Attachment B

Memo – Feasibility Model – Project Manawa

To:/Location:	Paul Speedy / Queenstown Lakes District Council
From:/Location:	John Schellekens /PwC Advisory Services
Date:	22 August 2023
Subject:	Project Manawa, Feasibility Model Memo for Foundation Documents

Introduction

This Memo summarises the currently proposed[1] Feasibility Model[2] for Project Manawa (with a focus on the Civic Administration Building (CAB)), that forms part of the Foundation Documents (as described in the Partnering Agreement). Queenstown Lakes District Council (QLDC) and Ngāi Tahu Property Limited (NTP) have been jointly developing the Feasibility Model for the project.

For the sake of clarity, Project Manawa relates to the wider project/precinct which is planned to include:

- **Community Assets** such as public buildings and facilities – for example, the CAB and the Performing Arts Precinct
- **Commercial Assets**, including future commercial development opportunities.

This Memo summarises the underlying principles and assumptions, provides a description of the Feasibility Model as it relates to each of the proposed assets forming part of Project Manawa and concludes with our opinion on the model.

PwC Advisory Services (PwC) has, in accordance with our scope of work set out in our terms of engagement dated 14 October 2019, been assisting QLDC with reviewing and testing the commercial arrangements in accordance with the Partnering Agreement. We have also been assisting with negotiations between QLDC and NTP.

The focus of this work to date has been on the proposed CAB, which is the proposed first development within the Project Manawa Precinct (the 'Site'), and which is planned to be delivered as a joint venture between QLDC and NTP (with QLDC as lessee).

This Memo summarises the status of the commercial arrangements and in particular is the Feasibility Model, to be appended to the 31 August QLDC Full Council report, referred to as Project Manawa Consultation.

It is important to note that while there have been commercial discussions with NTP since the Partnering Agreement was executed, the commercial arrangements are not finalised and are still subject to negotiation. Furthermore, the last engagement with NTP on commercial matters associated with the CAB was some time ago in 2022, and prior to the recent changes

[1] Proposed as discussions between the parties are still live.
[2] In the context of this Memo, the 'Feasibility Model' reflects the commercial framework the parties are working within in respect of Project Manawa.

to the commercial market following the increased interest rate and construction cost environment.

Underlying principles and assumptions

QLDC and NTP both have interests in the Site.

- QLDC owns freehold land forming part of the Site, and holds/administers part of the Site as reserve land under the Reserves Act 1977.
- NTP has various existing rights and interests in the Site, including the Right of First Refusal (RFR) over the relevant land (as per the Ngāi Tahu Claims Settlement Act) forming part of the Site, as well a freehold interest in land (the 'Plunket' site) which forms part of the Site.

QLDC and NTP wish to develop the Site including the CAB and other Community and Commercial Assets.

The Site is subject to a number of constraints, including NTP's RFR interests which would need to be addressed or "unlocked" to realise the whole development opportunity. QLDC is unable we understand to fully unlock the Site constraints to realise the future development opportunities by working alone, or with any other party (as no other party has the same rights and interests in the Site as NTP).

QLDC recognises that delivery of Community Assets, do not generally provide a direct financial return and are therefore typically funded (either directly or indirectly) and owned by either local or central government entities. Not surprisingly, NTP has little interest in funding assets of this nature. The CAB, while considered a Community Asset under the Partnering Agreement, is an exception to this given it is intended that it will ultimately be underpinned by commercial leasing arrangements that provide a fair return on invested capital.

The Partnering Agreement anticipates an integrated 'whole of precinct' development approach, where:

- The balance Community Assets (i.e., excluding the CAB) are developed on community (reserve) land (owned by QLDC), where the opportunity cost of commercial zoned land is avoided, and these assets will either directly, or indirectly, be funded by QLDC (and other capital opportunities from unrelated parties, such as donations for example), and owned by Council. The Community Assets include the Performing Arts Centre (PAC) the Gallery and the Library which are all subject to consultation.

- NTP and QLDC will develop the Commercial Assets (i.e. the Future Development Land) and the net proceeds from the development of these assets (for example, unlocking QLDC's interest in these commercially zoned sites) can be used to subsidise (if not directly, then in principle) the Community Assets. It is noted that:
    - QLDC has an option, but is not obliged, to co-develop/invest in these projects with NTP.

- Per above, the first proposed project on the commercial land is the CAB (subject to the reserve status of the land under this proposed development being lifted so that the land is zoned commercial), and it is proposed that QLDC and NTP will, as a JV, develop this project, and QLDC will be the tenant.

- The Public Space, as it relates to the CAB, is contributed to jointly by QLDC and NTP and is not rentalised by NTP. The Public Space as it relates to the balance of the site is detailed within Clause 11.1 (a-c) of the Partnering Agreement which sets out the approach to Public Spaces and notes that the costs will be shared equally between the parties, including benchmarking against a comparative example. This was predicated on the assumption that the whole of the Site is delivered and developed in accordance with the Site Development Plan and jointly by QLDC and NTP; it seems unlikely at this point that NTP will develop the balance of the Community Assets (notwithstanding it will likely be appointed development manager on QLDC's behalf) in which case, NTP's contribution to the Public Space is likely to be reduced accordingly.

NTP is an experienced developer and QLDC can benefit from its development expertise, to manage project risk.

Given that the CAB is the first Community Asset proposed to be developed, by the far the majority of interaction with NTP has been in relation to this project. The table below details the status of the commercial terms for the CAB as at the last discussion between the parties in mid 2022. These terms are subject to further negotiation. They are not binding and will not become so as a result of the consultation, particularly given the changes to market conditions since our last engagement.

The first Community Asset project - CAB development

Land tenure	Freehold
Zoning	Commercial, subject to the Reserve status being uplifted.
Land area	1,500 m^2
Land ownership	Land to be owned 50:50 by JV partners.
Land acquisition	Under the preferred land strategy, NTP and QLDC would provide freehold land for the CAB through a land exchange. This would have QLDC and NTP equally (50:50 under the JV) creating the freehold CAB land, and presumably neither party having to acquire an interest in the land. As such, while the underlying land will have an established market value, and is unlikely to attract a return on cost in the context of setting a rental for the CAB asset, this is yet to be finalised/agreed.

Development	NTP to act as development manager, and receive a market-based fee from the JV for these services. NTP and QLDC will meet costs of development on 50:50 basis. Site infrastructure and tenant fitout costs will be excluded from the JV. As development manager, there is general agreement that there would need to be a structure to incentivise NTP to efficiently and optimally deliver the project. A structure that has been discussed is a 'target outturn' approach, where once detailed design and cost estimates are completed and agreed, a 'target cost' is agreed, and the rent that is calculated against this cost (see 'Commencement Rent' commentary below) diminishes if the target cost is exceeded.
Lease	QLDC will lease CAB from the JV.
Term	Discussions to date have related to a long-term lease of circa 30 years, plus rights of renewal in QLDC's favour.
Commencement Rent	Subject to negotiation and commercial terms, the commencement rent may be calculated based on a return (percentage) on (applied to) cost basis, where the cost element of this equation will include the construction cost (base build cost), but exclude NTP's contribution to public realm costs. Site infrastructure and tenant fitout will be paid for by QLDC separate to the JV. This approach is common for new build projects of this nature and the implied rent from the return on base-build cost calculation is intended to deliver the JV a market-based internal rate of return (IRR) and set a rent consistent with a market rent that QLDC could be expected to pay for a new building of the same specification as planned (including specialised features, such as a significant atrium, energy efficiency aspirations, Importance Level (IL) rating etc), and in the same location.
Rent reviews	Rent to be reviewed periodically, likely on a structured basis, and with a mechanism to mitigate the risk that the rent, over the length of the lease, becomes significantly disconnected from an otherwise market rent.

Commercial Assets – Future Development Land 1, 2 and 3

Notwithstanding that QLDC has an option (but is not required) to develop the Commercial Assets in a JV with NTP, to the extent that QLDC intends to jointly develop and own (or develop and sell) such assets jointly with NTP, QLDC and NTP broadly agreed to negotiate such opportunities on a similar basis as for the CAB, as follows:

Land tenure	Freehold
Land area	Initial proposed land area (Future Development Land 1, 2 and 3), to be confirmed as master planning progresses.
Land ownership	Land to be owned 50:50 by the joint venture partners.
Land acquisition and receipt	NTP JV partner to purchase (from QLDC) 50% of the land at market value.
Development	NTP to act as development manager, and receive a market-based fee from the JV for this service, and reflect an incentive structure to incentivise NTP to optimise project delivery.
Commercial development opportunity	QLDC could: • participate in JV development opportunities in the future on a (up to) 50:50 basis and share revenue and risk on proportional basis. • retain its 50% interest in the land and not participate in the development and receive a reduced commercial development revenue (likely pari passu relative to the implied equity value of the land interest relative to the total project value). • simply sell its interest in the land at market value to NTP (or a third party if NTP did not elect to purchase it). Note: there are a number of variations to the above options which could be considered.

Other land within the Site (including the Adjacent Land (NTP's freehold interest in the 'Plunket' site), as referenced in the paper this memo relates to dated 31 August 2023) could be developed on the same basis (potential future JV development opportunities).

Community Assets – community buildings and public space development

QLDC and NTP have agreed in principle that NTP has little (no) interest in funding and owning Community Assets, and accordingly the structure would be as follows:

Land status	Reserve land administered by QLDC.
Land area	To be agreed as master planning progresses.
Development	QLDC to fund and develop (and own) Community Assets, and NTP may be appointed the development manager.

Opinion

Subject to:

- acknowledgement of the ongoing status of discussion and negotiations with NTP,
- the commercial principles summarised within this memo not materially changing,
- and given the underlying principles and considerations,

we consider that the underlying draft structure for the commercial arrangements between QLDC and NTP for the CAB (and the principles for delivery of future Commercial and Community Assets) appear reasonable in the context of the market, and appropriate given the differing nature of Commercial and Community Assets.

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Important Notice

This report is issued pursuant to the terms and conditions set out in our engagement letter, dated 14 October 2019 and the Terms of Business referenced thereto. This report has been prepared by PwC Advisory Services, based on the instructions provided by Queenstown Lakes District Council and solely for the purpose set out in our engagement letter with Queenstown Lakes District Council and should not be relied upon for any other purpose.

We accept no responsibility, duty, or liability to Queenstown Lakes District Council for the consequences of using or relying on this report for any other purpose. The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

This report is addressed only to Queenstown Lakes District Council and should not be provided to any other party. This report is not intended for general publication or circulation, and is not to be read or used by anyone other than Queenstown Lakes District Council. We make no representation concerning the appropriateness of this report for anyone other than Queenstown Lakes District Council. If anyone other than Queenstown Lakes District Council chooses to use or rely on this report they do so at their own risk. We will not have a duty of care to any other party in any circumstances. In any event, we will accept no responsibility to any party other than Queenstown Lakes District Council in respect of our advice, and we will accept no responsibility to any party if our advice is used by any party including yourselves in breach of the terms of our engagement letter and this report.

Should any other party wish to access this report, this will be subject to PwC receiving a ‘hold harmless’ letter in a format that PwC specifies. This report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without express written consent, which is at our sole discretion. To the fullest extent permitted by law, PwC accepts no responsibility, duty of care, or liability to any third party in connection with the provision of this report and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

During the course of our work, and for the purposes of this report, PwC has relied on the representations of Queenstown Lakes District Council, and the historical and forecast information and documentation provided by, Queenstown Lakes District Council alongside information obtained from the public domain and third party data providers. We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit. We will not therefore accept any responsibility for any errors contained in the information provided, and express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

This report has been prepared during a period of continuing uncertainty due to COVID-19 (and variants) and also considerable economic uncertainty. New Zealand's economy and global markets are facing a number of challenges including significant inflationary pressures, rapidly rising interest rates, ongoing supply chain issues, labour shortages and global market disruptions as a result of the Russia-Ukraine war. These factors create considerable uncertainty, which is manifesting in a heightened level of downside risk in the market at present. Our report must be read in this context.

In addition the following should be noted:

- We have not considered the tax implications of the advice in our report. In some cases, tax can have a material effect on returns. Queenstown Lakes District Council will need to consult with its tax advisor on the implications of the advice within this report.

- Unless otherwise stated all amounts are stated in New Zealand dollars.
- This disclaimer applies to the maximum extent permitted by law and, without limitation, to liability arising in negligence or under statute.