

Audit, Finance & Risk Committee

5 October 2023

Report for Agenda Item | Rīpoata moto e Rāraki take [5]

Department: Corporate Services

Title | Taitara: Lakeview Development Programme

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to update the committee on the Lakeview development progress and key milestones.

Recommendation | Kā Tūtohuka

That Audit, Finance and Risk Committee:

1. **Note** the contents of this report.

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20 September 2023

Reviewed and Authorised by:



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Title: Acting Chief Executive
22 September 2023

Context | Horopaki

1. On 17 August 2017, the Council approved several development objectives for the Lakeview site, which revolve around maximising financial return and minimising risk to ratepayers and developing a well-designed residential focused mixed-use precinct quickly and efficiently.

2. In October 2017, the Council approved to undertake a market engagement process for the sale of the Lakeview land and commit to deliver the required internal infrastructure, roads and public space to allow transfer of the land to developer partners. The Council also elected to:
 - i. credit 5% of its Lakeview land receipts to the Queenstown Community Housing Trust; and
 - ii. set aside the Lynch Block (circa. 1ha land parcel) to consider its future use including specific consideration for use as worker accommodation and/or affordable housing.
3. The primary benefit in implementing the Lakeview development has always been seen from a broader perspective than pure financial return, namely being the opportunity to support the Queenstown town centre, and to deliver an integrated urban development form, within walking distance of the town centre.
4. In October 2019, Queenstown Lakes District Council (QLDC) executed a development agreement (DA) with QT Lakeview Developments (the Developer) for the development of eight land parcels within the precinct. The balance (two) land parcels have been sold to Well Smart Limited.

Analysis and Advice | Tatāritaka me kā Tohutohu

Structure of DA

5. The DA is structured in a way that QLDC will progressively sell the land parcels (Super Lots) to the Developer in seven stages, which must then develop each Super Lot in accordance with a master development plan and documentation approved by QLDC having regard to QLDC's Project Objectives and Material Outcomes for the development of the Lakeview precinct. The Project Objectives and Material Outcomes are provided as **Attachment A**.
6. The Developer's master development plan currently envisages investment in the Super Lots in excess of \$1 billion over 12 to 15 years, delivering: over 450 residential apartments; approximately 96 co-living units; 600 hotel rooms; and 10,000 square meters of commercial/retail space. By the end of the development, spending will generate annual economic impacts equal to regional gross domestic product (GDP) of \$100 million, employment for 1,800 people and household incomes of \$52 million¹. The Lakeview precinct plan and proposed delivery staging are provided as **Attachment B**.
7. The Developer will progressively purchase the Super Lots. It will pay a base land payment to QLDC on settlement as and when it takes title to each Super Lot, together with 50% share of any super profit that may be achieved in respect of a stage calculated at the development completion of each stage.
8. QLDC must undertake the subdivision of the precinct to create the Super Lots (and separate title for each), which requires QLDC to complete specified roading and services infrastructure and site preparation works (Council Works).

¹ Insight economics (prepared for the Developers consenting proposal).

9. Before the Developer can call for settlement of a Super Lot, it must satisfy a range of settlement conditions relating to document/design approval, consenting, funding, equity commitment and contractor engagement in respect of the Super Lot it wants to acquire.
10. The Developer will develop each stage progressively in line with a programme, with key milestones and milestone dates. While these dates can move as a result of circumstances outside the control of the Developer, there are less flexible sunset dates for key milestones that, if missed, give rise to a project review and, potentially termination rights in respect of future Super Lots. This safeguards against land banking.
11. In the event the DA is terminated, then rights to acquire future Super Lots are lost, but the Developer remains obligated to continue development of Super Lots it has acquired in accordance with the DA.
12. The Developer must adopt an approach to the design and development of the Super Lots that will achieve the Project Objectives and Material Outcomes. QLDC will, in respect of all matters requiring a decision from QLDC under the DA, have regard to, and assess such matters against the Project Objectives and Material Outcomes.

Profit Share Payment

13. The base land payments are fixed amounts. The profit share payment is structured to enable QLDC to participate in any uplift in land value and the success of the development over time. It also provides insulation against the potential for land payment delays (as a result of circumstances outside the control of the Developer) and a means to recapture value.
14. The terms of the profit share payment are consistent with those set out in other public sector development agreements and in essence, mean that QLDC will share 50% of the development profit above the hurdle return payable to the Developer.

Key Development Milestones and Milestone Dates

15. The delivery of the Council Works is a key prerequisite to the Developer being able to advance its own development programme. The DA contains four important milestone dates relating to the commencement of infrastructure works, and the completion of all the Council Works/issue of new Super Lot titles, which are based on QLDC's own programme.
16. The Developers programme has been based off these dates but will be rebased from the dates that QLDC achieves the relevant milestones. Accordingly, the sooner that QLDC completes the works and subdivision; the better it will be in terms of bringing the Developers programme forward.
17. The DA requires the Developer to meet progress sunset dates and fixed settlement sunset dates for settlement and completion milestones. These sunset dates include a buffer of time over and above the relevant milestone dates. If the Developer fails to achieve the relevant milestone by its sunset date, there are specific contractual consequences.

18. The monitoring of these milestones will be important for the Council in determining the successful achievement of the Project Objectives and Material Outcomes.

Council Works programme

19. The Alliance has advised that all physical works required for the subdivision are expected to be completed by 30 September 2023. Allowing for the quality assurance processes and issue of titles, from practical completion, it is expected that completion of the Council Works under the DA will be toward the end of December, approximately 3 months beyond the 30 September 2023 Council Works completion sunset date.

20. The Developer has been advised of this programme and has acknowledged it is comfortable with these revised dates and that there is no impact on their programme. This will however push out their Stage 1 settlement sunset date (20 months after Council Works completion) and all other milestone and sunset dates of their programme.

21. QLDC has also received confirmation from the Developer on the deferral (for practical construction reasons) of works for completion of the market square from the scope of Council Works, to be completed after the Council Works completion date but before the Developer's stage 3 completion date. This has been formalised in a DA variation agreement which also aligns the DA with the revised design and programme included in the recent modification to the master development plan. Namely, an amendment to the settlement preconditions to recognize that the Developer may need to commence construction of their stage 2 development earlier than the preconditions otherwise allowed. A schedule of QLDC decisions made is provided in Table 1 **Attachment C**.

Table 1: QLDC Obligations

Milestone	Date	Status	Risk Rating
Infrastructure works commencement	30 Jun 2020	Achieved 1 Sept 2020	n/a
Infrastructure works commencement sunset date	30 Dec 2020	n/a	n/a
Council Works completion target date	30 Sept 2022	Deferred and accepted by the Developer, infrastructure works programme rebased to sunset date.	n/a
Council Works completion sunset date	30 Sept 2023	Deferred and accepted by the Developer, infrastructure works programme rebased to end of December 2023. Infrastructure works construction contracts in place with the Alliance and	Moderate risk.

		<p>programmed for completion in December 2023.</p> <p>Market square works budget deferred in Annual Plan to year 4 and 5 of Ten-Year Plan (2024/25 to 2025/26).</p>	
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Table 2: Developer Obligations

Milestone	Date	Status	Risk Rating
Submission of stage 1 Development Documentation	9 Nov 2021	<p>Achieved 16 Dec 2021, resource consent documentation approved 11 July 2022.</p> <p>Further developed design documentation to be provided following building consent and before settlement of stage 1.</p>	n/a
Satisfaction of stage 1 Settlement Conditions	TBC	<p>Expected within the 2023/24 financial year, consistent with TYP income assumptions.</p> <p>The sunset date for this milestone is 20 months following Council Works completion, which is beyond the 2023/24 financial year.</p>	Moderate risk
Commencement of stage 1 Substantive Construction	TBC	The Developer has advised they are working toward a construction commencement date in 2024 or (at least) no more than 2 months following stage 1 settlement.	Moderate risk
Stage 1 Completion	TBC	n/a	n/a
Fixed settlement sunset date	TBC	n/a	n/a
<p><i>NB: Milestones for future stages i.e. 2 to 7, can be reported on after the stage 1 settlement milestone is achieved.</i></p>			

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

22. This matter is of low significance, as determined by reference to the Council’s Significance and Engagement Policy because it is consistent with existing strategy and does not impact on the objectives set out in the Financial Strategy, Long Term Plan or Annual Plan.
23. Although the matter is of importance to the district and is of community interest, it is of low significance due to its alignment with the Council’s existing contractual commitments.
24. The persons who are affected by or interested in this matter are all residents/ratepayers of the Queenstown lakes district community. As the significance of this matter is low and only for noting, no consultation with the community or local iwi is required.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

25. This matter relates to the Strategic/Political/Reputation. It is associated with RISK10015 Ineffective Governance within the QLDC Risk Register. This risk has been assessed as having a moderate residual risk rating.
26. The transparent reporting and monitoring of key development milestones will support QLDC by allowing it to retain the risk at its current level. The effectiveness of these controls shall be supported by the continued governance of the development milestones by the Audit, Finance and Risk Committee.

Financial Implications | Kā Riteka ā-Pūtea

27. There are no budget, cost or resource implications to consider currently. An overview of the Lakeview financial programme is provided below.

Table 3: Lakeview capital works programme end of August 2023 (\$M).

workstream	costs			funding source		
	life to date	forecast cost to complete	adjusted budget	cost of sale	rates/DC’s	
subdivision projects	33	7	40	35	5	<i>note 1.</i>
site clearance - subdivision	11	2	13	13	0	
site clearance - ancillary	2	0	2	2	0	<i>note 2.</i>
ancillary projects	11	4	15	0	15	<i>note 3.</i>
total capital works	57	13	70	50	20	

notes:

1. Some identified trunk infrastructure funded from rates and development contributions.

2. Assumed as a cost of sale for this assessment until value of land required for arterial determined.
3. Trunk infrastructure projects which are not a subdivision requirement, benefiting from parallel investment.

Table 4: Lakeview transaction return on investment (\$M).

expected income from property disposal	88	note 1.
less: transaction cost of sale	11	note 2.
net income from property disposal	77	
capital works (cost of sale)	50	note 3.
net surplus	27	

notes:

1. Assumed gross land payments (QT Lakeview Developments, Well Smart, land required for arterial etc.) not including super profit payments or value of Lynch Block (circa. 1 hectare).
2. Management overhead, contribution to affordable housing, transaction costs etc.
3. Direct capital works (site clearance and infrastructure) costs of sale from table 3.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

28. The following Council policies, strategies and bylaws were considered:

- Vision Beyond 2050: A unique place. An inspiring future. He Wāhi Tūhāhā. He Āmua Whakaohooho, in particular the principles of thriving people | Whakapuāwai Hapori and zero carbon communities | Parakore Hapori.
- Property Sale and Acquisition Policy (2014)
- Significance & Engagement Policy | Te Kaupapa Here Hiraka Whakapā (2021).
- Disability Policy.
- Financial Contributions Headworks Policy.
- Development Contributions Policy (2021).
- Revenue and Financing Policy.
- Infrastructure Asset Management Strategy

29. The recommended option is consistent with the principles set out in the named policy/policies and included in the Long Term Plan/Annual Plan.

Attachments | Kā Tāpirihaka

A	Lakeview Project Objectives and Material Outcomes
B	Lakeview precinct plan and proposed delivery staging
C	Lakeview development schedule of decisions and modifications