



02 March 2023

Queenstown Lakes District Council
PO Box 50072
Queenstown

Attention Mike Theelen

Dear Mike

REQUEST FOR GUARANTEE OF WESTPAC FUNDING

As you're aware the Queenstown Lakes Community Housing Trust (QLCHT) and QLDC have a long-standing relationship which is cemented by a Relationship Framework Agreement (RFA). First signed in 2019 and most recently updated in August 2022, the RFA outlines the partnering concept of our two organisations along with roles, responsibilities and ways in which Council may support the Trust.

Clause 3.10 f the RFA notes that *"QLDC support may, from time to time, be necessary to support the Trust's activities, including by way of written assurances or security in the form of guarantees of QLCHT's performance of obligations it incurs to third parties. QLDC may continue to provide performance guarantees on terms and conditions agreed in relation to any request by QLCHT that QLDC do so."*

Currently QLDC has a \$2m Guarantee and Indemnity in place for the loan repayment of a \$3.6m loan from Central Lakes Trust to QLCHT. CLT has security over 11 rental properties in Shotover Country with a current LVR of approximately 36%. With this extremely low LVR and unprecedented demand for rental housing in the Wakatipu basin, there is a very low risk of QLCHT defaulting on the loan and QLDC's guarantee being called upon.

Late last year QLCHT received titles to 28 sections at Longview, Hawea from the developer Universal Developments. A \$13.7m construction contract with Breen Homes has been executed for the build of all 28 homes, and we're underway with the build using our own cash reserves currently.

We are planning a mixed tenure of rental and Secure Home programmes throughout the 1 to 4-bedroom properties. We have sought interest from our existing database and are confident we will be able to allocate the homes under our various housing programmes.

Westpac has provided a favourable offer of finance for the amount of \$11,500,000 for the construction of the 28 homes. This offer is conditional upon obtaining a guarantee from QLDC under the same conditions as the existing CLT guarantee, i.e. the repayment of interest to a maximum amount of \$2m.

Specifically the Westpac condition states:

The guaranteed amount will be an amount equivalent to the interest expense for a period of 24 months (but not exceeding \$2,000,000) in relation to the Wholesale Term Loan provided by Westpac NZ to QLCHT Property Portfolio Limited ("the Loan"). The guaranteed amount will only be used to meet the interest expense of the Loan, which will be payable in terms of the Loan facility agreement. We have provided you with a draft guarantee and indemnity back to QLCHT for consideration.

QLCHT is seeking a Council guarantee on two years interest payments from QLCHT to Westpac. This would mean an estimated guarantee amount of \$1,610,000 based on an interest rate of 7% (7% of \$11,500,000 = \$805,000 x 2 years = \$1,610,000).

7% is the current interest rate we anticipate, but is subject to confirmation from Westpac at the time. For the purposes of rounding, we request this guarantee amount is capped at \$2m and this is also what Westpac have stipulated in the letter of offer.

The Council guarantee provides major appeal to Westpac. Without this guarantee, Westpac have advised QLCHT will need to come up with an increase in our own cash contributions or further security – neither of which we currently have.

We propose QLCHT will provide an indemnity back to Council on the guarantee, which will be in line with the existing indemnity for Council's current guarantee in place with the Trust.

We welcome any questions you may have for the Trust regarding this proposal.

Kind regards,



Julie Scott
Chief Executive