

LAKEVIEW DEVELOPMENT

INDICATIVE PROGRAMME BUSINESS CASE

SEPTEMBER 2016 (summary version)

Disclaimer: The figures and assumptions provided within are based on professional/expert advice received (to date) by the Queenstown Lakes District Council. This document is subject to external review and intended for internal discussion only.

LAKEVIEW DEVELOPMENT INDICATIVE PROGRAMME BUSINESS CASE

Preamble

Queenstown is a premier tourist destination and the economic heart of the Queenstown Lakes District. The Queenstown Lakes District Council (the Council) has identified that opportunities for further growth and diversification of the town centre are required to continue to attract visitors and to provide for theirs and the local community's needs.

However, growth and diversification present their own challenges, not least, the unique situation that this Council faces of servicing a visitor loading - domestic and international - measured on a "residential equivalent" basis, over 16 times that of Auckland, and over 4 times higher than any other major tourist destination in New Zealand.

It is recognised that the benefits of current rates-based approaches to investment in infrastructure supporting visitor demand are limited and will not effectively address this unique situation.

The New Zealand Government has a clear focus on building a more productive and competitive national economy. The strategic narrative from Treasury is compelling. Senior cabinet ministers have been tasked with leading portfolios with a view to ensuring public assets and services are utilised and delivered more efficiently and effectively. Attracting private sector investment will also be integral to help meet the needs of visitors to the nation and its communities.

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 projects that would anchor growth and diversification of the Queenstown town centre.

If the Council is able to unlock investment in Lakeview, it will have implemented one of the key initiatives identified to address specific opportunities and challenges faced by this District. Contributing to Central Government's own aspirations for a higher value and resilient economy, may cause the Government to look more favourably on either a greater capital contribution toward the 'key anchor' convention centre project proposed at the Lakeview Site, or alternative funding arrangements for strategic or community infrastructure projects generally within the District.

- "Productivity growth is about creating more value by making better use of a country's resources. It is the most important source of income growth and has an important bearing on people's wellbeing."
- "While average income growth has been strong over recent years, New Zealand's long-run productivity performance continues to underwhelm, particularly in parts of the services sector. This poor long-run productivity performance is the key reason why average incomes are still below the OECD average, notwithstanding recent strong growth."

Two key findings of a NZ Productivity Commission research paper commissioned by Treasury: Achieving New Zealand's productivity potential, Nov 2016.

LAKEVIEW DEVELOPMENT INDICATIVE PROGRAMME BUSINESS CASE

Executive Summary

A fundamental aspect of the purpose of local government is to meet the current and future needs of the community through provision of efficient, effective and appropriate infrastructure and services. The Council has broad powers to achieve this purpose which must be exercised for the benefit of the District. Optimal utilisation of the Lakeview Site goes to the core of that purpose.

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

Understanding the range of activities that can be established at Lakeview, 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. Consideration of whether the private sector would otherwise deliver an activity and associated benefit(s) if not implemented by the Council is also integral to the analysis.

By way of an example, there is a current perceived shortage in adequate visitor accommodation, particularly in the Queenstown town centre. Alongside that, demand for hotel accommodation in the Wakatipu Basin is expected to more than double over a relatively short 15-20 year timeframe. However, land that is zoned for visitor accommodation, with potential for hotel development, remains vacant seemingly because land values and construction costs have increased beyond the point where a reasonable yield might be obtained through development.

There are approximately 8-12 hotel development opportunities (circa 650 hotel rooms) that are currently either on hold or in the planning stages within the town centre. The question that follows and is addressed by this business case is whether the Council should lead the charge and deliver more hotel rooms with urgency to address the shortage, which may significantly impact the market dynamic, or whether it should invest in other broader development opportunities that will have greater impacts on economic growth of the District and as a result incentivise the market to deliver the hotel rooms and other services that are and will be demanded. The same questions should be asked of all other development scenarios for Lakeview.

Investment of close to half a billion dollars (public & private) in a convention centre and associated activities including the Ngai Tahu hot pools proposal, hotels (visitor accommodation), retail and residential components has an expected District economic impact of \$81.1 million from one-off construction related activity and additional on-going economic benefits from operations in excess of \$85.3 million annually. This represents sustained economic activity across the District at a level 5% greater than present levels.

Development of the Lakeview Site in a land use planning sense has been enabled. The necessary Public investment sits within existing financial budgets and there is significant private sector interest in the site. To date, there has been little consideration given to unlocking potential commercial opportunities arising from development of the Lakeview Site. These opportunities can mitigate direct ratepayer exposure to investment risk by realising the financial returns obtained from the land, and importantly benefit the wider District from an integrated development approach.

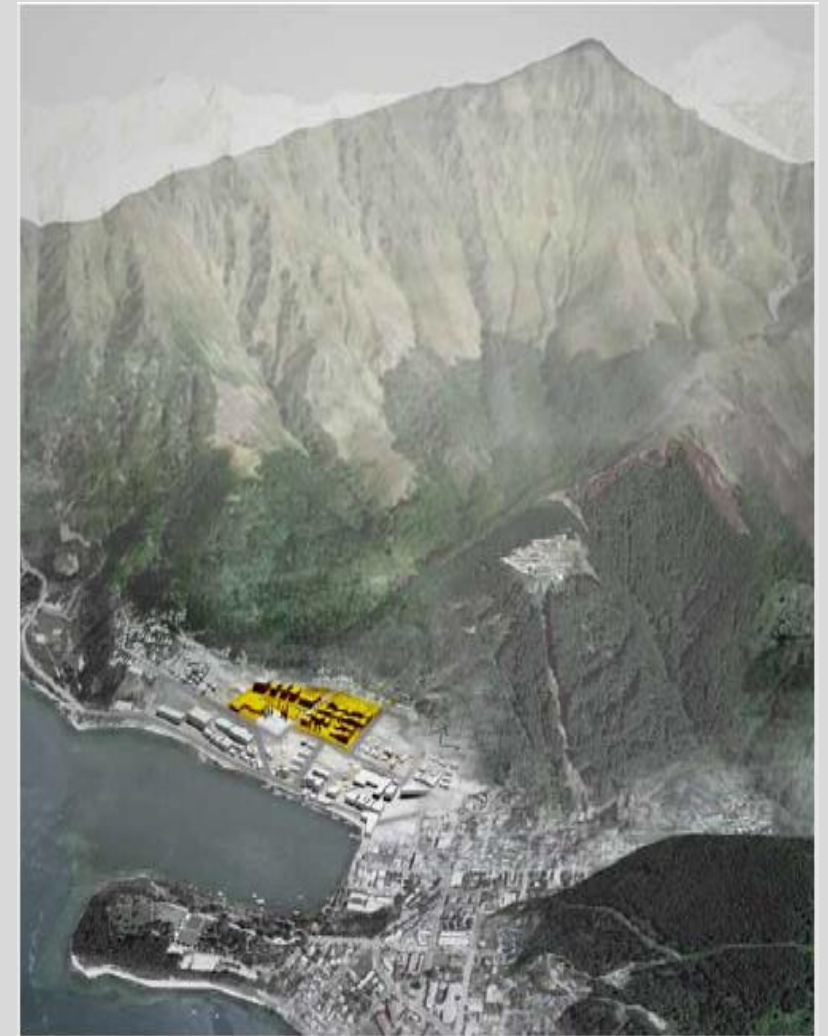
The Lakeview Site represents a significant opportunity for this Council to deliver on one of the fundamental purposes of local government. This business case demonstrates how integrated development of the site can be achieved and the benefits it will bring to the District. It also provides the evidential basis and certainty required for the Council to consult with the community and confidently say – “We have looked at all the options and development of the site ‘stacks up’ from a strategic, economic, financial and commercial perspective. This is ‘our vision’ for Lakeview”.

LAKEVIEW DEVELOPMENT INDICATIVE PROGRAMME BUSINESS CASE

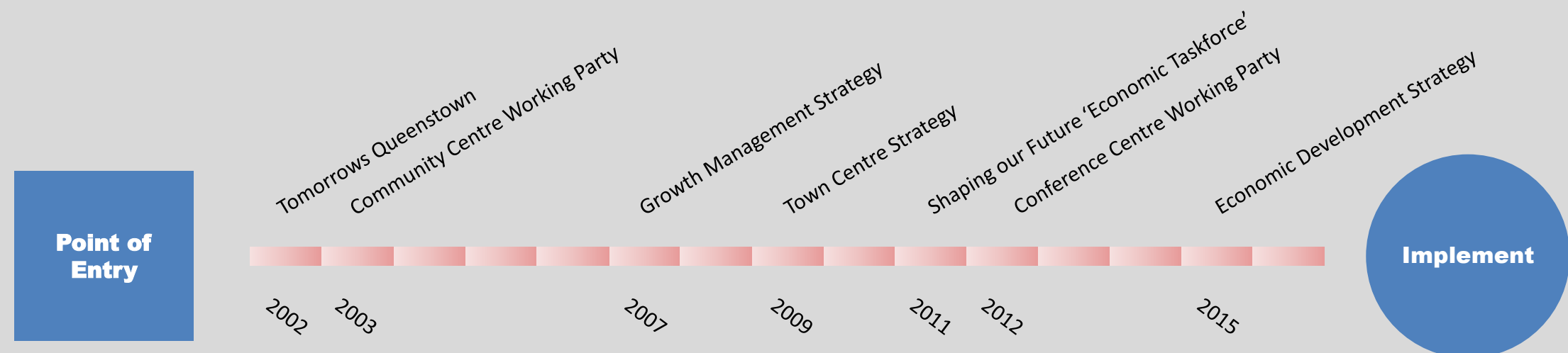
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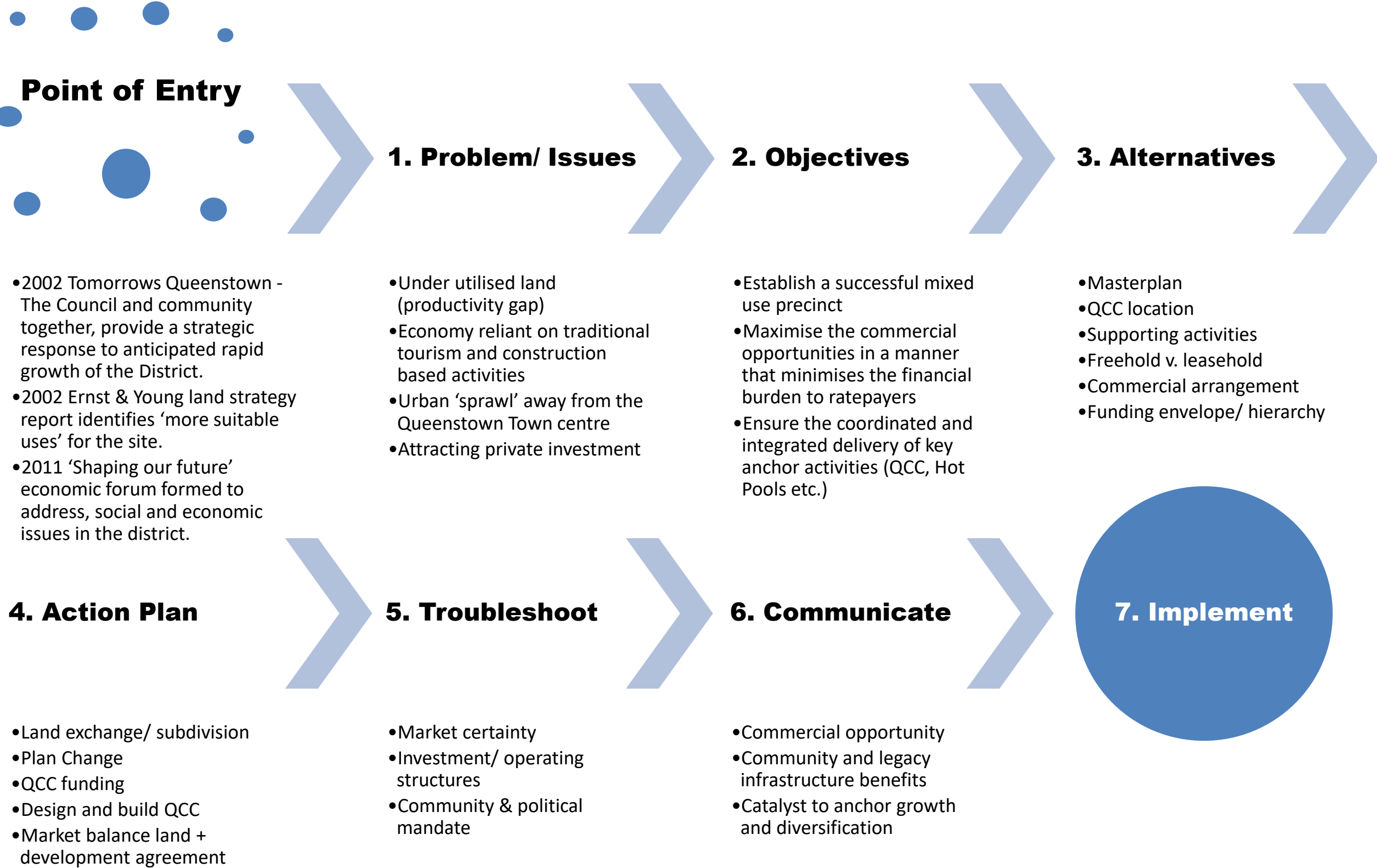
- i. ROAD MAP
- ii. DEVELOPMENT PROGRAMME – DELIVERY FRAMEWORK
- iii. CURRENT INVESTMENT OPTIONS
- iv. STRATEGIC CASE (SUMMARY) - PREFERRED PROGRAM
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Planning/ strategic timeline:



LAKEVIEW DEVELOPMENT - ROAD MAP



LAKEVIEW DEVELOPMENT PROGRAMME - DECISIONS MADE

GATEWAY 1: 14 August 2012
Council Decision

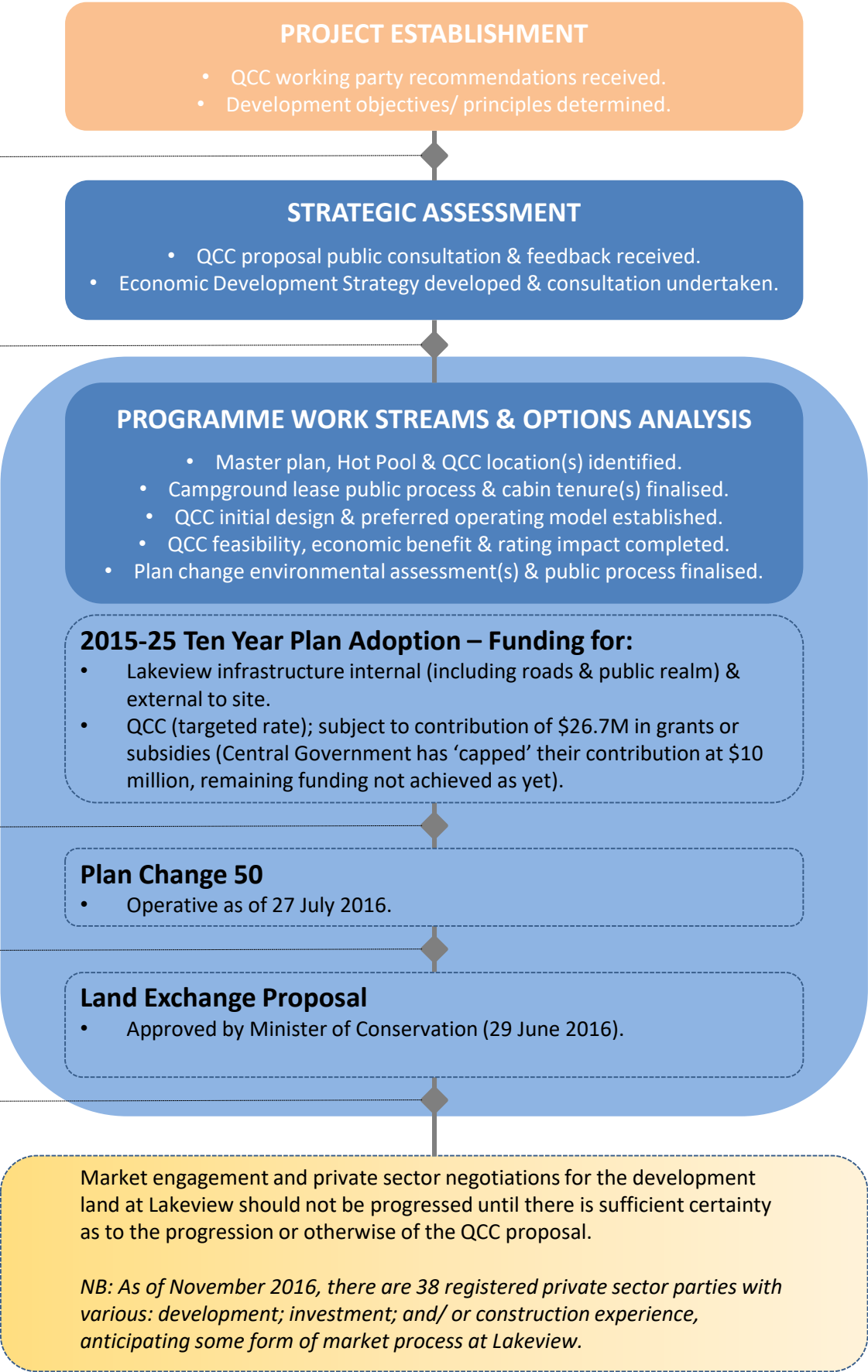
GATEWAY 2: 26 June 2014
Council Decision

GATEWAY 3: 30 June 2015
Council Decision

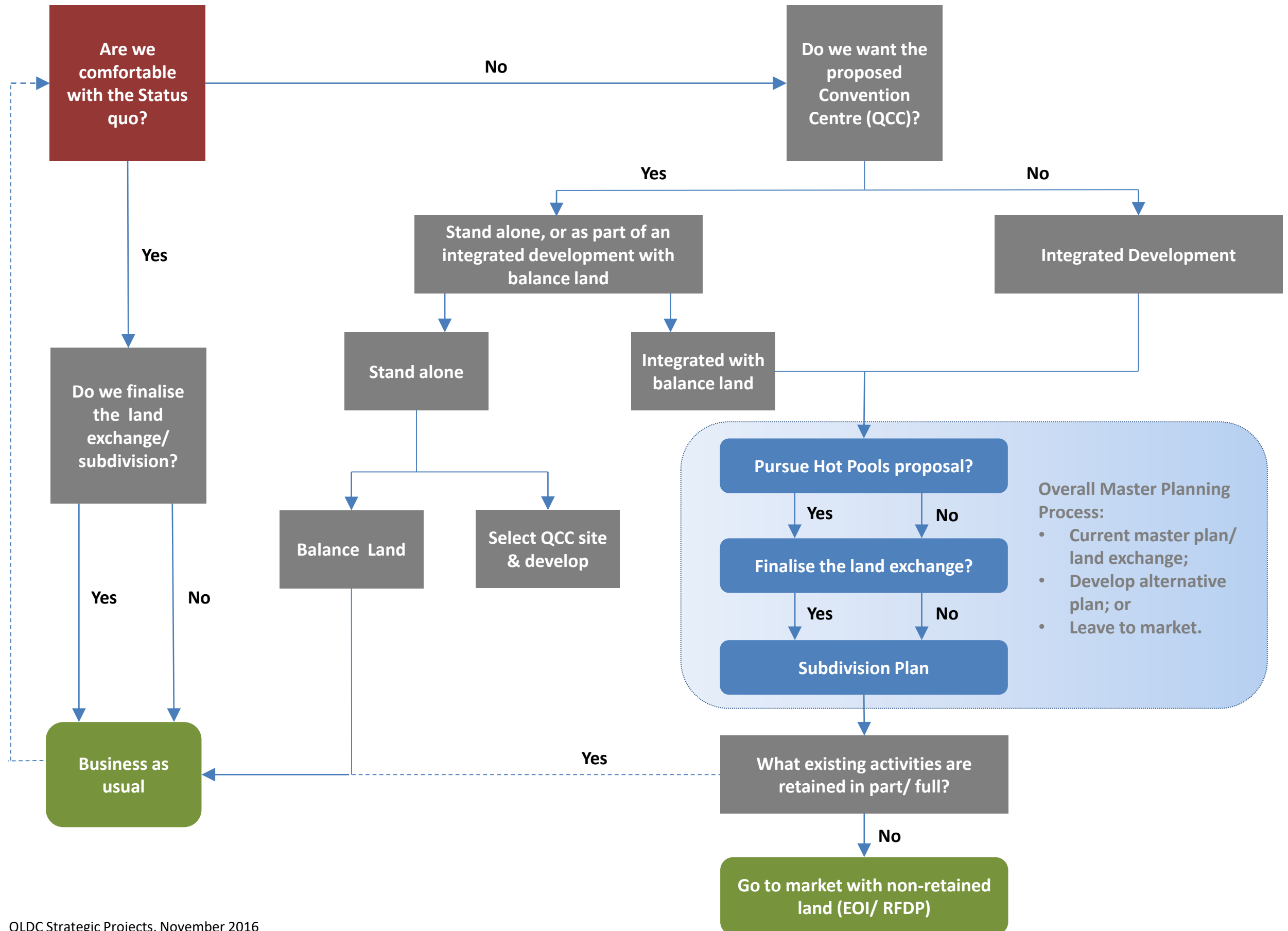
GATEWAY 4: 30 June 2015
Council Decision

GATEWAY 5: 30 July 2015
Council Decision

HOLD POINT: 27 August 2015
Council Decision



LAKEVIEW DEVELOPMENT PROGRAMME – OPTIONS DIAGRAM



LAKEVIEW DEVELOPMENT PROGRAMME - DELIVERY FRAMEWORK (PROPOSED)

INDICATIVE PROGRAMME BUSINESS CASE

- Assuming current: identified strategies; statutory processes; Council decisions & consultation are relevant & accepted.
- Consider un-locking commercial opportunity to deliver QCC (option1).

A

At some point a Council resolution (reversal of the August 2015 ‘hold point’) is required to progress with market engagement of the Lakeview land.

In order to consider the option of private investment contributing to delivery of the proposed QCC facility (an integrated development approach including utilisation of leasing returns from the balance land – option 1), the Council will need to consult with the community on that topic, either in:

- the 2017/18 Annual Plan (March 2017);
- the 2018-28 Ten Year Plan (March 2018); or
- separate special consultation (any time).

Note 1: Includes, but is not limited to, the current options (1 to 5) in the Indicative Programme Business Case i.e. QCC or not; residential or hotels; land exchange; status quo etc.

Note 2: Identify ‘trade-off’ between economic benefit & fiscal return.

Note 3: Is an ‘integrated’ land development approach appropriate & if the QCC is sought, what is the appetite to utilise returns from leasing the balance land to deliver the QCC facility. [or returns are used for other community infrastructure/ projects such as affordable/ social housing].

C

If the proposed QCC facility is not sought; or if option 1 is consulted on before GATEWAY 5A, then these steps can be streamlined to a single gateway (Council approval), outside the Annual Plan or Ten Year Plan cycles.

It is recommended the Expression of Interest (EOI) documentation is provided to the market after this point, once a clear mandate to transact with the private sector is established.

This will initiate a transparent procurement process with controlled market engagement and provide an optimal commercial outcome.

GATEWAY 5A: (TBC)
Council Approval

GATEWAY 6: (TBC)
Council Approval

If the proposed QCC facility is not sought, the Council can proceed with market engagement and development of the Lakeview land without further special public consultation.

The Council will have the opportunity to evaluate the options against any specific objectives or KPI’s (agreed benefits) through this phase.

GATEWAY 7: March 2018
Council Approval

GATEWAY 8: June 2018
Council Approval

B

PROGRAMME BUSINESS CASE

1. Strategic Case – defines scope, investment objectives, key services, benefits & constraints.

2. Economic Case – Optimises value for money

Long list of options 1 2 3 4 5 Note 1

Filter tools

Short list Note 2

Delivery options/ filter

Alternatives Preferred Option Note 3

Final tests:

3. Commercial Case: Is it commercially viable?

4. Financial Case: Is it affordable with available funding?

5. Management Case: Is it achievable & can we deliver it successfully?

Adopt draft amendments to TYP & Programme Business Case

Draft TYP amendment Engagement

TYP Adoption

A project or multiple projects – detailed business case design

Implementation

Key: Fast -track delivery or ‘streamlining’ the work effort based on previous stakeholder input, collaboration and acceptance.

CURRENT INVESTMENT OPTIONS

- 1. Two anchor activities (convention centre, hot pools) & mixed-use development.



CURRENT INVESTMENT OPTIONS

- 2. One anchor activity (hot pools only), more hotel rooms & mixed-use development;
- or
- 3. One anchor activity (hot pools only), more residential & mixed-use development.



CURRENT INVESTMENT OPTIONS

- 4. No land exchange or anchor(s) but proceed (as with other options) with a joint venture development.
- or
- 5. Status quo (do nothing).



Lakeview Development Indicative Programme Business Case - Summary

**Need to Invest**

Under-utilised land not realising its contribution potential, from a financial and social perspective.

Strategic Context


“Build a more productive and competitive economy”

THE THIRTY YEAR NEW ZEALAND INFRASTRUCTURE PLAN 2015

“Infrastructure that supports international connectedness, increased productivity, movement up the global value chain, and more exports and growth”.



Strategic Case:

Investment Objectives and Case for Change

Key priority: To enhance the quality of our natural, business and living environments.

Existing Arrangements	Dispersal or ‘sprawl’ of activities and the built environment.
Business Needs	Provision of sufficient commercial property and high density dwellings in close proximity to town centre.
Scope	Land use intensification ensuring quality environments and access is maintained and enhanced.
Benefits	A coherent visitor experience. Sense of community identity. Accessibility of retail and services by walking/ cycling.
Risks	Reduced range and quality of product in town centre. The emergence of second visitor oriented centre i.e. Frankton.
Constraints & Dependencies	Investment on the Council owned Lakeview site. Infrastructure up-grades.

Supporting priority: To provide for higher contribution visitor activity.


Existing Arrangements	Economy reliant on traditional tourism and construction based industries.
Business Needs	Diversified higher value offerings.
Scope	New activities with provision for facilities that support business and industry growth desirable.
Benefits	Resilient and sustainable economy. Reduced pressure on infrastructure.
Risks	Over provision of tourism facilities relative to market growth.
Constraints & Dependencies	Investment in ‘key anchor activities’ on the Lakeview site. Public funding.

Economic Case:

Dimension of Choice:	Potential Programme Choices By Dimension				
	Status Quo	1. QCC	2. Hotel	3. Res	4. Mkt
Scope:					
• Residential (<i>dwellings</i>)	146	277	301	420	529
• Visitor Accommodation:					
o Hotel rooms	-	203	368	203	155
o Backpacker/ worker beds	20	324	324	324	-
• Commercial/ retail (<i>m²</i>)	-	5,176	5,536	5,676	5,676
• Key anchor activities:					
o Convention Centre	-	yes	no	no	no
o Hot Pools	-	yes	yes	yes	no
Land Value (\$/sq. meter)	427	819	761	1,015	541
Value-add (Operational GDP \$M/yr.)	1.9	85.3	62.5	54.4	47.7
Difference in GDP from option 3:	(52.5)	30.9	8.1	-	(6.7)
Service Solution:	Freehold	Sale	Pre-paid Lease	Traditional Lease	
Service Delivery: Risk profile.	QLDC	Sale	Master Developer	PDA	Profit Share
Implementation: Investment period.	N/A	0- 12 years			
Funding:					
Total Investment:	8.5	449.1	429.5	428.2	405.7
• Private	-	347.1	410.4	409.5	394.5
• Public (incl. \$10M QCC Govt. grant)	8.5	102.4	19.1	18.7	11.2
NPV Nominal (IRR 8.0%, IR 3.0%)	5.2	13.4	17.1	25.1	18.6
Difference in NPV from option 3:	(19.9)	(11.7)	(8.0)	-	(6.5)

The Preferred Programme: Establish a successful mixed-use precinct which provides diversity of product (and if appropriate, worker accommodation), compliments the existing Queenstown town centre and brings additional economic and social prosperity to the local community.

Financial Case:

**Indicative Programme Costs**

Tranche (Option 3)	Total Costs Over Period (\$M)	
	Public	Private
One	4.4	-
Two	12.0	139.0
Three	2.3	101.1
Four	-	118.3
Five	-	51.1
Sub total:	18.7	409.5
Total Est. Cost:	428.2	

Affordability and Funding: The Lakeview site represents a unique opportunity. The scale of development and iconic location will attract significant private sector investment, and potentially be a catalyst for further investment necessary to meet the current and future needs of the community.

Management Case: Delivery By Tranche

Tranche One:

- Masterplan & Subdivision Consent
- Rezoning (PC50)

Tranche Two:

- Commercial Arrangements & Design
- Site Establishment

Tranche Three:

- Infrastructure Improvements
- Key Anchor Activity Construction

Tranche Four:

- Public Realm
- Development Construction Phases 1 & 2

Tranche Five:

- Development Construction Phase 3
- Operations

Achievability: Need to

- Clearly establish the Council objectives, minimum requirements and commercial principles.
- Provide a clear mandate and delegated authority parameters for the Chief Executive and Council project team.
- Resource the Council project team.
- Establish internal communication and decision making processes.
- Provide a dedicated communications resource.

INFLUENCES

The Preferred Programme:

“Establish a successful mixed-use precinct which provides diversity of product (and if appropriate, worker accommodation), compliments the existing Queenstown Town Centre and brings additional economic and social prosperity to the local community”.



LAKEVIEW OPTIONS ANALYSIS – ECONOMIC CASE

Dimension of Choice: ➤ Development & Reserve Land ➤ Investment Period (0 -12 yrs.)	1. Convention Centre & mixed-use	2. More hotel rooms & mixed use	3. More residential & mixed use	4. No land exchange & still go to market	5. Status Quo (do nothing)
Scope:					
• Residential (<i>dwellings</i>)	277	301	420	529	146
• Backpacker/worker (<i>beds</i>)	324	324	324	-	20
• VA (<i>hotel rooms</i>)	203	368	203	155	-
• Commercial/retail (<i>sq.m</i>)	5,176	5,536	5,676	5,676	-
• Convention centre	yes	no	no	no	no
• Hot pools	yes	yes	yes	no	no
Land Value (<i>Gross realisation of sale \$/sq.m</i>)	819	761	1,015	541	427
<i>Development land area (ha):</i>	3.5	4.4	4.4	5.6	5.6
Value-add (<i>On-going operational GDP \$M/yr.</i>)	85.3	62.5	54.4	47.7	1.9
<i>Difference in economic value from option 3:</i>	30.9	8.1	-	(6.7)	(52.5)
Funding (<i>over period</i>)					
Total Investment (\$M):	449.1	429.5	428.2	405.7	8.5
• Private	347.1	410.4	409.5	394.5	-
• Public (<i>including cost of capital</i>)	102.0	19.1	18.7	11.1	8.5
Cash Returns:					
○ Leasing receipts & DC's	48.8	53.6	64.9	46.6	20.3
○ QCC targeted rate (\$2.5M/yr.)	20.6	-	-	-	-
○ Loans (<i>including \$10M government contribution to QCC</i>)	50.9	8.4	8.4	8.4	8.4
Net Position:	18.2	42.9	54.6	43.8	20.2
○ Balance on loans (<i>end of period</i>)	15.4	-	-	-	-
Net Present Value (8.0%)					
○ Indicative Nominal (3.0%)	13.4	17.1	25.1	18.6	5.2
<i>Difference in financial value from option 3:</i>	(11.7)	(8.0)	-	(6.5)	(19.9)

COMMERCIAL CASE



Potential Strategy:

- Maximise the financial return to ratepayers while balancing the wider outcomes that the Council is seeking with the need to attract private sector expertise and capital.
- Present an attractive opportunity by enabling the site and mitigating risk or un-certainty.
- Engage with the market and select (under commercial tension) a development partner (or partners) to be contracted via a Project Development Agreement (PDA) or similar, which will reference the Council’s objectives for the site.
- Granting long term pre-paid leasehold (100+ year) tenure or sale of freehold tenure.

Transaction Approach

- A structured land sale/ lease (partnership approach) with private sector.
- Designed to maximise nominal cash returns while balancing the need to control outcomes, given wider objectives.

Defined by providing:

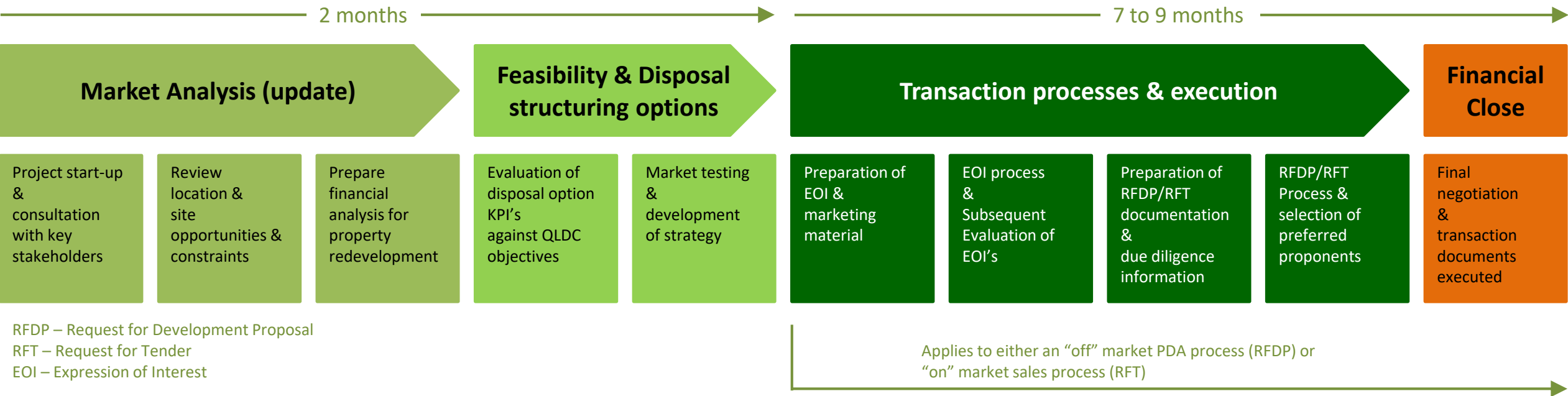
A clear mandate/ commitment so that bidders have:

- Certainty of outcome (requires all funding to be in place);
- A transparent procurement process (as much about commercial outcomes as it is about probity); and
- Controlled market engagement.

Process that:

- Sets a clear brief of what is being sought by QLDC (including minimum expectations – both financial and non-financial);
- Overlays wider objectives and other desired outcomes sought;
- Brings the right parties to the table, and creates strong engagement;
- Manages flexibility appropriately; and
- Achieves an outcome that balances QLDC’s desired outcomes (and need to retain adequate control) with developers’ imperative to respond to market conditions and commercial drivers.

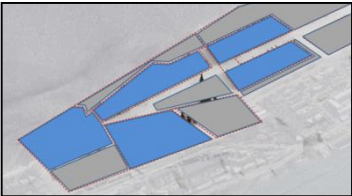
Procurement Process



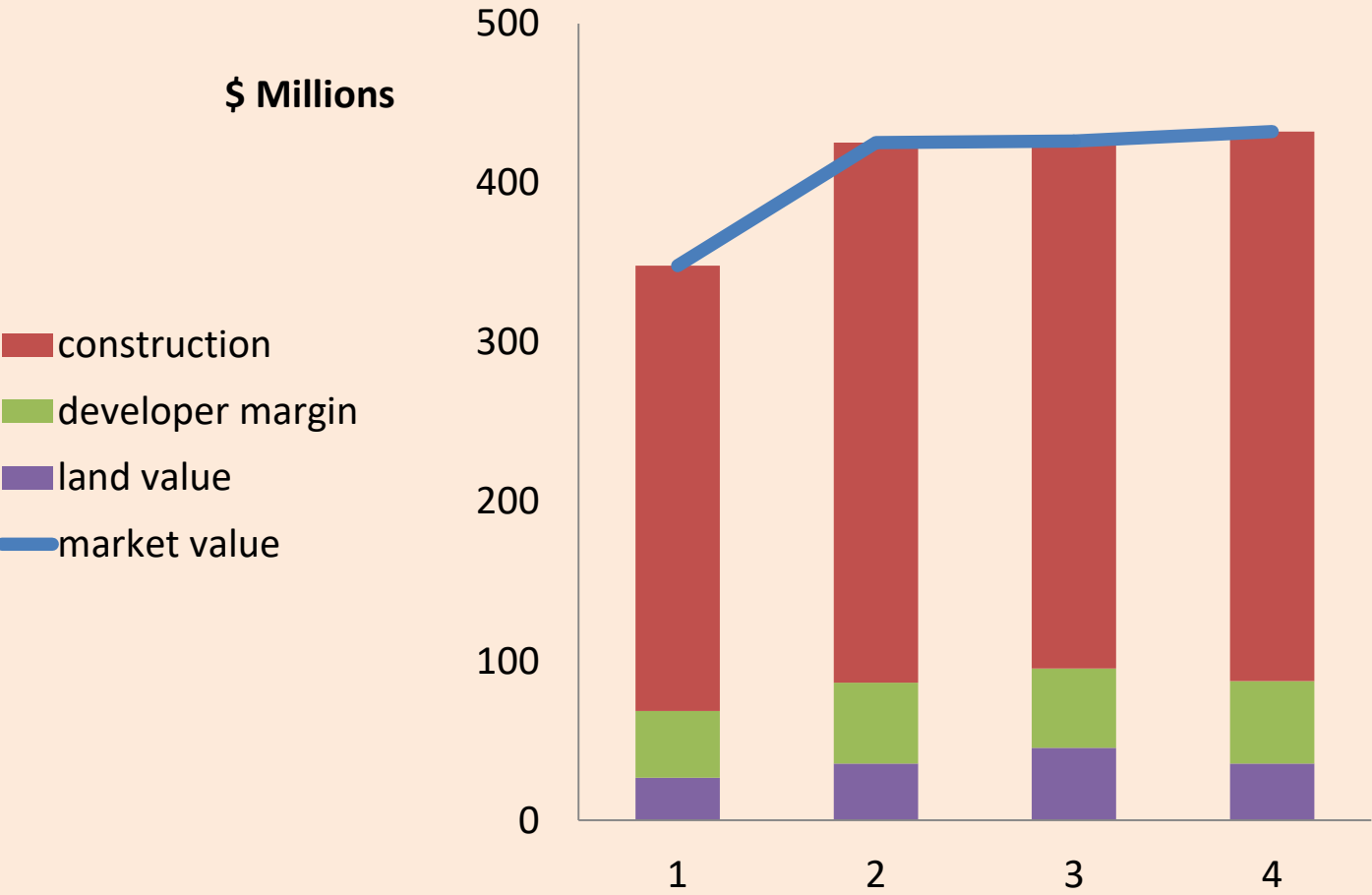
FINANCIAL CASE

Investment options land value analysis

There may be a commercial case for the Council to ‘pass on’ delivery of the public realm & other internal site infrastructure costs to the private sector, under a development agreement.



Option	1	2	3	4
Market Value (\$M)	348.1	425.4	426.4	432.1
Construction Costs (\$M)	279.4	339.0	331.2	345.2
Developer Margin (\$M)	41.9	50.8	49.7	51.8
Land Value (\$M)	26.8	35.5	45.5	35.2
Area (ha)	3.5	4.4	4.4	5.6
\$/ sq.m:	761	803	1,028	622



Option 3 – Max Financial		\$M
Land Value (gross)		45.5
Less:		
Feasibility, design & plan change		3.3
Commercials & site establishment		2.4
Infrastructure (council)		3.7
Infrastructure (other)		1.8
Public realm (roads & square)		5.4
Sub:		16.6
Plus:		
Development contributions		3.7
Indicative Net Return		32.6
Area (ha)		4.4
\$/ sq.m		737
Indicative annual rates payable		2.3

Status Quo – Freehold land (5.6ha)		\$M
Land Value (QV)		24.2
\$/ sq.m		427
Loans		3.6
Annual rates		-

FINANCIAL CASE



Financial Case: Indicative Programme Costs

Tranche (Option 3)	Total Costs Over Period (\$M)	
	Public	Private
One	4.4	-
Two	12.0	137.3
Three	2.3	99.6
Four	-	116.8
Five	-	50.4
Sub total(s):	18.7	404.1
Total Est. Cost:	422.7	

Affordability and Funding:

The Lakeview site represents a unique opportunity. The scale of development and iconic location will attract significant private sector investment, and potentially be a catalyst for further investment necessary to meet the current and anticipated future needs of the community.

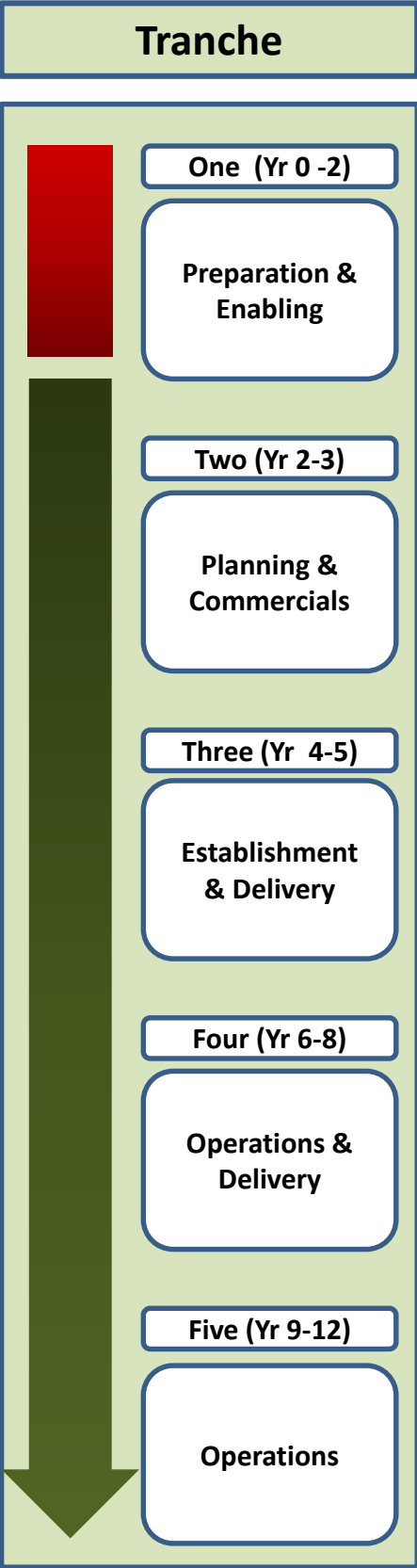
Public investment in delivery of the development (including the convention centre, if desired) can be met within existing budgets.

Options 1 & 3 versus 2015-25 Ten Year Plan

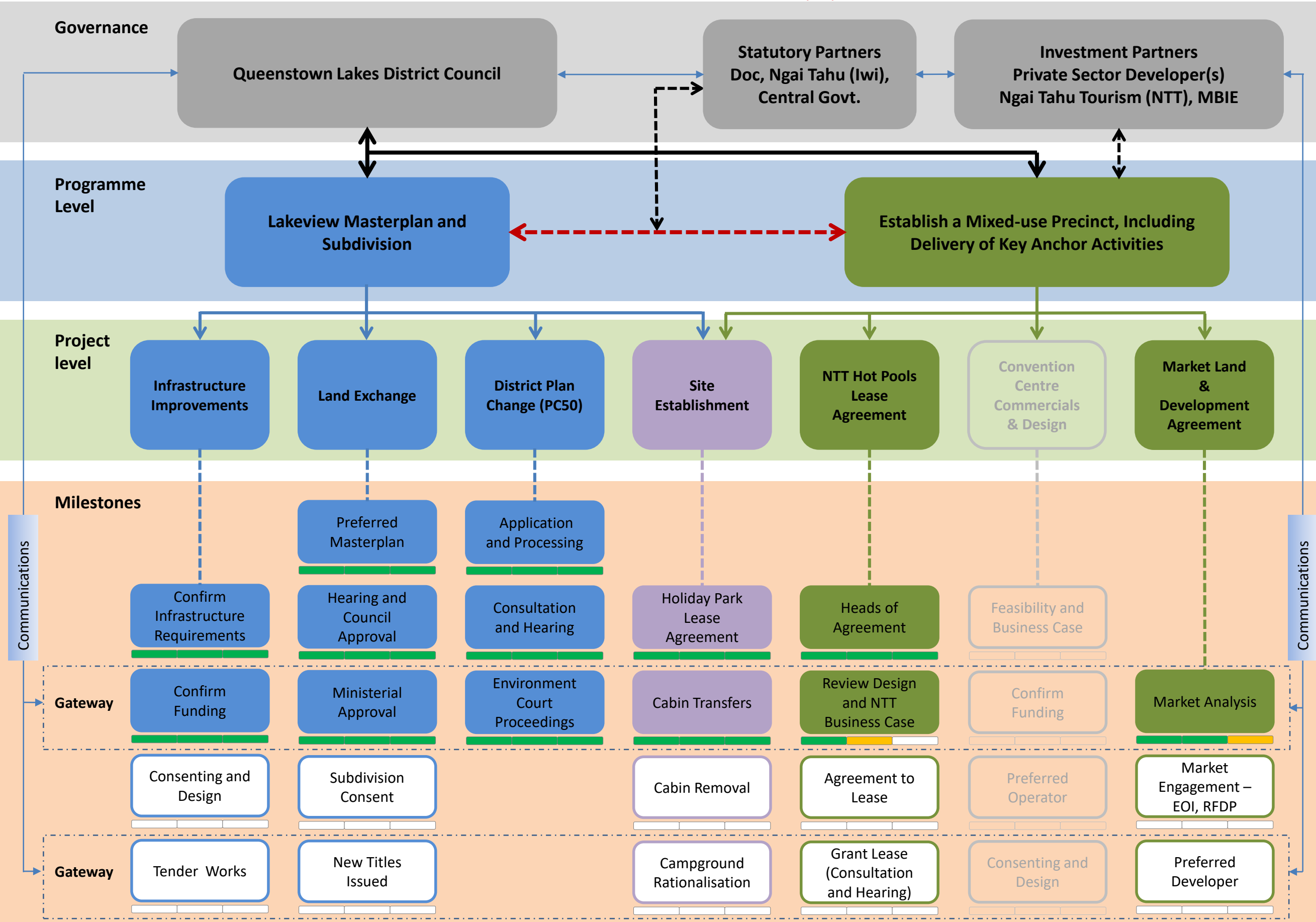
➤ Adjusted for likely investment period & includes direct programme costs incurred from 2012 to present.

		TYP	1. QCC	Var. to TYP	3.Res	Var. to TYP
Expenditure						
Feasibility	Plan Change	1.7	1.7	-	1.7	-
	Master-plan, feasibility & design	0.5	0.8	0.3	0.8	0.3
	QCC feasibility	0.4	0.4	-	0.4	-
	Market engagement & DA commercials	0.3	0.4	0.1	0.4	0.1
QCC	Design & consenting	2.3	2.3	-	-	-
	Construction	52.7	58.7	6.0	-	(52.7)
	Operations	3.8	3.8	-	-	(3.8)
Works	Site establishment	-	2.0	2.0	2.0	2.0
	Council infrastructure (3-waters etc.)	3.7	3.7	-	3.7	-
	Other infrastructure (Telecoms, gas & power)	1.8	1.8	-	1.8	-
	Public realm (road network & market square)	5.8	5.8	-	5.8	-
	total expenditure:	73.0	81.4	8.4	16.6	(56.4)
Cash Returns						
Leases	Development land (pre-paid)	-	26.8	26.8	45.5	45.5
	Hot Pools	-	4.6	4.6	4.6	4.6
	Holiday Park	4.7	4.2	(0.5)	4.2	(0.5)
	Cabins (residential)	4.4	5.1	0.7	5.1	0.7
QCC Grants	Central Government and/or other	26.7	10.0	(16.7)	-	(26.7)
Council fees	QCC Targeted rates	23.7	20.7	(3.0)	-	(23.7)
	Development contributions	3.7	3.7	-	3.7	-
	total cash returns:	63.2	75.1	11.9	63.1	(0.1)
Indicative Net Position: (not including treatment of loans, interest or depreciation)		(9.8)	(6.3)	3.5	46.5	56.3

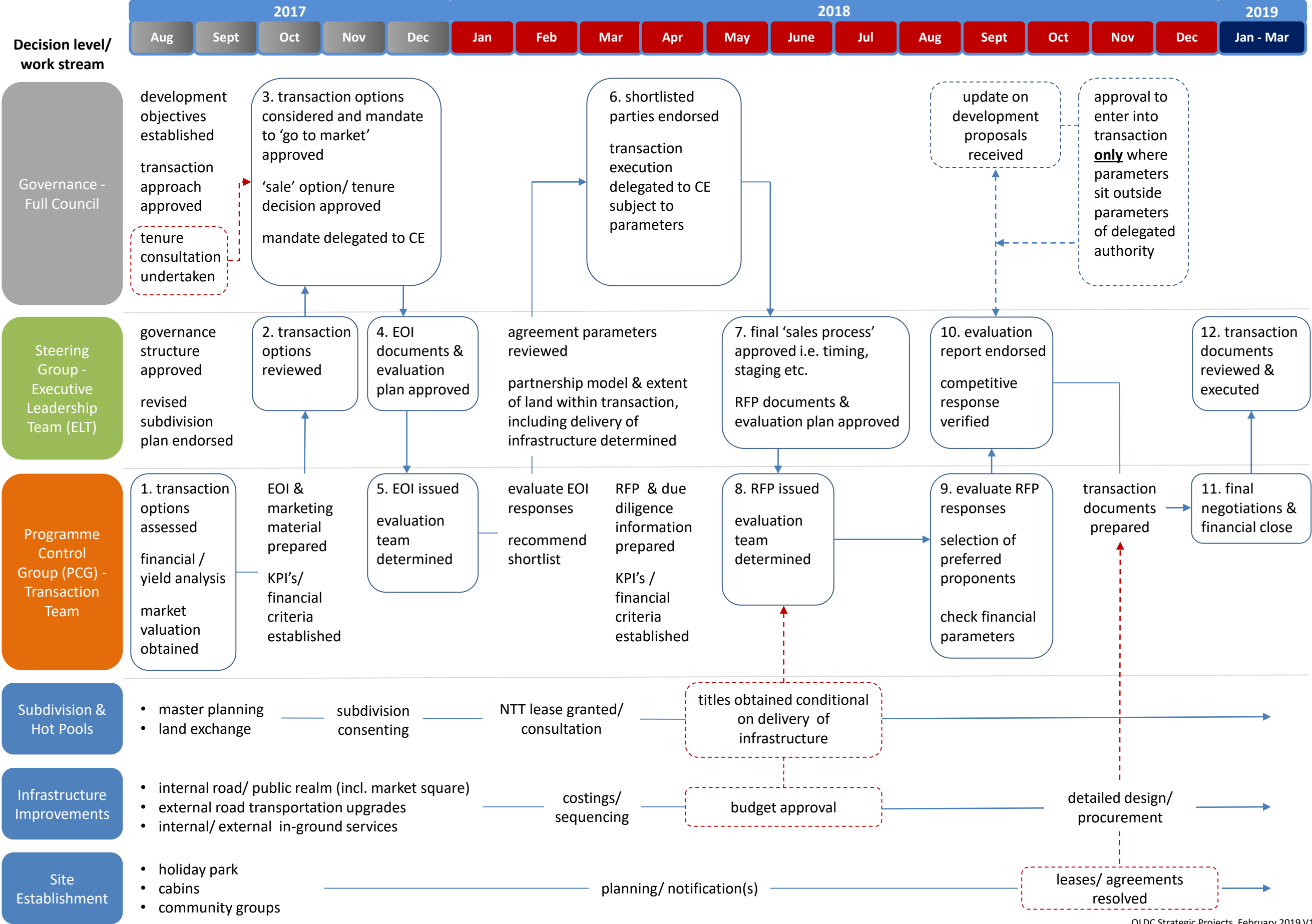
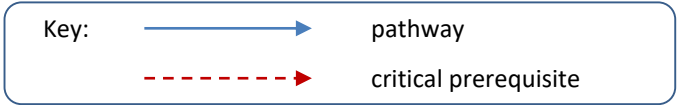
Programme Progress



Lakeview Development Work Streams



Lakeview development land transaction process



SUPPORTING DOCUMENTATION

Central Government:

- Business Growth Agenda
<http://www.mbie.govt.nz/info-services/business/business-growth-agenda>
- 30 Year Infrastructure Plan
<http://www.infrastructure.govt.nz/plan/2015/nip-aug15.pdf>
- Better Business Cases
<http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc>

Queenstown Lakes District Council:

- Economic Development Strategy
<http://www.qldc.govt.nz/your-council/your-views/more-previous-consultations/eds-next-steps/>
- Plan Change 50 (section 32 assessment & hearing evidence)
<http://www.qldc.govt.nz/planning/district-plan/district-plan-changes/plan-change-50-queenstown-town-centre-zone-extension/>
- Plan Change 50 Environment Court evidence prepared for the Council
- Land Exchange Proposal
<http://www.qldc.govt.nz/your-council/your-views/more-previous-consultations/lakeview-land-swap/>
- Queenstown Convention Centre Proposal (including Business Case)
<http://www.qldc.govt.nz/your-council/major-projects/queenstown-convention-centre-proposal/>
- Horwath HTL assessment (October 2015) of potential community use of proposed convention centre facility
- CBRE Ltd various presentations and commercial briefings
- Lakeview development project programme
- Ten Year Plan 2015-25
<http://www.qldc.govt.nz/your-council/your-views/more-previous-consultations/10-year-plan-2015-2025/>

Other:

- Business Events Council of Australia (The Value of Business Events to Australia)
http://www.businesseventscouncil.org.au/files/View_Report.pdf
- New Zealand Productivity Commission (Achieving New Zealand's productivity potential)
<http://www.productivity.govt.nz/research-paper/achieving-new-zealands-productivity-potential>

END - THANKYOU

LAKEVIEW DEVELOPMENT

- MUST HAVE OR KEY PRIORITY: TO ENHANCE THE QUALITY OF OUR NATURAL, BUSINESS AND LIVING ENVIRONMENTS.
- DESIRABLE OR SUPPORTING PRIORITY: TO PROVIDE FOR HIGHER CONTRIBUTION VISITOR ACTIVITY.

Priorities 1 & 3 of the Queenstown Lakes District Council Economic Development Strategy - Adopted September 2015