# Queenstown Convention Centre

## Opportunity Overview

July 2013

CBRE

# Contents



This report has been prepared by John Holmes and John Schellekens of CBRE Structured Transactions & Advisory Services with a range of input provided by a consultant team including Populous, Fearon Hay, The Conference Company, RCP and WT Partnership.

# 1. Executive summary

## 1.1 Purpose

Queenstown is New Zealand's best internationally recognised tourism destination attracting over 1.1 million international visits annually[1] which is equivalent to 45% of all international visitor arrivals into New Zealand[2]. The international visitor spend in Queenstown in 2011 was estimated at just over $610 million[1] and McDermott Miller estimates that 9,500 of the town's 16,500 jobs are tourism related. Domestic tourism to Queenstown totalled circa 870,000 visits in 2011[1].

Recognising tourism's importance to the local economy and the need to continue to remain competitive, grow new markets and expand on existing strengths, Queenstown Lakes District Council (QLDC) appointed a working group in August 2011 to evaluate the merits of, and options for, a Convention Centre in Queenstown.

Having undertaken a feasibility study, completed by Horwarth HTL in mid-2012, and subsequently engaged with the private sector, QLDC is now seeking to obtain feedback from the community to re-affirm its support for a convention centre and obtain feedback on location and funding options.

QLDC has engaged an advisor group including CBRE Structured Transaction & Advisory Services, Populous, Fearon Hay, The Conference Company, RCP, WT Partnership and McDermott Miller Strategies to provide advice in relation to:

- Economic impact;
- Design and functionality;
- Site selection; and
- Funding options.

## 1.2 Summary of findings

1. Convention centres are designed to target business tourism, attracting national and international delegates and accompanying persons, who are typically higher spend visitors than recreational tourists. Convention centres are focussed on promoting industries from the national and local economies to drive further exports and knowledge sharing.

2. The convention & exhibition seasons complement rather than compete with traditional holiday seasons and hence support the viability of existing hotels, retail, transport services etc. to the benefit of local community and the overall efficiency of the tourism industry.

3. Economic impact analysis completed by BERL Economics and McDermott Miller suggests the Convention Centre will generate between $22m and $36m in GDP for Queenstown Lakes District annually. BERL Economics suggests that the Convention Centre will drive demand for another 466 full time jobs in Queenstown Lakes District.

[1] Ministry of Business, Innovation and Employment 2006 to 2011 New Zealand Regional Tourism Estimates
[2] Statistics New Zealand short-term overseas visitor arrivals data

4. Carefully designed and managed, a Queenstown Convention Centre would be a significant economic driver for the region. The Queenstown Lakes District has a once in a generation opportunity to develop a world class conference and convention centre with the capacity to provide significant economic and employment growth and enhance central Queenstown as a place to visit and a place to live.

5. QLDC has identified three publicly owned sites that could be used for the Convention Centre; Stanley Street, Gorge Road and Lakeview. The consensus expert opinion is that The Lakeview site is best suited to accommodate the proposed convention centre. The size of the Lakeview site means that it is possible to develop a highly functional facility capable of better utilisation. The iconic views and sense of place that Lakeview is capable of delivering are also likely to improve performance. By contrast both the Gorge Road and Stanley Street sites require reasonably material design and functionality compromises. Comparison of the three site options by McDermott Miller also suggests that Lakeview has the potential to deliver annual GDP to the Queenstown Lakes District of between $27.3m and $36.5m against $22.3m for both Gorge and Stanley Street, because of its ability to support adjoining hotel, casino and retail development .

6. International experience in Australia and elsewhere also suggests that the convention centre has the potential to act as an anchor project and therefore represent a catalyst for adjoining commercial and residential development. The Lakeview site presents QLDC with an opportunity to capitalise on this adjoining development potential and deliver integrated mixed used development adjoining the convention centre.

7. Residential development would necessarily need to form part of any development that occurred at Lakeview and current residential apartment sales prices in Queenstown are not at a level that would support feasible development. However, integrated mixed use development including the proposed convention, hotel, casino and retail anchors, presents an opportunity to drive differential pricing in this location over the medium term and therefore deliver value gains to QLDC in terms of its adjoining land holdings at Lakeview.

8. The integrated mixed used development model is reliant on the synergy, or cross pollination, that is likely to occur between the convention centre, market square, casino, hotel, food and beverage and the high end retail offering that is proposed. Collectively and together with the proposed residential development these elements will create a vibrant and desirable precinct. It is this sense of place and the development of a 'precinct' offering significant amenity, which will in time underpin the residential sales prices required to make development feasible in the medium term.

9. Local and international experience suggests that both in-house and outsourced operating models work for convention centres in different situations, as discussed in this report, but events facilities do not generate a direct financial return on the cost associated with developing them. Rather, the return accrues to the location, district or region in which the facility is located, in the form of economic growth from greater visitation and tourism as outlined above. For this reason, some public sector involvement is always required to either fund the development of the facility and / or fund the ongoing operation of the facility.

10. QDLC has the option to publicly or privately fund the development of a convention centre or use a component of both elements as we outline in detail in this report. Where private capital is to be used to fund the initial development of the convention centre, QLDC will be required to 'service' this private sector contribution, either by subsidising the convention operator or making lease or availability payments to the private capital. Where QLDC has access to (and a willingness to use) capital using its own balance sheet, private sector funding will (all else being equal) only have appeal if there is some form of risk transfer to the private sector and a belief that the private sector can deliver and / or operate the facility more efficiently. We discuss funding models in more detail in the body of this report.

11. The Lakeview site presents a 'third' funding alternative because of its ability to accommodate integrated mixed use development adjoining the convention centre. This mixed use development has the potential to deliver additional value to QLDC over time, which will provide on offset to or reduce the cost of funding the convention centre.

12. Populous, Fearon Hay and CBRE have prepared some indicative concepts for the Lakeview site and early stage feasibility analysis suggests that under certain scenarios the development opportunities adjoining the convention centre at Lakeview could deliver between $30m and $45m in 'land' based payments to QLDC, in the longer term. Analysis completed by CBRE suggests that this could reduce QLDC's effective funding commitment to the Convention Centre, by between 12% and 50% over the long term.

***Quick facts***

- *The facility will cater for larger conferences of up to 750 people, smaller concurrent conferences, banquets, concerts and entertainment events, exhibitions and public shows.*
- *Circa $50m construction cost (excluding land) with potentially $10 to $15m in central government funding.*
- *Forecasts suggest the centre is capable of breaking even at the operational level.*
- *Expected to create over 450 jobs and circa $30m pa in GDP for Queenstown Lakes District by driving high value business tourism.*

# 2. Introduction

## 2.1 Purpose

Queenstown is New Zealand's best internationally recognised tourism destination attracting over 1.1 million international visits annually[3] which is equivalent to 45% of all international visitor arrivals into New Zealand[4]. The international visitor spend in Queenstown in 2011 was estimated at just over $610 million[3] and McDermott Miller estimates that 9,500 of the town's 16,500 jobs are tourism related. Domestic tourism to Queenstown totalled circa 870,000 visits in 2011[3].

Recognising tourism's importance to the local economy and the need to continue to remain competitive, grow new markets and expand on existing strengths, Queenstown Lakes District Council (QLDC) appointed a working group in August 2011 to evaluate the merits of, and options for, a Convention Centre in Queenstown.

Having undertaken a feasibility study, completed by Horwarth HTL in mid-2012, and subsequently engaged with the private sector, QLDC is now seeking to obtain feedback from the community to re-affirm its support for a convention centre and obtain feedback on location and funding options.

QLDC has engaged an advisor group including CBRE Structured Transaction & Advisory Services, Populous, Fearon Hay, The Conference Company and McDermott Miller to provide advice in relation to:

- Economic impact;
- Design and functionality;
- Site selection; and
- Funding options.

This report, together with the attached appendices, summarises the advisor group's findings and recommendations as presented to QLDC.

## 2.2 Why does Queenstown need a convention centre?

A convention centre in Queenstown will deliver better utilisation of Queenstown's existing visitor infrastructure including the airport, hotels and accommodation, transport, food and beverage and leisure activities, particularly during the shoulder seasons of May to June and September to October.

Convention centres are designed to target business tourism in particular, attracting national and international delegates and accompanying persons, who are typically higher spend visitors than recreational tourists. The centres are focussed on promoting industries from the national and local economies to drive further exports and knowledge sharing. The convention / exhibition seasons complement rather than compete with traditional holiday seasons and thereby support the viability of hotels, retail, transport services etc. to the benefit of local businesses and the overall efficiency of the tourism industry.

Carefully designed and managed, a Queenstown Convention Centre would be a significant economic driver for the region. Economic

[3] Ministry of Business, Innovation and Employment 2006 to 2011 New Zealand Regional Tourism Estimates
[4] Statistics New Zealand short-term overseas visitor arrivals data

impact analysis completed by BERL Economics and McDermott Miller suggests the Convention Centre will generate between $22m and $36m in GDP annually. BERL Economics suggests that the Convention Centre will drive demand for another 466 full time jobs in Queenstown.

Globally, the convention centre market is a large and growing international market with the most growth occurring in the 500 – 1,999 delegate range[5]. The absence of a conference venue capable of hosting mid-size to larger groups has been identified as the most significant factor limiting Queenstown's share of the conference market[6].

While Rotorua captures circa 9% of the New Zealand multi-day conference market behind Auckland, Wellington and historically Christchurch, Queenstown captures only 5%[7], despite attracting over 1.1 million international visit per annum (relative to Rotorua at circa 0.9 million[8]).

A survey of the Queenstown business community was undertaken by Horwarth HTL and the Chamber of Commerce which suggests that 92% of respondents considered the existing conference facilities in Queenstown to be inadequate.

Contrast this with the fact that nationally, approximately 8% of multi-day delegates are international, while in Queenstown approximately 23% of multi-day delegate days were international. This clearly demonstrates the desirability of the location as an international conference destination, despite limitations associated with the current facilities.

A convention centre in Queenstown is also an opportunity for wider New Zealand, and as a consequence central government has indicated its support for the project. Queenstown is New Zealand's strongest tourism asset, leading alpine resort town and a genuine year-round tourism destination.

The Queenstown District has a once in a generation opportunity to develop a world class conference and convention centre with the capacity to provide significant economic and employment growth and enhance central Queenstown as a place to visit and a place to live. The Queenstown Lakes District Council is seeking your feedback on the desirability of the project from your perspective, its importance to Queenstown, where you would prefer to see it located and your view on funding options.

This overview document and the attached appendices address each of these issues to assist with your responses.

## 2.3 What will the proposed convention centre cater for?

The convention centre design is still conceptual; ultimately it will need to accommodate public and stakeholder feedback. The work of RCP, Populous, The Conference Company and Horwarth HTL suggests that the facility should accommodate large conferences of 750 delegates (excluding accompanying guests) and be flexible enough to accommodate smaller concurrent conferences and meetings of say, 200 to 300 people in different auditoriums and rooms.

Physically, this suggests a facility of just over 6,000sqm. In terms of events, the facility is expected to cater for:

[5] ICCA International Association Meeting Market Statistics Report 1999-2008
[6] Horwath Feasibility Study July 2013
[7] Ministry of Business, Innovation and Employment Convention Activity Survey YE March 2013
[8] Ministry of Business, Innovation and Employment 2006 to 2011 New Zealand Regional Tourism Estimates

- Single day and multi-day conferences and meetings with plenary space, break out rooms, exhibition and networking space and banqueting capacity.
- Functions (cocktail parties, weddings etc.) of between 750 people seated and up to 1,200 people cocktail (standing).
- Concerts and entertainment events.
- Banquets and incentive type events.
- Public and trade exhibitions.
- Local community events.

## 2.4 What are the key success factors?

International and local experience suggests that, to be successful, a convention centre needs to:

1. Accommodate medium to larger sized conferences (750 delegates) in order to minimise ongoing operational subsidies.
2. Be within a 10-15 minute walk of the CBD.
3. Be proximate to the airport; Australian evidence suggests the convention centre should be within 20km.
4. Be proximate to sufficient hotel capacity to cope with peak utilisation during peak tourism seasons. In this respect, we note that Horwath HTL's feasibility study suggests that Queenstown's existing hotel capacity is sufficient to accommodate the proposed convention demand.
5. Be located in an appealing environment that creates a sense of place and which can be promoted in marketing material.
6. Be funded on a sustainable basis whether by the public and / or private sector. We discuss funding models in Section 7.
7. Be proximate to tourism and leisure attractions.
8. Cater for multiple events at once i.e. be capable of utilisation in more than one format.
9. Cater for multiple uses including concerts and other public exhibitions in addition to convention and conference use.
10. Provide car parking onsite.

We discuss critical success factors in more detail in Section 2 when evaluating the site alternatives.

Appendix 1 provides a summary of key physical statistics for a number of New Zealand and Australian convention centres to provide some relevant benchmarks in this respect.

## 2.5 Report Authors

This report has been prepared by John Holmes and John Schellekens of CBRE Structured Transaction & Advisory Services Limited (CBRE) based on information and analysis prepared by CBRE itself, Populous, Fearon Hay, The Conference Company, McDermott Miller, RCP and WT Partnership. This overview report also draws on analysis and information presented within the feasibility study prepared by Horwath HTL and commissioned by QLDC in July 2012 and the BERL Economics Economic Impact report commissioned in March 2013.

*CBRE Structured Transaction & Advisory Services* is part of CBRE Inc, a global full service real estate firm, and is a broad based real estate consultancy practice with expertise in funding and delivery structures between the public and private sector for major real estate projects.

*Populous architecture* is the most experienced Convention Centre design specialist in the world. Since the early nineties Populous has master planned and designed over 40 convention centre projects and designed hundreds of iconic public assembly buildings the world over.

*Fearon Hay* Architects has worked in Central Otago & Southern Lakes for the last 12 years and has been responsible for the design of a number of highly acclaimed buildings within Queenstown.

*The Conference Company* organises conferences and events throughout New Zealand and Australia on behalf of national and international associations, government, organisations and corporate clients. The company also manages exhibitions, including those associated with conferences and standalone expos and develops and manages awards programmes

*RCP* project managers have extensive experience in the planning, design and delivery of large, complex projects including, for example, the Eden Park redevelopment and the Christchurch Civic Building.

*WT Partnership* quantity surveyors have significant experience in the cost planning of large construction projects. Recent projects include the AMI stadium, Eden Park redevelopment, Queens Wharf and the convention centre studies for Auckland Council.

*McDermott Miller* is a strategic planning, economics and marketing consultancy with long-standing experience in evaluation of tourism development. Recent projects include Queenstown Lakes District economic and urban development futures; Wellington iconic events strategy and event centre redevelopment; and, Hawkes Bay economic and investment portfolio evaluation.

# 3. Where could the convention centre be located?

## 3.1 Three options in central Queenstown

QLDC has identified three possible Council owned sites where the Convention Centre could be located:

1. *Lakeview Site* – Circa 5Ha site located west of the CBD fronting Thomson and Man Streets.
2. *Gorge Road site* - 0.598Ha site located north of Queenstown's CBD on the corner of Gorge Road and Boundary Street.
3. *Stanley Street site* - 0.63Ha site located north of Queenstown's CBD in between Stanley, Beethem and Ballarat Streets.

The rationale for considering only publicly owned sites is that ownership provides certainty as to the ability to develop a convention centre and deliver it with greater timing certainty.

The three sites are identified on the aerial photo overleaf.

## 3.2 Site evaluation criteria

Populous, Fearon Hay & The Conference Company have undertaken a side by side review of each site with input from CBRE having regard to the following critical success factors:

1. *Sense of place.* A good convention centre should be able to reflect, or ideally celebrate, the attributes of the city or town in which it finds itself. It should be a physical advertisement for the region, advocating and enhancing its identity. This can be achieved physically through the architectural style and materials that may encapsulate the local vernacular and/or visually by taking advantage of any iconic views of the surrounding landscape or townscape.
2. *Future Expansion.* The site needs to be capable of accommodating future expansion if required. It has been demonstrated time and again in many cities around the world that convention centres will evolve and grow in size.
3. *Ability for Integrated development.* Good modern day convention centres have ancillary retail and restaurant and bar spaces that offer delegates additional features and services and provide a further sense of activity at the convention centre.
4. *Flexibility.* The ability to host two or even three events at once while not compromising the operation and causing conflicts between events is crucial to a convention centre's success.
5. *Servicing.* The site should allow for servicing to occur easily and out of sight from the public areas and be of a size that allows multiple vehicles to load and unload at once.
6. *Parking.* Parking for cars and even more importantly coaches is also of high importance to the success of a convention centre.
7. *Outdoor Areas.* Having external exhibition space is also a benefit to any convention centre operator. Convenors now frequently ask for external space to exhibit or provide demonstrations.. Alternatively, outdoor space, if designed and positioned well, can act as another breakout space or retreat for convention delegates.
8. *Porte Cochere/ Entrance.* First impressions count and having a drop-off area and entrance that operates well and has cover is important.


Stanley Street Site
Gorge Road Site
Lakeview Site

A base scope of key floor areas has been formulated from which a draft design scheme for each site has been designed (see Appendix 2) and then considered for the purposes of comparison between the three sites. For each of the three sites, the following design criteria have been used:

- A Plenary Hall for 750 people.
- A Banquet /Exhibition Hall for 750 people.
- 900sqm of Meeting Space
- A complementary External Exhibition Plaza (if possible)
- Various back of house (BOH) and front of house (FOH) spaces required for the above key areas.

The configuration of each scheme has been adapted to suit the characteristics of its host site, but the size of the key areas is consistent across the three schemes.

More detail with respect to each of the proposed schemes is attached as Appendix 2 along with a detailed evaluation of each option.

## 3.3 Summary of site evaluation

**Stanley Street**

- Within the Town Centre Zone and close to hotels
- Sub optimal design outcomes More difficult to accommodate multiple conferences
- Limited views, from second level
- Centre is likely to dominate surrounding landscape and existing buildings
- No room for expansion
- No capacity for parking

**Lakeview**

- Within 15 minutes' walk radius of hotels and CBD
- Accommodates optimal convention design including outdoor space and capacity to effectively accommodate multiple conferences
- Iconic views & appealing surrounds
- Capability to accommodate adjoining mixed use development
- The contour and positioning of the site can better accommodate the 'bulk' of a convention centre building
- Adequate parking for cars and coaches
- Two access points and space for Porte Cochere
- Room for expansion
- Steep walk from city centre

**Gorge Road**

- Proximate to CBD and within 15 minute walk of a number of hotels
- Sub-optimal design outcome because of shape, no outdoor space
- Centre is likely to dominate surrounding landscape and existing buildings
- No views, no sense of place
- No capacity for parking
- No capacity for expansion
- Space for Porte Cochere

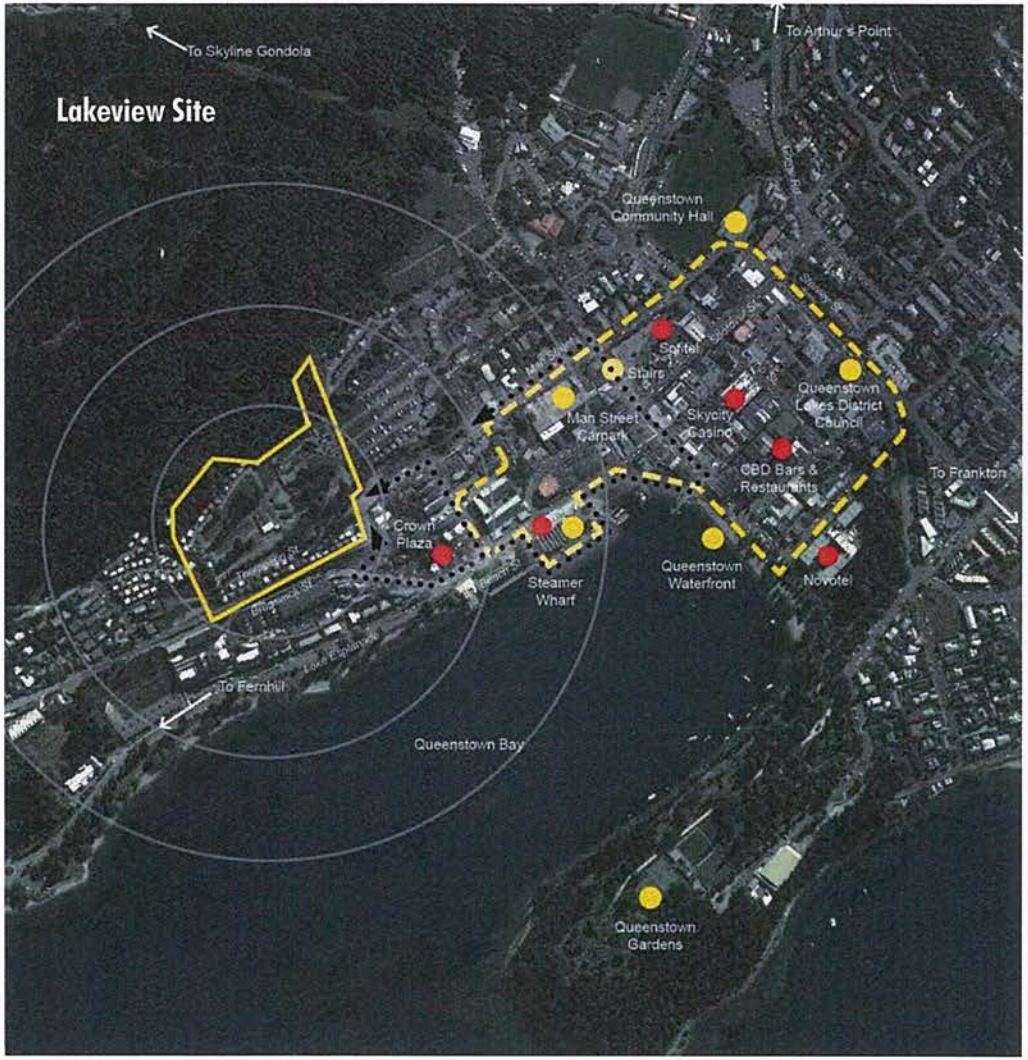
The overall results of the site analysis have been converted into a score of 1 to 10 with a score of between 7 and 10 being regarded as 'good to excellent, 4 to 6 being fair to average and 1 to 3 being poor to not acceptable. Lakeview scored very highly, with Gorge Road and Stanley Street considered fair to average.

| | |
|---|---|
| 8.1 / 10.0 | **Lakeview** |
| 5.9 / 10.0 | **Gorge Road** |
| 5.9 / 10.0 | **Stanley Street** |

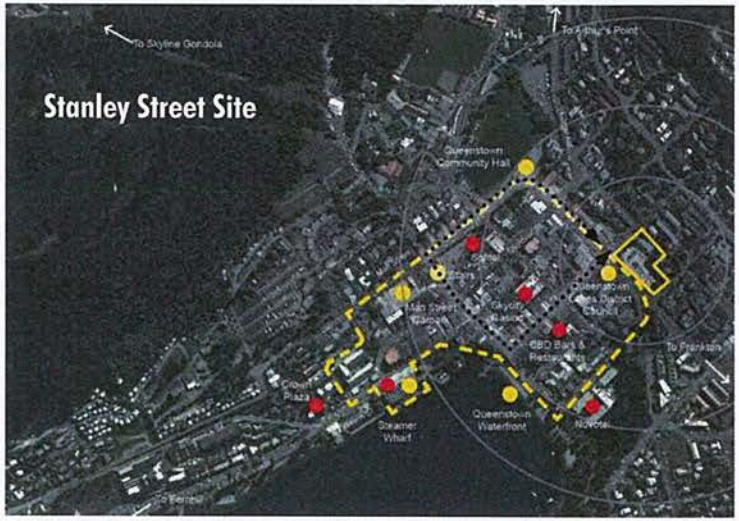
*The consensus expert opinion is that The Lakeview site is the best suited to accommodate the proposed convention centre.*

*The Lakeview site provides iconic views and convention centre design flexibility, to the extent that it is not expected to require any material design compromises. Lakeview also offers the potential to reduce QLDC's funding commitment because of its potential to deliver additional adjoining commercial development.*

*By contrast, both the Gorge Road and Stanley Street sites dictate the design and layout of the Convention Centre rather than accommodating optimal requirements; this is expected to result in significant operational implications. These sites also fail to deliver the sense of place and landscape value that Lakeview provides.*


To Skyline Gondola
To Arthur's Point
Lakeview Site
Queenstown Community Hall
Sofitel
Stairs
Man Street Carpark
Skycity Casino
Queenstown Lakes District Council
CBD Bars & Restaurants
To Frankton
Crown Plaza
Steamer Wharf
Queenstown Waterfront
Novotel
To Fernhill
Queenstown Bay
Queenstown Gardens


To Skyline Gondola
To Arthur's Point
Gorge Road Site
Queenstown Community Hall
To Frankton
Steamer Wharf
Queenstown Waterfront
Novotel


To Skyline Gondola
Stanley Street Site
Queenstown Community Hall
To Frankton
Steamer Wharf
Queenstown Waterfront
Novotel

# 4. What economic impact is the convention centre expected to have?

## 4.1 Direct economic impact on the Queenstown Lakes District

QLDC commissioned BERL Economics to prepare an economic impact assessment for the proposed Convention Centre attached as Appendix 3. This report suggests that:

1. Construction of the convention centre will have a 'one off' direct impact on Queenstown Gross Domestic Product (GDP) of $23 million and employ 267 people within the District for the duration of the construction.
2. The conference centre will attract additional out of region visitors that will spend on average $29 million annually. Every $1 of convention centre revenue generates nearly a 3 times multiple i.e. $1 spent in the convention centre equates to $3 spent in Queenstown overall by out of region visitors. This 'external' expenditure includes travel, hotel accommodation, restaurants, etc.
3. For each of the first five years of operation, the convention centre is expected to add over $30 million in GDP per annum to the Queenstown economy and provide 466 full time equivalent jobs (FTEs).

### Queenstown

| | GDP | Jobs |
|---|---|---|
| Construction | $23m | 267 FTEs |
| On-going Operation | $30.9m annually | 466 FTEs |

## 4.2 Economic impact on New Zealand

The BERL Economics report suggests that:

1. Construction of the convention centre will have a 'one off' direct impact on New Zealand Gross Domestic Product (GDP) of $53.5 million and employ 583 FTEs.
2. The conference centre will attract 3,745 international visitors that will spend on average $9.8 million annually.
3. For each of the first five years of operation, the convention centre is expected to add over $23.5 million in GDP annually and provide 290 full time equivalent jobs.

### New Zealand

| | GDP | Jobs |
|---|---|---|
| Construction | $53.5m | 583 FTEs |
| On-going Operation | $23.5m annually | 290 FTEs |

## 4.3 Attributes of each site in terms of economic stimulus

McDermott Miller has also been commissioned to complete an economic and commercial impact assessment which is attached as Appendix 4. The focus of the McDermott Miller study was to evaluate the economic potential of the three distinct site options (Stanley Street, Gorge Road and Lakeview). McDermott Miller's base case economic impact assessment is premised on the visitation and performance of the convention centre outlined in the Horwath Feasibility report

prepared in 2012. However, McDermott Miller has also considered the specific characteristics of each site and based on this review (as outlined in more detail in Appendix 4), McDermott Miller has defined two "high value product and marketing scenarios" which they believe could be achievable on the Lakeview site because of its ability to:

- Be marketed as a Convention Centre with strong appeal to a high-sending international market due to its unique visual prospect, especially the vista from inside the plenary auditorium.
- Deliver complementary products including an expanded or upgraded casino, national fashion and art show place or a theatre, for example.
- Incorporate hotel accommodation on site.
- Encompass the site within an expanded CBD mixed-use development zone.

Subject to any required improvement in airport capacity (which has not yet been tested) and assuming that a public private marketing strategy contributing to the broader destination strategy of matching differentiated tourism products with high spending international visitors is developed, McDermott Miller considers the following scenarios may have potential at Lakeview:

1. Substantially increasing international tourism attendees and consequently shifting the visitation profile from 25% international attendees to 75% international attendees.
2. Shifting the visitation profile per 1 above, and doubling the number of large conferences from 10 to 20.

This analysis (which is independent of the BERL estimates) suggests that under the high value scenarios, Lakeview is capable of delivering between $27.3m and $36.5m on-going annual contribution to District GDP, which compares to the base case assumption of $22.3m. In visitation terms, the Lakeview site has the potential to produce circa 68,000 to 92,000 international visitor attendee days compared with circa 18,000 under the Stanley Street and Gorge Road base case. In total, attendee days under the base case are circa 88,000 including domestic attendees. If the number of large conferences can be doubled at Lakeview, this has the potential to increase to 125,000.

*The Lakeview site has the potential to deliver*

- *$27.3m to $36.5m on going annual contribution to District GDP, compared with $22.3m at Stanley Street or Gorge Road.*
- *68,000 to 92,000 international attendee days, compared with circa 18,000 at Stanley Street or Gorge Road.*

# 5. Integrated Development at Lakeview

## 5.1 Approach

*International experience in Australia and elsewhere suggests that convention centres have the potential to act as anchor projects and therefore represent a catalyst for adjoining commercial and residential development. The Lakeview site presents QLDC with an opportunity to capitalise on this adjoining development potential and deliver integrated mixed used development.*

*Later in this section we reference the Darwin Convention Centre, which has some parallels to the Queenstown context and is an example of where mixed use development adjoining the convention centre has delivered value to the public sector land owner.*

The Lakeview site provides approximately 5 ha of developable land of which approximately 1.4 ha would be required for the convention centre leaving approximately 3.6 ha for commercial and residential development.

This circa 3.6 ha presents QLDC with an opportunity to redevelop the balance of the Lakeview site in conjunction with a private partner (or partners) and provide additional public domain and open space facilities, mixed use residential development, high end hotel accommodation, entertainment, food & beverage, boutique retail space, and subject to the involvement of Sky City, a re-located Queenstown Casino.

**Residential development would necessarily need to form part of any development that occurred at Lakeview and current residential apartment sales prices in Queenstown are not at a level that would support feasible development.** In fact, it is highly unlikely that the Lakeview site could feasibly be developed in this manner without some form of anchor project, in the foreseeable future, meaning the land would continue to remain unproductive for QLDC.

However, integrated mixed use development including the proposed convention, hotel, casino and retail anchors, presents an opportunity to drive differential pricing in this location over the medium term and therefore deliver value gains to QLDC in terms of its adjoining land holdings at Lakeview.

*The integrated mixed used development model is reliant on the synergy, or cross pollination, that is likely to occur between the convention centre, market square, casino, hotel, food and beverage and high end retail offering that is proposed. Collectively, and together with the proposed residential development, these elements will create a vibrant and desirable precinct. It is this sense of place and the development of an offering with significant amenity that will in time, underpin the residential sales prices required to make development feasible.*

## 5.2 Indicative feasibility

The indicative feasibility modelling is based on a concept that includes:

- A market square and public open space
- A hot pool development
- Additional entertainment development
- A food and beverage and retail precinct
- A relocated sky city casino
- A boutique hotel
- A mix of residential terraces and apartments

CBRE's indicative feasibility modelling suggests that under a Project Development Agreement (PDA) Structure, and assuming that each of the components referenced are present (hotel, casino, convention, retail, and food and beverage), QLDC could generate land payments of between circa $30m and $45m over the life of the project which might be in the order of 10+ years.

In present value terms, under the hypothetical scenario modelled, this equates to circa $13m to $28m at a discount rate of 15% pa and compares with the land value 'as is' of circa $8.5m i.e. the uplift in the value of QLDC's adjoining land holding could potentially be in the order of $4.5m to $20.0m under the proposed integrated development scenario. Importantly, this includes the re-location of Sky City Casino licences to Lakeview.

*A **Project Development Agreement** is an agreement between a land owner (in this case QLDC) and a private developer. The PDA provides the developer with the right to develop the land in accordance with an agreed master plan. In return the developer is required to make land payments to the land owner (in this case QLDC) over the life of the development.*

## 5.3 Case Study on Darwin

The port pre 2005

The masterplan

Development to date

### Darwin City Waterfront - 2005

#### Project Sponsor

Northern Territory Chief Ministers Department

#### Objectives

Following evaluation of the feasibility and locational opportunities for a purpose built convention and exhibition centre in Darwin, the following was targeted:

- Development of the selected site for the Darwin Convention and Exhibition Centre (DCEC) as a catalyst for the redevelopment of the government owned and obsolete 25Ha port precinct.
- Attract the participation of the private sector in the funding and delivery of the DCEC and mixed-use precinct development at a total cost of circa $1.5b.
- Create a 'city building' mixed-use project incorporating over 1,000 residential units, hotel, retail facilities and the integration of a new cruise ship terminal to complement the Convention Centre.

#### Outcome

- The Darwin Convention and Exhibition Centre has been completed and was funded using a Build, Own, Operate, Transfer (BOOT) structure at a cost of $110m.
- The inner city waterfront project for residents and visitors has been completed.
- The DCEC is now operating and delivering events and broader economic benefits to Darwin.
- Major Private Sector capital has been invested in the harbour precinct, including cruise ship facilities and the delivery of a new inner city living precinct.
- Significant financial return has accrued to the Government from the real estate development adjoining DCEC (detail confidential), which is being delivered as a joint venture between Government and the private sector. Stage one of the residential development along with the retail and hotel components of the master plan have been completed and the stage two residential component is now due to commence.

# 6. What will the convention centre cost & how will it operate?

## 6.1 Capital cost

The indicative capital cost of the convention facility has been estimated at between $48m and $49m (excluding land) by WT Partnership depending on which of the three identified sites is selected. WT Cost estimates are attached as Appendix 8.

| Rounded $m | Gorge | Stanley | Lakeview |
|---|---|---|---|
| Building gross floor area (sqm) | 6,309 | 6,206 | 6,469 |
| Construction ex exterior works | $32.2 | $31.9 | $32.8 |
| Base Building FF&E | $5.0 | $5.0 | $5.0 |
| **Sub-total** | **$37.2** | **$36.9** | **$37.8** |
| Professional Fees | $6.4 | $6.4 | $6.4 |
| Consents, legals and contributions | $1.2 | $1.2 | $1.2 |
| Contingency | $2.2 | $2.2 | $2.3 |
| **Total base build** | **$46.9** | **$46.6** | **$47.5** |
| Operator Supplied FF&E | $1.3 | $1.3 | $1.3 |
| **Total building cost** | **$48.2** | **$47.9** | **$48.8** |

External works would be in addition to these costs and, in this respect, Stanley Street has the potential to include 1,400sqm of external exhibition space and Lakeview has the potential to provide 1,980sqm of external exhibition space and car parking.

The external works budgets therefore differ between the three options as illustrated in the table to the right.

| Rounded $m | Gorge | Stanley | Lakeview |
|---|---|---|---|
| External works | $0.46 | $1.04 | $2.5 |
| Car parking (100 cars at 50%) | NA | NA | $0.5 |
| Access Road (at 50%) | NA | NA | $0.5 |
| Contingency | 0.03 | 0.06 | 0.15 |
| **Total External works** | **$0.5** | **$0.8** | **$3.7** |
| **Total building & external works** | **$48.7** | **$49.0** | **$52.5** |

If developed, the exhibition space and car parking would be expected to generate additional revenue. Note that in the case of the Lakeview site, the cost estimate above allows for 50% of the car parking cost i.e. it assumes that other site users would effectively fund the other 50% (hotel, casino, etc.).

## 6.2 Operational model and cash flow forecasts

### Private (outsourced) or public sector operator

In general, outsourcing the operation of the convention centre (in the event that it is publicly funded and delivered) provides access to specialist operational expertise and cost synergies. Operators with the ability to spread cost across other facilities can achieve lower fixed overhead costs and leverage their national or international network to drive attendance.

The key risk with outsourcing is the potential for conflicts of interest and misalignment of incentives, such as where a private sector operator may not be incentivised to achieve the outcomes sought by the community. Where management is out-sourced, it is therefore important to establish good governance, performance incentives and robust contractual arrangements.

### Indicative operational performance

As part of a feasibility study completed in July 2012, Horwath prepared operational forecasts for a proposed 5,335sqm convention centre accommodating a maximum of 750 to 800 delegates. These forecasts reflected a detailed review of the domestic and international conference and convention market and fundamentally this analysis suggests the convention centre will operate at break-even, potentially with a small profit, before funding costs. This is generally consistent with other successful convention operations – return comes from economic impact to the region.

The analysis also suggests that, over the first three years while the centre trades up it will require in the order of $1.5m in working capital to cover losses over this period.

## Horwath HTL Operating Forecasts – Year One to Five

| Rounded $m | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Revenue | $6.1 | $7.2 | $8.3 | $9.0 | $9.6 |
| Variable cost | $3.7 | $4.3 | $5.0 | $5.4 | $5.7 |
| **Gross operating profit** | **$2.4** | **$2.8** | **$3.3** | **$3.7** | **$4.0** |
| Fixed expenses | $2.9 | $2.9 | $3.0 | $3.2 | $3.3 |
| FF&E replacement | | | | $0.2 | $0.2 |
| **Net operating profit before rates and contingency** | **($0.5)** | **($0.1)** | **$0.3** | **$0.4** | **$0.5** |
| Rates | $0.2 | $0.2 | $0.2 | $0.2 | $0.2 |
| Contingency | $0.1 | $0.1 | $0.1 | $0.1 | $0.1 |
| **Net operating profit** | **($0.8)** | **($0.4)** | **$0.0** | **$0.0** | **$0.2** |

We note that:

1. The current designs proposed by Populous and Fearon Hay are somewhat larger than the facility proposed by Horwath in terms of floor area. The designs are still intended to accommodate a maximum 750 delegate conference, but have been increased in size to better accommodate multiple conferences at one time. Overall, the Horwath forecasts are still considered a reasonable indication of the potential operational performance of a conference facility in Queenstown at this stage of the evaluation process.

2. These forecasts assume an independent standalone operator without an associated hotel or other operation in New Zealand. In this respect, operational performance is likely to improve (potentially considerably) if an operator with other additional sites in New Zealand is selected. To some extent this will be offset by management fees payable.

3. Under an integrated development model (e.g. at Lakeview) there may be an ability to spread back-of-house costs across an adjoining hotel or casino operation which is likely to provide additional operating synergies.

4. These forecasts exclude any potential car parking revenue. Lakeview has the potential to deliver parking for convention guests which could be charged for. There would be additional capital cost upfront in delivering this parking that would largely offset the revenue potential in our view i.e while it would make sense to provide parking from a marketing and utilisation perspective, the parking revenue itself is unlikely to materially improve the operational profit from the convention centre.

*Fundamentally, a successful convention centre operation is capable of breaking even at an operating level or potentially generating a modest surplus. However, this surplus is insufficient to provide a direct return on capital invested. Return is delivered in the form of economic growth to the region.*

# 7. How could the convention centre be funded?

## 7.1 Public sector involvement is required

Experience from other international, Australian and New Zealand convention centres suggests that the net operating cashflow from even the most successful convention centres is not typically sufficient to support payment of either a rental that reflects a return on the capital required to develop the facility or, alternatively, the servicing costs on the debt used to fund construction of the facility. Appendix 5 provides detail on the different funding models used for a number of Australian and New Zealand convention centres.

In essence, event facilities do not generate a direct financial return on the cost associated with developing them. Rather, the return accrues to the location, district or region in which the facility is located, in the form of economic growth from greater visitation and tourism. In this respect we refer to the BERL Economics and McDermott Miller analysis referenced in Section 4.

*The net operating cashflow from even the most successful convention centres is not typically sufficient to support payment of either a rental that reflects a return on the capital required to develop the facility or, alternatively, the servicing costs on the debt used to fund construction of the facility. For this reason some form of public sector funding is typically required either directly, or indirectly, via the sale of wider development rights or a commitment to ongoing payments (in the form of a lease, availability payments or subsidies).*

## 7.2 Potential funding providers

While public sector participation is required, the private sector can also play a role. Potential funding providers include:

- *Queenstown Lakes District Council.* As outlined in Section 4, the district is expected to benefit from significant economic growth as result of the convention centre's development. It is rationale therefore that QLDC plays some role in funding the convention centre on behalf of the district. It is important to note that if the economic benefits are delivered as forecast there is estimated to be an additional 466 FTEs in Queenstown implying a larger rating base.
- *Central government.* An Economic Impact assessment completed by BERL economics suggests that the convention centre has the potential to generate $23.5m GDP annually for the New Zealand economy. In April 2013, the Prime Minister noted that Government has allocated $34 million over four years to *"significantly expand our focus on international business events, including conferences, conventions and exhibitions, [because] conference and convention visitors are particularly valuable as they spend $318 per day on average, compared to $208 for the average tourist."*[9] The Prime Minister noted that *"New convention centres in Christchurch and Queenstown, and the proposed New Zealand International Conference Centre in Auckland, will allow New Zealand to host more and significantly larger conferences."* The Queenstown convention centre can be regard as a project of National Significance capable of driving

[9] http://beehive.govt.nz/release/budget-2013-business-events-and-high-value-tourists

high end business tourism to New Zealand. It is critical that New Zealand continues to invest in its tourism infrastructure given its importance to GDP and this represents a prime opportunity to enhance the appeal of what is currently New Zealand's greatest tourism asset. Central government is therefore likely to be a key funding partner.

- *Otago & Southland regional government.* Regional government could be asked to make a small contribution on the basis that the region as a whole will benefit from increased visitation.
- *Private sector.* The private sector (including the preferred consortia selected as part of the expression of interest process run in late 2012) could fund all or part of the convention centre development. As discussed, the ongoing operation of the convention centre will not generate sufficient profit to provide a return on the private sector's investment and some form of ongoing rental payment, subsidy and / or guarantee will be required in order to attract such private capital. Fundamentally, the private sector will seek a financial return on their investment and it will fall to QLDC to ensure that this return is delivered. In order for QLDC to seek private sector partners, **those partners need to be willing to accept some transfer of risk and deliver a level of innovation, otherwise this simply becomes an alternative form of debt, which is likely to be more costly than debt which QLDC can procure directly.**
- *Sponsorship & philanthropy.* It is likely that some contribution will be available from sponsorship arrangements and philanthropic donations could potentially also be forthcoming. It is unlikely that this source of funding will provide a material contribution to the overall cost of the facility.

## 7.3 A private or public sector driven model?

Fundamentally, there are three principle funding & delivery models (i.e. any funding model is likely to be a variant on these themes):

1. *Direct public sector (QLDC) funding and delivery.* QLDC could raise debt to pay for the construction and initial working capital requirement during the trade up phase of the facility (or the shortfall after central government, sponsorship and philanthropic contributions) and then service and repay that debt over a specified term. QLDC could also contribute land.
2. *Private sector funding and delivery.* The selected private investor (or consortia) would contribute the capital to build the facility (or the shortfall after other contributions). The private sector investor would then seek an annual lease or concession/availability payment from QLDC.
3. Private sector funding and delivered as part of an integrated mixed use precinct. A private sector partner could be awarded development rights and/or a casino license on adjoining land, to partially offset QLDC's funding contribution to the convention centre. Any public sector contribution or on-going rental or subsidies would therefore be reduced. A brief comparison of the options is presented overleaf.

The on-going operation of the facility could be undertaken directly by a Council Controlled Organisation or by a third party, potentially associated with the private investment partner. Where this operational risk could be passed to the private sector, private sector funding of the development becomes relatively more attractive. Where QLDC funds the facility directly, it will likely retain this operational risk.

**QLDC funded and delivered directly**

- QLDC is exposed to development delivery risk and on-going operational and financial risk.
- It is likely that QLDC will be able to raise debt more cheaply than the private sector.
- Requires a commitment to long term debt repayment

**Private sector funded and delivered**

- It is likely that some risk, either on development and or operationally, can be passed to the private sector, lowering QLDC's risk or exposure. In return, the cost to QLDC over time is likely to be higher to reflect this transfer of risk.
- Certain delivery models (such as a BOOT discussed below) are also asserted to encourage the private sector to deliver innovative delivery and operational solutions that reduce lifecycle costs and therefore achieve a better outcome overall.

**Integrated development**

- Per either of the scenarios above, but adjoining development value forms part of the return to the private sector, reducing the on-going subsidies required or QLDCs contribution to the convention facility, over time.
- Synergies may exist (operational or on development) which improve overall project viability and the on-going operational viability of the conference centre e.g. operational costs.

Appendix 6 provides additional detail with respect to the three principle funding models.

## 7.4 New Zealand experience

### Existing examples

Historically convention and events centres in New Zealand have been publicly funded and owned. By way of example:

1. *Regional Facilities Auckland* is a Council Controlled Organisation (CCO) and owns a number of facilities in Auckland, including the recently completed Viaduct Events Centre, Aotea Centre and the Town Hall. The most recently developed Viaduct Events Centre which opened in August 2011 was funded by Auckland Council.
2. Prior to the earthquakes, *Vbase in Christchurch* also a CCO, owned and operated the Christchurch Convention Centre in addition to a number of other venues.
3. The *Rotorua Convention Centre* and the *Taupo Great Lake Centre* are both directly owned by Council.

However, 'privately' funded examples also exist:

1. The *SKYCITY Auckland Convention Centre*, developed in 2004, was 100% privately funded by Sky City. In return, Sky City was granted an 'expansion' to their gaming premises licence that allowed them to use the previous convention space for gaming activity.
2. *Vector Arena*. Auckland Council entered into a Development Agreement with Quay Park Asset Management Limited (QPAM) with QPAM responsible for development and management of Vector Arena for a period of 40 years. Auckland Council still funded $69m of the estimated total $80m development cost.

### Christchurch Convention Centre

The proposed Christchurch Convention precinct forms one of the 'Anchor Projects' to receive government funding. The project is to be led by the Canterbury Earthquake Recovery Authority (CERA) in connection with The Christchurch City Council and Ngai Tahu, but in close connection with the private sector.

*The proposed Christchurch Convention Precinct is a materially larger project than the Convention Centre itself with the intention that the Convention Centre acts as an anchor to be a catalyst for commercial development on adjoining land. This has clear parallels to Queenstown and the potential offered by the Lakeview site.*

### The New Zealand International Convention Centre, Auckland

The $400m New Zealand International Convention Centre (NZICC) is being led and funded by Sky City Casino who, in return for their investment, received an extension and expansion of their casino licence from central Government.

## 7.5 Australian experience

Appendix 5 provides additional detail on the funding, ownership and operational models used by many of Australia's major convention centres.

Generally, this evidence suggests that it is common for convention centres to form part of a wider redevelopment, reflecting the role convention centres play as an 'anchor project' and the synergies that may exist for casino operators, entertainment providers and residential and accommodation development nearby.

Australia has been a pioneer in the Asia Pacific in terms of the early recognition of the potential role of convention and exhibition centres and the development of purpose built facilities. Sydney, Adelaide and Melbourne were the forerunners in developing centres which put these cities on the international map in terms of international business visitation. Other Australian cities have followed suit and delivered purpose built centres to accommodate local, national and international events.

The table below summarises the data presented in Appendix 5, listing each convention centre as principally publicly driven and funded, a joint public and private sector project and those projects that were part of wider integrated development.

### Australian convention centre funding models

| Centre | Publicly driven | Private / public | Integrated develop. | Casino involvement |
|---|---|---|---|---|
| Sydney (Darling Hbr) | | ✓ | ✓ | |
| Melbourne | | ✓ | ✓ | |
| Brisbane | ✓ | | ✓ | ✓ |
| Adelaide | ✓ | | ✓ | |
| Perth | | ✓ | ✓ | |
| Cairns | ✓ | | | ✓ |
| Darwin | | ✓ | ✓ | |
| Gold Coast | ✓ | | | ✓ |
| Canberra (NCCC) | ✓ | | | ✓ |

The majority of the centres in Australia involved a precinct approach, whereby the convention / exhibition centres (CEC) were the catalyst for broader mixed use development, particularly hotel accommodation, retail and entertainment uses, office and residential uses. This approach was designed to capitalise on these major public infrastructure initiatives in terms of Government land holdings and to provide complementary uses for users of the centre.

For example, in terms of the smaller cities:

- The Adelaide CEC involved new hotel, office and car parking facilities for the broader precinct.
- The Brisbane CEC represented a critical catalyst for the total South Bank mixed use precinct development including hotel, retail, commercial, residential and community recreation facilities.
- The Darwin CEC was the catalyst for the redevelopment of the obsolete port precinct and includes major public domain and water recreation facilities as well as hotel, retail and residential uses.

The development of complementary retail uses both adds to the diversity and attractiveness of these precincts as well as enabling Government to benefit from the land value enhancement of its own holdings. Nevertheless, the projects must be seen in a long term context, as precinct redevelopment benefits can occur over an extended period and can be truly 'city changing'.

This possibility exists with a convention centre on the Lakeview site.

# 8. What will QLDC be required to contribute and how could it pay for this contribution?

## 8.1 Likely capital funding requirement

For the purposes of this example, if we assume that central government contributes $10m (this is yet to be confirmed); sponsorship (naming rights) and other contributions from Regional Council and philanthropists total $5m and QLDC contribute the land, the funding shortfall would be as illustrated in the table below assuming a total build cost of say $52.5m (the range referenced above by WT Partnership was between $48.7m and $52.5m including external works).

| Land | QLDC |
|---|---|
| Construction cost | $52.5m |
| Working capital (to cover trading up) | $1.5m |
| **Total** | **$54.0m** |
| Less: Govt. grant | $10.0m |
| Less: Sponsorship & Other | $5.0m |
| **Capital funding shortfall** | **$39.0m** |

The balance required of circa $39.0 million will in some form need to be funded by QLDC or the private sector.

*Development at Lakeview has the potential to reduce QLDCs' on-going exposure to operational risk and reduce the funding commitment that QLDC is required to make.*

## 8.2 Reducing QLDC's funding commitment with Integrated Development at Lakeview

As referenced earlier, the Lakeview site has the potential to accommodate additional development adjoining the convention centre including public spaces, a casino development, high end hotel, retail & entertainment, food & beverage and residential development. QLDC owns the adjoining land at Lakeview and as a consequence, will benefit from any value that this development opportunity delivers over time.

Indeed, developing a Convention Centre on the Lakeview site may present an opportunity to:

- Improve the operational performance of the convention centre and pass operational risk to a third party operator, with this operator forming part of the wider site development consortium.
- Obtain a level of funding for the convention centre from Sky City in the event that their two existing casino licences in central Queenstown could be re-located to the Lakeview site.
- Deliver additional land value from the adjoining residential and mixed use development over a circa 10 to 15 year period from adjoining mixed use development.

## 8.3 How could QLDC fund its contribution?

Regardless of the funding model (private, public, or a combination), QLDC will need to fund the on-going annual cash flow commitment that is created, which could take the form of a lease payment to the private owner, debt servicing or availability payments under a BOOT scheme for example. The table below summarises a selection of options that may be available to meet these obligations.

| Funding method | Rationale | Issues |
|---|---|---|
| General rates for a given period | • Ratepayers generally will benefit from the economic growth that the centre delivers, through jobs, employment and city wide property values.<br>• The additional 450+ jobs that the Convention Centre is expected to create will also increase the total ratepayer base.<br>• Practically easy to implement. | • May burden those that do not stand to materially/ directly benefit from the convention centre. |
| Targeted differential commercial rate for a given period | • Commercial businesses will benefit most directly from the growth in visitation that the convention centre drives. | • Where to define the boundary for the differential rate? |
| A hotel bed tax for a given period | • Hotel businesses will benefit most directly from the growth in visitation that the convention centre drives. | • This may, at the margin, reduce competitiveness of Queenstown as a destination.<br>• Collection costs.<br>• May require legislative change |

## 8.4 Example funding scenarios

As referenced, the funding shortfall is expected to be circa $39m including provision for initial working capital, after indicative central government, QLDC land contribution and other charitable, philanthropic and sponsorship funding. We consider three indicative funding scenario's as follows:

### Option 1 – QLDC funds and delivers the CC

- QLDC funds the shortfall on construction ($39m) with debt at 4.5% pa (fixed for eight years) which is repaid over 25 years.
- QLDC would retain ownership and governance responsibility for the Convention Centre.
- QLDC would operate the convention centre directly (potentially via a Council Controlled Organisation (CCO) similar to Regional Facilities Auckland, or QLDC could contract this service out to a third party. The latter will potentially deliver operational synergies where the third party chosen has other convention venues in New Zealand.
- QLDC would remain exposed to the operational performance of the convention centre i.e. if the centre makes an operating loss (before debt repayment) QLDC would also need to fund this operating loss.

**This results in an annual debt servicing commitment of $2.6 million per annum of the 25 year term.** The scenario assumes that interest rates remain at 4.5% (noting that the debt can only be re-fixed for eight years), therefore exposing QLDC to future interest rate risk. We also assume that the convention operation breaks even post year three.

### Option 2 – Private sector develops the facility and leases to QLDC

- A private investor funds the $39m shortfall in capital cost.
- QLDC effectively leases the convention centre, with the lease payment made to the private investor calculated at say 8.25% of the upfront capital introduced by the private investor ($39m in this example).
- An ownership entity would be established whose shareholders would include the private investor and QLDC and potentially central government (to reflect their contribution). Only the private investor would receive a lease payment. In this example the private investor would be the majority shareholder but QLDC would have a governance role.
- A third party operator would manage and operate the facility on behalf of the ownership entity. We expect that QLDC would continue to remain exposed to any operational losses that the operator incurs (distinct from lease payments). It may be possible to pass this risk to the operator or the private investor, but the lease payment would then be higher all else equal.
- At the end of the 25 year term QLDC's lease obligation would cease and the asset would remain in the ownersip of the private sector party.

**This results in an annual lease payment of $3.2 million per annum of the 25 year term.**

This funding solution means QLDC is not exposed to interest rate risk beyond year eight, but QLDC is exposed to inflation risk. We also assume that the convention operation breaks even post year three.

We refer to our comments in Section 7 for further detail on the pros and cons of the various public and private sector funding alternatives and additional detail thereon.

## Option 3 – Integrated development at Lakeview

- QLDC enters into a project development agreement (PDA) with a private consortium to deliver the Convention Centre at Lakeview together with an integrated mixed use development including a casino, a high end hotel, retail and entertainment, public spaces and residential development.
- The private consortium would take responsibility for the development and operation of the convention centre including on-going operational risk in return for being granted development rights on the adjoining land.
- QLDC would still be required to contribute funding for the convention centre and would retain a governance role over the convention centre.
- For the purposes of this example, the private consortium would include Sky City and central government would grant Sky City the right to re-locate the two existing casino licences in Queenstown (Steamer Wharf and Beach Street) to the Lakeview site.

As outlined in Section 4, CBRE Structured Transaction & Advisory Services, in conjunction with Populous and Fearon Hay architects have prepared some indicative concept plans for the site. This analysis remains indicative and is subject to significant further refinement. In simple terms, what this analysis suggests is that:

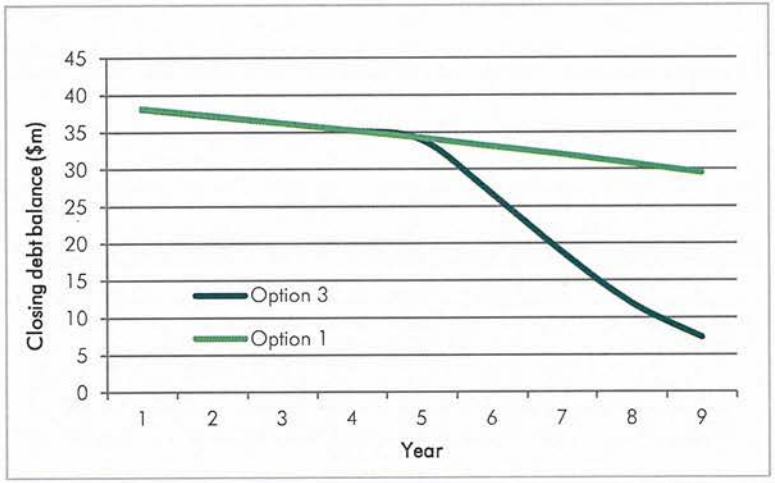
1. The development rights over the circa 3.6 hectares adjoining the convention block (including QLDC owned land on Earnslaw Street as outlined previously in Section 3) could generate land payments to QLDC of between $30m and $45m over the life of the project, which might be in the order of 10 to 15 years.
2. In present value terms, this equates to circa $13m to $28m at a discount rate of 15% pa. This compares with the land value 'as is' of circa $8.5m i.e. the value uplift is potentially in the order of $4.5m to $19.5m in present value terms.

Part of the $30m to $45m in land payments may be available 'upfront' meaning that it could be used to fund part of the shortfall on the construction of the conference centre. However, as is typical under PDA agreements, the majority would be received over time as the adjoining land is developed in the longer term.

If we assume that the land development delivers say $30m to QLDC but that no land payments are received upfront, QLDC would still need to raise $39m debt to fund the shortfall on the construction of the convention centre and the debt repayment would equate to $2.6m pa per Option 1. However, what is evident is that under this Option 3, by year nine, it is expected that the debt balance would be materially lower than under Option 1 (indicatively at just over $7m compared with over $29m) as a result of the additional land payments received from

adjoining development under this hypothetical example[10]. This is illustrated in the following chart.

### Debt balance – Option 1 vs. Option 3




## Comparison of the options

The table overleaf provides an indication of the rates increase or hotel bed tax that would be required to meet the cost of the convention centre under each of the three hypothetical scenarios presented. Again, this should be regarded as indicative at this stage, particularly with regard to Option 3. It nevertheless demonstrates the significant opportunity that integrated development on Lakeview, presents.

[10] To ensure the comparison is fair we have not included the first $8.5m in land payments, reflecting the fact that QLDC could realise $8.5m now from the sale of the land without undertaking integrated development.

- For Option 1, the annual commitment equates to the debt servicing payment of $2.6m pa.
- For Option 2, the annual commitment equates to the annual equivalent lease payment of $3.2m pa.
- It is more difficult to compare Option 3 because the benefit of integrated development is likely to be delivered over time, albeit there is the potential for some of the land payments to occur upfront. The initial funding requirement may or may not therefore change. What is clear from the chart to the left is that over time the burden on QLDC and therefore the public can be expected to be lower under Option 3. There are two ways to identify the equivalent annual payment required under Option 3 in order to provide comparison with Options 1 and 2.
  - This first approach is to identify the fixed annual debt repayment required to pay off the debt in 25 years, noting the revenue offset from the PDA. This equates to between $0.6m and $1.6m pa. This together with projected land payments is sufficient to repay the full $39m over 25 years.
  - The second approach is to take the present value of the uplift in adjoining land value referenced earlier, of between $4.5m and $19.5m and effectively deduct this from the capital shortfall of $39m, and then fund the balance using debt (of circa $19.5m to $35.5m). This is not how the transaction would actually occur, but this approach better accounts for the additional risk that QLDC takes under Option 3. Using this approach the annual commitment that must be met by QLDC is between $1.3m pa and $2.3m pa. This is the approach we have adopted in the table overleaf.

## Indicative rate, or hotel tax under Options 1 – 3

| *Including GST unless noted, rounded* | Option 1 | Option 2 | Option 3 | |
|---|---|---|---|---|
| Annual commitment | $2.6m | $3.2m | $1.3m | $2.3m |
| ***How this could be met:*** | | | | |
| General rate ($ per rate payer pa) | $125 | $155 | $65 | $115 |
| Targeted commercial rate ($ per rate payer pa) – *excluding GST* | $1,285 | $1,595 | $660 | $1,150 |
| Hotel bed tax per night | $3.40 | $4.20 | $1.70 | $3.00 |

We note that:

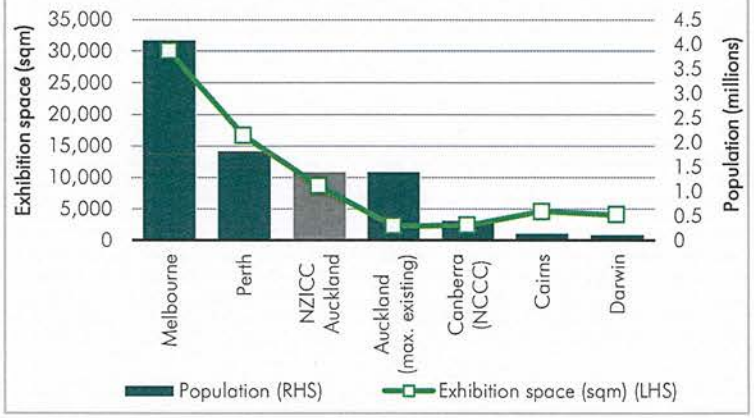
1. The general rate reflects an assumed rating base of 23,500 at the time the convention centre is completed.
2. The targeted commercial rate is indicative, exclusive of GST and based on 2,000 commercial ratepayers at the time the convention centre is completed.
3. The hotel bed tax is based on average stay unit nights in Queenstown over the last three years within facilities categorised as hotels or motels. The estimate assumes GST would be levied on the hotel bed tax.

We reiterate that the integrated mixed used development model is reliant on the synergy, or cross pollination, that is likely to occur between the convention centre, market square, casino, hotel, food and beverage and high end retail offering that is proposed. Collectively, and together with the proposed residential development, these elements will create a vibrant and desirable precinct. It is this sense of place and the development of a 'precinct' offering significant amenity, which will underpin the residential sales prices required to make development feasible in the medium term. International experience supports this concept and we reference the Darwin case study presented earlier. **It is important to note that without the convention, casino, hotel and retail anchors, residential development of the form proposed (which is critical to delivering value to QLDC), would not be feasible.**

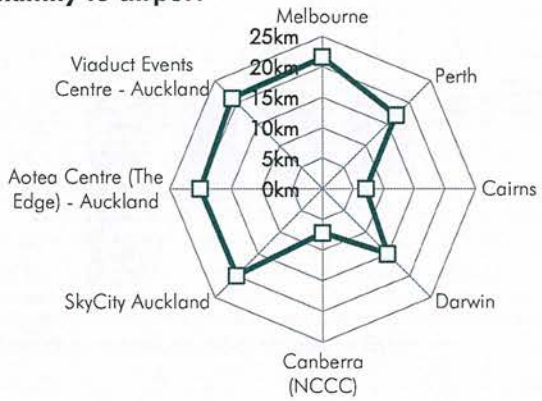
# Appendix 1 Australia and New Zealand benchmarking data – physical statistics

**Proximity to CBD**

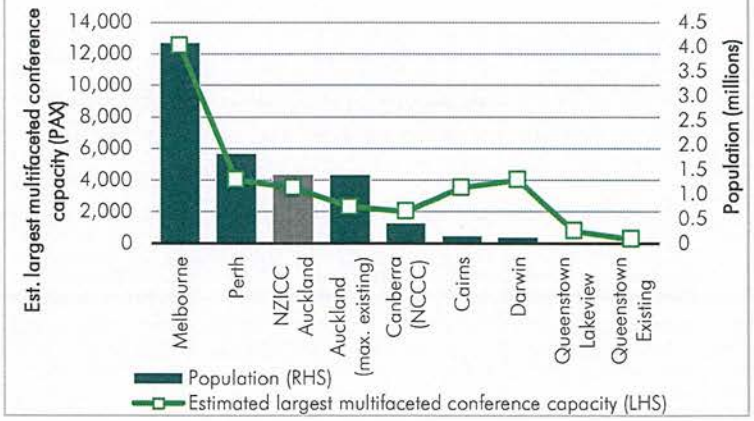

**Exhibition space vs. Population**

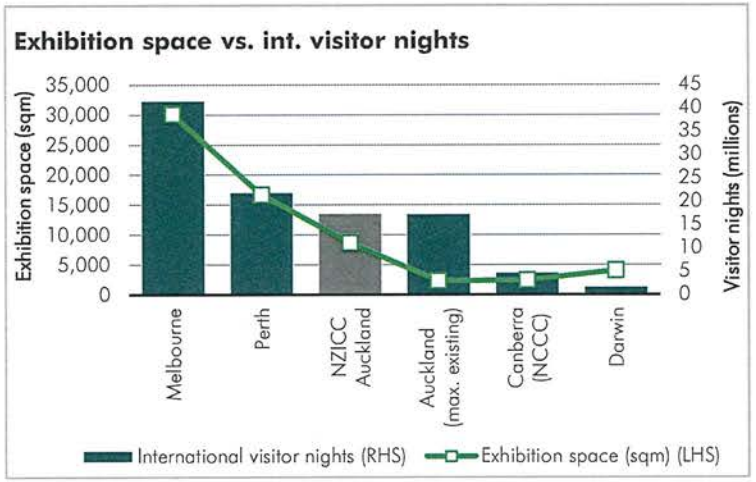


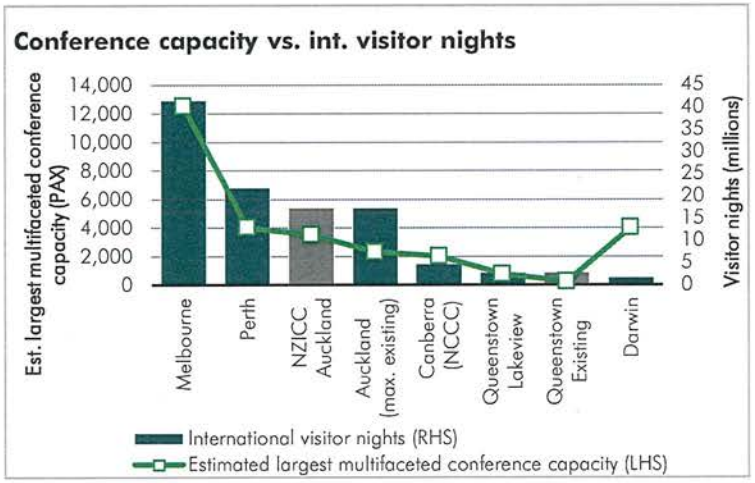

**Proximity to airport**




**Conference capacity vs. Population**






Notes:

- "NZICC Auckland" and "Queenstown Lakeview" columns represent expected capacity at these proposed venues.
- "Auckland (max. existing)" represents the largest existing exhibition venue in Auckland.
- "Queenstown Existing" represents the largest existing "without compromise" conference venue in Queenstown.

# Appendix 2 Populous Site Evaluation Report

# Appendix 3 BERL Economic Impact Report

# Appendix 4 McDermott Miller economic and commercial impact assessment

# Appendix 5 Australia benchmarking data – Ownership, funding and operational models

| Centre | Ownership | Delivery Model | Operating Model |
|---|---|---|---|
| **Sydney (Darling Harbour)** | • Sydney Foreshore authority is responsible for the entire Darling Harbour Precinct. Infrastructure NSW responsible for convention precinct. | • Expressions of Interest for $2 - $3 billion redevelopment closed November 2011.<br>• Three consortiums have made the shortlist | • Historically operated by an entity controlled by Accor and Compass Group.<br>• State Government provides funding for the upkeep of the facility and Tourism NSW contributes circa $3.5m annually for sales and marketing. |
| **Melbourne** | • Owned by Victorian Government through the Melbourne Convention and Exhibition Trust (MCET). | • Private Public Partnership (PPP).<br>• $500m funding from Victorian Govt.<br>• Developer could propose what they wanted with remaining 8 ha – includes hotel, retail, office & residential. $1.4b total build out cost. | • MCET is a govt. owned trust authority which had oversight of the existing and new convention facilities. |
| **Brisbane Convention and Exhibition Centre** | • Owned by the State Government's development agency, South Bank Corporation. | • Majority funded by the sale of a casino license for approx. $180m.<br>• Remaining funding through the State Government.<br>• Expansion (opened 2012) funded directly by the State of Queensland. | • Managed and operated by AEG Ogden. |
| **Adelaide Convention Centre**<br>*(Est. completion 2014)* | • Wholly owned by the SA Govt. | • Directly funded by the State Govt. as an equity injection.<br>• Total cost (Phase 1 & 2) expected to be $350m. | • Operated by the Adelaide Convention Centre Trust, owned by the State Government. |

| Centre | Ownership | Delivery Model | Operating Model |
|---|---|---|---|
| **Perth** | • Now 100% privately owned and operated. Private co., Wyllie Group, holds a 35 year head lease. | • PPP (Build Own Operate Transfer (BOOT)).<br>• $220m (2004) development cost. | • Operator, Spotless, holds operating license for initial 10 years with 5 year renewal options for entire term of head lease (35 years).<br>• Car parking separately owned by Perth City Council and has created financial and operational issues.<br>• Ownership/operational model failure – least optimal in Australia – multi-layered interests not necessarily aligned with WA State or Perth city. |
| **Cairns** | • Owned by State Government.<br>• $50m original investment.<br>• + $30m development (1999)<br>• + $11m refurbishment (2004–2005) | • Publicly funded through the sale of a casino licence | • AEG Ogden contracted to operate. |
| **Darwin** | • Owned by the Northern Territory (NT) Government through the Darwin Waterfront Corporation. | • PPP structure, requiring NT Government availability payment obligations to operator/ investor.<br>• 25 year BOOT arrangement.<br>• $110m (2005) capital cost.<br>• Significant real estate development / urban renewal undertaken on adjoining land | • AEG Ogden is the management partner.<br>• Real estate development through a PDA structure with Toga Group. |
| **Gold Coast Convention and Exhibition Centre** | • Owned by Queensland State Govt. | • Built by Jupiters, with links via covered walkway to Jupiters casino | • Operational management retained by Jupiters. |
| **Canberra (NCCC)** | • Owned by ACT Government. | • Publicly funded | • Operated by IHG. |

# Appendix 6 Comparison of funding models

There are numerous private sector funding models which could apply to a facility of this nature. In principle, the differences relate to the degree of control afforded to the different parties, the sharing of risk and therefore the return to the private sector / cost to the public sector. Simply by way of example, the table overleaf compares public delivery with three private sector delivery models. The three examples are:

- QLDC funds and delivers the convention centre with support from third party consultants and retains ownership. As a variant on this model, QLDC could effectively make a grant to a third party which owns the convention centre. It is likely that QLDC would also have to continue to underwrite operating losses going forward under this scenario. If a grant is made, QLDC would want to maintain a degree of on-going control over the facility in order to protect its investment.
- The private sector constructs and funds the facility (excluding government or sponsorship contributions). QLDC takes a lease over the convention centre for a long term period (say 25 years) and employs a third party operator to manage the facility. A variation to this could be that a third party operator takes a lease over the facility which is guaranteed by QLDC. QLDC would also likely need to commit to subsidise the third party operator that holds the lease, in the event that operating losses eventuate.
- A private consortium develops and operates the facility for a fixed long term period, commonly known as a Build, Own, Operate, Transfer or BOOT. At the end of the term of the agreement the facility is returned to QLDC. A variation to this could include a BOO where the facility is not transferred back to QLDC at the end of the concession period.

The first of these two scenarios would likely also expose QLDC to operational losses in the event that these occur. The third model referenced (a BOOT or BOO) could potentially be structured so that this risk sits with the private sector although it would likely come at additional cost (i.e. the annual commitment would increase, potentially materially). Indeed, it is questionable whether a BOOT scheme would be particularly appealing to the private sector in this case without significant 'fat' in the availability payments made by QLDC to the operator of the facility. The project is also relatively small and as a result a BOOT scheme or similar may prove cost prohibitive.

## Comparison of private and public sector funding models

| Option | Public delivery | Private sector delivery | | |
|---|---|---|---|---|
| | QLDC Developed & Funded | Private Sector Developed & Funded with leaseback to QLDC | Build, Own, Operate, Transfer (BOOT) | Build, Own, Operate (BOO) |
| **Governance & Control** | | | | |
| Ownership | QLDC | Private investor(s) | QLDC (in say 25 years) | Private investor(s) |
| Governance | QLDC | QLDC<br>Private investor(s) | QLDC<br>Private consortia | QLDC<br>Private consortia |
| Management | Third party operator | Third party operator | Operator forms part of the consortium | Operator forms part of the consortium |
| **Risk Allocation** | | | | |
| Development risk (cost overruns) | QLDC | Private investor(s) | Private investor(s) to consortia | Private investor(s) to consortia |
| Operational risk (annual losses) | QLDC | QLDC | Potentially private consortia | Potentially private consortia |
| **Financial contribution** | | | | |
| Upfront capital | QLDC | Private investor(s) | Private investor(s) | Private investor(s) |
| Operational subsidies if required | QLDC | Likely QLDC | Private consortia | Private consortia |
| On-going annual cost to QLDC | Debt repayment | Lease payment | Availability payment | Availability payment |
| **Accounting considerations** | | | | |
| Asset held on balance sheet | Yes | Potentially under proposed accounting standard changes | Potentially under proposed accounting standard changes | Potentially under proposed accounting standard changes |
| Debt held on balance sheet | Yes | Potentially under proposed accounting standard changes | Potentially under proposed accounting standard changes | Potentially under proposed accounting standard changes |

# Appendix 7 Horwath HTL Feasibility Study

# Appendix 8 WT Partnership construction cost estimates