1.2 Current trends

Experimental lower pricing of high quality shows in Auckland following Covid-related uncertainty has indicated that some shows and events can generate significantly higher audience numbers and total ticket revenue earned despite the lower ticket prices. This is because removing the price barrier allows a much larger audience to attend performances.

Ticket revenue can sometimes represent only a low proportion of total revenue for some shows which receive reasonable funding from sources such as Creative New Zealand.

This will encourage shows to take risks with ticket prices and experiment with lower price points. If more shows decide to lower ticket prices to encourage new audiences, there could be an expansion in public patronage of performing arts products and utilisation of performing arts venues.

10.1.3 Potential long-term trends

Covid is likely to have several long-term impacts on the performing arts sector. These impacts will include the closures of some performing arts groups and permanent cancellation of tours which are unable to survive the post Covid environment. However, by the nature of many creative and performing arts practitioners, there could also be a rise in new products and experiences to take their place, and this could include touring events.

If price point experimentation leads to widespread lower ticket prices for performing arts events, this will likely lead to long term expectations of low prices for high quality entertainment, and this could put pressure on venue rentals achievable per show.

10.1.4 Impact on regional centres

For the reasons identified above, regional centres in New Zealand such as Masterton and the Wairarapa could be expected to experience a sustained increase in the number and range of touring shows and entertainment events in the medium term, especially those that have low production costs and limited travelling crew.

10.2 Impact on Conference and Meeting Events

10.2.1 National level impacts

Covid has had a major detrimental impact on the meetings and conference industry in New Zealand in the short-term. Because of the relatively long planning / booking horizon before larger conferences occur (eg: 3–5 years), it is too early to accurately forecast what the recovery timeframe will be for the meetings and conference industry over the next few years.

The first national Level 4 lockdown resulted in multiple event postponements and some cancellations. However, after the first lockdown, there were some indications that small corporate meetings activity was quite strong, at least around Auckland.

However the second national lockdown resulted in much more widespread cancellations. Furthermore, Auckland remaining at a heightened alert level also resulted in event cancellations due to Auckland residents forming a large proportion of event delegates in other regions.

There is currently very considerable industry uncertainty about the recovery outlook in the medium term.

10.2.2 Current trends

Major disruption to conference and event-related suppliers (lost revenue as a result of event cancellations) has already resulted in many of these businesses downsizing.

There is a strong likelihood that future commercial terms from conference and events-related suppliers (including F&B and AV suppliers) will be tightened in the foreseeable future (eg: higher advance deposits required, stricter final settlement terms).

The reduction in the event industry supplier capacity may have a detrimental effect as the remaining suppliers struggle to cope with recovering demand.

10.2.3 Potential long term trends

The rise in uncertainty has encouraged Professional Conference Organisers ("PCOs") and event hosts moving to minimise financial risks by concentrating on concentrating events in New Zealand's main centres (Auckland, Wellington, and Christchurch) for the foreseeable future.

Regional conference destinations could well see a significant decrease in available conference business while Covid produces ongoing uncertainty and risk.

Secondary locations such as Rotorua, Taupo, Hamilton, and Palmerston North will likely recover to pre Covid levels of business faster than tertiary locations such as the Wairarapa.

10.2.4 Impact on regional centres

We are advised that Masterton has similarly been impacted by the national lockdowns and increased uncertainty as a result of Covid.

The relatively low cost of hosting events in Masterton currently and the local nature of most events in Masterton (resulting in greater ease of travel for attendees) may however help reduce risk for organisers of smaller local events and encourage a faster return to pre Covid event levels, even if total attendances are lower.

APPENDIX 1 – OFFICE SPACE DEMAND ASSESSMENT

Tuesday, October 20, 2020

Stephen Hamilton
Director
Horwath HTL Limited
Level 5, West Plaza Building
3 Albert Street
Auckland

Dear Stephen

Masterton District Council – Proposed Redevelopment of the Masterton Town Hall and Municipal building at 64 Chapel Street, Masterton

Thank you for your recent instructions regarding the Masterton District Council's proposed redevelopment of the existing Town Hall and Municipal building (the "**Civic Building**") at 64 Chapel Street, Masterton. For completeness, we begin by recording the agreed scope of our engagement.

Scope

We are required to provide a report for the Masterton District Council analyzing the demand for new office space in Masterton, taking into account the:

1. level of demand for office space in Masterton;

2. types of occupiers requiring office space; and

3. characteristics of office space that occupiers are requiring (for example, whether there is a trend that might support more dynamic, flexible offices spaces, and/or whether there is continued demand for more 'traditional' office and open-plan space).

Within this scope, the Masterton District Council wishes to better understand whether co-working solutions (such as those offered by "BizDojo" or similar) would benefit Masterton, and whether there would be demand for co-working space within Masterton.

This report is provided to inform Masterton District Council's decision regarding the future of the Civic Building, particularly whether the Civic Building might be demolished and replaced with new office accommodation, or alternatively strengthened and redeveloped to create modernised office accommodation. We report to you as follows.

Report

Overall, the Masterton office market is relatively small, fragmented and characterized (with some limited exceptions) by lower quality, older accommodation that was often not designed with modern office occupancy in mind.

Types of occupiers

The major office occupiers within Masterton are largely public sector entities. Examples include the Wairarapa District Health Board, Masterton District Council (located within the recently strengthened Waiata House at 27 Lincoln Road), Greater Wellington Regional Council (located at 37 Chapel Street), the Ministry of Social

Development and Oranga Tamariki (at 49 Lincoln Road), Department of Corrections and Powershop (in the form of a Call Centre).

Outside these major office occupiers, there are a number of smaller, private sector service providers that create additional demand for office space within the market; examples include local barristers & solicitors, accountants, banks and other financial services providers, technology service providers and consulting professionals. There is a strong link between the buoyant local horticultural and agricultural economies and these occupants. Generally, these occupants are smaller scale, employing less than 10 employees, and tend to occupy office space of between 50 sqm and 100 sqm in total, usually at a ratio of approximately 10-12 sqm per desk. We are also aware of smaller 'not for profit' organisations that have a similar occupancy profile. Some of these occupiers own (rather than lease) the accommodation in which they are located.

Existing office accommodation

Examples of specialist office accommodation within Masterton are very limited. There is only one dedicated multi-tenanted office building, at 37 Chapel Street (occupied by the Greater Wellington Regional Council) which provides office accommodation of approximately 3,000 sqm in total. This building was constructed in the 1970s. The building at 49 Lincoln Road that houses the Ministry of Social Development, Oranga Tamariki, as well as temporary medical facilities, was constructed in the 1980s. The age and appearance of these buildings is to be contrasted with Waiata House, now occupied by the Masterton District Council, which was strengthened in the late 2010s (prior to occupation by the Council) and which represents the highest quality office space available within Masterton.

The balance of the office space provided in Masterton is generally of an 'ad hoc' nature. Commercial buildings within Masterton, other than those referred to above, typically house retail, café / hospitality and/or service providers at ground level and provide one additional upstairs level of office and/or apartment accommodation. Buildings of this nature dominate the commercial business district within Masterton. This office accommodation ranges in quality. Some of the two-level commercial buildings benefit from appealing character aesthetics. Very few offer model, open-plan office facilities.

Development

There has been very little recent development of new office accommodation within Masterton. Waiata House, at 27 Lincoln Road, now leased by the Masterton District Council, provides one limited exception. In addition, a new building is currently under construction for the Greater Wellington Regional Council at 34 Chapel Street, on a sale and leaseback basis with local developer Endeavour Concepts Limited. The lack of new, good quality office accommodation within Masterton is a consequence of:

1. historically constrained demand characteristics, with very limited instances of formal requests for new design-build accommodation (a limited exception being the formal 'RFP' process that the Greater Wellington Regional Council ran in 2008);

2. relatively high ongoing vacancy rates, creating a competitive threat for any developer considering speculative development; and

3. limited market rental rates which, at historic levels, would not support development feasibility models or bank credit criteria.

In general terms, the smaller occupiers 'come and go', as market conditions change over time. It is very rare for a larger occupant (public or private sector) to formally seek proposals for new design-build office accommodation in Masterton.

Demand characteristics

To date, the demand for office space within Masterton has been for traditional office space (as distinct from co-working accommodation). Typically, occupiers seek generally open plan office accommodation with provision for staff amenity (in the form of kitchenette / lunchroom area), but can often accept (and sometimes require limited provision for) some level of partitioning to create individual office rooms.

Prior to the COVID-19 pandemic, there has been negligible demand for co-working accommodation. Subject to the comments that are provided below in relation to "Future Expectations", our agency teams operating in Masterton have not observed any significant demand for co-working space in the nature of that provided by the likes of BizDojo, Generator and WeWork.

However, we do consider that there is currently latent demand for more quality office accommodation. Vacancy rates within the best quality office accommodation in Masterton are very low, and tenants in the market to find office space in Masterton regularly note the lack of quality office space. This remains the case as at the date of this report, post-COVID-19.

Vacancy Rates

Office vacancy rates fluctuate but the rate of occupancy has, in general terms, improved in the past five years as Masterton and the wider Wairarapa region has experienced solid economic growth year on year (prior to COVID-19). We estimate that vacancy rates sit around 10% currently with (as in all office markets) a tendency for the poorer quality office space to become vacant earlier during recessionary times and to remain vacant for longer. As noted above, high quality office space is scarce and typically fully occupied.

Market Office Rates

Like the nearby Wellington market, office leasing transactions are priced on a mixed basis: the majority of transactions are agreed on a "gross" rental basis (in which the tenant pays a grossed up rental amount that covers all outgoings other than consumed utilities), and some are agreed on a "net" basis (in which the tenant pays additional property outgoings such as rates and insurance on a pro rata basis, in addition to consumed utilities – usually these rates are struck for new, design-build accommodation where rent is a function of build cost). Other deals fall somewhere between the two.

Because market demand is thin relative to the availability of stock, and because of the variance in the quality of office stock available, it is difficult to confidently derive and apply specific market rental rates to specific categories of stock. That said, the:

1. lowest quality office stock in the market would be expected to lease at rates generally around $160 per sqm (gross) plus GST and above;

2. the bulk of the office stock available in the market falls in a range between $175 and $225 per sqm (gross) plus GST; and

3. the best quality office stock in the market would be expected to lease at rates around $280 to $290 per sqm (gross) plus GST, although we understand that there have been limited instances of transactions in the low $300s per sqm (gross) plus GST.

Future Expectations

There are two prevailing market features that may support the office sector in Masterton the future:

1. To date, Wellington's office market has been dominated by New Zealand Government occupation (national public sector occupants, in the form of Ministries and other Crown agencies). For various policy and legislative reasons, the Government Property Group (GPG) has indicated an intention to expand public sector office occupancy outside of Wellington so as to create a greater number of regional hubs. It is possible that Masterton will become the home of expanded public sector

accommodation as a consequence. We expect that the NZ Government would not agree to a major new office commitment within Masterton unless the accommodation was specifically designed and constructed for that purpose (addressing, among other things, the latest design principles in relation to seismic resilience).

2. A cultural workplace expectation to permit 'flexible working' has been developing in the last 10 to 15 years, but has been accelerated by COVID-19. In the wake of COVID-19, and given the availability of effective technology solutions, a number of public sector and corporate office occupiers within Wellington and elsewhere in New Zealand have encouraged employees to work (in whole, or in part) away from existing centralised office locations. Many real estate market commentators have forecast an increasing adoption of a 'hub and spoke' (or 'core and flex') model in which office users increasingly work remotely, either from home or from within flexible space located closer to home. If this trend continues, we consider that the Wairarapa region is very well placed to provide alternative office accommodation solutions for employees that previously would have worked within Wellington city. There are already many Wellington based employees that commute from the Wairarapa to work. It may be that an increasing number of these employees are permitted to work from within the Wairarapa permanently or semi-permanently and that this, in turn, encourages more development in the office and co-working sectors.

Co-Working Model

There has been a recent surge in co-working office accommodation providers. Examples of active participants in New Zealand include Generator, BizDojo, WeWork (with premises under construction in Queen Street, Auckland) and ServCorp. While each provider adopts a slightly different business model and with different pricing options, the common characteristics of the service offering are:

1. flexible use of desks and associated communications technology, often in a shared office environment;

2. shared social amenity (in the form of congregation areas, bars / cafes, and similar);

3. flexible contracting arrangements, represented by short-term contract commitments and flexible pricing models as distinct from traditional fixed term, fixed rate office leases; and

4. often, shared cultural expectations (for example, through the co-locating of technology related businesses in a 'start up' phase that can interact together in order to sponsor networking and ideas).

Threats and Pricing

As noted above, we consider that there is latent demand for quality office space in Masterton, and that some of that demand could be met by co-working office environments. We foresee two key sources of demand for modern co-working accommodation:

1. Local tenants that simply require better quality accommodation than is currently available, and are willing to pay a premium to secure that space;

2. The Wellington day commuter population that, in a modern flexible working environment, choses to work weekly or on a day to day basis from the Wairarapa rather than from Wellington.

If the Masterton District Council were to construct brand-new, modern co-working accommodation, we expect that (if price were not an issue) it would be popular.

However, it is very difficult to confidently forecast the extent of that demand (by comparison with, for example, traditional office space, existing or new), and how that demand might translate into effective rental rates. This is particularly so given the ongoing local and global impacts of the COVID-19 pandemic and associated economic cost. Threats and risk factors that may affect that demand include:

3. Ongoing uncertainty as to whether the 'flexible working' / 'hub and spoke' working model is permanent, or simply a short-term phenomenon that has been exacerbated by COVID-19'.

4. The preferred location for co-working providers in the Wairarapa. The Wellington day commuter population is, in our view, the best current representation of people that might use modern co-working office space in the Wairarapa from time to time, rather than work in Wellington. While we understand, anecdotally, that "the trains are full" leaving Masterton for Wellington each day (which indicates some level of potential demand for co-working space in Masterton) most Wellington day commuters who might use a co-working service offering are based in South Wairarapa, in and around Carterton, Greytown and Martinborough, rather than Masterton itself. Having regard to the other lifestyle benefits these locations provide, we think that these South Wairarapa towns may prove to be better suited to boutique co-working businesses than Masterton in the long-run. One already exists in Carterton: the "3 Mile" co-working community.

5. Conversion of retail premises to office premises. As referred to earlier in this report, the majority of commercial buildings in Masterton are two-level buildings that provide ground floor retail, services or café / hospitality offerings. The traditional shop-front retail market in New Zealand is facing considerable pressure from the rapid growth in 'on-line retailing', in which orders for product are made on-line and service order fulfilment is completed from logistical distribution centres. This mode of retailing bypasses the traditional shop-front and is rendering numerous retail businesses through New Zealand (and globally) redundant. If retail vacancy rates continue to increase, we can expect landlords to convert that ground floor retail space into an alternative uses, which will include office space. Therefore, there is a risk of the market become inundated with 'new' ground floor office accommodation, which will serve to undermine the popularity and achievable market rents for new built office accommodation.

For these reasons, we are not confident that there will be considerable rental upside for developers that launch speculative new co-working service offerings in Masterton. Depending on the size and scale of any new co-working office space that is brought into the market, we doubt that gross effective rental rates in excess of $320 per sqm (plus GST) will be consistently achievable, and see downside risk for the reasons set out above. Business case feasibility assessments should prudently assume that net rental rates (after allowing for, say, $70 per sqm (plus GST) for outgoings) between $200 per sqm and $230 per sqm would be achievable.

Yours sincerely,

Stephen Rendall
National Director of Real Estate Advisory