

**QLDC Council
17 August 2017**

Report for Agenda Item: 5

Department: Corporate Services

Lakeview commercial land development objectives and ownership

Purpose

- 1 The purpose of this report is to consider development objectives for commercial land within the Lakeview site and seek community feedback on ownership of that land.

Executive Summary

- 2 The Council owns and administers the Lakeview site, a large area of prime under-utilised land adjacent to the town centre, ideally suited for the sort of development that would anchor growth and diversification of the Queenstown town centre.
- 3 With the Queenstown Convention Centre (QCC) proposal not receiving sufficient financial commitments to date, the Council now intends to enter into a process to dispose of commercial land within the Lakeview site. Current market conditions combined with recently rezoning the site, means that now is considered an optimal time to take the commercial land to market and achieve best value for ratepayers.
- 4 The Council would like to engage with the community in respect of land tenure; specifically whether 'selling' or granting long term pre-paid leasehold tenure (say 125+ years) would represent a viable alternative to the sale of freehold tenure for the commercial land.

Recommendation

That Council:

1. **Note** the contents of this report;
2. **Approve** the proposed development objectives for the commercial land on the Lakeview site to:
 - a. Maximise financial return in a manner that minimises risk to ratepayers;
 - b. Establish a thriving residential focused, mixed use precinct, which is stitched into the Queenstown town centre context and:
 - i. Exhibits best practice urban design principles, is walkable, activated, liveable and authentic;

- ii. Exhibits a consistent design language and high quality built form outcomes that complement the natural environment, fit into the Queenstown context and are of human scale;
 - iii. Provides a diverse retail mix which complements and provides for the natural expansion of the existing town centre core and will appeal to locals and visitors;
 - iv. Provides for the intensification sought via Plan Change 50 and delivers for a variety of housing choices and a diverse residential community;
 - v. Considers opportunities for visitor accommodation and / or visitor facilities where these are economically viable.
- c. Ensure Lakeview's development potential is unlocked in a timely and efficient manner.
- 3. **Agree** to a 'transaction approach' to engage with the market and select a development partner (or partners) to be contracted via project development agreement(s) or similar, which will reference the Council's objectives for the commercial land;
- 4. **Agree** to undertake consultation with the community on the nature of tenure for the commercial land;
- 5. **Direct** officers to report back to the Council on transaction options for disposal of the commercial land at Lakeview, including the land previously identified as the preferred location for the proposed Queenstown Convention Centre, together with community feedback.

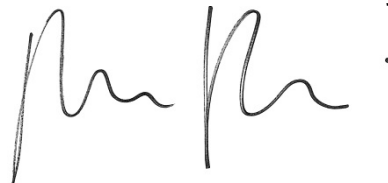
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4/08/2017

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Background

- 5 On 27 August 2015 the Council resolved that market engagement and private sector negotiations for the commercial land at Lakeview, should not be progressed until there is sufficient certainty as to the progression or otherwise of the Queenstown Convention Centre (QCC) proposal.

- 6 In November 2016 elected members were presented with an Indicative Programme Business Case (IPBC) for the Lakeview site which provided options for progressing the development opportunity.
- 7 The IPBC modelled that investment of close to \$450 million (public and private) on the site, could have an expected district economic impact of \$83.5 million from one-off construction related activity and additional on-going economic benefits from operations in excess of \$54.5 million annually. The net financial return to the Council was projected to be \$25.5 million¹. This is in comparison to a 'status-quo' or 'do-nothing' net financial return of \$5.2 million.
- 8 Importantly the IPBC further highlighted that the Lakeview site represents a significant opportunity for the Council to implement one of the key initiatives identified in the 2015 Economic Development Strategy to address specific opportunities and challenges faced by this district².
- 9 Given that the Council has not received sufficient financial commitments to date from funding sources to construct the QCC, the opportunity cost of 'doing nothing' or further delay in development of the Lakeview site could have a material impact on potential financial and non-financial outcomes for the Council.
- 10 The commercial land area (circa 4.4ha) being considered for disposal is less than half of the wider Lakeview site (circa 10.4ha), with the balance of land retained under Council ownership and/or administration for recreation purposes and strategic infrastructure corridors.
- 11 It is clear that the commercial land at Lakeview is 'underperforming' and 'attractive' to interested investment partners. Sale of the commercial land or 'selling' development rights over the land represents a significant opportunity for this Council to deliver on one of the fundamental purposes of local government: to meet the current and future needs of the community through provision of efficient, effective and appropriate infrastructure and services.
- 12 The means of the 'sale' is an important proposition and one elected members have indicated a desire to test with the community before any decision to dispose of the commercial land is entered into.

Comment

Commercial Land Development Objectives

- 13 Land use planning, structuring an investment offering and achieving integrated development of a large site within a small market, is a comprehensive exercise. If development of the commercial land is to be successful, there must be a fair reward available for the developers and end investors.

¹ Indicative nominal (3.0%) Net Present Value (8.0%) over a 12 year investment period.

² Support the ongoing improvement of town centres in the District (Economic Development Strategy 2015).

- 14 Consistent with the purpose of local government, the community should also benefit, in this case, by way of additional employment opportunities and other associated economic benefits.
- 15 Understanding the range of activities that can be established on the commercial land, the direct financial implications and wider outcomes in terms of the economic, social, cultural and environmental impact on the district are key elements in understanding and delivering optimal utilisation of the land.
- 16 Plan Change 50 has allowed for a higher level of development of activities and buildings within the Lakeview Sub Zone. A range of District Plan controls relating to building, bulk and location, and measures which secure certain urban design outcomes are set out within the Sub Zone and the objectives, policies and rules provided for in the District Plan.
- 17 It could be argued that the Council has already set its intentions for activities and development on the commercial land through the rezoning process. However consideration of whether the private sector would otherwise deliver an activity and associated benefit(s) if not implemented or specifically imposed by the Council is integral to the proposition.
- 18 Commercial advisors propose a 'transaction approach' to engage with the market and select (under commercial tension) a development partner (or partners) to be contracted via project development agreement(s) or similar, which will reference the Council's objectives for the commercial land.
- 19 The transaction would effectively be a structured land sale/lease (contractual joint venture) with the private sector designed to maximise nominal cash returns while balancing the need to control outcomes, given the wider objectives.
- 20 Critical to the success of this approach will be the Council providing a clear mandate/commitment to the transaction, so that potential interested parties (bidders) have:
 - certainty of outcome (they know what they are purchasing);
 - a transparent procurement process; and
 - controlled market engagement.
- 21 Such a process will set a clear brief of what is being sought by the Council and bring the 'right parties to the table' by creating strong engagement.
- 22 The following proposed objectives are a synthesis of the previous Lakeview development principles, District Plan and Property Sale and Acquisition Policy and Queenstown Town Centre Masterplan Programme Business Case problem and benefit statements.
- 23 Proposed Lakeview commercial land development objectives:
 - I. Maximise financial return in a manner that minimises risk to ratepayers;
 - II. Establish a thriving residential focused, mixed use precinct, which is stitched into the Queenstown town centre context and:

- Exhibits best practice urban design principles, is walkable, activated, liveable and authentic;
- Exhibits a consistent design language and high quality built form outcomes that complement the natural environment, fit into the Queenstown context and are of human scale;
- Provides a diverse retail mix which complements and provides for the natural expansion of the existing town centre core and will appeal to locals and visitors;
- Provides for the intensification sought via Plan Change 50 and delivers for a variety of housing choices and a diverse residential community;
- Considers opportunities for visitor accommodation and/or visitor facilities where these are economically viable.

III. Ensure Lakeview's development potential is unlocked in a timely and efficient manner.

24 These objectives are intended to inform a two stage market engagement process³ and become the basis for evaluation of responses from private sector participants willing to invest in the Lakeview commercial land.

25 The Council can enter into a project development agreement with an investment partner (or partners) under either; long term pre-paid leasehold tenure or sale of freehold tenure, but that investment partner will want to know the nature of tenure before fully participating in a market process.

Options

26 Option 1: Agree to the recommendations as outlined

Advantages:

27 Provides market certainty while mitigating the risk of not achieving best value for the community.

28 Achieves an outcome that balances the Council's desired outcomes (and need to retain adequate control) with developers' imperative to respond to market conditions and commercial drivers.

Disadvantages:

29 It may not provide the highest financial return to ratepayers.

30 Option 2: 'Sell' the land to the highest bidder with no development agreement

Advantages:

³ Expression of interest (EOI) and requests for proposal/ tender (RFP/ RFT)

31 Likely to provide the highest financial return to ratepayers.

32 Efficient single step procurement process.

33 Available under long term pre-paid leasehold tenure or sale of freehold tenure, as with Option 1.

Disadvantages:

34 Process may be less effective in achieving the Council's desired outcomes or best value across different measures for the community.

35 Purchaser would not have any specific obligations regarding development on the commercial land (i.e. timing or design) other than what is provided for in the District Plan (which it could seek to change).

36 Evaluation of bidders based on price alone. Other criteria such as track record or ability to deliver would generally have a lower weighting, if any.

37 Option 3: Status quo or 'do nothing'

Advantages:

38 Alternative funding for the QCC proposal may eventuate.

Disadvantages:

39 Further delay in development of the Lakeview site could have a material impact on potential financial and non-financial outcomes for the Council.

40 This report recommends **Option 1** for addressing the matter because now is considered an optimal time to take the commercial land to market and achieve best value for ratepayers.

Significance and Engagement

41 This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because it is seeking approval to undertake consultation to inform a decision.

Risk

42 This matter relates to the strategic risk SR1 current and future development needs of the community (including environmental protection), as documented in the Council's risk register. The risk is classed as high. This matter relates to this risk because it enables investment in key initiatives (namely housing, visitor accommodation and core infrastructure) identified to address specific opportunities and challenges faced by this District.

43 The recommended option mitigates the risk by transferring the risk through contracts or other agreements with external agencies.

Financial Implications

44 There are no direct operational or capital expenditure requirements or other budget or cost implications resulting from this decision.

Council Policies, Strategies and Bylaws

45 The following Council policies, strategies and bylaws were considered:

- District Plan;
- Economic Development Strategy 2015;
- Property Sale and Acquisition Policy 2014.

46 The recommended option is consistent with the principles set out in the named policy/policies.

47 This matter is included in the 10-Year Plan/Annual Plan with the Lakeview commercial land identified as part of the investment property portfolio.

Local Government Act 2002 Purpose Provisions

48 The recommended option:

- Will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses by considering the opportunity to realise the value of a commercial asset;
- Can be implemented through current funding under the 10-Year Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

Consultation: Community Views and Preferences

49 The persons who are affected by or interested in this matter are the residents/ratepayers of the Queenstown Lakes District community.

50 The Council has through its consultation and resolutions to date signalled its intention to facilitate the 'integrated mixed used development of the Lakeview land through a project development agreement(s) with private interests'⁴.

51 There has been nothing in the documentation that expressly precludes a sale of the commercial land at Lakeview, however it has been suggested that the development transaction would be a lease of some form with associated development aspects, and the Council would continue to hold an underlying and possibly controlling interest in the development⁵.

⁴ CBRE overview report (July 2013).

⁵ In the Lakeview December 2013 Council report there is an extended discussion (paras 57-60) of the benefits of long-term lease compared to a sale although there is no conclusion.

52 This paper proposes undertaking community consultation on the matter of tenure before declaring the property 'surplus' and deciding to dispose of the commercial land at Lakeview.

Legal Considerations and Statutory Responsibilities

53 Legal advice been taken, and the recommended option is consistent with that advice.